

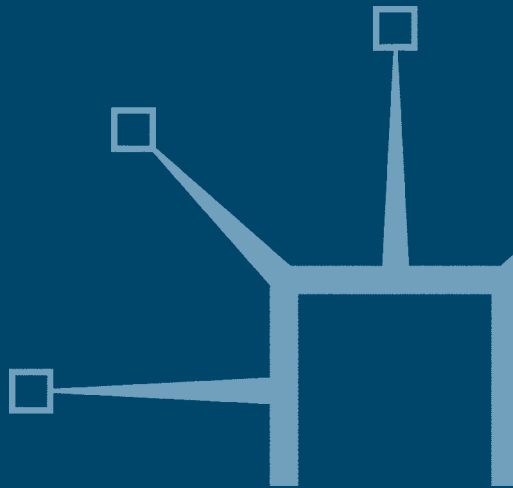
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# Adam Smith

A Moral Philosopher and His  
Political Economy

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Gavin Kennedy



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# Preface

Authors well versed in the totality of Adam Smith's ideas have written many quality books, essays and papers on his thinking. My intellectual debts are due to many people, including Andrew Skinner, Sam Fleischacher, Jim Otteson, Jerry Evenski, Knud Haakonssen, Emma Rothschild, Istvan Hont and Donald Winch. The authors of journal articles, too many to acknowledge, personally provided confirmations and challenges, some of which I took up. Not all, if any, of the above scholars would necessarily agree with anything written here.

Andrew Skinner first sparked my interest in Adam Smith in 1973 when I repurposed lectures I had given at the National Defence College, Latimer (1972–4), for my *Economics of Defence* (Kennedy, 1975). I followed up his two-page note on the Navigation Acts by reading *Wealth of Nations*. The Adam Smith my instructors described and that I read about in textbooks contrasted sharply with the Adam Smith from Kirkcaldy. Other major sources of Andrew's influence were his works on Adam Smith and his contributions to the definitive Glasgow Edition of the *Works and Correspondence of Adam Smith* (Oxford University Press, 1976–83).

Professor Sir Alan Peacock, a friend and colleague, was a steady source of support and enthusiasm. He commented critically on early drafts, rewrites and the final manuscript, and provided me with numerous books from his personal library, and advice on classical economics and state bureaucracy. I have also benefited from many exchanges with Professor Alan Thompson and with numerous correspondents through [www.adamsmithslostlegacy.com](http://www.adamsmithslostlegacy.com), including Nicholas Gruen (Australia) on literary aspects of Smith's influence, David Simpson on emergent order, Lawrence White on the labour theory of value, Sandra Peart on aspects of *Moral Sentiments*, Craig Smith on spontaneous order, Gavin Reid on stadial growth and Ian S. Ross, Smith's definitive biographer. None of the above is responsible for the infelicities in what follows.

Professor Tony Thirlwall's remit was for an account that is accurate, balanced and informative of the Great Thinkers, what they tried to do, what they achieved, where they may have been wrong, where they were probably right and their legacy. He made numerous comments on the manuscript, most of which I have included.

I have attempted to show Smith's thinking in his efforts to influence legislative policies. Intentionally, I have included elements of his biography. This is not, however, an essay in hagiography.

Great Thinkers were still people, and in many respects are not all that different from the rest of us, except in their genius. It is for their creative insight, not their occasional petty foibles, that they are distinguished.

Gavin Kennedy

# Acknowledgements

All references to Adam Smith are from *The Glasgow Edition of the Works and Correspondence of Adam Smith*, © Oxford University Press, reproduced with permission from Oxford University Press.

- Corr *Correspondence of Adam Smith*, 1987, ed. E. C. Mossner, Ian Simpson Ross, 2nd edition
- ED *Early Draft of Wealth of Nations* [1763] included in LJ
- EPS *Essays on Philosophical Subjects*, 1795 [posthumous], ed. W. D. Wightman, J. C. Bryce
- LJ *Lectures on Jurisprudence*, 1983, ed. R. L. Meek, D. D. Raphael, P. G. Stein
- LRBL *Lectures on Rhetoric and Belles-Lettres*, 1983, ed. J. C. Bryce includes *Considerations Concerning the First Formation of original and compound Languages* [1761]
- TMS *The Theory of Moral Sentiments* [1759] 1976, D. D. Raphael, A. L. Macfie
- WN *An Inquiry into the Nature and Causes of the Wealth of Nations* [1776] 1976, ed. R. H. Campbell, A. S. Skinner, W. B. Todd

[Reference in the text are accompanied with page numbers to the above editions]

# General Introduction: Why Adam Smith?

Graduate economists, thoroughly conversant within the neoclassical paradigm and therefore numerate, who read the first few pages of *Wealth of Nations* confront an entirely different method of political economy to that which their academic training prepares them. If they persist, they find a literary style (no mathematics) that can be irritatingly obscure, seemingly long-winded and occasionally ambiguous, and given to 'diversions' of apparently questionable relevance, certainly when compared to the kinds of problems with which they are familiar. It is unlikely that they have an immediate resonance with Adam Smith's style of discourse. Yet within his books there is much that may enlighten some of their deeper questions, and some they might find disturbing to their mastery of general equilibrium theory. For today's economists, Smith's corpus is the veritable and venerable 'elephant in the room': how did modern economics develop from such an unpromising source and why is he credited as the 'Father of Economics'?

The bright confident mornings of the post-war years, when economists brimmed with the certainties of the near-triumphant Keynesian consensus, had by the 1980s ebbed into embarrassment, and many unsettled issues of economic policy resurfaced. Perhaps coincidentally, the history of economic thought and its companion discipline of economic history began their slide into obscurity, with vacant chairs following their former holders into retirement. Meanwhile, the long march of the mathematicians continued, offering numerate economists the promised prize of their joining the ranks of the 'hard sciences'.

By the new millennium, the original conflict of 'free trade versus protection' was back in contention; markets versus state management remained as divisive as ever, and competing solutions to problems of poverty, domestic and global, were stuck, intellectually, practically where



Adam Smith had left them. The dominant feature of economics today is the divisive non-agreement on basic practical policies and, for all its hard-science pretensions, it remains in an unsettled state.

In contrast, concepts from what its proponents call 'complex adaptive systems' knock on the closed windows protecting general equilibrium systems from reality checks and raise questions about the validity of Milton Friedman's<sup>1</sup> papal-like unbending rejection of the need for 'realism' in the assumptions of economic models in favour of the quality of their predictions. Complex adaptive systems theory starts from 'the underlying principles of self-organisation and evolution [that] can trace their origins to seventeenth and eighteenth-century philosophers of society',<sup>2</sup> and which may open dialogues with other social sciences.<sup>3</sup>

I shall reintroduce Adam Smith into the attention span of readers, not of course by a crude transfer of his ideas into 21st-century policy debates but more as a learning aid from examples of the application of his semi-hidden historical, social-evolutionary understanding of how societies and their economies work. I ask readers, sceptical or curious, to focus on the historical aspect of Adam Smith's works, by showing him to be a significant thinker in political economy before it became a separate discipline.

A closer look at Adam Smith is recommended to all economists if their reading has been confined to well-worn quotations from his books and to problematic beliefs that he was the theorist of 'an invisible hand', an advocate of 'laissez-faire', in favour of small-scale government (the 'night-watchman state') and a purist advocate of 'free trade'.<sup>4</sup> A few economists, influenced by the 'Austrian' school,<sup>5</sup> dismissed Adam Smith as an unoriginal thinker compared to Cantillon, Turgot and Ricardo.<sup>6</sup> Recent revisionist claims<sup>7</sup> that Adam Smith supported ideas associated today with social democracy are challenged, as are their long-standing counterparts on the political right, who claim direct lineage from Adam Smith. These claims from left and right are tested in what follows, as are those wilder assertions from the left-wing followers of Marx, who denounce Smith as an apologist for capitalism, as well as the claims from the 'greed is good' school, who claim succour for their tendentious statements which have much more to do with Bernard Mandeville<sup>8</sup> than with Adam Smith.

Adam Smith's reputation keeps his name in public discourse. Mention Adam Smith and listeners think of 'his' pin factory (WN14), a notion reinforced by the Bank of England's £20 note showing Tassie's iconic image of Smith. Many economists in the 20th century were influenced

by Professor George Stigler's<sup>9</sup> famous one-liner that 'I bring you greetings from Adam Smith, who is alive and well and living in Chicago' (a city that did not exist while Smith was alive).

## What is *Wealth of Nations* about?

*Wealth of Nations* is not a textbook on economics, as defined by Jacob Viner: 'The contributions of a good textbook are usually its contribution to general synthesis of doctrine, its illustrative material, and its restatement in compact, simplified, and systematic form of materials familiar to scholars.'<sup>10</sup> Nor is *Wealth of Nations* about theoretical economics in the sense that modern economists think about their work. It represents the application of Adam Smith's world-view to the larger historical problem of what caused the British economy to show signs of sustained improvements through slow but steady growth, what inhibited it from performing much better compared to how well it could perform if certain changes were made in its political stances towards international trade with neighbours and with its colonies in North America. His book was entitled *An Inquiry into the Nature and Causes of the Wealth of Nations* (hereafter *Wealth of Nations*), using Britain as his case study.

I think of *Wealth of Nations* as being an unofficial 'one-man Royal Commission'. When UK governments require guidance on headline subjects of widespread public concern they order enquiries led by knowledgeable public figures, which are known as Royal Commissions, of which it has also been said that they 'keep minutes and take years' and, occasionally, by the time they publish their reports the government would have changed or the political agenda would have moved on. In Adam Smith's case, the long gestation of his privately funded one-man enquiry spanned 12 years from 1764, when he commenced writing it, to 1776, when it was published.

*Wealth of Nations* has unique features. On every occasion when ancient or contemporary direct or indirect evidence supporting his contentions existed, Smith placed it in his text. The detail he provided is fulsome, and occasionally repetitive. Unusual topics in such detail do not grace modern textbooks. In both his books, the world of classical Greece and Rome is never far from any topic, reflecting his classical education, as shown comprehensively by Gloria Vivenza.<sup>11</sup> Samuel Fleischacker highlighted a sample from the multitude of Smith's promiscuous sources of evidence:<sup>12</sup>

The fact that Abraham's shekels are said to be 'current money with the merchant', yet that he still must weigh them out when he pays Ephron, is offered as proof that coin at that time was marked to indicate fineness but not weight (WN41). From Cicero's letters, Smith deduces the [forty-eight per cent] interest rate in early Cyprus (WN111). And he determines the economic status of teachers in the ancient world with the help of Plutarch and Pliny. (WN39–44)

These sources were supportive of his themes and were directed at the audience to which he intended it to be read.

'Police', or the assurance of the 'cheapness of provisions' by 'having the market well supplied with all sorts of commodities' (*bon marché*) (LJ6), was part of traditional government policy, which made it responsible (more so in the continental tradition) for 'police', by ensuring the availability of subsistence to the poor, particularly when their needs were regarded as being more pressing than property rights (in dearth and famine) (WN539). 'Police' in the 18th century<sup>13</sup> was included in the moral philosophy syllabi of the four 'Scotch' universities and Smith followed the Scotch tradition during his professorial tenure. Within a few decades, 'police' took on its modern meaning in the prevention of crime, leaving old-style 'police' to the new discipline of political economy.

For Smith the main theme was his observation that Western Europe showed signs of recovering its 'lost' commercial age. This was evident in the then-current literary and artistic works, in the architecture of new buildings and in the diffusion of technology (much of it to assist and augment the powers of labour, illustrated in Denis Diderot's magnificent multi-volume *Encyclopaedia*).<sup>14</sup> The slowly rising population numbers indicated steady growth in the share of total output allocated to subsistence, consistent with the fairly static per capita income of the bulk of the population. The slowly rising consumption, well above subsistence for middle and upper segments of the population, leaving per capita subsistence of the poorest majority at its low historical norm, indicated steady growth in output exchanged in markets, and together these were positive indicators that something of historical significance was happening, first in Britain and later across Western Europe.<sup>15</sup> Striking tales about voyages of exploration and discovery increased the wonders of the known world by several magnitudes.

Smith saw the philosopher's role as 'not to do any thing, but to observe every thing' (WN21), which he practised from his wide reading of classical sources – recent travellers' tales America, Africa, the Pacific and

Asia – and of contemporary accounts of Europe. Visiting workplaces and listening to people of all ranks, he was most certainly a scholar who ‘looked outside his window’. From these sources (there were few others) he observed the changes occurring in the basic elements of ‘police’: more, but not all, people were slowly becoming better off over his lifetime.

Compared to the wretched lives of ‘savages’ still in the first age of hunting in the Americas (made worse off by the violent and cruel European colonists and their diseases),<sup>16</sup> the lives of the poorest *employed* common labourers and their families in Scotland were better served by the primitive division of labour and the extent of markets, though not much (WN24). That led him to ask ‘of what did “wealth” consist?’ Was it money, or their access to the annual production of the ‘necessaries, conveniences and amusements of life’? Observing that it was the latter (gold was a means, not an end), the next question was, ‘what caused the people of Europe to have access to more of the “necessaries, conveniences and amusements of life” unobtainable by the people of the “savage” world?’ Smith’s *Wealth of Nations* was his answer to these two questions, based on a mass of sources, those which were to hand in his private library and via correspondence and mutual loans of papers from the libraries of many of his friends and sponsors, including Lord Kames (Corr101, 115–20, 132, 137).

He had no *a priori* set of principles to guide him, and such short pamphlets on relevant topics to which he had access provided narrow, not comprehensive answers, where they were not hopelessly wrong. Mostly, he evaluated limited current knowledge synthesised from many indirect sources and presented his conclusions to his intended audience, those who legislated and those who influenced them in the British ‘political’ establishment.

He concluded that the drift of national states in Europe into the political traps of jealousy of trade, mercantile protectionism, internal regulation of commerce, ventures such as colonies and wars for trivial ends reduced the ability to realise the full fruits of expanding commerce and of improved agriculture in higher growth rates and therefore faster progress towards opulence, particularly for the poorest majority. He was not against government roles in principle; he opposed those government roles that undermined or held back commerce by following the false doctrines of mercantile-minded traders, myopic protectionists and petty monopolists.

In this context, complaints of the absence in his books of familiar mathematical interpretations of reality, partial and general equilibrium

theorems, statistical tests, and others not yet invented in 1764–76 are misplaced. Modern economists' expectations when attempting to read *Wealth of Nations* remain unfulfilled. Smith did not directly write about economic theory but it came into his arguments in a big way when he needed to illustrate why the material world was changing under new 'laws of motion'. He harnessed his synthesis of existing knowledge of political economy to explain what had happened to Western Europe since the fall of Rome and to identify where prevailing government policies hindered the full fruits of the changing world from accelerating progress towards opulence. And he rooted his economic analysis within the forces bringing about those changes (WN89, 111–12).

Smith's thinking about how commercial economies worked was a by-product of his enquiry into the reason behind the wealth of nations and his answers contributed to the history of political economy. It also provided lucid explanations as to how the 'new world' of commerce offered historically undreamt of opportunities to resolve the ancient per capita subsistence problems of the stationary subsistence living conditions of the indigenous, 'inferior', majority of the population and whose predecessor generations had endured absolute poverty over thousands of years. He also identified appropriate policies that could achieve lasting security for the already relatively opulent property-owning orders and the many others that he envisaged would join them if growth continued.

Smith's theory was not a manifesto for revolutionary, or even radical, in the sense of immediate, changes; he conceived of his message as a modest set of changes, eminently practical and sensible, which could be adopted by the current upper orders for implementation over time. He adorned his rhetoric with the phrase 'slow and gradual' in an attempt to reassure, not to cause emotional resistance. Growth was for their own and everybody else's benefit. He concluded that the norm of low subsistence conditions of the labouring poor was not going to change by benevolent redistribution (it had not since stone-age times); it could only come from economic and social growth that set increasing proportions of the population to work and raised total output of the 'necessaries, conveniences, and amusements of life'. He did not shrink from the difficulties of reversing the practices that reduced the possibilities of change because of the formidable coalition of interests that would oppose firmly, if provoked unduly, the necessary changes in how the economy worked.

He packed *Wealth of Nations* with detailed evidence from his sources, mainly rooted in his knowledge of history, supported by his fairly simple theory of economic growth, and submitted it to the legislative class in the British parliamentary system and those close to legislators and to fellow ‘members’ of the Enlightenment, influential figures and the broader reading public in Britain and their equivalent in the rest of Western Europe, including those in the British colonies in North America.

In *Wealth of Nations*, Smith speaks in the language understood and spoken among the middle and upper layers of the educated society that he addressed. He did not speak specifically to the ‘lower’ orders – that was too dangerous in 18th-century Britain (as events in the years immediately after he died in 1790 were to show) (EPS309, 339).<sup>17</sup> It was not that the ‘lower orders’ (‘inferior orders’ in the ‘non-pc’ language of the day) were totally absent from his thinking. Where the interests and present plight of the labouring people were concerned, he generally speaks matter-of-factly without sentiment and lightly hides where his broad sympathies lay (WN96).

On occasion too, he bursts out with brief strictures against ‘idle’ landlords, ‘scheming monopolists’, ‘clamouring’ merchants and manufacturers, and he made the words ‘rulers’ and ‘profligates’ into synonyms, which gave a sharper edge to his impatience with the ‘absurdities’ of the ideas that ruled the conduct of the ‘upper orders’ (WN144, 339–40, 434, 612–14).

## Smith’s history of Western Europe

The clearest characteristic of Adam Smith’s thinking throughout all of his works is his sense of history, including in his use of the sparse details of pre-history to advance his conjectures of ‘savages’ fearing ‘surprising’ earthly phenomena (EPS48), of ‘two savages’ endeavouring ‘to make their mutual wants intelligible to each other’ (LRBL203), of a lack of ‘sympathy and indulgence’ among ‘savages’ and of their ‘most sovereign contempt of human life’ (TMS205, 288), to which he added the ‘propensity to truck, barter, and trade’, which were the ‘necessary consequence of the faculties of reason and speech’ (WN25).

Above all else, Smith’s defining characteristic was to look backwards, not forwards. He rarely made a prediction about the future; he worked towards the ‘present’ from a distant age, most often starting from the ancient worlds of Greece and Rome, but oftentimes even earlier from

the 'early ages' of mankind. He was knowledgeable about the habits and customs of recently discovered hunting modes of subsistence in distant lands from travellers' reports, regarding the peoples there as mirrors of the earlier millennia of European societies.

He expressed his most complete construction of a theory of history in his four 'Ages of mankind', which he designated as 'states [not "stages"] which mankind passes through: Hunters; Shepherds; Agriculture; and Commerce' (LJ14). His 'modes of subsistence' theory of human endeavour was associated with the possibility (not the inevitability) of a search for ways in which to produce a surplus of food above biological subsistence so that, from the individual's point of view, their children survived beyond infancy and lived long enough to breed.

To the extent that a mode of subsistence in a locality provided circumstances where increased food production occurred there was an increase in local population (but not in per capita food consumption), perhaps through many generations; where circumstances remained unpropitious for any reason, population levels were static or declined.<sup>18</sup> The failure of most of the world to develop beyond the age of hunting by the 18th century suggests there was no necessary social-evolutionary 'law' ensuring the inevitability of progress.

Smith's knowledge of history, spectacularly from Roman times, led him to wonder why some parts of the human population had gone beyond the first age of hunting; why some had stayed in the age they had reached (shepherding or agriculture); and why a minority in Western Europe, which had first experienced the age of commerce before the fall of Rome in the 5th century, was now experiencing a revival in commerce, increasingly evident since the 15th century.

The 'missing' millennium since the fall of Rome was not just an incidental event; it had profound effects on the social evolution from agriculture to commerce. This context explains *Wealth of Nations*. As a mere textbook of economics it made, and makes, little sense to those who know nothing of its context, except as something on the fringes of historical curiosity, suitable for taking numerous 'racy' quotations out of context and for presentation volumes as prizes or for retirement. Treating *Wealth of Nations* as a philosopher's report of his fastidious enquiry into the process by which commerce had emerged again, what exactly were the 'laws of motion' that drove that re-emergence and what subverted the natural growth-inducing effects of commerce from happening makes eminent sense. Because of the overarching policies of mercantile political economy and its associated nation-state management, *Wealth of Nations* excels above anything else produced in the 18th century, and

it continues to make contributions to the discourse among competing schools of economic thought.

### ***Wealth of Nations***

*Wealth of Nations* consists of five books. In Books I and II, Smith traces the historical context of society's development from the 'rudest' age of man (the hunters, represented by North American 'Indian' tribes) through to the 'commercial' age (which evolved eventually from the division of labour, prompted by the human propensity to 'truck, barter, and exchange'), which is the defining characteristic of Smith's political economy.<sup>19</sup> Smith did not define economics as 'a science which studies human behaviour as a relationship between ends and scarce means which have alternative uses'.<sup>20</sup> For many modern neoclassical economists, their subject is primarily about 'economising', while for Adam Smith 'exchange' was the foremost and dominant characteristic of human social, moral and economic relationships.

He explains the elementary workings of markets, the evolution of money to facilitate pre-existing exchange (and the division of labour, limited by the extent of markets over time and in particular places), the relationships of those who co-operate in the commercial modes of subsistence and the different ways they share in the revenues their co-operation generates. His simple theory of economic growth from the frugal investment of surplus output on employing productive labour in the 'great wheel of circulation' expanded productive employment and cumulatively increased annual exchangeable output. Unproductive prodigality, taxes wasted for frivolous ends and capital lost in failed business projects (WN339–40) reduced the growth of productive labour from what it otherwise would have been. That was the real cost of mercantile political economy, spendthrift governments and poor management of failing enterprises, which Smith's rhetoric was regularly let loose upon. The division of the revenues from productive employments among rent-receiving landlords (agriculture dominated the economy at the time), wage labourers and the profits of the owners of capital stock characterised the commercial economy.

In the long middle part (Books III and IV), he places the revival of the commercial age in its historical context and, because he believed that mercantile interventions slowed growth, he criticised false notions of national objectives, summarised as 'mercantile political economy', and showed how they distorted, undermined and interrupted achievable



growth rates and slowed the spread of general opulence at a real cost to society, especially for the lives of its poorest members.

The last part (Book V) explores appropriate activities and interventions of the state (defence, justice and public works and public institutions, and the dignity of the sovereign), including spending on education, health, infrastructure and institutions of religion, and the design of appropriate taxation systems conducive to growth.

If readers keep these elements in mind, alongside the overall focus of *Wealth of Nations* on economic growth, much of the shallow – because easily remedied – confusion about his purpose evaporates, and a fairly clear picture of his genius emerges from its connected links to his writings on moral philosophy, his lectures on jurisprudence, and his thoughts on science, the formation of languages and rhetoric and literature. With this as background and context, an insight into his thinking is possible.

### **The shrinking frontier**

Smith was much more than the contents of the five books of *Wealth of Nations*, significant and profound as they are; he composed an integrated theory of society, recognisable today by anthropologists, sociologists, evolutionary psychologists, linguists, historians and philosophers, who are not normally avid readers of economics. If economists abandon large swathes of territory on what are regarded as distant and unrewarding frontiers of our discipline, we ought not to be surprised if they become peopled by migrants from other disciplines, who bring not just their energies but also their insights and a willingness to incorporate into their own frontiers what economists neglect and leave fallow. It has been ever thus with declining ‘empires’.

Smith’s formative years of academic work were spent teaching at the University of Glasgow from 1751 to 1764. As was common in Scottish universities in the 18th century, he included natural religion, ethics, moral sentiments, jurisprudence and political economy in his classes in moral philosophy (EPS274–5). Parts of his lectures reappear – sometimes verbatim – as themes in *Moral Sentiments* and *Wealth of Nations*. That he wrote and published *Moral Sentiments* in 1759 and, 17 years later, *Wealth of Nations* in 1776 has no grounds for suspecting that each book articulated a different approach. Smith did not, so to speak, ‘change his mind’, nor did he assert that benevolence was predominant in moral actions, and self-interest (conflated by some into ‘selfishness’ and ‘greed’) predominated in markets. These assertions are a major error of treating his thinking in separate compartments; he taught these subjects together

to the same classes. In substance he did not change his ideas or their close relationship over the period between their publications, nor during the editions of both books before he died.<sup>21</sup> If there had been a glaring contradiction between their approaches he would not have ignored it in a vain hope that others would too.

That nobody suggested there was a contradiction until the mid-19th century in Germany is indicative of the notion being ‘manufactured’ later, possibly from a misunderstanding of the chronology of his writing instead of the actual simultaneity of his teaching. His critics had limited knowledge of the circumstances of his work, some crucial parts of which did not come to light until 1895 and 1958, respectively, when sets of student lecture notes from 1762 to 1763 were discovered among family papers in Oxford and in Aberdeen (LJ4, 9, 11n35; TMS20–5). This controversy, known widely in the literature as *Das Adam Smith problem*, is refuted with the evidence.

I have blended together some biographical details though my major focus is on what Smith actually wrote, and I have made occasional and brief forays into what others alleged he wrote, to facilitate understanding of the interconnected nature of his work. In this context I should make clear that I have not attempted to interpret or assess Smith’s ideas from a modern economist’s point of view. That would involve increasing the length of the book beyond Mr Palgrave Macmillan’s patience. It would also require a wide review of an extensive literature, covering numerous controversies published over the past 230 years about Smith’s alleged deficiencies and insights. Several major appraisals of Smith’s economics from a ‘modern’ perspective on economics thinking were published in the 20th century. These include Samuel Hollander’s excellent *Economics of Adam Smith*,<sup>22</sup> and also Edward Cannan’s thorough *History of the Theories of Production and Distribution from 1776 to 1848*.<sup>23</sup> There are also several modern critical surveys of Smith’s thinking which I have not drawn into my account.<sup>24</sup> The further we go into Adam Smith’s ideas in the context of the post-Smithian developments in economic theory, the further we move from accounting for his thinking in his context, and whilst I have commented in a few places on subsequent authors’ ideas on Smith, I have done so mainly where authors have presented ideas allegedly from Smith which are at variance with his writings.

The nascent trends Smith noted in the progress towards the spread of general opulence have continued from the late 18th into the 21st century. Smith’s genius was to detect the nature and causes of these trends, how they are interrelated and how they may be maintained. He did not answer all of the problems associated with the subjects he discussed. He

was not a man of system who pretended he could do so, and he would have understood and agreed with the message in a poem composed in 1713:

All philosophers, who find  
Some favourite system to their mind  
In every point to make it fit,  
Will force all nature to submit.

(Jonathan Swift, 1677–1745:  
'Cadenus and Vanessa')

Forcing 'nature to submit' to his philosophy and views was alien to Adam Smith. In what follows I have attempted to show this aspect of his thinking.

## Notes

1. Friedman, M. 1953.
2. Simpson, D. 2000: 2.
3. Holland, J. H. 1995.
4. Simpson, D. 2000.
5. See: Schumpeter, J. 1954; Rothbard, M. [1995]; Rashid, S. 1998.
6. Cantillon, R. [1734; 1931] 1964; Meek, R. L. 1973: 119–82; Ricardo, D. [1815] 1817.
7. McLean, I. 2007.
8. Mandeville, B. [1724; 1924] 1988.
9. Meek, R. L. 1977: 3.
10. Viner, J. 1937: xiii.
11. Vivenza, G. 2001.
12. Fleischacker, S. 2004a: 38.
13. Hont, I. (with Ignatieff, M.) 2005: 390.
14. Diderot, D. et D'Alembert, 1751–77.
15. Deane, P. and Cole, W. A. 1967: 80; cf. Clark, G. 2007.
16. Diamond, J. 1997b.
17. Rothschild, E. 2001.
18. Clark, G. 2007: 2–25.
19. Cf. criticism by: Polanyi, K. [1944].
20. Robbins, L. 1932.
21. *Moral Sentiments*, six editions: 1759, 1760, 1767, 1774, 1781, 1790; *Wealth of Nations*, five editions: 1776, 1778, 1784, 1786, 1789.
22. Hollander, S. 1973.
23. Cannan, E. [1893] 1924.
24. Schumpeter, J. 1954; Blaug, M. 1978. 3rd edn; Wood, J. C. (ed.) 1983.

# 1

## ‘sufficient proofs of his fitness’

### Introduction

Adam Smith became a man for his times, and what times they were: two rebellions, one at home and one abroad; two wars with France and, at his death in 1790, the opening exchanges in a violent revolution against the absolutist French King Louis XVI. In this turbulent context, *Wealth of Nations*, the iconic book of his name, analysed the slow and gradual revival of commercial society from the 15th century and its significance.

In 1707, Scotland’s independent parliament dissolved itself and thenceforth sent its MPs into a parliamentary union with England; both countries had shared the same monarch since 1604. ‘England’ was promoted as the collective name for the four countries, which in 1801 made up the island group of England, Scotland, Wales and Ireland. This was the Unionist backdrop to the road to his professorship and fame.

### Adam Smith, senior

Smith’s father, Adam Smith (1679–1723), a lawyer, served the Unionist cause prominently between 1705 and 1707, when the majority of Scotch MPs voted to form a union with the English parliament, amidst what is often described as not so subtle bribery, not a little intrigue and a not very judicious measure of skulduggery (‘Bought and Sold For English Gold’ is how one side of the debate expresses it). A more balanced account of this period is less clear-cut about the bribery, but it remains a deeply controversial event three hundred years later, with neither side willing to let go of their historical stereotypes of each other’s perfidy.<sup>1</sup>

Smith senior served the unionist cause as private secretary to Hugh Campbell, Earl of Loudoun, the Secretary of State for Scotland. After the

Treaty of Union was passed in January 1707, Smith benefited to a limited extent from Lord Loudoun's and the 2nd Duke of Argyll's sparse patronage, though he died in the relatively disappointing post of the Comptroller of Customs for Kirkcaldy in January 1723, a few months before his son, also named Adam Smith, was born.<sup>2</sup>

The Treaty of Union heralded occasional stormy periods in Scottish civil politics, with ever-present fears, and in 1715 and 1745 the reality, of armed 'Jacobite' (from the Latin name *Jacobus* for James) subversion on behalf of the deposed Stuart monarch James VII of Scotland, James III of England, in exile on the Continent. Scotland suffered economic depression following the Darien Company's mercantile-inspired colonial folly in 1698 (partly sabotaged by English intrigue, but doomed before it began by the ineptitude of its promoters).<sup>3</sup> The union of parliaments did not resolve Scotland's economic problems quickly, to which were added the economic after-effects of the removal of government and its administration, and much of the social elite, their families and their 'idle' retainers, from Edinburgh to London (WN336).

The major incursion of a Jacobite 'army' into England in 1745 was described by Smith as an attack by 'four or 5 thousand naked unarmed Highlanders', who 'took possession of the improved parts of this country without any opposition from the unwarlike inhabitants' and 'alarmed the whole nation' (LJ540–1). The defeat of the Jacobite army at Culloden rounded off a divisive period of Scottish politics, after which, in August 1746, Adam Smith left Oxford (never to return) for Kirkcaldy to look for a career, against the intentions of his mother and guardians, who had encouraged him to become an ordained minister in the Episcopalian affiliate of the Church of England.

Among his father's sources of patronage were the Argyll brothers (the 2nd and 3rd Dukes), who were dominant influences in Scottish public appointments in the first half of the 18th century.<sup>4</sup> Smith's son benefited greatly from the patronage of the 3rd Duke of Argyll when he sought professorial employment after graduating from Oxford University.

Adam Smith's father, a native of Aberdeen stock, married twice. In 1709, his first wife, Lilius ('Lillie') Drummond, gave birth to a son, Hugh Smith. She died before 1718.<sup>5</sup> In 1720, Smith senior married Margaret Douglas (1694–1784), the fifth daughter of Robert Douglas of Strathenny, a prominent landowner in Fife. Several of her relatives had farming interests in the county, some of whom also had military connections.<sup>6</sup> Smith senior held the office of Clerk of Court Martial and Councils of War in Scotland and, notably, was particularly active during 1714–16 when serving the 2nd Duke of Argyll, commander-in-chief of all

armed forces in 'North Britain', in his campaign against the 1715 Jacobite rebellion.<sup>7</sup>

Adam Smith senior died (of what is not recorded) and was buried on 9 January 1723, and his son, the world-famous Adam Smith, was baptised on 5 June (his exact birth date is unknown).<sup>8</sup> As a result of his father's frugality and his canny lending, he left his widow sufficient income and property to bring up his two sons frugally, both sickly children, in a will he drew up on 13 November 1722<sup>9</sup> (did he know he was dying?).<sup>10</sup> When Hugh died, Adam inherited their father's estate.

## Margaret Douglas Smith

As a widow and single mother, Margaret Douglas lived near her family of established landowning farmers and she had the emotional and advisory support of a circle of powerful local dignitaries, whom her prudent husband had arranged to act as his unborn son's guardians. Their backgrounds indicate the patronage available to baby Adam if he survived (child mortality at the time was horrendous). His father, in addition to the provision he made for his 13-year-old son and heir, Hugh Smith, also made provision for 'any child or children of my present marriage'. Among his guardians were James Oswald, former Kirkcaldy MP in both the Scottish and the UK parliaments, and five members of his parents' families.<sup>11</sup>

By all accounts Margaret Smith was an overly indulgent and loving mother of her sickly son (EPS269). And she forged deep bonds with him that lasted for 61 of his 67 years until she died in his house in Edinburgh in 1784. Some of Smith's personal experiences came out in literary form years after his sickly childhood when he wrote a passage in *Moral Sentiments* about a (his?) mother's love for her infant:

What are the pangs of a mother, when she hears the moanings of her infant that during the agony of disease cannot express what it feels? In the idea of what she suffers, she joins, to its real helplessness, her own consciousness of that helplessness, and her own terrors for the unknown consequences of its disorder; and out of all these, forms, for her own sorrow the most complete image of misery and distress. The infant, however, feels only the uneasiness of the present instant, which can never be great. (TMS12)<sup>12</sup>

Margaret Douglas was intensely religious, leading commentators, incorrectly I believe, to conclude from the absence of Adam Smith's direct

disavowal of the scriptures in his books that he was a believer in 'revealed truth', or at least a 'Deist' of some kind.<sup>13</sup> Throughout his adult life the ever-present threat from religious zealots kept him, and many others, from expressing overt opposition to the prevailing religious dogmas. David Hume was bolder and paid the price of being refused academic jobs by both Edinburgh and Glasgow Universities. But even Hume never went so far as to state his irreligious views in an extreme manner and many Scottish Church Ministers remained his life-long friends despite knowing his views on Christianity, tempered by also knowing of his gentle and honest personality.

### **Adam Smith's education**

Two factors assisted Smith's education: his prodigious study habits, first at Kirkcaldy Burgh School and then at Glasgow College and Oxford University,<sup>14</sup> and second, the influence of his sponsors. His mother took the advice of his guardians and sent him to Glasgow College (University), foregoing sending him to Aberdeen, where his father's family lived (unfortunately 'tainted' with Jacobite sympathies), or to St Andrews (only 20 miles from Kirkcaldy) or to Edinburgh, across the Firth of Forth. Hanoverian Glasgow had the advantage of potential life-long patronage for Adam from his father's service for Lord Loudoun (a former Glasgow College student). The College recognised young Adam, aged 14, as the 'son of the late Adam Smith at Kikcaldie'.<sup>15</sup> Glasgow University was, and remained, in a thoroughly pro-Hanoverian town, politically close to the Argyll 'interest'.

At 14 years old in 1737, then a normal age for entering university, Adam Smith matriculated at the College. He studied at Glasgow for 3 years until he was 17 and was much taken with 'the never to be forgotten' Professor Francis Hutcheson. He also studied mathematics under Professor Robert Simson, who had restored modern interest in Greek geometry.<sup>16</sup> Smith maintained a lifetime interest in maths, notably through Professor Matthew Stewart at the University of Edinburgh, formerly a fellow student at Glasgow.

He displayed continuing studiousness prompting his professors to nominate him for a much coveted Snell Exhibition,<sup>17</sup> worth £40 a year at Balliol College in the University of Oxford. Two conditions of the Snell Exhibition, one minor and the other major, were that the candidate should have studied for three years at the College 'without taking any Degree from Here or elsewhere',<sup>18</sup> which should dispose of claims<sup>19</sup> that he had an MA from Glasgow (his MA was from Oxford); and that

the candidate made a 'solemn promise' (supported by a £500 bond)<sup>20</sup> to be ordained into the Church of England on graduation and become a Minister in the Episcopalian Church in Scotland.

Smith's experiences at Oxford were unhappy ones. The teaching regime consisted of twice-daily prayers and twice-weekly lectures (Corr1) by tutors indifferent to the quality of what they purveyed. Thirty years after he left Oxford, Smith lamented that 'the publick professors have, for these many years, given up altogether even the pretence of teaching', showing his lifelong lingering, undiminished, and angry contempt of the Balliol faculty (WM761). Hints in Smith's correspondence about what happened to him at Oxford suggest a medical condition bordering on a form of depression (hypochondria) arising not from his indolence, but from over-studying and insufficient exercise, an affliction that David Hume, a fellow sufferer in his youth, called the 'disease of the learned'. The two future friends shared a common experience (both were fatherless and were brought up by widowed, single mothers).<sup>21</sup>

But Smith's problems were not just his 'depression'; he experienced serious life-changing stresses. His cousin William Smith, one of his guardians and steward to the Duke of Argyll, who had worked with Smith senior during the post-1707 events, visited young Adam to assist him to settle in at Balliol. He also had access to the Duke's nearby Adderbury House and took Smith there for a summer break in 1741, and possibly on other occasions, thus keeping up Smith's loose connection with the Argyll interest (Corr2).

The other major sources of stress were of an intellectual nature: from his studies of natural philosophy his religious convictions appear to have been under siege and possibly he shed his faith. By 1744, and coinciding with bouts of illness, he faced a practical challenge to his career intentions for, having met the bachelor-degree requirement, he had to move on to the syllabus for ordination into the English Church. Somewhere in this period, his philosophical studies conflicted with his religious obligations. A number of his letters from this period were 'lost' in the 19th century which might otherwise have cast further light on what happened to him.<sup>22</sup> What little we know we must deduce from the outcome.

An unconfirmed anecdote claims that he clashed with his tutors who, visiting his college rooms, found a copy of a book by David Hume and confiscated it as 'unsuitable' reading matter.<sup>23</sup> If true, it supports the idea that Smith's disenchantment with Oxford was more than mere home sickness. There is also the question of where and when he began writing what he described as an 'intended juvenile work' (Corr168), titled *The Principles which lead and direct Philosophical Enquiries, illustrated by the*



*History of Astronomy* and published posthumously in 1795 (EPS1795). Smith was used to writing long essays as a student at Glasgow,<sup>24</sup> so his commencing a long essay titled 'History of Astronomy' in Oxford is not implausible. In it he sets out his version of the method of philosophical enquiries, with hints of a drift towards the fringes of religious scepticism.

External events also combined to drive him to break his 'solemn promise' to the Snell Exhibition. Balliol College, much like Oxford University, was home to a fair amount of Tory Jacobite romanticism, a belief in the 'divine rights' of kings and a disdain for the Hanoverian usurpers. 'Scotch' students from Glasgow, a known pro-Hanoverian and pro-Unionist town, felt unwelcome in this setting.<sup>25</sup>

The 1745 Jacobite rising led by some of the Highland clans marched to its dénouement at Culloden on 16 April 1746, and its bloody aftermath of a heady mixture of battlefield cruelty, robbery and rapine. The servants in a frightened state resorted to vindictive capital punishment of captured rebels. Three Lords were beheaded and 116 other rebels were treated to the usual awesome recipe of hanging, drawing and quartering, plus many instances of transportation, death in prison, the 'disappearance' of over 3400 men, and of untold numbers of women raped by 'soldiers', and their children killed.<sup>26</sup>

## After Oxford

In August 1746, Smith left Oxford (never to return) to visit his mother for the first time since he had left Glasgow six years earlier. Coincidentally, Francis Hutcheson died on 8 August, leaving a vacancy in the Glasgow Chair of Moral Philosophy. Young Smith more or less had made the fateful decision not to continue his studies at Balliol and 18 months later he resigned 'all right & title' to the Snell Exhibition.<sup>27</sup> His resignation was made easier by the judgment of the English courts that the £500 bond was not enforceable; of the ten Snell Exhibitioners who commenced before Smith, six took orders in the Church, and of those who commenced with him only one did.<sup>28</sup>

Smith did not find 'the ecclesiastical profession suitable to his taste' and 'chose to consult, in this instance, his own inclination, in preference to the wishes of his friends; and abandoning at once all the schemes which their prudence had formed for him, he resolved to return to his own country, and to limit his ambition to the uncertain prospect of obtaining, in time, some one of those moderate preferments, to which literary attainments lead in Scotland'. Thus Dugald Stewart summed up Smith's bold decision to leave Oxford (EPS272).

Fortunately, his family friends offered ideas of how he should advance his career, to which, in due course, his father's reputation provided the added critical support of the Argyll interest. Among other attributes, Smith arrived home with an English accent in place of the Scottish burr and its many solecisms, and an impressive education in the classics, modern literature, and natural (science) and moral philosophy.

Among his family friends was the son of his guardian, James Oswald, a former school friend a few years older than Adam, who had become an advocate and local MP, on his way to high office in the British government. Among Oswald's intimate friends was Henry Home of Kames (later, Lord Kames, a Scottish judge). Both men were early and lasting influences on young Adam. They conceived a plan to resolve the problem of his lack of a career. His search for, or more likely hope of, a tutorship of an aristocrat's son came to nought.<sup>29</sup>

Henry Home's plan had several elements to it. Smith would deliver a series of public lectures in Edinburgh on rhetoric and moral philosophy. He would compile his lecture material from his student notes and deliver them in his English accent, demonstrating to students from the local university and their parents how they should speak if they wanted careers in the 'New Britain'. They would also benefit from hearing a fresh approach to their subjects in English (lectures at that time were usually delivered in Latin) and local adults would also benefit from revision classes in the latest modish thinking on topics related to morality that were interesting in their own right. His sponsors – Henry Home, Oswald and, perhaps another close friend of the family, Robert Craige of Glendoik – provided the initial funds and made arrangements to commence his lectures in Edinburgh in 1748. Lecture series were popular with the Edinburgh public at the time and sufficient numbers attended Smith's lectures to provide him with an income of £100 a year (Corr24).

## A professor is chosen

Smith's Edinburgh lecture series was organised each winter from 1748 to 1751, in which he delivered lectures to what was described as a 'respectable auditory, chiefly composed of students in law and theology'.<sup>30</sup> News of the death of Professor John Loudoun, who held the Chair of Logic at Glasgow College and whom Smith knew from his student days, started a chain of events that brought Smith his professorship. Loudoun died on 1 November 1750. At the news, the usual excitement of the hunt for his replacement made potential candidates take soundings as to their chances. Somewhere in the polite pack, Adam Smith's name came

into contention. His senior advisors reconnoitred the field and discreetly tested the inclinations of those who could influence the formal decision.

For a professorship, a successful contender required strong 'interest', an 18th-century term to describe the men with influence who decided, informally, who was appointed to almost any office in British society, from the lowest through to a Minister of the Crown. In Scotland at the time, the Argyll family had the strongest interest and Adam Smith already had powerful, if largely emotional, connections through his father's legal services to the Duke of Argyll.

With the evidence of his successful Edinburgh lectures, Smith had grounds for believing he stood a good chance, particularly if his allies, including his cousin William Smith, who had served the 2nd Duke, could swing Archibald, the 3rd Duke, behind his candidacy.<sup>31</sup> He could rely on the support of his sponsors: Henry Home, a rising star in the Scottish judiciary; and James Oswald MP, rising in national politics towards a British Ministry. Earl Illay, 3rd Duke of Argyll, was the younger brother of John, the 2nd Duke (who had died in 1743), and unusually for an English aristocrat, was educated at Glasgow University, not Oxford, and like his brother John, had considerable influence in Scottish affairs from delivering the votes of Scotch MPs and Lords to grateful ministries at Westminster. In return, governments left Scottish appointments to the discretion of the Argylls and, in so far as university appointments went, it is estimated that the two Dukes between them secured the appointment of 55 professors, 20 of them to chairs in Glasgow University between 1723 and 1761.<sup>32</sup>

The University decided on 19 December to elect a successor to Loudoun on 9 January 1751. No doubt the usual intense but subtle lobbying had continued since the vacancy was announced in November. By 27 December, George Muirhead and Adam Smith emerged as the front runners.

Smith's election was not plain sailing. There was some kind of kerfuffle among the professors over the appointment of Smith to the Chair of Logic, involving rounds of correspondence (now lost) between them and Principal Dr Neil Campbell (Corr334–6). One professor wrote to the Duke of Argyll, which annoyed the principal and Smith. His sympathetic informant William Cullen, Professor of Anatomy, advised Smith: 'I beg that for the sake of your quiet and health that you would not indulge in any anger or vexation till you are sure of your facts and which you cannot be with regard to our affairs till you are [present with us].'<sup>33</sup> This is an early hint of Smith's 'warm temperament' when dealing with people who annoyed or obstructed him (cf. EPS321).

In the event, the professors, three of whom knew Smith as a student, elected him unanimously, and Robert Simson, his former teacher of mathematics, sent him a letter dated 9 January 1751 inviting him to Glasgow 'as soon as his affairs can allow him, in order to be admitted' (Corr4), subject to his formal acceptance and his giving 'sufficient proofs of his fitness' by presenting a dissertation, *De Origine Idearum*, as a 'trial of his qualification', perhaps reflecting concerns about his unproven credentials among sceptics other than the support of those out to please the Duke.<sup>34</sup>

Interestingly, Smith, wasting no time, replied by letter on 10 January and presented himself at the University on 16 January, read his dissertation (presumably in Latin as was customary for professors at the time), took the requisite oaths, was admitted and, showing supreme confidence, promptly returned to Edinburgh on 'business', with a commitment to commence his teaching in the new session in October.<sup>35</sup> He must have had his dissertation ready, enabling his friends on the Senate to move with some haste to complete the process before academic opposition festered and gained momentum.

When he started teaching in October 1751, there were minor problems with the acceptance of his syllabus in place of the traditional logic syllabus taught by Professor Loudoun. John Millar, a student and later a friend and colleague, informed Dugald Stewart many years later of Smith's decision to depart 'widely from the plan that had been followed for years by his predecessors' because he found, disdainfully, the classical logic syllogisms an 'artificial method of reasoning' (EPS273-3).<sup>36</sup> Somewhat boldly, Smith retained bits of the old syllabus he thought worth learning and replaced the others with rhetoric, belles lettres and jurisprudence from his Edinburgh lectures. James Wodrow, Library Keeper in the College, sat in on Smith's lectures (he had been one of Frances Hutcheson's students) and commented critically to a friend:

Smith's reputation in his Rhetorical Lectures is sinking every day[.] As I am not a scholar of his I don't pretend to assign the cause. He begins next week to give lectures on Jurisprudencia which I design to attend. I hear he has thrown out some contemptuous Expressions of Mr Hutchison [sic]. Let the young man take care to guard his Censures by the Lines[,] Palisades and counterscarps of his science Rhetoric[.] For there are some of Mr H[utcheso]ns scholars still about the Coll[ege] who perhaps will try to turn the mouths of the Cannon against himself [original spelling followed; punctuation added].<sup>37</sup>

These grumbles passed over, but may have lingered on to play a role in events four years later (1755) when persons, now unknown, accused Smith of plagiarism.<sup>38</sup>

Almost immediately, a fortuitous event unfolded. Shortly after Smith moved to Glasgow in time for the new session in October 1751 to commence teaching his truncated version of Professor Loudoun's logic course, the College was informed that Professor Thomas Craigie, holder of Professor Hutcheson's Chair of Moral Philosophy, had died in Lisbon on 27 November while on sick leave. The Senate had already made arrangements in September to cover Craigie's classes and Smith had agreed to deliver his lectures on Natural Jurisprudence and Politics. To dampen concerns that he might presume his temporary classes were a permanent occupation of Craigie's Chair of Moral Philosophy, he told William Cullen that he 'would endeavour to see [Loudoun] before he goes' to Lisbon, adding that 'I would pay great deference to [Loudoun's syllabus] in every thing, and would follow it implicitly... as I shall consider myself as standing in his place and representing him' (Corr4).

His temporary appointment to teach parts of the Moral Philosophy syllabus placed Smith in his element; he had an advantage over rival candidates, should any emerge, from his obvious superiority in his chosen field. He had attended the principal's meetings before he started teaching and had undertaken administrative chores, including his much appreciated work on the improvement to the back courts of two of the professors' houses sited within the university.<sup>39</sup> He also demonstrated mastery of his subjects.

### **Did Smith block Hume?**

We have a curious letter extant from Smith to William Cullen (Corr6), with whom he exchanged highly sensitive information about events affecting the University. One such set of exchanges<sup>40</sup> is perceived by most authorities to be a discussion between Smith and Cullen about the suitability of David Hume for a potential vacancy for the Chair of Logic, at that time occupied by Smith. It could also be taken as a discussion about blocking David Hume's candidacy for the Chair of Moral Philosophy to clear the way for Adam Smith to be unchallenged by a serious rival. On the evidence available, it cannot be decided unambiguously, but it is worth considering, since events in 1776 also show Smith's behaviour towards Hume in a curious light, when he refused Hume's requests that he agree to publish his paper on religion when Hume died (Corr194–6, 161, 165–6, 168).

Smith wrote to Cullen on 'Tuesday November 1751'. If that letter had been sent prior to the news arriving in Glasgow that Craigie had died in Lisbon on 27 November, their discussion would most likely have been about the Chair of Moral Philosophy because there was no point discussing candidates for the Chair of Logic unless there was a vacancy for it, which could only happen if there was already a degree of confidence that Smith would take over Craigie's Chair and thus put the Chair of Logic into play. Craigie's illness had been discussed since September, and it was likely that David Hume was a potential candidate for the Chair of Moral Philosophy in the event of Craigie's death, making him a rival to Smith's ambitions. This puts a different slant on the oft-quoted letter expressing Smith's concerns about Hume's suitability:

I should prefer David Hume to any man for a colleague; but I am afraid the public would not be of my opinion; and the interest of the society<sup>41</sup> will oblige us to have some regard to the opinion of the public. (Corr5)

Smith damns Hume with 'faint praise' by applauding him as a potential colleague and simultaneously raising the unfortunate circumstance of the likely hostile reaction of the Church to his appointment, following the precedent of the Edinburgh Church ministers in 1745, who had voted 12–3 against Hume's appointment to Edinburgh's Chair of Moral Philosophy. If it was the Chair of Moral Philosophy, then Smith's warning of the public repercussions of appointing a man well known for his aberrant views on religion (some suspected him of atheism) suggests that Smith was concerned that Hume's possible candidacy would frustrate his own ambitions. After all, Hume had published his *Treatise* in 1739, while Smith had published nothing. His Edinburgh lectures were supportive but were not solid evidence.

In these circumstances, Smith colluded with Cullen, and perhaps others privately, to block the advance of someone destined later that year to become his close friend. The non-appointment was doubly disappointing for Hume, given his rejection by the University of Edinburgh on similar grounds of his non-acceptability among those who influenced the appointment of professors, including the new 3rd Duke of Argyll. These events occurred around the time (November 1751–early 1752) that Smith and Hume first became acquainted and before their famous 25-year friendship flowered.<sup>42</sup> Nevertheless, Smith's comments behind the scenes are indicative of his 'political' ruthlessness throughout his career.

The alliance formed to appoint Smith to his chair in 1750 was now put to work to secure for him the Chair of Moral Philosophy. Interestingly, compared to his speedy election to the Chair of Logic, his appointment to the Chair of Moral Philosophy took nearly twice as long. It took 77 days to appoint Smith in 1750–51; in 1751–52 it took 150 days.

Smith was active in securing the nomination. He attended the Duke of Argyll's formal reception of visitors or guests (or levee, as at a royal court), in November and took the opportunity of being introduced to him by Alexander Lind of Gorgie. Lind was an advocate, an amateur chemist and an associate of the Dukes in their Glasgow Delft Works (Corr6n7).<sup>43</sup> In the 18th century you did not walk up to a Duke and introduce yourself; you solicited an 'introduction' from persons with strong interest. Your sponsor had to have a high opinion of you and of your proclivity for displaying the appropriate degree of deference. In the event, Smith reports that the Duke seemed to have 'forgot', but while he says nothing of the subject of the Duke's forgetfulness, the incident reveals the fact that the main player in university appointments was already involved by November 1751 (Corr6).

The mission was accomplished by 9 January 1752 when the Duke of Argyll made a decisive pronouncement that 'Mr David Hume cannot be recommended to a proffessorship [sic] there' [Glasgow].<sup>44</sup> James Wodrow, in a letter dated 21 January 1752, mentions that the clergy of Glasgow went as a body to Principal Neil Campbell to oppose Hume's appointment as a professor, without mentioning for which chair or who precisely had prompted their action.<sup>45</sup>

Still, the University took its time and it was not until 22 April that 'Adam Smith Professor of Logic in this University was elected unanimously to the Chair of Moral Philosophy' and he was formally admitted as professor on 29 April 1752.<sup>46</sup> The vacant Chair of Logic went to a 'Mr Clow', who was unknown and remains so.<sup>47</sup>

Adam Smith had arrived where he wanted to be by a mixture of intellectual ability, a well-managed interest campaign, the skilful demonstration of his teaching credentials and the right measure of judicious nursing of the men of influence in Scottish society, among them being those who had warmed towards his interests because of his father's loyal service to the Hanoverian cause.

Just short of his 29th birthday, the first phase of his life concluded and the most productive intellectual phase began. From then on, everything depended on what he did and not on what his father had done.

## Notes

1. Fry, M. 2006; Scott, P. H. 2007; Whatley, C. 2007; Watt, D. 2007.
2. Scott, W. R. 1937: 4–6.
3. Watt, D. 2007.
4. Whatley, C. 2007.
5. Scott, W. R. 1937: 18.
6. Ross, I. S. 1995: 2–3.
7. *Ibid.*: 129.
8. Bonar, J. [1894; 1932] 1966: 208.
9. Ross, I. S. 1995: 129–33.
10. Scott, W. R. 1937: 18; Note 1.
11. Scott, W. R. 1937: 134.
12. I am grateful to Nicholas Gruen for drawing my attention to this passage.
13. Cf. Denis, A. 2005: 1–32; Evensky, J. 2005.
14. Scott, W. R. 1937: 26; Ross, I. S. 1995: 18–22.
15. Scott, W. R. 1937: 137, 364.
16. *Ibid.*: 32.
17. Addison, W. L. 1901.
18. Ross, I. S. 1995: 68, quoting a Balliol College manuscript; Rae, J. [1895] 1965: 9.
19. Scott, W. R. 1937: 36, 137, 392; the 'MA' noted by Adam Smith's name when he was a professor is his Oxford degree, not a Glasgow degree.
20. Scott, W. R. 1937: 42.
21. Mossner, E. C. [1954] 1980: 60–80.
22. Scott, W. R. 1937: 40.
23. McCulloch, J. R. 1855 [1828].
24. Scott, W. R. 1937: 35–6.
25. *Ibid.*: 42–5.
26. Ross, I. S. 1995: 81, quoting Lenman, B. 1980: 271–5; Fry, M. 2006: 80–95.
27. Letter of resignation, 4 February 1749, Bodleian Library, in Scott, W. R. 1937: 137, 336.
28. Scott, W. R. 1937: 43; cf. Ross, I. S. 1995: 79.
29. Ross, I. S. 1995: 82.
30. *Ibid.*: 87, quoting Tytler, A. F. Lord Woodhouselee 1807: i.190.
31. Scott, W. R. 1937: 66.
32. Emerson, R. L. 1995: 21–39.
33. Cf. Ross, I. S. 1995: 110.
34. Scott, W. R. 1937: 138.
35. Rae, J. 1895: 42–3; Ross, I. S. 1995: 109.
36. Ross, I. S. 1995: 110.
37. *Ibid.*: 111, quoting from MS 24.157, 14, 16, Dr Williams' Lib.
38. Smith, A. '1755 Paper'; cf. Kennedy, G. 2005. Appendix: 241.
39. Scott, W. R. 1937: 66, 140; Ross, I. S. 1995: 145–51.
40. Rae, J. 1895: 45; Ross, I. S. 1995: 112–13.
41. 'Society' refers to scholars at the University and not to society in general.
42. Ross, I. S. 1995: 106, quoting Callander's notes in Raphael, D. D. and Sakamoto, T. 1990: 271–81.
43. Ross, I. S. 1995: 113.



44. *Ibid.*, quoting NLS Saltoun, Mss; in Mossner [1980]: 632, to Lord Milton, Duke of Argyll's political agent who reported it to the University.
45. Ross, I. S. 1995: 113 (note typo, '1751' for '1752', cf. 111 and 437; Dr William's Library, MS 24.157, Corr. S. Kenrick/J. Woodrow, 16 (21 January 1752).
46. Scott, W. R. 1937: 139–40.
47. Rae, J. 1895: 48.

# 2

## ‘in the first ages of society’

### Introduction

Though Smith’s books and essays were published sequentially, and *Moral Sentiments* and *Wealth of Nations* were revised, his intellectual creativity was reflected across the different subjects in his books more or less in parallel. Smith cross-traversed among his subjects much like a chef moving from pot to pot, tasting until he is satisfied. Towards the end of his life he reported that he still had important unfinished work for ‘two other great works upon the anvil’ (Corr286).

Moral philosophy was taught in the 18th century as a broader subject than it is today. From 1751 through to 1764 Smith taught Natural Religion (of which nothing is known), Ethics (which formed the bulk of *Moral Sentiments*) and Jurisprudence (of which we have students’ notes). Parts of these lectures were intended to become his third book, *Lectures on Jurisprudence*. Other parts, on ‘police, revenue and arms’, appeared nearly verbatim in *Wealth of Nations* (EPS273–4; LJ331–48; ED in LJ559–86).<sup>1</sup> Looking at them from the perspective of their parallel development, we can see that they have a common theme running through them. His works constitute a distinct *oeuvre*, not a series of ‘one-offs’.<sup>2</sup>

### Stewart on Smith’s common theme

Dugald Stewart thought it was when Smith was at Oxford (1740–6), or not long after (Corr87–8),<sup>3</sup> that he ‘cultivated with the greatest care’ his interest in languages (EPS272). In his earliest articles he criticised Dr Johnston for being insufficiently ‘grammatical’ (EPS232–41; LRBL201–26). Not surprisingly, Johnston and Smith did not ‘take to each other’ thereafter. His lectures on rhetoric and belles lettres (from student

notes, 1762–3) (LRBL 1985) show his serious thinking about languages, their grammatical structures and their formation. Smith published an essay on language in *The Philological Miscellany* (1761) (LRBL203–26) and in the third edition of *Moral Sentiments*. Smith's neglected essay on languages (hereafter *Language*) is regarded as a major statement of his scientific approach.<sup>4</sup>

Stewart adds that Smith's interest in languages was 'uncommonly extensive and accurate, and, in him, was subservient... to a familiar acquaintance with every thing that could illustrate the institutions, the manners and the ideas of different ages and nations' (EPS272). *Language* contained, Stewart wrote,

a specimen of a particular sort of inquiry... which seems, in a peculiar degree, to have interested Mr Smith's curiosity. Something very similar to it may be traced in all his different works, whether moral, political, or literary; and on all these subjects he has exemplified it with the happiest successes.

This points to the comprehensive nature of Smith's 'particular sort of inquiry' and that he had a common analytical approach.

Stewart continues,

When... we compare our intellectual acquirements, our opinions, manner, and institutions, with those that prevail among rude tribes, it cannot fail to occur to us as an interesting question, by what gradual steps the transition has been made from the first simple efforts of uncultivated nature, to a state of things so wonderfully artificial and complicated. Whence has arisen that systematical beauty, which we admire in the structure of cultivated language... Whence the origin of the different sciences and of the different arts; and by what chain has the mind been led from their first rudiments to their... most refined improvements? Whence the astonishing fabric of the political union; the fundamental principles which are common to all governments; and the different forms which civilized society has assumed in different ages of the world?

There was 'very little information' on the history of these subjects because most of the ages they went through occurred long before they were recorded, and except for a few 'isolated facts' from 'travellers' who visited the 'rude nations', this is no substitute for details of the 'regular and connected detail of human improvement'. This made it essential to

reconstruct 'fact by conjecture' by 'considering in what manner they are likely to have proceeded, from the principles of their nature, and the circumstances of their external situation', or what Stewart called 'Theoretical or Conjectural History . . .' (EPS292–3). These passages show that he conceived of them as the 'gradual steps [of] transition' in what we would call a 'social evolutionary process'.

### Smith's 'market model'

James Otteson uses Smith's conjectures in *Language* to illustrate an early application of what he calls Smith's 'market model':

the market model is at work in the essay on language, in [*Moral Sentiments*] and in [*Wealth Of Nations*], as well as to varying extents, in some of Smith's other works, and the model can moreover serve as an organising principle for understanding his examination of human institutions generally.<sup>5</sup>

Otteson sees *Language* as the centrepiece of the 'deep methodological unity' in 'Smith's corpus'.

Smith advanced historical views of social phenomena, using what Samuel Fleischacker succinctly describes as a 'backward-looking', not a 'forward-looking', enterprise.<sup>6</sup> The evolution of language fascinated Smith as it did many of his contemporaries,<sup>7</sup> and Otteson sees *Language* as an example of Stewart's 'conjectural history' (LRBL9–13). Smith and his contemporaries had a general awareness that human modes of subsistence had developed from unknown ancestors in remote times. He questioned the changes and progress of human language by resorting to a device dismissed disparagingly today as a 'Just So' story (after Rudyard Kipling). The pre-history of language is closed to direct retrospective observation (sounds do not fossilise) but modern studies of genetics are an indirect indicator of the movement and mingling of human societies.

Smith's story asserts what would happen if 'two savages' (a contemporary term without racist connotations)<sup>8</sup> met who 'had been bred up remote from the societies of men' and had 'never been taught to speak'. How would they 'naturally begin to form that language by which they would endeavour' to 'make their mutual wants intelligible to each other' by 'uttering certain sounds whenever they meant to denote certain objects' (LRBL203). This allowed him to tease out conjectures of how they, and their descendants, could create a mutually intelligible

language. His essay on *Language* is about their progress from single-word sounds to fairly complex language structures.

Smith asserts that the first word-sounds invented would have been nouns, such as 'cave, tree, [and] fountain', then, in some order, classes of objects (rivers), adjectives (green, red and blue), prepositions (of, above and below), numbers (many and few) and verbs.

Verbs must necessarily have been coeval with the very first attempts towards the formation of language. No affirmation can be expressed without the assistance of some verb. We never speak but in order to express our opinion that something either is or is not. But the word denoting this event, or this matter of fact, which is the subject of our affirmation, must always be a verb. (LRBL215)

It can be noted in his argument that dialogue remains strictly limited until they progress towards agreeing on the sounds to represent what they are trying to communicate, and the natural order for progress requires that they agree fairly early on, after nouns, to the sounds for verbs. Given the uncontrolled and undirected process by which words would be formed, there is no implication that any two individuals would hit upon instant, or even easy, agreement on what a spoken sound meant. Too complicated, too difficult to remember, too easily forgotten, or too like another word sound, and it could prove fatal – for example, the imperative for 'danger' must be distinct and acted upon instantly. We know from studies of primates and monkeys that certain sound sets appear to have commonly understood meanings for a particular band – warnings about nearby predators, eagles, leopards and snakes for instance – though there is no implication that animal cries are languages. But whether human language evolved from animal-like cries, was nurtured in human dancing and 'songs', or from other routes, we do not know.

If two early humans with the physiological apparatus for speech, but without an agreed, albeit primitive language, did not find a common meaning for their word-sounds, they remained at the mercy of events, whereas an ability to react to warnings, or to cries locating food and water, improved their chances of survival if only by the smallest of margins, which was all that was necessary in the evolutionary timescale of multiple generations. When they reached an agreement on the use of more and more word-sounds, and the 'rules' that bound them together, they adopted the basis for a grammatical language. Whether others would adopt their 'language' or whether they would adopt any of the sounds that others agreed upon or found convenient are open questions.

Smith did not describe actual events from particular language formations (that would have been a conjecture too far); he only speculated on a grammatical order that a formation process might go through. Nor did he assert anything about the time it might have taken from the uttering of the first word to the functioning of a language. Given that existing languages change considerably in a thousand years, the thousands of years of modern humans with the physiological apparatus capable of uttering speech sounds suggests that early language forms had the necessary time to evolve from simplicity to sophistication, through long periods of time, with the process perhaps repeated many times over. Word-sounds proliferated into many languages as humans migrated across the world's wildernesses.

Within these limitations, Smith traced a possible evolutionary order in the evolution of word-sounds from nouns to adjectives, prepositions, participles, pronouns and verbs. His teaching of language evolution suggests that he was satisfied with the efficacy of his conjectural method.

### Market or exchange model?

Smith's emphasis on the deliberations of how two imaginary speakers pondered how to 'make their mutual wants intelligible to each' (LRBL23) was a problem shared all across the human species: How did they express themselves to get what they want besides using violence or domination behaviours? His choice of making 'their mutual wants intelligible' by their attempted discourse is a subset of his central proposition that humans satisfy their 'mutual wants' through *exchange* interactions and it is in that process that Smith's methods flower.

*Homo sapiens* had a large brain and a two-legged gait, made primitive stone tools and, with speech, what we think of as humanity became possible. In the absence of speech sounds and language, our predecessors pursued their wants the same way all animals do, by using various, including murderous, degrees of enforcement, coercion and dominance. Speech began the long process that allowed humans eventually to choose between violence and exchange, making them different, potentially, from all other animals. Smith has said as much in *Wealth of Nations* (and earlier in his lectures, 1762–4: LJ347; ED LJ571):

Nobody ever saw a dog make a fair and deliberate exchange of one bone for another with another dog. Nobody ever saw one animal by its gestures and natural cries signify to another, this is mine, that yours; I am willing to give this for that. (WN26)

Otteson summarises Smith's purpose:

Smith's point [in *Language*] is that this natural formation of language happens without conscious deliberation – but that does not mean it happens lawlessly or haphazardly. Indeed, if language developed without rules prescribing proper usage, there could then be no communication, and hence no satisfaction, of wants – which Smith thinks is the final cause of languages. Rules for the use of words are formed even as the words themselves are formed: this word, pronounced precisely in this way, applies to this object; that word, pronounced in that way, to that object. The rules initially constitute informally agreed-upon protocols; in time they become formal rules that get taught to children and sometimes written down as rules of grammar.<sup>9</sup>

The rules were established by mutual consent, an aspect of interactive human behaviour of importance to Smith. He directed his intellectual output at emphasising the mutuality of human conduct through chains of exchange relationships arising from the dependence of each person in society on the services of many independent others. He did this too in respect of the human institutions of property, laws and morality. Smith celebrated man's early total dependence on others. Rousseau, on the other hand, because he confused the difference between the physical chains of slavery and the voluntary chains of exchange relationships, detested mutual dependence and made his ideal the 'manly' independence of a mythical bygone age, when man was free of others – and destitute – and enjoyed short lifespans.

### **Early foray into his method**

Throughout his adult life, Smith kept a manuscript on the history of astronomy in his bedroom bureau (Corr168), and studiously refrained from publishing it for over 40 years. On his deathbed,<sup>10</sup> he asked Joseph Black and James Hutton, to arrange for its posthumous publication if they regarded it as worthy (EPS32).

There is uncertainty about when he wrote 'The History of Astronomy' (hereafter 'Astronomy'), and even greater uncertainty as to why he held on to what he described as an 'intended juvenile work' (Corr168). Wightman and Bryce, his modern editors, report that it 'has been fairly widely assumed that at least he laid the foundation of the History of Astronomy at Oxford' (1740–6), and internal evidence suggests it was not finished before 1748 (EPS7, 105). In it he refers to a future passage of a

comet due in 1758, giving an upper boundary date for the composition of that part of the manuscript. In a letter (in 1773) to David Hume he states that the manuscript ends with 'Des Cartes'. However, his Executors found loose pages on Sir Isaac Newton's system and, believing they were part of the manuscript, they added them to it for publication (EPS32, 7, 21, 59, 67n7). In view of this he might have composed these pages after 1773.

His essay on astronomy is relevant here not just because it is the only example of Smith's early thinking,<sup>11</sup> but because it too looks backwards in the same manner as *Language, Moral Sentiments, Jurisprudence* and *Wealth of Nations*, suggesting a notable continuity in his compositions from a youthful age.

The larger part of his history of astronomy is of interest primarily to specialist historians (EPS11). That philosophy has changed over the centuries is salient from the parade of authors from ancient times to the 1740s and the history of their explanations, models and methods. Crude explanations gave way to increasingly better explanations that had the qualities of good science in that the models were refined (but not easier to discover) and they corresponded more closely to careful measurements of observed reality. Astronomers before Newton had constructed 72 concentric spheres (hardly 'simple') and something called 'effluvia' to explain the irregular movements of heavenly bodies. Then Newton solved the problem.

During his years at Oxford, Smith was well aware of the controversies among different schools and ages of philosophy, because his competence required that he demonstrated his awareness of them. It is but a small step to accept that if philosophical knowledge grew from limited knowledge in the distant past to more profound knowledge by the 1740s, there must have been a time when little or nothing was known about philosophy. Smith sets out the philosopher's challenge:

Let us endeavour to trace [philosophy] from its first origin, up to that summit of perfection to which it is at present supposed to have arrived, and to which, indeed it has equally been supposed to have arrived in almost all former times. (EPS46; emphasis added)

Though a young scholar, he adopted the evolutionary historical approach in his essay, and then he filed it away, showing it to nobody, not even David Hume, who had been a close ('intimate') friend since at least 1752. That he had not mentioned its existence or its whereabouts to Hume until 21 years later (1773) (Corr168) seems strange conduct to



close friends. Smith finally revealed his essay because, in hypochondriac mood, he was concerned that in his journey and absence in London he might die without having made appropriate literary arrangements.

### **Long struggle against superstition**

'Philosophy', wrote Smith, 'is the science of the connecting principles of nature' (EPS45). The hidden connection of the revolution of the earth and its orbit round the sun took the brightest brains of mankind millennia to unravel, not helped by the religious supposition that the earth was the centre of god's universe and the sun, moon, planets and stars orbited around it. Eventually, increasingly precise data of the movements of the planets frustrated complex mathematical attempts to map their orbits on the false assumption that the sun orbited the earth.

Smith commences 'Astronomy' with his backward-looking evolutionary approach, opening with a conjectural account of the philosopher's vocation and by asking, 'what did curious minds do before philosophy?' People, he answered, exchanged weird explanations for 'all extraordinary and uncommon objects', all 'the rarer phænomena of nature . . . meteors, comets, eclipses', everything in short, with which they were 'either little or not at all acquainted' (EPS33). Language is a necessary precondition for science; it is also convenient for spreading absolute nonsense. Those spouting nonsense were not subject to peer review, except in the sense that their peers were as credulous as those misinforming them.

'Mankind', asserts Smith speculatively, 'in the first ages of society, before the establishment of law, order and security, have little curiosity to find out those hidden chains of events which bind together the seemingly disjointed appearances of nature' (EPS48). The subsistence of savages being precarious, and their exposure to the rudest of dangers of the instant, gave them neither time nor the inclination for idle speculation about nature's oddities. Only with the acquisition of law, order and security did the age of philosophers, who do engage in idle speculation, commence with their curiosity the busy rival of wild, superstitious, speculations of mystics and shamans.

Philosophical discovery is not easy. The eclipses of the sun and the moon, which once 'excited the terror and amazement of mankind' now 'seem no longer to be wonderful' since the connecting chain of events was discovered (EPS43). In a strange outburst of ageism, he added that no matter how much is explained, attempting to discover the connecting chains of events can be dangerous for those 'somewhat advanced in years', because they risk 'lunacy and frenzy' from too severe a study

of abstract science (EPS43)! In this extraordinary outburst he alleges that those whose 'imagination, from being late in applying, have not got those habits which dispose them to follow easily the reasonings of abstract science' should not try to do so, because they risk becoming 'first confused, then giddy, and at last distracted' (EPS43). Young Smith saw philosophy as 'representing the invisible chain which binds together all those disjointed objects' which 'disturb the easy movement of the imagination' and, by introducing 'order into this chaos of jarring and discordant appearances', it allays 'this tumult of the imagination' and restores it to 'that tone of tranquillity and composure, which is both agreeable in itself and suitable to nature' (EPS45–6).<sup>12</sup>

Smith links earthly phenomena to superstitious myths about the indulgences of the gods:

Hence, the origin of Polytheism, and of that vulgar superstition which ascribes all the irregular events of nature to the favour or displeasure of intelligent, though invisible beings, to gods, demons, witches, genii, fairies. (EPS49)

Philosophers, he asserts, should not indulge such evasions. If not the work of pagan gods, or magic and miracles, what were the connecting causes of these irregular events? Nobody knew the answers for millennia, though philosophers probably realised that religious superstition was no answer at all. This leads to Smith's use for the first time of the metaphor of 'an invisible hand'. Regular events of nature pass unnoticed by the mass of the people. Everybody knows that fire burns – if in doubt touch a burning ember. It is in the nature of fire to burn. Water refreshes and puts out fire, again by the necessity of its own nature. Heavenly bodies descend – look at the sky at night – and the wind makes lighter substances fly upwards. No invocations of the whims of the gods were necessary to 'explain' the properties of fire, water, heavenly bodies or leaves. And, Smith notes, using the invisible hand to reinforce his assertion that primitive religion did not invoke the wrath of supernatural gods to explain everyday ordinary phenomena, 'nor was the invisible hand of Jupiter [the Roman god] ever apprehended to be employed in these matters' (EPS49). For credulous Roman citizens, Jove's invisible hand was not a metaphor; it was real.

Sentient beings act to alter events threatening to do them harm. As people had no knowledge of what caused thunder, lightning, storms or sudden illness, bad fortune and other unexplained calamities, their imaginations created invisible beings – the gods – and supposed them

to thwart the normal course of events. All irregular events were thus 'explained' in the first 'ages of the world' producing 'the lowest and most pusillanimous superstition' in 'place of philosophy' (EPS50). Ignorance fed primitive fears. But once subsistence ceased to be precarious, gradually and over long periods measured in millennia, enlightenment followed.

While Smith focussed his spirited attack on primitive pagan religion, which he could do safely without earning the wrath of his tutors, was he also wrestling with disturbing questions about his religious convictions and his belief in an invisible god? Was he drifting towards that lack of religious belief that dare not be named in 18th-century Scotland? In the context of the times, religious perceptions of the world were very real for those who held them. Heaven was above and Hades below and invisible gods roamed the land, intervening for good or ill and at will. The ignorant mob slept soundly, but discrepancies remained a problem for the minority minded to worry about them; they slept less soundly.

In the ancient version of the world, what you saw was all there was. The ground around where you stood was all you would ever tread, the people you knew were all you would ever know, and the invisible gods you feared were ever present, threatening and bountiful in perplexing measure. You could neither run nor hide from the gods who ruled your fate and who could rule or ruin your life if you came to their notice.

Fantasy, on a scale we barely comprehend today, ruled every aspect of your life and 'explained' all you ever wanted to know about nature. To flavour this fantasy world, dip into George Frazer's *Golden Bough*<sup>13</sup> and explore the weird constructions by early primitive humans about nature, life, death, magic, myths and religion, and the gods and spirits, whom they believed guided human destiny.

## **Wonder, surprise and admiration**

Young Smith opened 'Astronomy' with three everyday words: what is new, extraordinary, uncommon and rare excites *wonder*; what is unexpected causes *surprise*; and what is beautiful and spectacular produces *admiration* (EPS33). That he could not give these words a 'precise meaning' was regarded by him as of 'little importance' because the 'best writers' had failed too. All 'I contend for' is that 'the sentiments excited by' wonder, surprise and admiration are 'really different', and 'mutually support and enliven one another'.

His essay, he assures readers, is designed 'to consider particularly the nature and causes of each of these sentiments, whose influence is of far

wider extent than we should be apt upon a careless view to imagine' (EPS34). Note his first use of the phrase 'the nature and causes', destined to become part of his most famous work with which his name is forever associated. Philosophers were interested in the unexplained connections between events even if the rest of humanity was not. Popular imagination is easily satisfied with 'magic' or 'hand of Jove' explanations, but what is not yet understood torments philosophers. Understanding begets tranquillity. Discovering the connecting chain of intermediate events calms the emotional passions of 'surprise' and 'wonder' and makes way for the tranquillity of 'admiration'. On reading Smith, one can sense his mounting enthusiasm for the exhilarating effects on those who practise philosophy. To know nature is to admire it by rendering it 'a more coherent, and therefore a magnificent spectacle, than otherwise it would have appeared to be' (EPS34).

The young Smith sees philosophy as 'representing the invisible chain which binds together all those disjointed objects' without which they 'disturb the easy movement of the imagination' and, by introducing philosophical 'order into this chaos of jarring and discordant appearances', allays 'this tumult of the imagination' and restores it to 'that tone of tranquillity and composure, which is both agreeable in itself and suitable to nature' (EPS46). Pagans employed invisible gods to explain unusual events beyond current understanding.

His remarks in 'Astronomy' about continual revolutions through different explanatory theories of the orbits of earth and the planets in the solar system signal his acknowledgement that the 18th century had not written the last word on the secrets of the universe.

## **Marketplace for morality**

Jim Otteson explains what he meant by a marketplace for morality:

This model is of a market in which free exchanges among participating people give rise, over time, to an unintended system of order. Specifically, Smith understands the nature of moral judgements, including their concomitant features of the impartial spectator procedure and the human conscience, to be the codified results, both at the social and the individual levels, of a coherent and orderly system of morality that is affected by individuals who do not intend to effect it. Put differently, this human institution has developed and is maintained by what I propose to call a 'marketplace of morality'.<sup>14</sup>

It is the desire for mutual sympathy that is the irreducible feature of human nature and these sentiments are the crucial elements necessary for passing moral judgements, the general maxims of which 'are formed like all general maxims from experience and induction' (TMS319). Smith, in concert with Hume, rejected alternative claims that humans, engaging in the deliberations of a convention or assembly, could or did deduce moral principles of right and wrong from an appeal to reason.

The impartial spectator procedure produces our moral judgements and they are not derived (as taught by Francis Hutcheson)<sup>15</sup> from an innate moral sense or faculty. General rules form over adulthood from what we approve or disapprove of in others, and thereby also in ourselves, in a largely unconscious process of rule-formation from long experience and habit arising from consulting or listening to our impartial spectator. Smith was emphatic in asserting that he was not considering matters of 'right', but matters of 'fact'. Those principles that would guide a 'perfect being' to 'approve of the punishment of bad actions' were not on Smith's agenda; he was interested in the principles which would guide 'so weak and imperfect a creature as man' (TMS77).

He illustrates the differences in practice between a 'perfect being' and 'imperfect... man' by asserting that the 'very existence of society requires that unmerited and unprovoked malice should be restrained by proper punishments; and consequently that to inflict those punishments should be regarded as a proper and laudable action' (TMS7). And then he describes how there are two distinct ways that the 'Author of Nature' (a device he uses on many occasions, though it is not necessary for the integrity of his argument) could have arranged things:

Though man, therefore, be naturally endowed with a desire of the welfare and preservation of society, yet the Author of nature has not entrusted it to his reason to find out that a certain application of punishments is the proper means of attaining this end... The œconomy of nature is in this respect exactly of a piece with what it is upon many other occasions... she has constantly in this manner not only endowed mankind with an appetite for the end which she proposes, but likewise with an appetite for the means by which alone this end can be brought about, for their own sakes, and independent of their tendency to produce it. Thus 'self-preservation' and the propagation of the species, are the great ends which Nature seems to have proposed in the formation of all animals. Mankind are endowed with a desire of those ends, and an aversion to the contrary; with a love of life, and

a dread of dissolution; with a desire of the continuation and perpetuity of the species, and with an aversion to the thoughts of its intire extinction. But though we are in this manner endowed with a very strong desire of those ends, it has not been intrusted to the slow and uncertain determinations of our reason, to find out the proper means of bringing them about. Nature has directed us to the greater part of these by original and immediate instincts. Hunger, thirst, the passion which unites the two sexes, the love of pleasure, and the dread of pain, prompt us to apply those means for their own sakes, and without any consideration of their tendency to those beneficent ends which the great Director of nature intended to produce by them. (TMS77–8)

Take out his references to an invisible God deciding not to rely on the 'uncertain and slow deliberations' of human reason, and Smith was close to stating man's evolutionary animal roots. Above all, Smith reveals the intellectual basis for his unplanned, unintentional and unconscious exchange model as a general source for human morality, language and the division of labour that evolved slowly and gradually from long processes producing successful habit-forming behaviours.

He underlines his theory of moral sentiments by switching from already-socialised adults to that of children growing up in society. Smith attempts an (autobiographical?) exposition of how a child might see the transfer to adulthood, for which we should note that during his own infancy he 'was infirm and sickly' and 'required all the tender solicitude of his surviving parent', and that his uncles and cousins, 'experts' in bringing up other people's children, blamed his mother 'for treating him with unlimited indulgence' (EPS269). Smith reports that a young child has no 'self-command' and acts according to its emotions, using 'violent outcries' to attract attention in pursuit of whatever it wants or fancies, in angry expectation of 'unlimited indulgence' from its 'nurse' or parents. However, things change when the infant is sent to school:

When it is old enough to go to school, or to mix with its equals, it soon finds that they have no such indulgent partiality. It naturally wishes to gain their favour, and to avoid their hatred and contempt. Regard even for its own safety teaches it to do so; and it soon finds that it can do so in no other way than by moderating, not only its anger, but all its other passions, to the degree which its play-fellows and companions are likely to be pleased with. It thus enters into the great school of self-command, it studies to be more and more master of itself, and begins to exercise over its own feelings a discipline which

the practice of the longest life is very seldom sufficient to bring to complete perfection. (TMS145)

Both the child and the outsider brought up alone in 'some solitary place' (TMS110) in a society of one have no reason ever to moderate their emotions or behaviours; the child because it is deprived of society's 'mirror', has nobody to converse with and no standards against which to measure its own behaviour, and the outsider because it has minimal language, no access to company outside the family and no experience. But if the child is sent to school at a suitable age, is equipped with basic language skills, the solitary man is brought into the company of others in society, then the 'great school of self-command' commences its work. 'It is intercourse with others', writes Smith, "that not only triggers the desire for mutual sympathy but also begins the process of disciplining oneself in accordance with others' judgements of one."<sup>16</sup>

Otteson summarises Smith's market model in four steps:

1. 'moral judgements, along with the rules by which we render them, develop without an overall, antecedent plan', creating 'a general consensus' of 'the virtuous life', based on 'countless individual judgements made in countless particular situations';
2. as infants grow into children they 'develop increasingly sophisticated principles of action and judgement' to 'assess and judge an increasingly diverse range of actions and motivations';
3. what seem 'to be isolated and haphazard interactions' leads, as we 'grow older to habits of behaviour', to the eventual state of where they 'solidify into principles that guide our conscience';
4. 'people's interests, experiences, and environments change slowly enough to allow longstanding associations and institutions to arise', giving 'a firm foundation to the rules, standards, and protocols that both brought these associations into being and in turn are supported by them'.<sup>17</sup>

Truly, man does not live on bread alone (before farming he did not live on bread at all). Nor did he ever live alone. We have always lived in societies, sometimes of just a few families, sometimes with the females living separately from an adjacent group of males, close enough to intermix and mingle on occasion as their biological instincts inclined them. We know this because it is what primates do, back along the evolutionary line to the common ancestor. Those 18th-century debates on the formation

of society, involving social contracts among refugees from the Hobbesian nightmare of permanent war, missed the point. Human life before societies never existed. Men and women were born into societies, albeit of a few pairs with short lifespans in parlous circumstances and of low population densities in the vast wilderness of the earth's great continents. Because we, their descendants, are here, we know that whatever their social arrangements and however limited their notion of moral behaviour, some of these societies must have conformed to at least rudimentary laws of group survival, especially those which prevented any behaviours practised within the band that risked their wanton destruction unless curbed, most likely by appropriate action and not by reason. True, some behaviour sets had unanticipated consequences and some of these destroyed some of the bands – attacking a passing numerically 'weaker' band when they should have hidden until they passed – and when nobody survived, nothing was learned; but when some survived, so did the lessons.

Survival had to be among the most basic, even if it was the only, rule enforced by the group. The urge to live and avoid death needs no rational process of prior thought; all animals share it without thinking about it. Smith observed that 'no social intercourse can take place among men who do not generally abstain from injuring one another' (TMS87), adding pointedly, 'If there is any society among robbers and murderers, they must at least . . . abstain from robbing and murdering each other' (TMS86). These kinds of minimal conditions, and others that were added in time, were operational within societies whose members lived long enough to breed and nurture their young. This was the absolute precondition of having descendants, and incidentally, and tellingly, it created an uninterrupted line of descent from some of those who survived directly to each one of us. If societies of humans meet minimal conditions, then social evolution – much of it captured in Smith's exchange model, which Otteson summarises – explains how, without planning and pre-existing notions of morality, moral sentiments emerged after a long social evolution and long before anybody articulated what to call them.

Bringing these ideas of Smith's model together, I have transposed Jim Otteson's summary of them in Figure 2.1 using his schematic of four elements: the motivating desire; the rules that were developed across many generations, even millennia; the currency of the voluntary exchanges among individuals; and the resulting unintended, emergent system of order, or outcome produced. The contents of Figure 2.1, taken as a whole, are an ingenious and original presentation of Smith's ideas by Jim Otteson.



Elements	Theory of moral sentiments	<i>Wealth of Nations</i>	Language
Motivating desire	'Pleasure of mutual sympathy'	'Natural effort of every individual to better his own condition'	'Desire to make mutual wants intelligible to each other'
Rules developed	'Standards of moral judgement and rules determining propriety and merit'	'Laws of justice; protection of property, contractual agreements and voluntary exchanges'	'Rules of grammar, pronunciation'
Currency	Personal sentiments and moral judgements	Private goods and services	Words, ideas and wants
Resulting unintended system of order	Commonly shared standards of morality and moral judgement	Economy: large-scale network of exchanges of goods and services	'Communication through mutually intelligible' languages

Figure 2.1 Smith's market model (J. Otteson)<sup>18</sup>

He suggests that the schematic may be generalised to bring it into Smith's other works, '*Astronomy*' and *Lectures on Jurisprudence* (hereafter *Lectures*), because it informs these works too (Figure 2.2). He writes,

I would like to make the large claim that Smith saw his market model as the key to understanding the creation, development and maintenance of human social life generally. . . . I hope that by showing its presence in TMS, as well as in *Language* and WN, I have at least lent plausibility to my suggestion.<sup>19</sup>

Otteson is too modest. His suggestion is more than plausible. It points to a direction that Smithian scholars should find productive of new thinking about Smith's contributions. Bearing in mind that for Smith it 'is the design of [the "*Astronomy*" essay] to consider particularly the nature and causes of each of these sentiments ["wonder, surprise and admiration"], whose influence is of far wider extent than we should be apt upon a careless view to imagine' (EPS34).

Elements	Astronomy (EPS31–105)	Lectures
Motivating desire	Desire to discover the connecting chains of intermediate events (EPS42)	Protection of property, perfect and imperfect rights, punishment of offenders
Rules developed	Rules for the testing and debate of successive explanatory systems	Codified laws, due process, Habeas Corpus, presumption of innocence, verdict by peers, sentence by judge
Currency	Hypotheses, ideas and speculation	Argument, persuasion, judgement and condign punishment
Resulting unintended system of order	'Introduction of order into the chaos of jarring discordant appearances' (EPS43–9)	Relatively orderly living environment under imperfect but stable government and the rule of law

\*Professor Otteson broadly agrees with my transposition (private correspondence, 2007)

Figure 2.2 Otteson's market model applied to Smith's other works\*

## Exchange and jurisprudence

Otteson hints that his four-step Smithian market model could be applied to 'Astronomy' and *Lectures*, and also claims, and I endorse, that because Smith applied his implicit model over several decades of his scholarly work, it is likely that he intended to complete 'the unity' of his underlying model 'all along' (TMS142). Smith set the development of jurisprudence against his 'four ages of man' and I discuss briefly his ideas with Otteson's four steps, as I illustrate by applying them in Figure 2.2 in relation to jurisprudence.

The motivating desire of individuals to delineate 'property' is closely related to the evolution of primitive government and the administration of justice. Primitive humans, following on from the hominids before them, as small bands of scavengers and hunter-gatherers, had no notions of property. They moved on when the seasons changed and when a territory ceased to provide sustenance. If they had moved in a regular cycle through certain locations the notion of territorial 'property' may have acquired vague meaning, if only in their hostility to the trespassing of other bands, should any enter the neighbourhood.

Apart from decisions on when to change location, there was no need for a recognisable government other than the whims of the alpha male.

Disputes among members of the band were determined 'according to the laws of nature' (LJ404).

*Jurisprudence* gives an account, based on the limited information available to Smith, of the evolution of exchange by linking it to a four-ages theory of history based on changing modes of subsistence, from early 'hunting' (subsuming gathering and scavenging), through shepherding, agriculture and commerce (LJ14–16). With the advent of agriculture the twin notions of government and property slowly emerged, but almost certainly by the actions of individuals initially and not by a 'council' of wise men and women, or a 'social contract' (LJ403–4) between a 'strong' leader and a compliant, because frightened, group of weaker people desperately seeking relief from an Hobbesian nightmare.<sup>20</sup> The circumstances required for Hobbesian events to be orchestrated across separated bands are fanciful, as is the origin of the complex set of ideas needed to bring it about by social will, rather than the passed-on cumulative and repeated experiences of individuals in successful groups.

Shepherding is a prime candidate for the emergence of the idea of property. If the near-domesticated animals were available to anyone to take – in a period of scarcity or in a mood of passing fancy – the person who had collected, tended and protected them from predators, including other humans, would believe it was necessary and appropriate for him to decide on their disposal and would seek to persuade others of this view or, if strong enough in numbers, to enforce it. In this process replicable 'rules', reinforced by the 'currencies' of argument, persuasion and judgement, were conflated for enforcement by like-minded shepherds, and the recruitment of people who did not have herds or flocks (not everybody innovates or emulates a mode of subsistence instantaneously) in exchange for their subsistence to repel would-be 'liberators' of other people's property. Sharing the fruits of property-driven subsistence legitimises ideas that identify those with the enforceable 'right' to a share and those without it.

The first stirrings of inequality came with the practice of 'owners' of property exchanging subsistence for the labour of those without property. Smith lectured to his youthful audience by relating the existence of government solely to a need to 'defend the rich from the poor', his example being that of a man who 'possessed 500 oxen, and another had none at all', and this disparity caused the rich man to prefer 'some government to secure them to him' and without which 'he would not be allowed to possess them'. But the man with 500 oxen needed several scores of retainers to nurture and protect them (LJ404–5). It was not only a case of one rich man versus many poor men. The one rich

man had many armed retainers who fed off his flocks and they, and whatever passed for government, collectively enforced the rich man's property rights in exchange for his sustaining them and their families too. Socially they were the 'insiders'; thieves, including rival rich men, were the 'outsiders'.

Uncharacteristically, Smith did not state clearly enough the need for shepherd 'governments' to enforce property rights. It is not just the poor without property in shepherding who were motivated to attempt theft; those with property in oxen may have been motivated to do more than covet their neighbours' oxen, as the history of human misconduct amply demonstrates throughout all modes of subsistence. Many 'rulers of mankind' earned the accolade from being vile to all around them and not just the poor. True, the government in its judicial roles, especially where property owners were relatively few in number and all powerful, was prejudiced in favour of the rich, but with the hiring of retainers to work the herds and flocks and to rally to the rich man's defence against the poor; these same defensive retainers were easily transferred to offensive roles against other rich men and their retainers. When such opportunities arose or were promoted by circumstances of discord or any other excuse, some masters who were more powerful, more cruel or more determined took the property of 'weaker', less-vigilant rich neighbours, and absorbed their flocks and their retainers into their own.

The dependence of property-less labourers on the property owners in the era of shepherding, and afterwards in that of agriculture, served their own interests by them serving the interests of those who maintained them and their families in exchange for them being 'slaves', serfs, tenants or retainers. The self-interests of rich men were an accommodation to necessity, because having few, if any, manufactured goods to exchange for the surplus requirements of subsistence in their flocks, they found it expedient to hire those in want of subsistence; their surpluses met the interests of those they hired (LJ405; WN418–21; TMS184–5).

It is well that this convenience to two orders of society was found by individuals as society emerged from hunting into shepherding, and eventually into agriculture, otherwise a section of humanity may never have progressed towards opulence.

## Notes

1. Rae, J. [1895] 1965: 54–5.
2. Campbell, T. D. 1971; Skinner, A. S. [1979] 1996, 2nd edn: 176; Haakonssen, K. 2006: 1; Otteson, J. R. 2002; cf. Fleischacker, S. 2004a.

3. Smith cites a book by Abbé Gabriel Girard, 1747, 'which first set me thinking upon these subjects'; listed in Bonar, J. [1894] 1966; cf. Noordegaaf, J. 1977.
4. Otteson, J. R. 2002.
5. *Ibid.*: 258.
6. Fleischacker, S. 2004a: 33.
7. Rousseau, J. J. [1755]; Condillac, L'Abbe Etienne, [1746] (Bonar: 49); Diderot, 1755; Rameau, J. P. 1737 (Bonar: 155).
8. See Ellingson, T. 2001.
9. Otteson, J. R. 2002: 265.
10. Ross, I. S. 1995: 404–5.
11. Cf. Scott, W. R. 1937: 36–7, and n. 2.
12. Buchan, J. 2003: 125; cf. Buchan, J. 2006: 24–7.
13. Frazer, G. [1890] 1993.
14. Otteson, J. R. 2002: 101; cf. Smith, C. 2006.
15. Hutcheson, F. [1755]: 58 *passim*.
16. Otteson, J. R. 2002: 108.
17. *Ibid.*: 123.
18. Otteson, J. R. 2002: 286.
19. *Ibid.*: 287–8.
20. Hobbes, T. [1695] 1946.

# 3

## ‘so weak and imperfect a creature as man’

### Introduction<sup>1</sup>

How do human societies hold together? What are the minimum conditions for their continuance? *Moral Sentiments* addresses these questions. Although Smith does much more, our focus necessarily must be narrower than that of a comprehensive account of his entire corpus. I discuss in plain language selected ideas from Smith’s moral philosophy without showing the development of his ideas in the context of past and contemporary philosophers, thereby unavoidably missing out a great deal of the contents of *Moral Sentiments*.

*Moral Sentiments* discusses what constrains individuals to certain minimal standards of conduct while living with, and as, relative strangers in close proximity in society. The net effect of his imaginative construct, the impartial spectator, is to show that people can and do live in relative harmony, or at least in the absence of general murderous violence common in all kinds of societies in the distant past,<sup>2</sup> and because nothing is perfect that emanates from ‘so weak and imperfect a creature as man’ (TMS77), Smith’s explanations maintained their credibility when he stepped outside 18th-century Europe to explain the process of moral formation in societies devoid of the habits, institutions and religious teachings with which he and his readers were familiar.

If religious precepts and pulpit exhortations are not enough<sup>3</sup> to induce people to behave morally in societies that share the same precepts, what replaces exhortation in societies where people do not share common religious precepts or are entirely ignorant of them, including those earlier pagan societies throughout prehistory? Did they have any binding moral force within them? Smith’s theory explained what curbed unruly and vicious passions arising from greed and selfishness. If exhortations to

virtue and reason failed to curb vicious passions, could they be curbed as naturally as Newton's laws of gravity bound everything within their scope?

### **The looking-glass**

Smith asserts that we approve or disapprove of our conduct according to how we imagine others see, or are likely to see, our behaviour. In other words, we try to anticipate the views of a 'fair and impartial spectator' by examining our behaviour, 'as it were, with his eyes and from his station', and because we can 'never survey our own sentiments and motives' or 'form any judgement concerning them' unless we view them 'as at a certain distance from us', we can do this 'no other way than by endeavouring to view them with the eyes of other people, or as other people are likely to view them'. We only approve of our conduct if it receives 'the approbation of this supposed equitable judge', the impartial spectator, and 'if otherwise, we condemn it' (TMS110).

It is from the social pressures of living in society that we judge the merits or demerits of our behaviours. It would be easy to overlook this observation. Smith dramatised it neatly. Suppose a person grew to adulthood without contact or communication with fellow members of the human species. In these circumstances, 'he could no more think of his own character, of the propriety or demerit of his own sentiments and conduct, of the beauty or deformity of his own mind, than of the beauty or deformity of his own face' (TMS110). Why not? Because he does not have a 'mirror to present them to his own view'. But 'bring him into society, and he is immediately provided with the mirror which he wanted before.' And the 'mirror' in this sense is Smith's powerful metaphor for what living in society does to a person's sense of character and beauty. Society mirrors our person, giving us feedback on what is and what is not acceptable in our behaviour. The people we live with show in their 'countenance and behaviour' what they think of our behaviour, and as children we notice when relatives approve and disapprove of our conduct, and it is here that we first view the 'propriety and impropriety' of our own passions. But for the man 'outside' society, in Smith's example, whatever are the objects of what pleases or hurts him occupies 'his whole attention' and his passionate reactions would 'scarce ever be the objects of his thoughts' (TMS110).

Bring this outsider into the society of others and all his 'passions immediately become the cause of new passions' because some of them will

be approved or will disgust other people. 'He will be elevated in the one case, and cast down in the other' and this creates a new situation in which his passions will 'call upon his most attentive consideration' (TMS111). We do likewise in matters of beauty and personal form and we judge ours by 'the shape and appearance of others' and are anxious to know how far our figure 'deserves either their blame or approbation' and place ourselves 'before a looking-glass' to 'view ourselves at the distance and with the eyes of other people'. If satisfied, we shrug off the casual judgements of others, even when they spot small defects; if we are not satisfied, we are mortified 'beyond all manner' by the smallest of instances of disapprobation, even a 'joke'. None of this would affect the man 'outside' society because he would be indifferent to the view of non-existent others (TMS111–12).

To what extent are we indifferent to the views of other people? Robert Burns wrote a poem ('To a Louse', 1786), lines from which read (in English), 'We would save ourselves from many a blunder and foolish notion if only we could see ourselves as others see us.'<sup>4</sup>

Robert Burns (or Burness) was born in 1759, the same year that Smith published *Moral Sentiments*, and it is said that *Moral Sentiments* influenced Burns composition of 'To a Louse'.<sup>5</sup> Unlike Smith, who theorised about the consequences of imagining how other people in the persona of 'impartial spectators' might judge our behaviour, Burns wrote of our blindness to the perceptions of others and how our vanity masks our imperfections. In truth, others who weigh us in the balance find us wanting (as we do them).

'To see ourself as ithers see us' expresses their different perspectives: Burns, pessimistically, reminding us of human frailty and its consequences; and Smith, optimistically, mapping how humans develop and maintain their moral senses. Smith, contrary to the poet's assertion, says we do have the power 'to see ourself as ithers see us' and he explains how we exercise it. We have this power, if we wish to use it (on this Smith and Burns had much common ground), from what we may crudely describe as our conscience, which has a (weak) potential to resist self-deceit. Smith is explicit:

... self-deceit, this fatal weakness of mankind, is the source of half the disorders of human life. If we saw ourselves in the light in which others see us, or in which they would see us if they knew all, a reformation would generally be unavoidable. We could not otherwise endure the sight. (TMS158–9)



We are not indifferent guardians of our reputations. In practice, other people are our 'looking-glass' through which we see ourselves in their eyes, not ours. Once satisfied with what we believe they see (beware hubris!), we are less flattered by the applause of some and less bothered by the censures of others if, in the main, what we believe they see indicates natural and proper approval of our behaviour. In this manner, our 'first moral criticisms are exercised upon the character and conduct of other people' in so far as they might affect us and we are 'very forward' in expressing our views. But the traffic is not all one-way. We soon learn that others are equally forward in their criticisms of us! This causes us to review our conduct by imagining how we appear in the eyes of others. If we wish to become less worthy of censure and more worthy of praise, we must discover how we might improve our behaviour. In effect we become 'the spectators of our own behaviour' and we imagine how other people 'scrutinize the propriety of our own conduct' (TMS112) through their eyes, not ours.

When other people sharply divide in their sentiments towards us, whom do we believe, our friends or our critics? If we believe what we see in the looking-glass of the spectator, we are 'tolerably satisfied' and can discount the applause and downplay any censure. On the other hand, we may be doubtful about the merits of their disapprobation, and provided we know we have not already 'shaken hands with infamy', we are doubly struck with the severity of their disapproval. But if we are secure in our beliefs that we are 'the natural and proper objects of approbation', because our imagined spectator's view of us is 'tolerably satisfied', we may reject misrepresentations of our conduct by others (TMS112).

Smith's argument takes us right back to Burns' scepticism: do people really see themselves as others see them? Smith's response is ingenious. Society is our mirror, our looking-glass, and we create our moral compass from living in it, at least in so far as we avoid causing offence to others, but is this sufficient for us to act positively in a moral manner?

## **The impartial spectator**

Smith's impartial spectator contributed to the 18th-century debate on why society held together despite all the dreadful things that humans living in close proximity could do (and sometimes did) to each other. It fits into his exchange model of society, and he begins on his road to it by

introducing his notions of 'sympathy' and 'impartial spectators'. However selfish we may suppose people to be, yet their nature interests them in the fortunes of others and they derive pleasure from their happiness and sorrow from their unhappiness. So obvious are these emotions or sentiments, like all the original passions of human nature, that Smith claimed they required no proof.<sup>6</sup> He assures us that even 'the greatest ruffian, the most hardened violator of the laws of society', is not altogether bereft of this sentiment (TMS9). Evidently he believed that there are principles so deep in human nature that all people feel them to some degree, without anybody, preachers included, having to tell them how to behave. And it is good that we share this common sentiment because preachers are not always listened to or on hand to correct our failings. We cannot see inside the minds of other people, nor can we have direct knowledge of how they feel or what they intend. We can only imagine what we would feel if we were in their situation (TMS9). When we observe incidents affecting other people, we imagine ourselves in their situation. And when we observe a particularly dramatic situation – someone about to suffer a blow to their arm or leg, or a dancer on a tightrope swaying to hold proper balance – we draw back the same limb, and sway slightly in like manner to the tightrope dancer. In our imagination we feel that we are in their situation and we know this 'by many obvious demonstrations' (TMS10).

Smith introduces his 'attentive spectator', or the 'bystander', whose sympathetic emotions always correspond to what we imagine should be the sentiments of the persons we observe in their various situations. And what is true for us is true for most everybody else! In Smith's world we are real players, though he makes full use the imagery of the theatre to help his readers understand his message.<sup>7</sup> Everybody playing is aware of others watching, as if players are also spectators and spectators are also players. Players imagine how spectators regard whatever they do or experience; spectators imagine how they would feel if they experienced the player's experiences. Whichever role we play, as player or spectator, and no matter how many times we switch between them, sympathy is the common factor in both.

Smith takes the notion of the spectator a step further. He asks us to think of the spectator as present 'in the breast', in our imagination, and operating on our behaviour as if we know he watches what we are doing. This imaginary spectator, no less real in his effects on our behaviour, has the same characteristics as an *anonymous* stranger observing our behaviour, specifically in his disinterest for or against our fortune or misfortune. He is neither disposed in our favour nor ill disposed against us.

He is impartial, and acts at all times as an *impartial spectator* of our conduct, and whose approach to us is one of impartial human sympathy.

Smith refers not just to the human sympathies of 'pity or compassion' associated with a deep and genuine understanding of the sorrows and sufferings of others. Smith specifically uses the word 'sympathy' to denote our feelings for any human passion 'of which the mind of man is susceptible', including sympathy for the great joy someone experiences from a happy event (TMS10). And to make sure that this is clearly understood, he repeats himself by using sympathy 'to denote our fellow feeling with any passion whatever'. Sympathy, then, is not confined to the commonly accepted sympathetic passions of 'benevolence' or 'altruism' (TMS10–11). Smithian sympathy applies to every passion we can experience. Perhaps without, as Smith often puts it, 'too much impropriety', we can think of 'empathy' (fellow feeling), or the ability to share or understand another person's feelings, irrespective of their causes and mood, as a better name for this emotion than sympathy, though not all scholars would agree with me on that.

The spectator's compassion is limited to how he imagines he would feel if he was in our situation, and because he cannot have a perfect understanding of how we feel about our situation unless he was actually in it, we cannot expect him to feel as strongly as we do about the source of our feelings. And from this Smith explains how humans find harmony in their relationships (or at least anonymous neutrality). How, for instance, can someone else, even a friend, feel as we do in matters of love and romance? His imagination does not contemplate our lover in the same light as we do, and to him our passion appears 'ridiculous', though we are pardoned because 'love' is considered natural to persons of a 'certain age'. A lover, notes Smith somewhat sardonically, 'may be good company to his mistress, he is so to nobody else' (TMS31).

When the spectator contemplates impartially the object of his observations, as most spectators must do because we all have fewer friends, even counting distant acquaintances, than the rest of mankind added together, his compassion is unlikely to be swayed by positive or negative prejudices for or against us. To share sympathy for something that already brings us great joy enlivens it but does not change it. His sympathy when something untoward or unpleasant happens to us lessens our grief because we feel better for knowing our burdens are shared. Rehearsing the causes of our grief reminds us of the pain we felt and, sometimes, the very tears we shed. But in the process of retelling and receiving the sweetness of sympathy we are compensated for the bitterness of our sorrows (TMS15).

## Harmonising influences

Feelings of sympathy are proportionate. If we approve of the intensity of the passions exhibited by other persons in their reaction to a joyful or a grievous incident, we sympathise entirely, but not so when they overreact. Those observing or hearing our outburst at some trivial or imagined affront would not regard it to be proportionate if we threaten suicide or murder. The propriety or proportionality of overreactive behaviour, remember, is judged by the impartial observer, not by the player.

The greater or lesser the dissonance between my sentiments and yours, the lesser or greater the sympathy we feel for each other (TMS16). In common life, we observe in others their 'excesses of love, of grief, of resentment' and we contemplate the 'ruinous effects they tend to produce', especially when we also observe the 'little occasion which was given for them'. Nothing we see justifies 'so violent a passion' as is exhibited. In contrast, when we find that the sentiments 'coincide and tally with our own, we necessarily approve of them as proportional and suitable', but when they do not we 'disapprove of them as extravagant and out of proportion' (TMS19). In the extreme, if it's my love, grief, or resentment I feel and you do not have any feeling for my evident distress,

... you have either no fellow-feeling for the misfortunes I have met with, or none that bears any proportion to the grief which distracts me; or if you have either no indignation at the injuries I have suffered, or none that bears any proportion to the resentment which transports me, we can no longer converse upon these subjects. We become intolerable to one another. I can neither support your company, nor you mine. You are confounded at my violence and passion, and I am enraged at your cold insensibility and want of feeling. (TMS21)

In short, I am not going to tolerate your company. Sympathy has a reciprocal element to it within a circle of friends and acquaintances, and a relationship that has just begun will quickly terminate if what Smith describes in this passage materialises. And to underline his point, he makes clear this type of break in a relationship has nothing to do with disagreements about matters such as 'a picture, a poem, or a system of philosophy'. Such matters are about 'indifferent objects' over which their opinions may be 'opposite' but their affections remain 'very nearly the same'; the quarrels he speaks of are about objects that affect

him or the other person personally and which neither person can overlook because they breach the tolerable limits of acceptable dissonance (TMS21).

Experience of dissonance in feelings is common. Everybody has occasion to be angry at someone else's behaviour and, when we recount the cause of our anger, we sometimes find others less sympathetic to our sense of outrage. Social pressures reduce the heat of passion. A friend's sympathy calms our anger or grief somewhat, because we expect his sympathy and if it is given even in some small degree (the 'but' comes later!) it reduces our outrage.

The sympathy of an acquaintance to a lesser degree has a similar effect because we expect less from them; if they proffer total sympathy we recognise them in a new, friendlier light. The way we express our feelings to a group of strangers from whom we expect minimal or no sympathy calms us yet further but for different reasons. Anticipating lesser sympathy, we try to 'maximise' what little we anticipate by reducing the vehemence of our passion to a pitch with 'which the spectators are capable of going along'. We have to 'flatten' says Smith, 'the sharpness of its natural tone, in order to reduce it to the harmony and concord with the emotions of those who are about' us. The two sentiments of the passion of the aggrieved and the flatter tone that is acceptable to the spectator, 'it is evident, have such a correspondence with one another, as is sufficient for the harmony of society. Though they will never be unisons, they may be concords, and this is all that is wanted or required' (TMS42). Harmony in society is about tolerable levels of dissonance, not its total absence, but as we know of many more strangers existing without any contact with us, and therefore do not know if what they are doing would be acceptable to us, nor whether what we do would be acceptable to them, we are able to live in societies in which the majority of people are strangers without feeling threatened by them or fear that they are threatened by us. Hence, we walk along a crowded concourse full of total strangers without flinching at every gesture or small encounter of those we pass or walk beside.

The 'ties that bind us' through the dependent interconnections we share with them are harmonious generally, precisely because most people are distant strangers. This has implications for the political economy of large societies. Mutual anonymity and our complete dependence upon them as suppliers and of them upon us as customers, two or more links in the supply chains from us, are important elements of functioning markets. This is critical to Smith's theory of the promotion of harmony in society and links directly to the exchange model in *Wealth of Nations*

(WN13–36). It is exactly the same when someone exhibits joy at an event that is way beyond what we consider the event to be worth. Your continuing the celebrations of a minor accomplishment for months would tire even the most overly sympathetic person, let alone an impartial spectator. Proportionality is the rule for both sorrow and joy; modesty in both sorrow and joy is expected if you seek the approval of the impartial spectator.

While reporting to a close friend an incident that hurt us, we might express our emotional outrage privately, but we will be less emotional when explaining our distress to a casual acquaintance, and probably we will speak with measured calmness when explaining what happened to distant strangers in public. To the vast unknown population of total and distant strangers we would say nothing (a condition somewhat compromised in the modern age of instant mass communication).

The idea that the ego only seeks to gratify self-love does not account for the predicament of the individual living in a society of strangers, with few friends or family. Smith's contribution was to realise that the existence of the total self-love model,<sup>8</sup> while plausible for an individual, as if living on a desert island, was not plausible for individuals living in close proximity and dependent upon each other. The key to how this predicament could function without society tearing itself apart lay in the simple observation of how the intensity of feelings about anybody else's behaviour diminished as the irate individual in search of sympathy interacted with others further from his immediate circle of family and friends.<sup>9</sup> His dissonance is localised, perhaps to as few as himself only and normally does not generalise into a major fissure across the whole of society. Modern media may modify the localisation of distress.

While perfect harmony of the passions between the affected individual and an impartial spectator is unlikely, the fact that the intensity with which the passions are expressed is reduced is sufficient for a degree of (workable) harmony to prevail. The individual moderates his ego-driven behaviour towards a level likely to be accepted as proportionate by the unaffected spectators who, in turn, moderate their criticism of the individual's behaviour. The spectators constantly reconsider what they would feel if they were in the position of the players they observe and, crucially, the players under observation constantly moderate what they would feel if they were only spectators and not players. Each reciprocal review of the appropriate amount of sympathy and degree of passion serves to abate the violence of the individual's passions and reduce the

criticism of the spectators. From this process Smith concludes, in a sentence of the most significant meaning for his understanding of how societies work:

Society and conversation, therefore, are the most powerful remedies for restoring the mind to its tranquillity, if, any time, it has unfortunately lost it, as well as the best preservatives of that equal and happy temper, which is so necessary to self-satisfaction and enjoyment. (TMS23)

Smith adds that those who 'are apt to sit brooding at home' bereft of 'society and conversation' and having many fine qualities 'seldom possess that equality of temper which is so common among men of the world' (TMS23). We are compelled, and almost in spite of ourselves, to 'see ourselves as others see us' (TMS23). The result for society is a greater degree of tranquillity than would be thought likely in a society composed of individual egos who ignore (or defy) their impartial spectators.

The impartial spectator restrains individuals from unbridled expressions of their passions in pursuit of their interests, preferring 'silent and majestic sorrow' in place of 'detestable . . . fury without check or restraint', and thereby confines individuals to pursue their interests only to the extent that is equitable and proportionate to what the impartial spectator and 'every indifferent person would rejoice to see executed' (TMS24). From this binding relationship it follows 'that to feel much for others and little for ourselves, that to restrain our selfish and to indulge our benevolent affections, constitutes the perfection of human nature; and can alone produce among mankind the harmony of the sentiments and passions which consists their whole grace and propriety' (TMS25).

### **Hobbesian nightmares?**

*Moral Sentiments* explains why people abide by and practise the manners and associated politeness conducive to civil peace. While the prevalence of moral sentiments aided social stability in civil society, Smith acknowledged the necessity for civil magistrates to resort on occasion to dreadful punishments against those who flouted the law and disturbed the peace.

Every man, Smith asserted, is

no doubt, by nature, first and principally recommended to his own care; and as he is fitter to take care of himself than of any other person, it is fit and right that it should be so. (TMS82)

We are deeply interested in whatever concerns ourselves and less concerned with others. We are not best judges of the interests of anybody else. However, the pursuit of self-love is not a licence to violently plunder others:

To disturb [a neighbour's] happiness merely because it stands in the way of our own, to take from him what is of real use to him merely because it may be of equal or more use to us, or to indulge, in this manner, at the expense of other people, the natural preference which every man has for his own happiness above that of other people, is what no impartial spectator can go along with. (TMS82)

If we are principally concerned with ourselves, is mankind incited to participate in permanent wars of the egos? Not at all! Raging self-love does not dominate the social intercourse of mankind, because, paradoxically, no ego can acquire what it wants without the peaceful co-operation of other egos, and it is that dependence, effectively total, that safeguards society from self-destruction (though a megalomaniac can do a lot of damage until restrained).

Smith did not subscribe to Hobbes' apocalyptic 'war of all against all'. Human behaviour curbed outrageous expressions of egoism, enabling mankind to live in society, and it was human nature, not government, which preserved us from the Hobbesian nightmare of lives that were 'solitary, poor, nasty, brutish and short'.<sup>10</sup>

Every person knows that no matter how egoistic we feel, others do not share our feelings; they care for themselves with the same degree of passion as we do for ourselves. For a tiny minority, untrammelled egoism leads to degrees of psychopathic paranoia, but the majority of us express concern for others and temper the grosser manifestations of our egos.

Each of us may be a lonely ego in a sea of indifference to others but none of us dare assume that other people are indifferent to the impact of our actions on them. If we do, the brute course of retribution (first learned in the school playground) soon educates us otherwise. Where our actions impinge on their self-love they react with the same hostility as we might towards anybody impinging on ours. Observation of how others react to our intrusions on them, compared to how we react to the intrusions of others, eventually informs the dullest that mindless egoism breaches acceptable behavioural norms and provokes dangerous hostility and harmful counter-measures. We easily spot the relationship between people inflicting behavioural atrocities on others and the retribution of those so affected. Smith asserted that no man would dare to



look mankind in the face and declare his intention of acting according to the dictates of his self-love. His fellows could never go along with such an explicit, 'excessive and extravagant' disregard for their interests and such a person risked severe disapproval. The perpetrator 'must, upon this, as upon all other occasions, humble the arrogance of his self-love' and, in consequence, bring public displays of his undoubted self-love 'down to something which other men can go along with' (TMS83).

The majority of people, whose egos are humbled by acknowledging in their behaviour the legitimacy of the self-love of others, thrive in socially stable societies in the sure and safe knowledge that their person, property, possessions and rights are secure from the depredation of neighbours (TMS83). In the personal struggle for the place, position and prizes in life there are constraints on each person's conduct:

But though the ruin of our neighbour may affect us much less than a very small misfortune of our own, we must not ruin him to prevent that small misfortune, nor even to prevent our own ruin. (TMS83)

Blatant disregard for others invites retribution and disapprobation in defence of their legitimate self-love:

In the race for wealth, and honours, and preferments, he may run as hard as he can, and strain every nerve and every muscle, in order to outstrip all his competitors. But if he should jostle, or throw down any of them, the indulgence of the spectators is entirely at an end. It is a violation of fair play, which they cannot admit of. (TMS83)

People cannot abide observing foul play of others. They sympathise with the injured and the offender suffers the hatred and indignation bursting out from all sides against him. The game of life has rules and norms, and players are expected more or less to abide by them. Society, for peace to prevail, ruthlessly remedies defections from its norms by submitting solitary egoists to an impartial system of justice. The shameless individual who intrudes upon the persons, property, possessions or rights of others and who is careless of the 'shame, horror and consternation' he causes suffers from those he provokes because his crimes 'call loudest for vengeance and punishment'. In the extreme, the unremitting hostility, 'vengeance and punishment' he suffers cause him the 'greatest and most dreadful distress' and 'incomprehensible misery and ruin' (TMS84).

The only way out of constant isolation and prolonged pariah status is that deep feeling of regret or 'remorse', which Smith thought was

the most dreadful of 'all the sentiments', and he agreed with Lord Kames, who called it 'the most severe of all tortures' (TMS85n1). Smith acknowledged that there were individuals with untrammelled egos and a determination to ride roughshod over others, but he regarded them as in a minority. In contrast, Smith elaborates on the opposite behaviour and this passage should be remembered when evaluating claims that unrestrained self-love is ever applauded by Smith in any of his writings:

The man who, not from frivolous fancy, but from proper motives, has performed a generous action, when he looks forward to those whom he has served, feels himself to be the natural object of their love and gratitude, and, by sympathy with them, of the esteem and approbation of all mankind. And when he looks backward to the motive from which he acted, and surveys it in the light in which the indifferent spectator will survey it, he still continues to enter into it, and applauds himself by sympathy with the approbation of this supposed impartial judge. In both these points of view his own conduct appears to him in every way agreeable. His mind, at the thought of it, is filled with cheerfulness, serenity, and composure. He is in friendship and harmony with all mankind, and looks upon his fellow creatures with confidence and benevolent satisfaction, secure that he had rendered himself worthy of their most favourable regards. In the combination of all these sentiments consists the consciousness of merit, or of deserved reward. (TMS85)

To underline these points it is appropriate to consider a much misunderstood passage in *Moral Sentiments*, sometimes quoted to contradict the above (I am grateful to Sandra Peart<sup>11</sup> for bringing the correct interpretation of the following passages to my attention) (TMS136–7). Smith opens with a hypothetical discussion of how a 'man of humanity' in Europe would be affected by the news that 'myriads of inhabitants' of China had been 'swallowed by an earthquake'. Having 'no connexion with that part of the world', he would, Smith surmises, express his sorrow for the misfortune of those affected and reflects on the precariousness of human life and the vanity of all the labours of man. Having made these reflections from his 'fine philosophy', he would return to 'his business or pleasure' in his 'repose or diversion' as if 'no such accident had happened', motivated by the general attitude that 'the most frivolous disaster which could befall himself would occasion a more real disturbance'. Worse, surmises Smith,

If he was to lose his little finger to-morrow, he would not sleep tonight; but, provided he never saw them, he will snore with the most profound security over the ruin of a hundred million of his brethren, and the destruction of that immense multitude seems plainly an object of less interest to him, than this paltry misfortune of his own. (TMS136–7)

Smith asks, rhetorically, ‘would a man of humanity be willing to sacrifice the lives of a hundred millions of his brethren’ to prevent such ‘a paltry misfortune of his own’ (the loss of his little finger) in this manner? And he addresses this question in unequivocal terms. Human nature ‘startles with horror at the thought’, and the world, in ‘its greatest depravity and corruption, never produced such a villain’. He asks, why not? What makes a difference between sleeping soundly at the news of the distant earthquake and choosing between preventing such a catastrophe or saving his little finger? This is where most people stop reading, and conclude that such a man would prefer to save his little finger. But would he? Smith continues,

When our passive feelings are almost always so sordid and selfish, how comes it that our active principles should often be so generous and noble? When we are always so much more deeply affected by whatever concerns ourselves, than by whatever concerns other men; what is it that prompts the generous, upon all occasions, and the mean upon many, to sacrifice their own interests to the greater interests of others? It is not the soft power of humanity, it is not that feeble spark off benevolence which Nature has lighted up in the human heart, that is thus capable of counteracting the strongest impulses of self-love. It is a stronger power, a more forcible motive, which exerts itself upon such occasions. It is reason, principle, conscience, the inhabitant of the breast, the man within, the great judge and arbiter of our conduct. It is he who, whenever we are about to act so as to affect the happiness of others, calls to us, with a voice capable of astonishing the most presumptuous of our passions, that we are but one of the multitude, in no respect better than any other in it; and that when we prefer ourselves so shamefully and so blindly to others, we become the proper objects of resentment, abhorrence, and execration.

Strong language indeed. He adds that the impartial spectator shows us the ‘propriety of generosity and the deformity of injustice’ and that it would be wrong to do the ‘smallest injury to another’ to obtain a ‘benefit’ for

ourselves. 'It is not the love of our neighbour, it is the love of mankind', a 'stronger love, a more powerful affection', and 'the love of what is honourable and noble, of the grandeur, and dignity, and superiority of our own characters' (TMS137).

In terms of the man of humanity's reactions to his being able to stop the Chinese earthquake or save his little finger, Smith's assertion is that the same man who sleeps soundly at the thought of 100 million deaths a long way away would have a sleepless night of anxiety at the thought of losing his little finger the next day. But if he were given a choice between the two events occurring he would sacrifice his little finger to save his 100 million distant brethren. There are many people who consider they are 'Smithian' in outlook but who would be surprised if they read how Smith actually answered his own question.

That is why this explicit statement is one of the most important in Smith's works because it directly relates to the many misrepresentations of his philosophy and political economy by those who conclude from second-hand accounts that he preached the supremacy of self-love and self-interest, and 'greed is good', when in fact he said something quite different.

## Notes

1. An earlier version of this chapter appeared in Kennedy, G. 2005.
2. Wrangham, R. and Peterson, D. 1996; Kelly, R. C. 2000; Seabright, P. 2004.
3. Hirschman, A. O. 1977: 15.
4. Burns, R. [1786] 2001: 130–2.
5. Macfie, A. F. 1967: 66; Raphael, D. D. 1975: 89, n. 18, in Skinner, A. S. and Wilson, 1975.
6. Fleischacker, S. 2004a: 36–44.
7. Griswold, C. L. 1999: 63–70.
8. Mandeville, B. [1724].
9. Montes, L. 2004: 40–1.
10. Hobbes, T. [1651] 1946: 82–3.
11. Peart, S. J. and Levy, D. M. 2005.

# 4

## ‘in the beginning all the world was *America*’

### Introduction

Questions of the origins of society led to imaginative debates throughout the 17th and 18th centuries. Two main camps were in evidence: those who believed that humans formed societies because they were induced by ‘social contracts’ to do so (Locke), and those who believed they were coerced or induced into societies by powerful sovereigns (Hobbes). All views of society’s origins were fuelled from travellers’ accounts of ‘savage’ societies in America, Africa and the Pacific islands.<sup>1</sup> Many authors, fascinated by the differences among human societies, often added to their errors, confusions and false conclusions, an almost total absence of evidence.

### ‘in the beginning all the world was *America*’

The first explorers of the Americas considered the inhabitants there to be ‘Indian’. Despite the geographical error, the name stuck until changed to ‘Native American’, even though 9–13,000 years earlier today’s ‘Native Americans’ were the continent’s first immigrants from Northern Asia.<sup>2</sup> Prior to travellers’ accounts, educated Europeans only knew of predecessor societies from the ancient Greco-Roman classics and the archaeological detritus scattered across the European continent, around the Mediterranean and near Asia, and their Bibles. From cross-Atlantic contact after 1492, they read about even older, unknown pre-civilisation societies, and it gradually dawned that the larger part of the world had in the distant past also consisted of ‘pre-civilised’ societies similar to those recently found in the Americas and Africa. There were also two great but stagnant civilisations in arrested development (India and China)

with populations exceeding 100 millions. But the savage societies in North America posed a unique problem: nobody (the authors of the Bible included) knew of them. How then did America fit into the biblically inspired belief in the Eden-to-Europe progression? Even the Bible's accounts of the Eden Garden reported the existence of shepherd and farming societies, against which reports of the North American Indians without shepherding and without significant farming showed their mode of subsistence to be truly ancient. The Americans had languages, art and dance cultures, and relied on their hunter-gatherer economies, with notional plant gathering for seasoning and some evidence of well-established farming and fishing economies (and stone structures) before the Europeans arrived.

John Locke declared that 'in the beginning all the world was *America*', and it was eventually realised that every human society had lived the life of the hunter mode of subsistence at some point in its history.<sup>3</sup> The 'rude' societies of America, therefore, were a veritable theme park on the lives of Europe's distant ancestors.

Imagination led to different conclusions about society's origins, one of which, for example, imagined that a war-weary people passed power to a 'sovereign' who kept the peace by pacifying its members and threatening to return them to the terrors of the 'war of all against all'.<sup>4</sup> In an alternative view, equally imaginary, society corrupted the freeborn, self-reliant man, who, after he abandoned hunting for shepherding, degenerated into a servile dependence on others for his every want.<sup>5</sup> Smith and others presented different accounts, which are closer to modern research.<sup>6</sup> Hobbes' claim, taken up by others (including Smith), was that an approximation of the pre-civilisation life was to be found among '... the savage people in many places of America' who 'live to this day in that brutish manner'.<sup>7</sup>

## **The four ages of mankind**

Long before Smith sat in Hutcheson's class and heard his sketch of the 'ages of Society', he was familiar with the Bible's allegory for the origins and ages of mankind in the fable of the expulsion of Adam and Eve from the paradise of the Eden Garden for eating the fruit of a forbidden tree.<sup>8</sup> According to the anonymous authors of Genesis, Cain, Eve's first-born, 'a tiller of the ground', murdered Abel, his younger brother, 'a keeper of sheep'. Encapsulated within the Bible fable, the 'Garden of Eden' represents the age of the gatherers (Adam and Eve), followed by Abel's age of the shepherds and Cain's age of agriculture, all within, apparently,

the first generation of the 'first' family. God ended the mythical 'Golden Age' of the gatherers and their 'easy', because plentiful, lifestyles; Cain murdered the shepherd, and the exiled Cain's agriculture flourished in a land called 'Nod, east of Eden'. A more likely motive for the brothers' discord was a murderous row after Abel's sheep strayed and ate Cain's crops, an event sure to strain brotherly relationships. Agricultural prosperity led to permanent settlements (for example, Cain's 'City of Enoch'),<sup>9</sup> which in Smith's version started the age of commerce.

Smith taught the four-ages theory confident that they conformed to Biblical evidence (hence, no problems from zealots). The four ages thematically underlay his jurisprudence and political economy (LJ14–15). However, Smith did not originate the theory<sup>10</sup> – he derived 'vague hints' of it from attending Hutcheson's lectures (who derived his ideas from Samuel von Pufendorf).<sup>11</sup> Some attribute scholarly precedence to John Dalrymple or to Lord Kames,<sup>12</sup> but because Smith integrated the clearest form of the theory into his lectures, Ronald Meek considered that on the 'accumulated probabilities', precedence should be awarded to him.<sup>13</sup> Smith's exposition of the age of hunters shows his acquaintance with 18th-century literature from voyages, travellers and explorers (LJ20n21; LJ201n43).<sup>14</sup>

Forensic search across the Enlightenment for the original authors of its ideas, many of them circulating informally in privately printed lecture notes among scores of correspondents, is difficult without traces of who first said or wrote what to whom else. All theories of the ages of mankind had the benefit of real-world examples to hand in the 18th century. Besides Smith's, numerous versions of ages theories circulated between 1730 and 1780.<sup>15</sup> Anyway, in the successive modes of subsistence theory the anonymous authors of Genesis trumped them all.

### Smith's island story

Smith determined the four distinct states which mankind pass through – the Age of Hunters, the Age of Shepherds, the Age of Agriculture and the Age of Commerce (LJ14) – making them the substance of his explanation of the 'original or foundation' for the motivating desire for 'treating of rights' of property (LJ13). He related property rights directly to the 'mode of subsistence' prevalent during the different ages of Man. In due course, he went beyond these to their socio-economic consequences for society's long road to the age of commerce. Smith was in no doubt that the evolution of property was the key to progress from societies of the brutes towards civilisation.

Without property, humans within their habitats remained a low-density species until some of those whose ancestors had discovered property eventually explored and found those devoid of any concept of property; never the other way round. Only with the development of higher forms of subsistence did armed hordes of shepherds overcome a property-conscious, successor age of man, as in the Western Roman Empire (WN689–708).

Smith told his young listeners a 'Just So' story to explain each stage and why they moved through the ages towards commerce or, in many cases, did not. He supposes that a dozen people of both sexes settled on an uninhabited island (Britain?), who then co-operated to support themselves. How would they do it? Smith says that initially, as hunters, they would rely only upon 'wild fruits and wild animals' and 'Their sole business would be the hunting of wild beasts or catching of fishes'. It is the age of the male hunters; the female gatherers were disregarded ('the pulling of fruit can hardly be called an employment!'), though female gatherers provided most of human diets in all known hunter-gatherer societies.

A nation of hunters had 'no regular government' at all and it was 'easy to see that in these severall ages of society, the laws and regulations with regard to property must be very different' (LJ p16). He tied the system of justice to a society's mode of subsistence, which was shared by most age theories of human social evolution. In debates about similarities between known societies and what was reported about North America, the similarities in the scope of justice led to assertions that because of them they must be descended from the same human stock, which was in fact true, but not in the way its proponents understood it. The alternative, significant and more general point was that the similarities in the scope of justice came from their similar modes of subsistence and not from implausible myths of 'lost tribes'.

Small societies consisted of a few independent families, living in the same camp and speaking the same language (LJ404). When disputes broke out the whole society deliberated on the alleged offence and, where possible, reconciled the parties, but failing reconciliation it could banish the miscreants, kill the disputants, or permit an injured party to obtain violent redress. But this was not a rule by a government of a few members acting upon delegated or assumed powers, because action to enforce their justice required the entire society's consent, living as they did 'according to the laws of nature'.

On Smith's uninhabited island, population growth drove humans through the four ages.<sup>16</sup> Population growth presupposes sufficient food



to reduce infant mortality and to extend longevity, and there is bound to be a period needed for one to 'catch up' with the other. As 'their numbers multiplied', Smith noted, 'they would find the chase too precarious for their support' (LJ14). This suggests that the search for new modes of subsistence followed population growth, but population growth was as likely to follow the discovery and the spread of a new technique for making an existing mode of subsistence more efficient, or the discovery of a new mode of subsistence.

The necessity for compression among his youthful listeners compelled Smith to accelerate the process through the ages, when in historical fact the ages took many millennia. The rate of change quickened from agricultural settlements in the Near East, about 8000 years ago (though the earliest farming practices appeared about 10,000 years ago along the Turkish/Syria border areas),<sup>17</sup> followed by the appearance and spread of simple commerce, 3–4000 years ago.

Societies of shepherds 'first gave rise to regular government'. Until there was property, asserts Smith, there could be no government, the purpose of which is to 'secure wealth, and to defend the rich from the poor'. In the inequality of fortune, the rich were able to muster fighting men to protect their property, and not just against the aspirations of poor people, for it is likely that rich neighbours also harboured ambitions on their property. Rich shepherds, having no domestic manufactured 'luxuries' to 'purchase', had no means of 'spending' their wealth (mainly sheep and cattle); they could only exchange sheep, surplus to their own needs, in return for services rendered by the poor. This created dependence of the poor on the pleasure of the rich, and with near total dependence (the alternative was dire), the influence of the rich grew over the indigent poor, making them, in effect, 'slaves' (LJ11–12).

Smith asserts confidently that the age of shepherds predated the age of agriculture, because the 'Tartars and Arabians' known to Western Europe subsisted entirely on their flocks and knew nothing of agriculture. He also insists that 'whole savage nations which subsist by flocks have no notion of cultivating the ground' (LJ15).

The loose sequence of the four ages was an ideal type, rather than a dated historical sequence, and the succession of shepherding by agriculture was not a 'revolution', as is normally implied, which only took generations, nor was it a case of the physical elimination of troublesome shepherds and their flocks by vengeful farmers (Genesis writ large). It was a long drawn-out process of technological and economic change, innovation and imitation, with hunting, shepherding and agriculture

coexisting side by side for many millennia, until agriculture finally triumphed. Hunting became a rich man's 'sport', in which only the rich indulged, with poor men assisting in manual roles. Shepherding became a specialised activity.<sup>18</sup>

Population growth once again drove Smith's next age on his mythical island. '[W]hen a society becomes numerous they would find difficulty in supporting themselves by herds and flocks' and 'would naturally turn themselves to the cultivation of land' (LJ15). This may have happened, but not without the usual problems of transition. Free-ranging herds and flocks in close proximity to fields of grain and vegetables make for fractious disputes. Where there is discord there is a role for the peaceable resolution of disputes (laws) and, for longer-term tranquillity, a proclivity among the parties for dispute avoidance, enforced when necessary by severe systems of justice.

Agriculture, Smith says, was probably discovered by observing accidental contamination and by deliberate experiments. He knew his Bible from his protestant upbringing and he paraphrased the 'some fell on stony ground' parable.<sup>19</sup> Some of the seeds would come to nought, but other seeds would enter the soil and proliferate, reproducing themselves and creating a surplus for consumption (and, in time, for 'truck, barter and exchange'). Observation, he said, showed that certain trees, as well as certain plants, produced nourishing food, and by this means 'they would gradually advance into the age of agriculture' (LJ15). Agriculture, in helping to develop a primitive division of labour, presaged the potential for a commercial age. People developed arts and skills in the production of a range of produce suitable to their environments, enabling some persons to cultivate different kinds of produce, others to supply different kinds of value-added services, such as clothes, household carpentry products, saddles, forges, ploughs and so on. People, said Smith, would then 'exchange with one another' their surpluses over what 'was necessary for their support' and 'get in exchange... the commodities they stood in need of and did not produce themselves', linking the ages of mankind to the exchange principle to explain ancient human history.<sup>20</sup>

What began as an occasional exchange between individuals within the same society would become in time an exchange between individuals 'of different nations', and with this development 'at last the age of commerce arises' (LJ15–16). With the words 'at last', Smith heralds a culminating development, not one presaging another age (for example, 'capitalism') yet to come and of which he knew nothing; he always looked backwards, not forwards. He did not predict how society and its ages would evolve in the future. The relatively rapid 500-year

change from primitive market-commerce to 19th-century capitalist production and consumption was largely due to increasingly rapid changes in science, technology and knowledge, and finer divisions of labour and specialisation, which continues today.

When Smith wrote on justice he did so from the perspective of how the role of justice had emerged by the 18th century. He regarded Britain as the country most closely corresponding to a constitutional monarchy which, as the outcome of long and deep historical processes that he details, was closest to entrenching political and judicial, though not market, natural liberty. His treatment of the characteristics of natural liberty was rooted in an ideal of jurisprudence, which he took from theorists such as Hugo Grotius, Samuel Pufendorf, Gresham Carmichael and Francis Hutcheson. His clearest statements on justice are in *Moral Sentiments*, supported by his *Lectures*. The vital role of justice in a commercial society is stated explicitly. The importance of justice for a working system was understood by Smith and other participants in the Enlightenment.<sup>21</sup> Without justice, markets do not function properly, if at all, and the main cause of a lack of justice is government failure. Governments, however, can survive extremely low levels of performance from their monopoly of armed force.

Justice is different from the positive virtues that are voluntary, but you cannot force people to be virtuous (TMS78–9). Justice, on the contrary, is about what people on pain of condign punishment must *not* do. Compliance is enforced by compulsion. A violation of justice causes injury – food is stolen, a family member murdered, a shelter burnt down, a debt not paid or a magistrate not obeyed. It is Smith's view that because the impartial spectator disapproves of violations that positively hurt someone, the proper response to violation is for the guilty persons causing the injuries to suffer punishment, ranging from verbal chastisement through, *in extremis*, to lawful execution.

In contrast to breaches of the negative virtue of justice, breaches of the positive virtues cause disappointment and degrees of disgust, not grievous injury to the guilty. Even the 'blackest ingratitude' only causes the disapprobation of the impartial spectator. Ingratitude, an offence against propriety, does not warrant grievous punishment; nor does its absence warrant the use of force to compel a person to be grateful. Gratitude cannot be extorted. You either realise the need to express it, or you do not.

Smith, who initially confined the impartial spectator to guiding the practice of the positive virtues, expanded the spectator's role to that of the preservation of society through the negative virtues of justice. Smith's

unequivocal belief in the pivotal nature of justice in society is as clear and unambiguous as David Hume's assertion that 'without justice, society must immediately dissolve, and everyone must fall into that savage and solitary state, which is infinitely worse than the worst situation that can possibly be suppos'd in society.'<sup>22</sup> The 'break down of society' is a total absence of law and order.

Justice as a negative virtue draws out the distinction between its general principles (the preservation of the foundations of society) and how it operates in practice. Justice is essential for the survival of society and, in theory, but not always in practice, people who break the law are dealt with by a due legal process independent of the executive or government. Guilty individuals caught up in the system might generate personal sympathies among onlookers for their plight and what may happen to them, merely because they are our fellow creatures, without undermining the regrettable necessity of their self-generated predicament.<sup>23</sup>

Because 'the violation of justice is what men will never submit to from one another, the public magistrate is under a necessity of employing the power of the Commonwealth to enforce the practice of this virtue [duty]', otherwise 'civil society would become a scene of bloodshed and disorder' with 'every man revenging himself at his own hand whenever he fancied he was injured'. All governments, which achieve sufficient authority to enforce their writ, endow their magistrates with authority to 'do justice to all' under the promise that they will 'hear and redress every complaint of injury' (TMS340), and they frame rules regularising the decisions of the judges with the intention that they coincide with natural justice.

Sometimes governments rule in their own interests; sometimes particular groups of men (such as aristocrats or monopolists) tyrannise or corrupt the government into bending the laws away from what natural justice would prescribe; and sometimes 'the rudeness and barbarism of the people hinder the natural sentiments of justice' compared to those of civilised nations, making 'their laws' like 'their manners, gross and rude' (TMS341).

Generalising, Smith states that

The most sacred laws of justice... whose violation seems to call loudest for the vengeance and punishment, are the laws which guard the life and person of our neighbour; the next are those which guard his property and possessions; and last of all come those which guard what are called his personal rights, or what is due to him from the promises of others. (TMS84)

He adds that 'the greater and more irreparable the evil that is done' the greater the degree of the 'resentment of the sufferer' and 'the sympathetic indignation of the spectator, as well as the sense of guilt in the agent' (TMS84). He draws the impartial spectator into the ambit of jurisprudence because justice involves the conduct of the perpetrator and the resentment of the victim, with the impartial spectator observing how they behave.

Unlike the positive virtues, which are 'loose and inaccurate' and 'admit of many exceptions' and 'modifications', the rules of justice are 'accurate in the highest degree, admitting of no exceptions or modifications' and flow from a common set of principles. The rules of justice are like the formal rules of grammar, while the rules of the positive virtues are more about the elegance of composition and style (TMS175). The impartial spectator influences the application of the virtues but the 'rules' are fuzzy in the cases of the positive virtues. In the case of justice, the impartial spectator influences the chosen conduct of the individual where the rules are not in doubt. The individual, in consultation with the spectator in the breast, is not left alone to judge privately his potential or past breaches of the law; he may also be subjected to the verdict of impartial members of a jury, who determine the facts in his case, and to the impartial judgment of a magistrate, who decides his punishment.

Jurisprudence, then, is the theory of the general principles of law and government, and justice is about rights, both 'natural' and 'acquired'. Of our natural rights, nobody doubts that 'a person has a right to have his body free from injury, and his liberty free from infringement unless there is proper cause'. Our acquired rights are less obvious. Property (what we acquire) is linked to civil government, for they 'very much depend on one another' (LJ401). Property begets government and stable government begets property. Justice enforces acquired property rights and protects natural rights. But enforcement is not enough, for justice cannot rely entirely on the terrors of enforcement to cower determined and persistent challenges to other people's rights, even were a sufficiency of means and the will to use them available. It requires two other principles defined by Smith as 'authority' and 'utility' to ensure majority compliance with, and acceptance of, the laws of civil society.

People tend to defer to those they feel are of 'superior' rank and abilities to themselves. Authority acquires its own legitimacy, be it from superior strength, intellect, wealth or recognition (such as from an ancient family) (LJ402; cf. TMS50–3, 62, 276–7). Of course, we are all descended from 'ancient' families, but Smith alludes to our deference towards those who are descended from the few 'distinguished', as opposed to the many

'obscure' and unsung, families from which most of us descend. Because the ignorant easily recognise the attributes and appurtenances of superior wealth, and with difficulty recognise the subtler (perhaps hidden) characteristics of personal superiority in strength, intellect and lineage, he found the majority of people readily deferring to those with wealth, however acquired, and not to those who might be (more?) worthy of admiration because of their superior character, intelligence or manners (of which small, unrecognised elite Professor Smith probably considered himself to be a prime example).

Utility, or the perceived general benefits of justice, is less reliable than authority as an inducement to obey the civil magistrate. Smith says of utility that 'everyone is sensible of this principle to preserve justice and peace in the society'. He asserts that 'the poorest may get redress of injuries from the wealthiest and most powerful' and concedes, though, that there 'may be some irregularities in particular cases, as undoubtedly there are', but we 'submit to them to avoid greater evils' (LJ401–2). In the abstract of what ought to be, as opposed to what is, in the practice of justice, Smith was correct, but Scotland in the mid-18th century was no place for the 'poorest' to challenge the injuries they believed the 'wealthiest and most powerful' inflicted on them – it was problematic enough for them to challenge their neighbours.

## **Evolution of justice**

Smith explained in his lectures the probable evolution of laws, the operating principles of justice. He linked these to the four-ages theory by asserting that 'it is easy to see that in these severall ages of society, the laws and regulations with regard to property must be very different' (LJ16). Legal norms about property were closely linked to the mode of subsistence and not the intentions or designs of reason. Rules related to current needs were created, most likely by trial and error and the authority of ancient habits of the past, rather than by the intentional design of people. Justice, like economics, operated for millennia long before there were lawyers or economists.

In the age of the hunters, 'theft is not much regarded', writes Smith (LJ16), though in savage societies it was a common practice to kill strangers from other bands found outside their own 'territory'; presumably their trespass was associated with 'theft' of that tribe's subsistence. In shepherd societies, 'theft is punished by immediate death' (LJ16). In the earliest societies, where disputes were decided by the group or by a leading individual in the group, judgements would be fairly trivial and

of the domestic kind. Low population densities in vast open territories invited resolution by banishment, with the expelled or the disgruntled walking off with those who shared their guilt or grievance as many miles in any direction for as far as they wanted. Mostly, because there are 'few opportunities for committing' theft beyond 'depriving them of their game', most rows would be confined to interpersonal squabbles and jealousies. Once habits forming around the loose 'rules' of conduct were found beneficial in these circumstances they achieved the status of accepted rules of behaviour and gradually formed the basis of legal 'wisdom', sanctioned by their longevity.

In shepherd societies, the accumulated knowledge of how to look after herds or flocks of specific animals added to the investment of time and labour that imbued 'property' in the animals with evident qualities. In these circumstances 'there are many opportunities of injuring one another and such injuries are extremely pernicious to the sufferer'. 'Case law' became more complex from minute variations of the circumstances. With higher stakes, witnesses to incidents occurring perhaps some distance from camp, and judgements about their credibility and truthfulness, imposed more onerous burdens on those chosen to decide on the rigour of the punishment. Again, as the process of assimilation of knowledge about the cause and consequences of disputes and their resolution accumulated within the group, the formal laws of conduct were made (LJ16).

Property in the age of agriculture created many more opportunities for discord within a community (boundaries, inheritance, access to water, tools and labour; but rarely major theft of an entire crop, for instance) and in disputes with other communities, including those operating different modes of subsistence (hunters chasing prey across someone's crops; shepherds allowing their animals to graze on a farmer's fields; farmers erecting fences). Discord and disputes caused a great increase in the quantity of laws and rules (LJ16). We may also surmise that it increased the number of 'informal' and private chastisements between disputants at a local level, which never came to the attention of the community.

Smith stated that 'the more improved any society is and the greater the length the severall means of supporting the inhabitants are carried, the greater will be the number of their laws and regulations necessary to maintain justice, and prevent infringements of the right of property'. This particularly applies in the age of commerce, which gave a particular boost to the degrees by which society was 'improved'. The fact that Roman law reached such a complex level was in no small measure due

to the frequent disputes over inheritance, land ownership, trading behaviours, business contracts and debts. Smith's emphasis on the Roman legal process reinforced his assessment of the role of the age of commerce in the evolution of society, and the significance of its interruption following the fall of Rome.

Karl Polanyi's dismissal of commerce before the 'great transformation' in the 19th century as being entirely absent as a significant phenomenon in any century before then is an error.<sup>24</sup> Smith's dating of the age of commerce (not capitalism) as beginning with the appearance of 'towns' (clusters of huts) millennia before the 18th century and during the age of agriculture is historically accurate.

As with justice, governments emerged slowly as humans passed through the different ages. Hume gives an ingenious account of the slow and gradual acceptance of government in society in his *Treatise*, with which Smith was aware of and with which he would have agreed. Hume's argument is fairly simple: if men are short-term-ist in respect of their interests, they prefer the immediate gratification of their interests more than the interests of others and more than their interests in the distant future; and if they are more partial towards the interests of their 'friends and acquaintances' than those of strangers, their behaviours would work against those interests beneficial to the continuation of society. If everybody behaves in this manner there would be disorder, the end result of which would be the perils of living in a state of nature, as members act with injustice towards each other in pursuit of their immediate interests. The remedy lies in discovering that consent for what is equitable is more likely to be obtained if it will take effect in the remote future and when its provisions are stripped of reference to the immediate concerns of those asked to give their consent. Unable to perceive how to handle matters that affect immediate interests but willing to contemplate matters that do not, or which affect others, people are comfortable with the idea that some authority (the civil magistrate), who has an interest in the execution of justice necessary to uphold society, will act to constrain everybody to act with regularity and not from their immediate self-interest driven by their 'violent passions'. Magistrates do this by deciding all matters of controversy concerning individuals with some other individuals and do so more equitably than individuals deciding their own case. This avoids the 'fatal errors' of people acting solely in their own interests without regard to the interests of society. The interests of society are difficult to determine on the principle of unanimity, hence magistrates decide on what is likely to be most acceptable to most people, though they do so without consulting anybody but themselves. Thus, says Hume,



bridges are built; harbours open'd; ramparts rais'd; canals form'd; fleets equipped; and armies disciplin'd by the care of government, which, tho' compos'd of men subject to all human infirmities, becomes, by one of the finest and subtle inventions imaginable, a composition, which is, in some measure, exempted from all these infirmities.<sup>25</sup>

Societies that discovered this remedy for disorder prompted from the slow and gradual adoption of behaviours of individuals survived more successfully than those that didn't. Those that did so, but inadequately executed their remedies and failed to suppress wayward acts of inequity, were pulled apart and the people in them dispersed or perished. Nobody designed the roles of government; they were discovered through much trial and the triumph of justice over error, and the diffusion of processes that worked and the elimination of those that did not. Neither outcome was ordained by conscious design.

Social evolution is a process of discovery and not the application of rational thought to seek and implement workable outcomes. The process is uncontrolled, undirected, unconscious, unorganised and without design; it emerges from the actions of individuals who discover, without realising their role or the outcomes they bring about, that certain combinations of actions have positive consequences they did not seek or anticipate, many of them indistinguishable from the negative consequences of other sets of actions that are socially disruptive, even destructive, sometimes for long periods unless corrected by other sets of actions or events. Adam Smith's thinking went a long way towards articulating this evolutionary process. An example of this applied to a history he discussed is clearly seen in Smith's historical analysis of the evolution of Britain towards a constitutional monarchy from the 15th century. It is worthwhile for economists to spend a little time appreciating what he was doing when he gave close attention to this period. It explains a great deal about the nature and causes of the wealth of nations.

### **Justice and defence of the 'rich'**

Smith discusses the evolution of civil government in his usual frank manner, and this sometimes leads quotation 'hunters' to seize on his

references to the role of justice in protecting the rich against the poor. For example:

'Wherever there is great property, there is great inequality. For one very rich man, there must be five hundred poor, and the influence of the few supposes the indigence of the many. (WN710)

Separating the words quoted from their context is disingenuous. Smith was writing about the evolution and foundation of justice in a society, without which, Smith declaims in *Moral Sentiments*, society 'must in a moment crumble into atoms' (TMS86).

Living in such a lawless time would not be easy. In the rudest of 'savage' society, before property existed beyond the natural rights of property in one's own body, violations of 'person and reputation' were all that could be done to an individual (though, be clear that it is not a minor transgression for the person killed or his reputation defiled because of an inability to defend his rights).

Once humans moved from 'rude' society to shepherding and agriculture, the innovation of property began to change previous experiences. The bands grew larger and contact was more frequent, with all that that implies about the human condition. 'Envy, malice, or resentment, are the only passions which can prompt one man to injure another in his person or reputation' (WN709), but how one individual treats another within band may be different from how the band treats another band. There, the passions had free reign until the innovation of exchange, reciprocity and trade was widespread, and even then the choice of plunder versus trade was not always decided benignly. In the band, there was seldom, if ever, an 'established magistrate or any regular administration of justice', because none was needed, and isolated problems of that kind would be dealt with according to custom and ad hoc passions. The emergence of property changed the habits sustainable in the past, on which Smith comments as follows:

Men may live together in society with some degree of security, though there is no civil magistrate to protect them from the injustice of those passions [envy, malice, or resentment]. But avarice and ambition in the rich, in the poor the hatred of labour and the love of present ease and enjoyment, are the passions which prompt to invade property, passions much more steady in their operation, and much more universal in their influence. Wherever there is great property, there

is great inequality. For one very rich man, there must be five hundred poor, and the influence of the few supposes the indigence of the many. The affluence of the rich excites the indignation of the poor, who are often both driven by want, and prompted by envy, to invade his possessions. It is only under the shelter of the civil magistrate that the owner of that valuable property, which is acquired by the labour of many years, or perhaps of many successive generations, can sleep a single night in security. He is all the time surrounded by unknown enemies, whom, though he never provoked, he can never appease, and from whose injustice he can be protected only by the powerful arm of the civil magistrate continually held up to chastise it. The acquisition of valuable and extensive property, therefore, necessarily requires the establishment of civil government. (WN709–10)

It is worth commenting in this context that property owners needed protection not just from the 'envious poor', who were devoid of any property, but also, and probably primarily, they needed protection from the other 'envious' property owners around them, who, being human (not just rich!), wanted more. Studies of the growth of shepherd societies in Central Asia and the 'barbarian' societies east and north of Rome's frontiers, and of the decline of Rome's civic order west and south of the same frontiers,<sup>26</sup> trace the struggles among the people in the rich orders, themselves divided by varying sizes of their ownership of the modes of subsistence, with varying degrees of ambition, envy, unscrupulousness and opportunism. In acting out their local dramas in internecine quarrels, convenient marriage alliances and the associated duplicity, they demonstrated that their 'sleepless nights' were confined not only to fears of the potential depredation of the envious poor, but also, and perhaps more pressingly so, to the realisation that they had much to fear from their neighbours, whose ambitions matched their envy in schemes to expand their properties at their neighbours' expense.

When agriculture as a mode of subsistence spread out across Europe from the Near East there were very great inequalities in living standards of the majority of the people. Compared to the elites in those agricultural societies, the living standards of the majority of people were truly basic and, as ever, at subsistence levels only, a condition that existed for millennia before it began to change in Europe from around 1800. For the rest of the people on earth, who did not adopt agriculture as a mode of subsistence, they continued to the 18th century and beyond, living within the first age of hunting. The almost invariant regime of universal and egalitarian poverty was the 'normal' human condition for

the majority who survived to adulthood, its scale and duration beyond imagination from pre-history onwards.

The 'rich' who ran those early societies were 'rich' compared to the majority of people, but their 'wealth' amounted to very little compared to that of the majority of the populations living today in the developed parts of the world. While per capita incomes were at subsistence level for the majority, the richer elite formed by the newer modes of subsistence based their power on unequal ownership of property. For populations to grow and per capita incomes to remain at subsistence, there must have been of continual, though slow and gradual, growth in domestic output, most of the surplus of which was appropriated by the rich and powerful. This surplus was wantonly consumed partly in their households and by those who served them as their armed retainers, and partly in the erection of stone-based 'civilisations', the ruins of which are spread today across Europe, the Near East and North Africa.

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# 5

## 'general principles of law and government'

### Introduction

Adam Smith considered the history of Britain's constitutional monarchy to have been a positive influence on the spread of opulence. Strictly, Cantillon's and Turgot's incomparably briefer and brilliantly original expositions of similar economics to Smith's<sup>1</sup> failed to gain the appreciation of the French political class compared to the impact of Smith's *Wealth of Nations* among British (and North American) legislators. Smith wrote to gain the attention of legislators. Cantillon and Turgot wrote for a far narrower audience (in Turgot's case, he wrote for two Chinese Jesuit students, M. M. Ko and Yang)<sup>2</sup> and it was over a century before Cantillon's and Turgot's work was recognised by economists as original and significant contributions to economic science.<sup>3</sup>

Reading his *magnum opus* 'cold' without understanding Smith's interpretation of the history of British governance is the single most important cause of concluding that *Wealth of Nations* is merely a rambling account of a long-gone episode in British history.

### The interregnum and the fall of the Rome

The invaders who overran the Western provinces of the Roman Empire had knowledge of agriculture and property in land, and its elite was literate (many were educated under Roman influences). They set about dividing the Roman lands into huge tracts from which they drew tribute from the inhabitants. The elite invaders established an allodial system of land ownership in which land was held in absolute title, ultimately by whoever held it against all comers.

The superior allodial owner offered hospitality to his king, in contrast to the later feudal system, where the king received regular tribute from his subordinate lords in exchange for legal titles in land. These invasions divided and re-divided Europe among the warlords, who received great wealth in the form of surplus produce, supported by large numbers of armed dependents who, in return for shares in the surplus, supplied various services, including fighting as required. Warlords often quarrelled with their neighbours, and initiated challenges to, or repelled, their rivals. Smith described the warlords and their influence on the lands they conquered and fought over:

Now at this time there were no arts practised by them. These people being rough and wild had no discipline amongst them; the country was infested by robbers and banditti, so that the cities soon became deserted, for unless their be a free communication betwixt the country and the town to carry out the manufactures and import provisions no town can subsist. (LJ244–5)

To these problems were added piratical depredations attributed to the Danes and the Normans, with the latter eventually conquering and settling in Normandy, from which territory they invaded England in time. The lords maintained hundreds, sometimes thousands, of relatively idle retainers with the help of the produce extracted from the conquered inhabitants. The lords and the king were often in conflict as the generations passed on, and the relative balance of power and ambition shifted through time with uncertain blessings of the Church in Rome. For those farthest down the social scale such times were perilous with marauding armies passing over territories with their usual habits of rapine and violence. Orderly government was tried occasionally and appeared in several versions, with a final appeal to a king's or Pope's judgement common to most of them (LJ245).

This was the norm for five centuries after the fall of Rome. The reality for long periods during these centuries was stagnation and local decline. In England the 'great lords soon destroyed the order and harmony of its severall parts', and 'their lawless and freebooting manner of life also destroyed all the commerce and the industry of the former inhabitants'. Any produce that the people living on the lords' lands contributed to his stocks was redistributed by the lords to their dependents. The lords could not consume it all themselves. Smith's is an image of disorder, low living standards for people 'little advanced beyond the state of

shepherds', and fragile security of their persons, their meagre possessions and their families.

Within this bleak image things were slowly changing, in themselves perhaps of little import, but cumulatively of significance. Smith details how from the conquest of England by William 'the conqueror' the lords held their lands at the powerful king's pleasure and the lesser lords held their lands on the same terms (LJ244). This was not so much a legal fact as a measure of practical policy. Lords quarrelled as ever and sought redress by fair means or foul, or by appeals to their superior lords and ultimately to their king. Dependents quarrelled and sought redress too, and as the generations turned over, their inheritors brought new mixtures of ambition and ability into contention which installed new centres of local power. They also pruned the 'weak' from among them. On occasion, 'extraordinary service' from retainers was required and sometimes the superior lord found it expedient to qualify his absolute 'pleasure' over an inferior's limited rights of possession of a plot of land, first by granting possession for a specific length of years, then in time for life, and finally for life and inheritance (creating more grounds for future quarrels). These separate changes slowly and gradually transformed allodial lands into feudal tenancies (LJ249–52). From the apparently unimportant transfer of small land holdings began the first unintentional steps in the eradication of the economically destructive warlord system that operated across Western Europe. The 'dark ages' became an unpleasant folk memory, the lessons of which were regarded by Smith as significant for identifying the nature and causes of the spread of opulence.

Thus, he emphasised the fall of the Roman Empire as the significant event in the history of Europe, citing 'the confusions which followed so great a revolution lasted for several centuries', including the 'rapine and violence' imposed on the 'antient inhabitants', which 'interrupted commerce between the towns and the country' and caused people to desert the towns and leave parts of the countryside uncultivated. In time 'the western provinces of Europe, which had enjoyed a considerable degree of opulence under the Roman empire, sunk into the lowest state of poverty and barbarism' (WN381–2).<sup>4</sup>

Feudal governance in agriculture resulted in 'a few wretched cattle, maintained altogether by the spontaneous produce of uncultivated land' (WN334), supposedly managed by bondsmen, virtual if not actual slaves. Those who remained bereft of property (including in their person) were dependent on their masters for their maintenance and were at the mercy of their master's caprice (WN386–7; LJ182–6).



Vast estates claimed and contested over by lords enjoyed long-term preservation under the feudal laws of primogeniture and entails. In primogeniture the eldest son inherited everything, with nothing at all for his mother and siblings, except at his discretion; in entail the eldest or the nearest male relative inherited title and land intact, with no sub-division of land allowed, even if the owner desires to make such arrangements should he have no direct male heir. Such practices through the generations foiled the break-up of estates and prevented a market in parcels of land developing at prices aspirants could afford, which was Smith's ideal of the creation of a productive Yeoman class. Large estates also slowed, if not prevented, the needed improvements on large ancient estates because of the expense of improving all but a small proportion of them, assuming the new owners were so inclined, which apparently was not because of a lack of capital but because of a preference for idleness. Many landlords were not given to energetic land management, or their inherited estates were so indebted and poor in rental incomes that it was beyond their means should they want to improve them. And to their lethargic inclinations to undertake as little trouble and expense on their landed property as possible were added unfavourable policies imposed by the ancient institutions of Europe that together discouraged the inclinations of those few persons who might otherwise have been industrious, causing regular local dearth in corn that these laws were supposedly designed to prevent (LJ525).

Trade in agricultural produce was restrained by such 'absurd laws' as prohibiting traders ('engrossers') from buying produce in one locality to sell for profit in another on pain of imprisonment, fines, confiscations and confinement to the pillory. This drove out regular traders and brought in 'wretched hucksters' with little to lose, encouraging popular odium against the most efficacious solution to local dearth, namely the bringing of surpluses from areas with plenty of food to those areas without (WN528).

The general and long-term consequence of these prohibitions, and the restrictive privileges awarded to 'fairs and markets' in designated locations and under the control of town governments (see Fernand Braudel),<sup>5</sup> slowed but did not prevent the spread of inland commerce (WN396). One of the many consequences of the inversion of the order in which Britain progressed to the spread of opulence was fortuitous because it unintentionally promoted the eventual development towards a constitutional monarchy (with parliaments and elements of liberty).

The inhabitants of the early towns were tradesmen and mechanics, mostly in a 'servile, or very nearly servile condition'. They, or their forefathers, were former members of the landless villain class of peasants, beholden to their lords of the manor, without property or the appurtenances of liberty. Some larger towns were granted charters by the king that severed their obligations to local lords, allowing them to give away their own daughters in marriage without a lord's permission, and to pass their property to their children (WN397; LJ48), both being welcome steps to personal liberty and relief from total subjugation. Smith describes them as 'a very poor, mean sett of people', but they benefited from the plight of their kings over many decades and 'arrived at liberty and independency much earlier than the occupiers of land in the country' (WN339).

The people in those little 'towns', a few roughly made huts huddled close together, did not live long enough to see much good coming out of their misery; development was uneven, subject to retrogressive episodes, and remained fragile. Those people living generations later were unlikely to have been aware of their barely visible 'progress' materially; each generation judged their circumstances by the deficiencies of their situation and not by the measuring rod of their grandparents' tales of an unseen distant past.

Kings needed allies in dealing with 'awkward' individual lords and their private armies, who eyed a weak-king's throne. Such kings needed help against lords flitting among troublesome and mutinous coalitions. In this context, independent towns, already disposed to be resentful of the arbitrary oppressions of local lords, gradually became useful sources of taxes for the king. In exchange for his granting legal privileges to them, which did not affect his sovereignty, though it might embarrass local lords if the towns could make them stick, the king nurtured allies within the territories of his potential enemies. Gradually, in line with their energies in place of lordly lethargy, the towns' people grew in importance by maintaining the king's peace throughout his dominions. A succession of kings gradually ceded local powers to the towns that permitted them to make local laws and to enforce them through their locally appointed magistrates, to 'build walls for their own defence' and to mobilise inhabitants 'under a sort of military discipline' against 'all attacks and surprises by night as well as by day' (WN400-1).

Sovereigns in this manner, wrote Smith, 'erected... independent republicks in the heart of their own dominions' to rival the armed power of the lords who oppressed the weakest of the kings' subjects, especially the unarmed servile individuals sheltering from a lord's fury in flimsy

hovels and who were considered by the lords to be 'a different species from themselves'. As the towns revived, 'the wealth of the burghers never failed to provoke' the lords' 'envy and indignation, and they plundered them upon every occasion without mercy or remorse', causing the burghers to hate and fear the lords much as the king hated and feared them too. Kings had no reason to fear or hate the burghers; they collected and paid their towns' taxes and did not engage in hostilities against them. They were the nearest to model subjects in unsettled times, and, therefore, their mutual interests as enemies of the other's enemies 'disposed them to support the king, and the king to support them against the lords' (WN401–2).

Shifting the balance of power had economic effects. The oppression of the peasantry by the lords hardened their habits of living on bare subsistence – their lords claimed anything they produced beyond that amount. In the towns, commerce hardened its people in a different manner. People, declaimed Smith on his familiar theme, who enjoy 'the fruits of their industry' are likely to exert themselves to 'better their condition' and strive to acquire, in addition to necessities, the 'conveniences and elegances of life', thus establishing in the towns the necessary ethos for commerce.

The oppressions of the countryside incentivised individual peasants to run away to the relative freedoms of the town. True, the towns remained dependent on the country for their subsistence, but prosperity also provided the means by which a town, if situated conveniently close to a river or sea route, could acquire subsistence and 'conveniences and elegances of life' elsewhere than from their immediate neighbourhood (WN405). And from these circumstances, Smith pointed out, the seeds of the destruction of feudal forms of government were planted.

Feudalism was not a new mode of subsistence, as understood by Smith. It was a system of governance not a mode of subsistence, nor properly distinguishable by the ruling political structure; food grows the same way biologically, though not with the same productivity, whether tended by serfs, slaves, communist communes, yeoman farmers or agribusinesses. The age of agriculture as a mode of subsistence continued, as it had done under the Pharaohs, the Incas and in the wretched and pathetic state that it fell to under the barbarians. Foreign commerce introduced a 'solution' for the landed 'great proprietors' in their forlorn quest to satisfy their vanities (WN410n39). Access to 'finer and more improved manufactures' from distant markets (Holland, France and Italy) promoted the age-old enterprise of imitation to satisfy the acquisitive desires of consumers. The religious, ethnic and racial foolishness of despotic rulers, who banished

into exile their fine manufacturers on religious or racial grounds, many of whom moved northwards to Britain about the time of the reign of Elizabeth I, is another example of unintended breaches of a 'natural order' (WN407–8). Joshua Tucker advocated a government-sponsored immigration scheme for 'industrious' foreigners who brought with them a minimum amount of capital.<sup>6</sup> Tucker understood the benefits of inflows of skilled and talented migrants that other countries were foolish to persecute. Local manufacturers, as they improved their techniques, produced items for distant sale, and their success in these ventures gradually caused more industrious persons to settle in towns where they were set to work. Towns thereby grew from the expansion of their commerce, in which imitation and innovation were the twin sources of growth, supported by increasing demand from the feudal lords.

### **The decline of feudalism**

In the feudal order, all the land was held by the king, who handed to the superior lords their feudal title in the land for life and inheritance and committed to assist them militarily in times of need in exchange for tribute from their estates and their commitment for military service at his command.

The king called the superior lords to a 'colloquium', where he sought their 'consent and advice' and, by implication, their commitment to support his chosen courses of action (LJ254). With this step, the king compromised his absolute power, his lords compromised their independence and the government became 'aristocraticall', with the most powerful members of an aristocracy sharing in the king's sovereignty. The king ruled as hereditary chief at the head of the aristocracy and their vassals, who were regarded as 'noble'. The 'villains and slaves' – who toiled and ploughed the ground, harvested the crops, tended the animals and served as enforcers of their lords' writs – were regarded as 'ignoble and contemptible' (LJ255).

The quiet consequence of relative order and peace returning to the country began to revive small towns that over the next few centuries brought about a major shift in the balance of power within the feudal system of land ownership and tenure. The class of 'burghers', many of which were former villains who had bought their liberty from feudal obligations, turned to various roles in trade and gravitated to small hamlets, some of which grew into towns and later into cities (LJ255). Thus began the centuries-long struggle of the petty towns against the aristocracy of the countryside, which would sweep away the feudal privileges

of the lords and the serfdom of the villains and, most importantly, help to revive the age of commerce.

Smith's analysis of this process is masterly. The feudal lords remained, in the main, a source of disturbances, on some occasions successfully replacing kings with other claimants to the throne. This made the kings 'very jealous of the power of th[ese] nobles' and they 'took every method to lessen their power'. Villains and vassals were often in conflict with their lords, and by raising limited legal protections for them they nurtured their limited independence within the constraints of the overall feudal order. Another more explicit example was the king strengthening the burghers in the towns by allowing them to form 'corporations' (note the early meaning of this word) to defend themselves against the lords by 'walls and guard[s]', the latter reaching up to '300 armed men', and assigning to them the rights to try small causes in their own courts (LJ259).

Successive kings opened the door to a 'parliament of the commons', separate from the 'parliament of the lords', which was of the greatest significance for the progress towards certain liberties. Kings consulted the lords for their advice and consent before imposing taxation; then they invited selected burghers to attend separate meetings to consent on the collection of taxation from the proliferating towns. Thus taxation acquired legitimacy from the parliaments of the lords and the commons.

The kings' pecuniary motives promoted a most unusual concurrence of interests. The more expense-driven reigns of the more martial kings, who fought wars regularly on the continent and who in consequence had need of more regular calls for more tax revenues, also coincided with the reign of kings who were 'most favourable to liberty', if only on grounds of expediency. Low-spending monarchs called on parliaments less frequently than high spenders. The connection did not pass unnoticed in the folk memories of those in a position to withhold their consent. It soon became a rule, noted Smith, among the representatives of the town burghers that they 'should grant no subsidies until their requests be granted' (LJ260). 'Truck, barter, and exchange' was brought into the relationship of the sovereign with his subjects. Moreover, Smith notes, as the lords were denuded of the lesser lords and those of declining fortunes, kings found it expedient to treat with the commons first about matters relating to revenue, and the lords were consulted after consent was gained from the commons. Power thus slipped away slowly from the lords to the commons (LJ260). These lasting steps towards (imperfect) liberty were sealed by the fate of the avarice of the nobility from the gradual 'introduction of arts, commerce, and luxury' into their trade

with the towns, which in time removed the source of the lords' power from their command of thousands of armed retainers. As their power to cause the king mischief declined, the power of the monarchy was enhanced towards a, albeit temporary, British form of absolutism, more brittle than the absolutist continental monarchy which had remained unchanged for centuries and was, thereby, moribund.

By Smith's days, power had swung away from king towards parliament, causing a temporary reinstatement of the power of aristocrats through their command of parliament. The path from absolutism to constitutional monarchy did not run in a straight line; it took many twists and turns, of which the struggle between Charles I and parliament in the early 17th century was one of several decisive episodes, followed by the 1688 'Revolution', which deposed King James, and the 1707 Union of Parliaments, which unified Britain under the Hanoverian monarchy. But the outcome of the long process was the decline of the aristocratic feudal lords in Britain.

Countries without foreign commerce and finer manufactures left the great feudal proprietors bereft of products upon which to 'spend' the greater part of the produce of their estates after they have replaced their capital stock (seeds, animal offspring and such like) and paid the maintenance of the cultivators and their armed retainers. Lords could only spend their surplus produce on maintaining a large body of retainers, dependants, hangers-on and entertainers, who lived off of their bounty and humoured their vanity (WN413) Amidst the tranquillity associated with the disposal of the lord's largesse on his estates, the 'open country continued to be a scene of violence, rapine and disorder' (WN418).

Smith's account of the slide of the feudal aristocracy into political impotence shows his narrative style at its best. He makes no pretensions to support his broad-brush narrative with data or dates; he writes about the broad sweep of events that slowly and gradually undid the power of the feudal warlords. He contrasts the 'silent and insensible operation of foreign commerce and manufactures' that 'brought about' the dénouement of feudalism, against which all the 'violence of feudal institutions' was impotent to avert (WN418).

The vanity of the warlords and their ladies first tempted them into an extravagant penchant for 'luxury' purchases of manufactures, and quietly diverted growing proportions of their annual wealth to obtaining them, but as they dismissed retainers to fund their avarice, they diminished their troublesome power to incite the wrath of the embattled kings. They also slowly drained themselves of the means to tyrannise defenceless tenants. Foreign and distant manufactures provided them with

something besides retainers to spend their wealth upon. But without armed retainers to enforce their writ, who would do the dirty work of chastising their 'enemies' in the towns, lording it over their tenants and their families, and challenging or intimidating their weaker lordly neighbours? Gradually, those drawn into the seductive avarice of expensive luxury consumption gave up increasing amounts of the exchange value of the surplus produce from their lands. They consumed themselves the items that they bought with their produce 'without sharing it with tenants or retainers'. Smith's summary judgement drips with contempt: 'All for ourselves, and nothing for other people, seems, in every age of the world, to have been the vile maxim of the masters of mankind' (WN418). And so it was, and still is, in parts of the world where unrestrained power ruins the happiness and lives of those they subjugate. But over time, in the case of feudalism, the rulers reaped what they sowed:

For a pair of diamond buckles, perhaps, or for something frivolous and useless, they exchanged the maintenance, or what is the same thing, the price of the maintenance of a thousand men for a year, and with it the whole weight and authority which it could give them. The buckles, however, were to be all their own, and no other human creature was to have any share of them; whereas in the more antient method of expence they must have shared with at least a thousand people . . . and thus, for the gratification of the most childish, the meanest and the most sordid of all vanities, they gradually bartered their whole power and authority. (WN418; LJ50–2; 420)

By his spending on luxuries, a lord ends up maintaining not a thousand families, all of them at his command, but fewer than 20 people or 'ten footmen not worth the commanding' (WN419–20). What is worth noting in Smith's remarks is another consequence, stated with a hint of Mandeville's satire. The spendthrift lord, who buys trinkets and dismisses one set of retainers, also indirectly employs others who make trinkets and ships them from distant parts, and by these actions he gives 'occasion to a great amount of work and manufacturing, such as is necessary to raise so much in its value' (LJ195). The spendthrift appears to be 'the most destructive member of society we can possibly conceive', but, paradoxically, his kind is 'in no way prejudicial to society' (LJ194). The great prices of what they buy generally arise from the wages of labour and the profits of their employers, and the spendthrift indirectly contributes to the maintenance of all these workmen, their families and the employers (WN420). Also a great deal of low-priced spoiled food,

drink and the leftovers from the banquets common to rustic hospitality is wasted, in stark contrast to manufactures which cost too much to waste. And the tradesmen and artificers employed in manufactures, unlike tenant farmers, many customers, not just one, and whilst they are 'obliged to them all', they are not 'necessarily dependent upon any one of them (WN420).

'Merchants and manufacturers' soon found products to tempt the lords to feed their vanities. They needed income to pay for them. Raising rents was one obvious solution, as was enlarging the tenancies and their duration and clearing smallholdings off the land to create viable farms. In exchange for affording landlords with higher rents, tenants sought and landlords offered longer leases, which in time made tenants more independent by shedding them of the old feudal obligations of personal service (WN420–1). This led to the landlords' demise as a great and often-violent political force in the governance of the country. For

[h]aving sold their birth-right, not like Esau for a mess of pottage<sup>7</sup> in time of hunger and necessity, but in the wantonness of plenty, for trinkets and baubles, fitter to be the play-things of children than the serious pursuits of men, they became as insignificant as any substantial burgher or tradesman in a city. (WN421)

Smith asserted that in the greater part of Europe, commerce and manufactures in the cities, 'instead of being the effect, have been the cause and occasion of the improvement and cultivation of the country', contrary to what he considered to be the 'natural order of things' (agriculture first, then commerce), which, because this was 'unnatural', was 'necessarily both slow and uncertain' (WN422).

Having explained his view of the natural evolution of society from hunting towards commerce and what happened in its revival since the 15th century, he showed that social evolution can stall at any one of the four ages of the modes of subsistence, as well as bypass an age altogether, and that stalling, even an occasional reversal, was 'normal', where geographical, climatic and institutional circumstances intervened. By taking the long view of the disequilibrium of simultaneous and successive events, rather than the shorter-term abstractions of equilibrium alone, Smith produced an analysis far superior to much of that which followed him.



## Constitutional liberty

It was fortunate that Britain's 'system of liberty' had been established at least in outline before British governments funded and formed standing professional armies. Parliament, elected on a highly restricted franchise, by its control of the army's finances, could prevent, or at least inhibit, the army being used to undo steps taken to ensure the general liberty of the king's subjects. Lack of money, independent of parliamentary approval, limited a potential tyrant's recourse to the armed intimidation of his subjects (the principle over which the English civil war had been fought).

For Smith, a 'system of liberty' was a constitutional arrangement secure from the tyranny of king, parliament, judges, officials of the state or any private person. In 18th-century Britain, the system of liberty was the foundation of its government, which had been confirmed by 'many Acts of Parliament'. While this was liberty by legal fiat and not by universal franchise, it was nevertheless in advance of what happened elsewhere, up to the founding of the United States of America. Consequently, he asserted that in Britain, with its liberties so entrenched, 'every one would be shocked at any attempt to alter this system' of liberty and such attempts 'would be attended with the greatest difficulties' (LJ271).

Smith deliberated on threats to constitutional liberty potentially emanating from within the State, specifically in the form of the 'Civil List' covering the monarch's personal expenses in support of the 'dignity of his office' – a euphemism for his extravagance on his personal and public life. Fortunately, instead of spending these monies on a standing army willing to do the sovereign's bidding, kings chose to spend them on their personal extravagance. Smith writes, in the hands of 'designing, vigorous and ambitious princes [the Civil List spent on a standing army] might give them an influence superior to that which the dependence on a few officers about the palace can bestow'. In Smith's view, a few army officers, entertaining, cavorting and amusing the king, were insufficient to carry through a royalist putsch. Smith felt that princes would have difficulty changing established customs; the lives of pampered indolence flatter, but do not embolden, ambitious vanities. Bluntly, a Civil List, though affording the Sovereign an all-expenses-paid free ride on the 'dignity of his office', inevitably corrupted tentative temptations to his dabbling at returning Britain to absolutism.

A standing army, however, 'might also without doubt be turned against the nation if the king had attained great influence with it'. But this was unlikely because many of the senior ranks in the army had large estates of their own and some were members of the House of Commons,

which gave them influence and power independent of the king. Pure self-interest prevented them from risking their privileges by joining a vainglorious king attempting to enslave the nation, as nothing 'he could bestow on them' was likely to 'turn their interest to his side', 'however mercenary we should suppose them' to be. Smith had the measure of these men (LJ269–71).

Other constitutional features also acted as barriers to tyranny. The courts of justice, for instance, secured the liberty of the people and he detailed his confidence in the judiciary in six parts. (I am grateful for critical comments by Professor Edward J. Harpham on an earlier version of this section.)

First, judges held office for life, entirely independent of the king, and were 'free and independent' and accountable under law for their conduct. Self-interest prevented judges from acting unfairly against defendants if by such acts they would endanger the loss of their regular, and relatively high, personal incomes from their 'profitable offices', which would severely damage their reputations too. Crucially, nothing a king could offer the judges tempted them to act outrageously in his favour (LJ271–2).

Second, because judges had little power to explain, alter, extend or correct the meaning of laws, they had to, with 'great exactness', strictly observe the literal meaning of words as intended by parliament (LJ275). Judges did not make the laws – that was parliament's exclusive function – they enforced them, and in England they interpreted the 'common law', a venerable process reflecting the way that laws evolved from past practices that had proved their worth from ancient usage.

Third, the Habeas Corpus Act ('you may have the body') was a 'great security against oppression'. Before this Act, the Privy Council (appointed by the king) could put anyone they pleased into prison and detain him without trial for the uncertain duration of the king's pleasure. By the 18th century, no judge would oppose the Habeas Corpus Act on pain of 'infamy and a high penalty'. Habeas Corpus, asserted Smith, 'will never be allowed to be repealed, as it would destroy in a great measure the liberty of the subject' (LJ272–3).

Fourth, juries heard the evidence and decided on the facts. Smith gave a brief history of the jury system from Magna Carta (the constitutional settlement regularising the relationships between the king and the barons, which enshrined a person's 'right to legal judgement by his peers', not the king). He concluded that 'the liberty of the subjects was secured in England by the greater accuracy and precision of the law' and that the 'courts of England are by far more regular than those of other [continental] countries' (LJ282, 284–6, n 90, 7).

Fifth, the House of Commons had the power to impeach the king's ministers for acts of maladministration, which 'secures the liberties of the subjects', because impeached ministers can be removed from office.

Sixth, the frequency of elections was 'also a great security for the liberty of the people' because, unless the representative serves his country or 'at least his constituents', he will be in 'danger of losing his place at the next election'. The more frequent these elections, the more dependent were parliamentary representatives (LJ273).

For these reasons, Smith asserts that Britain's constitutional arrangements in the mid-18th century 'secure[d] the liberty of the subjects'. He believed that liberty was closest to perfection in his times (but well short of it by today's standards). He considered England's parliamentary elections were less corrupt than Scotland's (which is not saying much by modern standards) (LJ272–3).

While in modern terms these are fairly modest protections of liberty, their absence may compromise the effectiveness of markets in securing general opulence, though their absence does not prevent it. Moreover, government policies could also compromise popular opulence. Smith illustrated the essential point that the existence of constitutional liberty does not of itself secure general opulence. Governments and other institutions (a dominant religion) may also pursue policies detrimental to national opulence. The establishment of the institutions of liberty are not a conscious one-way process; they could and did relapse, falter, stall and disintegrate in some countries. Today, however, those countries with credible claims to establishing degrees of liberty since the 18th century have incorporated versions of, and of course additions to, Smith's six characteristics of constitutional liberty.

### **Why Smith did not complete his third book?**

By 1787, the fledgling states of America adopted a written constitution, making the former colonists the foremost example of civilised government in the 18th century. The new US Constitution, like the outbreak of hostilities following the Declaration of Independence in July 1776, created for Smith an awkward intellectual position which, in my view, played a major part in his failure to deliver his promised book on jurisprudence. In short, America was a possible source of embarrassment with the king's advisors and legislators, whom he was trying to influence in *Wealth of Nations* to make radical changes in the commercial system of the country.<sup>8</sup> He had to be even more circumspect than he was on religious

matters if he was to avoid causing serious 'offence' to the British Establishment.<sup>9</sup>

Smith had already been warned by David Hume that reports of his 'very zealous' polemics on 'American affairs' were misjudged and that the 'Matter is not so important as is commonly imagin'd' (Corr186). Hume's warning was the result of the information given by the Duke of Buccleugh, who had intimate access to personages in the political establishment. If he was concerned enough to tell Hume of Smith's 'very zealous' attention and of his policy recommendations, it is clear that others within the Establishment knew of his activities. As this was on the eve of the outbreak of hostilities, excitable opponents of Smith's positions, outlined in *Wealth of Nations* (published in March) (WN464–91; 933–47), would become critical to the detriment of his interests as an influencer if he continued what they would regard as wartime 'disloyalty'. If the colonists were successful, then the negative effects of the British colonial monopoly would be removed, heavily weakening the distortions he had identified in mercantile commerce. If the colonists lost, then it was of even greater importance that his critique of mercantile political economy was received positively among the legislators and those who influenced them, in order to persuade them to change their policies.

Reverting to his habits of the long view, as hinted by Hume, was his best strategy. But if he was to avoid writing what he had promised in the first edition of *Moral Sentiments* (1759), how would he explain its non-appearance by the time of his last edition in 1789?

In the last paragraph of the first Edition of the present work, I said, that I should in another discourse endeavour to give an account of the general principles of law and government, and of the different revolutions which they had undergone in the different ages and periods of society; not only in what concerns justice, but in what concerns police, revenue, and arms, and whatever else is the object of law. In the Enquiry concerning the Nature and Causes of the Wealth of Nations, I have partly executed this promise; at least so far as concerns police, revenue, and arms. What remains, the theory of jurisprudence, which I have long projected, I have hitherto been hindered from executing, by the same occupations which until now prevented me from revising the present work. (TMS342)

Smith did not explain his reasons for not fulfilling his 30-year-old promise. The question is, 'why?' From 1759 to 1764, he was busy teaching and from 1764 to 1776 he was writing *Wealth of Nations*. But what was

he doing during the next 14 years? The unexpected intervention of the American rebellion added a new dimension to what was intended to be a history and theory of jurisprudence appropriate for all governments in all ages. In it he would have to discuss the jurisprudential issues raised by the American rebellion, which would put him into political contention with the British political establishment.

It is here that the strange candidacy of Adam Smith as a 'Commissioner of Customs and the Salt Duties' comes into focus. It was definitely not a sinecure, evidenced from the way in which Smith applied himself to it. He adopted a work routine that gave him the perfect excuse not to write anything.

Why did Smith become a voluntary candidate for the vacancy of a Scottish Commissioner of Customs? He certainly did not need the money. His life pension from the Duke of Buccleugh was worth a very comfortable £300 a year.<sup>10</sup> The Commissioner's post was worth £600 a year,<sup>11</sup> providing the handsome sum of £900 a year, plus earnings from his books, which was well beyond his needs (Smith ran a frugal household, though he was generous to indigent relatives). Supporting my claim that his was not a pecuniary motive, he offered to forego his life-pension of £300, but the Duke, reported Smith, 'sent me word by his Cashier, to whom I had offered to deliver up his bond, that though I had considered what was fit for my own honour, I had not consider'd what was fit for his; and that he would never suffer it to be suspected that *he had procured an office for a friend*, in order to relieve himself from the burden of such an annuity. My present situation is therefore fully as affluent as I could wish it to be' (Corr252-3) (emphasis added). If it was not for the money, then for what was it?

Archibald Menzies, a Commissioner of Customs in Scotland, died in 1777, and Smith became interested in the vacancy, which was in the gift of Lord North, Prime Minister (1752-90), whom he had advised on taxation matters. Both Alexander Wedderburn (1733-1805), a long-time friend and colleague, and Henry Dundas (1742-1811), controller of Scottish patronage who had replaced the Duke of Argyll, had direct access to Lord North. They were approached and a formidable source of interest was mobilised to secure his preferment; Smith's name was put into play.

Wedderburn wrote to him on 30 October 1777 in response to Smith expressing his personal support of two gentlemen to succeed Archibald Menzies, and reported that 'neither of the two Gentlemen you recommend so warmly will succeed Mr Menzies', and, curiously, added that 'I am sorry that I did not know how much you interested yourself in

their favour before I received the D[uchess] of B[uccleugh]'s note, which I immediately conveyed to Lord North and I am assured it has had its full effect' (Corr227). Interestingly, Smith wrote to his publisher, William Strahan, MP, on 27 October 1777, three days before Wedderburn wrote to him announcing, 'By the death of Mr Menzies, one of the Commissioners at the board of customs here, I am now a candidate for a seat at that board'. Smith continued,

The purpose of this letter is to beg you to endeavour to get me from the board of treasury the first and best intelligence you can either of my final success or disappointment, or the probability or improbability of either. You know that I am not apt to be over-sanguine in my expectations; and my mind has not upon the present occasion, lost its usual temper. (Corr226)

Strahan, as an MP, had contacts in the departments dealing with the vacancy, and Smith called on all of his sources of interest to push his candidacy. Smith was manoeuvring in a complex political game, ostensibly using his interest to 'recommend', but hoping to fail, two rival candidates, which raises memories of the 1752 episode of his 'damning with faint praise' the candidacy of his then rival, David Hume. His own application was written in the tone of 'self praise is no recommendation', carefully downplaying his own 'qualities' compared to the usual overly enthusiastic style adopted by writers of such letters.

Sir Grey Cooper, Secretary to the Treasury, the most powerful department of state, wrote to Smith and commented, discreetly, on the tone of his letter modestly putting forward his own candidacy as being a less than 'warm and eager application'. Read quickly, the reader thinks Sir Grey is referring to Smith's recommendation of the suitability of the two other persons, but read more carefully it is clear that he was talking about Smith's application on behalf of himself. Sir Grey Cooper, in a masterly turn of phrase in the highest traditions of an ever-diplomatic civil service, reveals to Smith that his application would be successful, but by using the third person he announces this indirectly and, thereby, did not breach the civil service code of secrecy about such matters: 'tho you seem to have no very high opinion of him [i.e., yourself] his merit is so well known to Lord North, and to all the world... he will very soon, if I am not much mistaken be appointed a Commissioner of the Customs in Scotland' (Corr228).

The Duke of Buccleugh, his former pupil, Sir Grey Cooper, Secretary to the Treasury, Lord Dundas, Lord Advocate of Scotland, Alexander

Wedderburn and Lord North, prime minister, who was probably the most keen to reward Smith for his advice on taxation, formed the most formidable interest group that could be joined together to support his nomination.<sup>12</sup> His Letters Patent appointing his Commissioner were signed on 24 January 1778 and the official notice appeared in the London Gazette on 29 January. When the news arrived informally in December, Smith arranged for copies of *Wealth of Nations* to be sent to the Prime Minister, the Secretary to the Treasury and other 'friends', and, interestingly, he also sent £50–£60 to be distributed among the Clerks at the Treasury for their expeditious work in completing the legal formalities of his appointment (Corr229).

We get a glimpse of his daily routine after he became a Commissioner and it adds to the suspicion of his motives in actively seeking the vacancy created by the fortuitous (for Smith) death of the unfortunate Archibald Menzies, the previous incumbent in post. This is how Smith describes his weekly routine to Andreas Holt, the Danish Commissioner of the Danish Board of Trade and Economy, which shows beyond doubt that Commissioner Smith had the perfect alibi for not completing *Lectures*, should one be needed among his friends and readers and for posterity:

I am occupied four days in every Week at the Custom House; during which it is impossible to sit down to any other business; during the other three days too, I am liable to be frequently interrupted by the extraordinary duties of my office, as well as by my own private affairs, and the common duties of society. (Corr249–50)

Smith explained to Holt why he took a long time to reply to him. If he had no time to attend to his private correspondence, how little did he have for writing a major new book? From research into the activities of Smith at the Custom House, he seems to have been extremely busy, or made himself so, in that he signed many of its reports and correspondence during 1778–90, and he attended 1888 meetings of the Custom's Board (he worked there regularly until a few months before his death).<sup>13</sup> He had the motive, the opportunity and the appropriate circumstances to excuse his lack of productivity in authorship (Corr Appendix D405–11). Various explanations for his application for, and diligent attention to, the duties of a Commissioner of Customs have been advanced and rejected (Corr249–50).<sup>14</sup> Only Professor J. R. McCulloch (1853) spotted the specific consequence of Smith being unable to complete his book

on jurisprudence by his deliberate decision to seek his appointment as a Commissioner:

Thousands of persons could have performed the duties of a Commissioner of the Customs quite as well as Smith, or perhaps better; but there was no one, besides himself, who could have given the account of the general principles of law and government, and of the different revolutions they have undergone in the different ages and periods of society" but this noble goal was "clogged by the performance of petty routine duties which engrossed the greater part of his time, and left him with little leisure for study.<sup>15</sup>

Just before he died, he instructed his friends to burn all of his papers and notes, and believing that nothing remained to compromise his reputation with the government or jeopardise his posthumous influence, he died peacefully. What he did not know was that two copies of the student notes of his lectures on jurisprudence had survived and would be revealed in 1895 and 1958, respectively, from which posterity gained an insight into his views on governance. By then, of course, his reputation with the establishment for 'disloyalty' or worse was beyond retribution.<sup>16</sup>

## Notes

1. Cantillon, R. [1734; 1931] 1964; Turgot, R. A. [1766] in Meek, R. L. 1973: 11982.
2. Meek, R. L. trans. ed. 1973: 14, Note 5.
3. Jevons, W. S. [1881] 1905; 1931: 333–60.
4. Cf. Ward-Perkins, B. 2005; cf. Smith, J. 2007.
5. Braudel, F. [1979] 1985.
6. Tucker, J. 1755: 333–69.
7. Genesis, 25: 30–4; pottage (lentils).
8. 'Publius': [Alexander Hamilton, James Madison and John Jay], 1787.
9. Scott, W. R. 1935.
10. Rae, J. 1895: 165.
11. *Ibid.*: 321: £500 as Commissioner of Customs and £100 as Commissioner of the Salt Duties.
12. *Ibid.*: 320–4; Ross, I. S. 1995: 305–7.
13. Anderson, G. M., Shughart II, W. F., and Tollison, R. D. 1985: 746, Note 8.
14. *Ibid.*: 751; citing: Stigler, G. J. 1975; Campbell, T. D., and Ross, I. S. 1981: 87–8; Viner, J. [1928] 1966: 144, 150–1; West, E. G. 1976.
15. Cited in Anderson, G. M., Shughart II, W. F., Tollison, R. D. 1985: 757(14); from McCulloch, J. F. 1967: 458.
16. Cf. Harpham, E. J. 2007: 220–1; Kennedy, G. 2005: 136–40.



# 6

## ‘a certain propensity in human nature’

*Wealth of Nations* opens by addressing the division of labour, which is his central theme for the creation of wealth, and the core of his historical conjectures. Schumpeter criticised him for ‘exaggerating’ its importance.<sup>1</sup>

Adam Smith is associated famously with the ‘trifling’ example of the manufacture of pins and the significant productivity gains arising directly from the division of labour within pin factories, one of which he visited (WN15). He also, less famously, discussed the significant example of the multi-sector specialisation of labour that co-operated in the manufacture of a common labourer’s woollen coat, which illustrated the linkages among many employment sectors located in different geographic regions, including overseas, from which different technologies produced disparate outputs that became inputs used in the manufacture of these simple coats (WN22–3). There were similar links among the other production chains operating in separate manufacturing, agricultural and mining processes in the society with which he was familiar.

The critical point was that none of this co-operation was directed by other than the relations among two, or at most a few, of the parties anywhere along or among the supply chains, who would likely have, and need, no inkling of the circumstances or interests of parties more than a couple of links ahead, or behind, or beside, the process. Each supply chain serviced interlinked markets in all sectors that, incidentally, were growing slowly, gradually and independently in depth and scope to produce the ‘necessaries, conveniences, and amusements of life’ in ever-greater abundance. In so far as the evidence for sustained, but very modest, growth in living standards for those in employment and owners of capital was visible to those who looked outside their windows from mid-18th century onwards in Scotland, it came from the wider consumption of

more varied food and the widening selection of available consumption goods for increasing numbers in successive generations.

Towards the end of Smith's life, signs of civic progress were evident in new building projects, such as the expansion of Edinburgh's elegant Georgian New Town (still thriving today) to the north of the Old Town, which is clustered along the Royal Mile, linking the ancient castle to the royal palace at Holyrood. The ambitious New Town project was matched by a modest spread of elegant new buildings to the south of the Old Town, including the start on the foundations of the university's magnificent Georgian Old College, and nearby merchant houses.<sup>2</sup> Smith visited his friend David Hume at his house in the New Town (St David's Street), where David kept a room for him, and he visited James Hutton and Adam Ferguson in their new buildings in the 'southside'. When he visited Glasgow he would see the ever-growing size of the town and its prosperity.

Though the poor remained desperately poor, both absolutely and relatively, compared to the richer sections of Edinburgh society, more people were becoming slightly better off materially compared to their great-grandparents. Smith's observations in no way should be taken as 'Pangloss-ian', or as a sign of his confusion of material well-being with 'happiness' (WN182). From a belief that commercial improvement meant a continuation in the growth of wealth and a consequential improvement right across the social orders, it is not difficult to understand Smith's enthusiasm for growth continuing as rapidly as society's institutions and its policies would allow.

## Wealth creation

Smith opens *Wealth of Nations* as follows:

The greatest improvement in the productive powers of labour, and the greater part of the skill, dexterity, and judgement with which it is anywhere directed, or applied, seem to have been the effects of the division of labour. (WN13)

As a statement of the division of labour it was not exceptional, nor original to Smith, as is sometimes ascribed to him, though never *by* him. He stated that the 'the division of labour has been very often taken notice of' as his educated readers would know. Sir William Petty had written on the division of labour in the late 17th century;<sup>3</sup> as had Bernard Mandeville, John Harris, Robert-Anne Turgot, the editors of Chambers' Dictionary, and Diderot, with Plato noticing the phenomenon long before them

all in classical times.<sup>4</sup> The division of labour, therefore, was of special interest to Smith. However, Smith's focus was not appreciated by Francis Horner (1778–1817),<sup>5</sup> the chairman of Bank of England Bullion Committee (1810), and by numerous others. James Maitland, 8th Earl Lauderdale (1758–1839), a critic of Smith, correctly realised the significance of his concept that the 'system of the propensity to truck, barter and exchange . . . is the real origin of riches'.<sup>6</sup>

Smith developed his theme:

This division of labour, from which so many advantages are derived, is not originally the effect of any human wisdom, which foresees and intends the general opulence to which it gives occasion. It is the necessary, though very slow and gradual consequence of a certain propensity in human nature which has in view no such extensive utility; the propensity to truck, barter, and exchange one thing for another. (WN25)

Smith took his perspective on the past to the roots of what made society – any society – prosper when individuals discovered, by experiment or accident, practices that initiated changes to a mode of subsistence. He asked a consistent question about everything he studied: what were their origins?<sup>7</sup> In this case, he asked, what brought about the division of labour and what has kept it going? He answered tersely:

Whether this propensity [truck, barter, and exchange] be one of those original principles of human nature, of which no further account can be given; or whether, as seems more probable, it be the necessary consequence of the faculties of reason and speech, it belongs not to our present subject to enquire. (WN25)

Smith pushed the probable origins of the division of labour well back before recorded history to the acquisition of 'the faculties of reason and speech', though he thought it short of being 'one of the original principles of human nature'. If it was not 'original', it must have been learned and adapted. He linked it to 'the propensity to truck, barter, and exchange' and found in human relationships the deep significance of exchange behaviour, which is, says Smith, 'common to all men, and to be found in no other race of animals' which 'seem to know neither this nor any other species of contracts' (WN25).

Once the relationships involved in exchange behaviour are recognised to have commenced long before commercial society appeared, an original insight into human development is possible, and anticipates by two centuries what is now accepted among scholars in anthropology, evolutionary psychology, sociology and economics. Karl Polanyi rejected this approach and limited 'barter, truck, and exchange' exclusively to what he called a 'market pattern' and asserted that markets were confined necessarily to 'buying and selling' to 'produce prices', otherwise markets had no meaning before mid-19th century.<sup>8</sup> He denied firmly the existence of commercial markets in the ancient Mediterranean societies. Morris Silver subjected Karl Polanyi's thesis to a detailed rebuttal, based on the data he had garnered over a lifetime of scholarly study of markets in antiquity.<sup>9</sup>

## **The division of labour**

Smith's account of the division of labour is of central importance to his political economy.

A single labourer, not educated in the pin business, could scarce make one pin or at most 20 pins a day, 'with his utmost industry' (WN14; LJ341–2, 289–91). Productivity changed when the work was divided into a 'number of branches', in all about 18 different operations.<sup>10</sup> In some factories, each operation was conducted by a different worker and in others the worker 'will sometimes perform two or three of them'. Smith reports, 'I have seen a small manufactory of this kind where ten men only were employed, and where some of them consequently performed two or three distinct operations.' The output achieved by the organisation of labour compared to individuals undertaking all of the operations themselves was significantly higher. When 10 labourers 'exerted themselves', they could produce 12 pounds of pins or 48,000 pins a day, a much greater output than 10 or, at most, 200 pins a day without specialisation into separate tasks (WN14–15).

Not all labour can be subdivided in this manner, but when it is it results in a 'proportionable increase in the productive powers of labour' (WN15) and it is this consequential advantage that motivates individuals to separate trades and employment. The process is carried furthest in countries with the highest degree of industry and improvement, where the work of one man in a 'rude' society is undertaken by many men in improved society by dividing up the work between them and, in consequence, doing it more intensely and, most important, qualitatively better, as each becomes more proficient in their area of specialisation.

The hunter in a 'rude' society, who made, say, one bone 'pin' per day, would in like manner take as long as was required to produce all the other items he provided for his family's annual consumption (Smith ignored the major contribution of female gatherers to family consumption). He confined his living standard to whatever he could produce for his family, or they did without. His living standards were fixed, with little prospect of his annual consumption changing, except at the margin. Whether he needed pins or other things, his annual consumption was limited by his capacity for producing them himself. It was unlikely that he or his band needed 48,000 pins, and that is the point. The ten labourers were not making pins for themselves like hunters killing prey for their families. The labourers were part of a vastly improved society, in which they produced pins many times above their own requirements for people in the rest of society who needed pins. Out of their wages for pin making, they bought the products made by others that they could afford. The division of labour meets the vastly increased consumption requirements of (much larger) societies enjoying the 'the highest degree of industry and improvement' from the vastly improved productive powers of labour made possible by the division of labour and the separate specialisation of a multitude of 'trades and employments'.

Smith identified three circumstances that occasioned this outcome: first, the increased dexterity of the labourers; second, the saving of time lost in chopping and changing between tasks; and third, 'the invention of a greater number of machines which facilitate and abridge labour' that 'enable one man to do the work of many'. Dexterity increases the productivity of labour from 'learning by doing' and from repeatedly undertaking a simple task ('practice makes perfect'). Smith saw several teenage boys making 2300 nails a day once they 'exerted themselves' solely on that repetitive task compared to skilled tradesmen, who were not 'nailers' and who 'seldom' could manage 800–1000 a day (WN18; LJ345–7). Such was the nature of work activity in the mixtures of domestic manufacture, common at this time, when a great deal of working time was lost moving between tasks. He noted that a country-weaver 'saunters' between his loom and his farm, and back again. Two trades conducted in the 'same workhouse' saved greatly on time as labourers moved between tasks, but when the division of labour had not been strictly applied for any reason, including where the nature of the work was not suitable for division or the organisational technique was not yet known or had not yet been applied, those habits of 'sauntering and indolent careless application' adopted from country lifestyles induced 'sloth and laziness' until new work practices were introduced (WN19).

Lastly, the role of 'proper machinery' in facilitating and abridging labour was so obvious that it did not need an example, though he gave examples later (WN263, 267). He linked the invention of such machines directly to the division of labour because the attention of those undertaking a task is directed to one task, rather than being dissipated among several, while recognising that the makers of machines also exercised their 'ingenuity' in making improvements to them (WN21). 'Machines' in the 18th century were manually operated and not power driven. Throughout *Wealth of Nations*, by 'manufacturers' he refers to small-scale workshops or forges, where artisans and tradesmen employed a few labourers for wages.

Each workman produced a greater quantity of output well beyond that which he required for his family, and because every other workman is in exactly the same situation of producing a surplus output well beyond his own needs, each workman exchanges the money from his wages for the items selected from the surplus outputs produced by diverse other workmen. It is the existence of surplus output beyond their own needs that constitutes the essential difference between rude and commercial societies, which would have seemed an odd arrangement to hunters, who had the inclination or took the time only to produce what they needed to survive and no more. The hunters' situation should highlight that moving from the rude mode of subsistence to the commercial age was not something that happened in a generation, or even a few generations. In practice it took thousands of years, and nowhere was it a simple and inevitable progression, as the non-progression of most of the people of rude societies to shepherding or agriculture across the world shows.

### **Extent of the market**

As the division of labour is gradually applied to many sectors of the commercial economy it 'occasions in a well-governed society that universal opulence which extends itself to the lowest ranks of the people' (WN22). And the mechanism by which the division of labour extends to all in society results from what Smith called the bargaining behaviours of 'truck, barter, and exchange'. From the existence of multiple products and the ability of people to exchange those that are surplus to their requirements for the products which they have occasion for, Smith founded his assertion that in general the exchange of products – or what eventually became the same thing, exchange of their money equivalents – spreads 'a general plenty . . . through all the different ranks of society'. Before the monetisation of exchanges, barter or persuasion were

the dominant forms of conducting 'trade' and there was a long evolution of the propensity to exchange in informal non-monetised markets.

With barter, the exchange process was cumbersome and inflexible; with the exchange of money equivalents, exchange transactions speeded up and became fluid and flexible within the limits of the 'money' holdings of the participants. Throughout the history of commercial society these limits were constrained by inequalities of incomes earned from the production of surpluses owned and exchanged by layers of intermediaries not present among hunters.

Smith's interest in the 'multiplication of the productions of all the different arts' is possibly of greater significance for an economy's increasing returns than the narrower example of increasing returns from the division of labour in pin and other factories.<sup>11</sup> As with pin factories, others (for example, Bernard Mandeville, and the 14th-century Islamic scholar, Ibn Khaldun)<sup>12</sup> had noticed the multi-sector divisions of trades and their interconnectedness. 'What a Bustle', Mandeville noted, 'is there to be made in several Parts of the World, before a fine Scarlet or crimson Cloth can be produced, what multiplicity of Trades and Artificers must be employ'd!'

*Wealth of Nations* asserts '*That the Division of Labour is limited by the Extent of the Market*' (WN31). Allyn Young considered that 'Adam Smith's famous theorem that the division of labour depends upon the extent of the market . . . I have always thought, is one of the most illuminating and fruitful generalisations which can be found anywhere in the whole literature of economics.'<sup>13</sup> This observation is particularly authoritative today because Young's 1928 article promoted recent developments in modern growth theory away from its early versions (Harrod-Domar, Solow)<sup>14</sup> towards recognising increasing returns.

Smith went well beyond the restricted single-product example of a pin factory, with which most people associate his name, in his crucial example of the 'multiplicity of trades' in the making of a common labourer's woollen coat, the 'produce of the joint labour of a great number of workmen', in which he displays emphatic and unusual excitement by placing exclamation marks at the end of three consecutive sentences, the last concluding, 'What a variety of labour too is necessary in order to produce the tools of the meanest of those workmen!' (WN23; ED562-3).

An individual firm supplies people in an economy 'abundantly with what they have occasion for' in respect of their product, and in effect and in return the people in the firm receive products of other firms that they 'have occasion for', and across society these transactions amount to 'a general plenty' that 'diffuses itself through all the different ranks

of the society' (WN22). The more developed the society, the more interconnected are the separate markets for each good or service.

Smith chose the simple product of the woollen coat to show 'the number of people of whose industry a part, though but a small part, has been employed in procuring him this accommodation, exceeds all computation' from the effect of the division of labour within firms and the division of labour between firms (specialisation) (WN22). Table 6.1 presents an impressive list of trades behind the production of the coat, showing the complexity of British trade relations for a simple commodity in the 18th century.

Table 6.1 summarises Smith's narrative of the trades involved in the production of the woollen coat and other household items, and the far greater number of indirect trades contributing to them too. The market for any of the items used in the coat process grows from changes within the other market sectors to which they are connected; the 'extent of the market' includes all the other markets for inputs for the coat, as well as the market for coats. These create opportunities for specialisation and substitution within existing production relationships, and as productivity improves in any of the contributing trades, unit costs of the inputs will fall, permitting further increases in output, which generates new forms of specialisation from the extension and deepening of 'roundabout' methods of production.<sup>15</sup>

The extent of the division of labour and specialisation among firms is the cause of the gap between the hunter-gatherer economies of North America and the commercial societies in Europe. This underlines his point 'that without the assistance and cooperation of many thousands the very meanest person in civilized society could not be provided for, even in, what we very falsely imagine, the easy and simple manner in which he is commonly accommodated' (WN563). When prices fall for any of the coat's inputs, the quantity demanded for coats at lower prices may increase, as will the demand for all other products for which the separate inputs form a part of their costs. A more efficient ship carrying a cargo of dyes used in the making of woollen coats also carries products used in the making of many other items; the gains from increasing returns spread into many other sectors, as may the demand for shipping. For example, other products using the lower-priced dyes will also experience falling unit costs. This is an important element in Smithian growth theory.

Brad DeLong calculated the differences between the Yanomamö tribe of stone-age hunter-gatherers dwelling along the Orinoco River in South America and compared them with the modern 'tribe' of New Yorkers



Table 6.1 Manufacture of a common labourer's woollen coat (WN112; LJ347)

Direct trades	Merchants and carriers	Machines and tools	Indirect trades	Conveniences of life of labourer
Shepherds	Shipbuilders	Complicated machines for sailing	Builders of the furnace	Coarse linen shirt
Sorters, pickers*	Sailors	Mill of the fuller	Fellers of timber	Leather shoes
Wool combers or carders	Sail makers	Loom of the weaver	Burners of charcoal	Bed
Dyers	Rope makers	Shearer's sheers	Brick-makers	Kitchen grate
Scribblers	Navigators* <sup>†</sup>		Brick layers	Coals
Spinners			Furnace builders and attendants	Kitchen utensils
Weavers			Mill Wrights	Table furniture
Fullers			Forgers	Knives and forks
Dressers			Smiths	Earthen, delft or pewter plates*
Taylor <sup>‡</sup>			Miners	
Wool gatherer <sup>‡</sup>			Bakers	
Grazier*			Brewers	
Clippers*			Glazers	
			Tool makers	
			Workmen producing all conveniences	
			Coopers <sup>†</sup>	
			Tanners <sup>†</sup>	
			Sowers <sup>‡</sup> Reapers <sup>‡</sup>	
			Tree fellers*	

\*ED pp. 562–3;

<sup>†</sup>Added in LJ339;<sup>‡</sup>Added in LJ489.

dwelling along the Hudson River. The annual per capita income gap of \$90 for the Yanomamö compared to \$36,000 for a New Yorker, which even as a rough estimate is still large. He took the retailers' Stock Keeping Units (SKUs) to count the product types available to both sets of tribes. From these data, Delong calculated that whereas the Yanomamö

economy produces about several hundred SKUs in goods and services, or 'at the most' several thousand, at a rough estimate the New York economy's SKUs run into tens of billions.<sup>16</sup> The differences in Smith's days were much less, of course, and the gap since the 18th century has widened. These material changes in differences are due solely to the extent of the division of labour and the exchange arrangements that promote and support it.

Britain, starting about two thousand years earlier from essentially the same position that America was still in, had moved forward (despite the 'shock' of Roman and barbarian invasions) from the first age of hunting to the (revived) fourth age of commerce, during which time American hunter-gatherer societies effectively had stood still for want of a better expression, except perhaps in the accretion of their myths and rituals.

The social arrangements involved in procuring the co-operation of the thousands and thousands (now millions, even billions) of independent, mainly anonymous, others is a wonder to behold. Smith set his sights on analysing how markets worked, how the 'Great Orders' of society (landlords, merchants and manufacturers, and labourers) combined in an uneasy competitive co-operation and were rewarded (unequally) for their participation in myriad interconnecting networks of unplanned, undirected and unintended individual decisions that motivated them to voluntarily produce and deliver 'the necessities, conveniences and convenience of life' to each other.

## Exchange

If the division of labour through specialisation promoted opulence, it was worth enquiring into its causes. Smith speculated on exchange, using another 'Just So' story (his handy teaching device), this time of a savage hunter who, finding that he made better arrows than his fellows – who envied him sufficiently to seek to obtain any surplus arrows he offered in return for a share in their kills – decided eventually to curtail his own hunting and make arrows instead (WN27), once the 'certainty of disposing of [his] surplus produce of labour' became evident. Smith concluded that this kind of 'disposition is the occasion of the difference of genius' rather than the reverse (LJ351).

Smith believed the division of labour was not the result of 'prudent' collective insight leading to a hunting band's deliberate decision to divide labour into trades.<sup>17</sup> Instead, it was the outcome, over long periods, of individuals finding occasional surpluses above their own needs, which they would waste, or casually dispose of as gifts, and then, from

receiving occasional reciprocal gifts in return, decide on an individual basis to deliberately create a regular exchange of their surplus outputs with a view to trading them for other things they fancied. Where this habit formed and worked, a division of labour on a more or less permanent basis took root; where it did not form or work, for any reason, it would not become a habit or trait and be passed on through the generations. This is consistent with, and accounts for, an uneven spread of new social arrangements amidst the old arrangements, with the consequent unequal levels of relative opulence over long periods. It is also an example of what Jim Otteson labels as Smith's 'market place model' at work.<sup>18</sup>

Exchange is the most important concept in *Wealth of Nations*:

This division of labour, from which so many advantages are derived, is not originally the effect of any human wisdom, which foresees and intends that general opulence to which it gives occasion. It is the necessary, though very slow and gradual consequence of a certain propensity in human nature which has in view no such extensive utility; the propensity to truck, barter, and exchange one thing for another. (WN25)

Pointedly, the exchange propensity evolved much earlier than the appearance of commercial transactions, and he believed that the exchange propensity was the primary cause of the division of labour. In support of his contention, I shall offer two brief comments. Reciprocation behaviour preceded commercial society and was practised in hunter-gatherer societies, which for many millennia was the only mode of subsistence over the whole of the earth ('all the world was America').

Reciprocation behaviour is not universally recognised to be a form of exchange behaviour, but let us consider two points suggesting that it is. Work by Robin Dunbar and his team<sup>19</sup> on gossip among humans links the evolutionary role that gossip performs to a similar social role that grooming plays among primates. Dunbar showed that whilst grooming is mainly enforced by hierarchical dominance, there is also a significant element of discretionary grooming occurring within it. Chimps also groom a selected few others who reciprocate by grooming them, and, of importance, they avoid grooming others who at some time in the past did not reciprocate grooming they had received. In short, reciprocation is an exchange transaction, not entirely facetiously paraphrased by the saying 'you scratch my back and I'll scratch yours'.

The main difference between reciprocation exchanges and commercial bargains is that whereas exchange transactions in commerce are simultaneously and explicitly completed (cash for goods; goods for cash), in reciprocation exchange transactions the exchange is implicit (chimps do not speak) and separated in time – 'If you groom me today, I shall groom you later.' The implicit promise, which in chimpanzees is unsupported by speech and can only be concluded by what the chimps do and not by what they might have promised if they could speak. I call reciprocation transactions a quasi-bargain, with the important characteristic that uncompleted transactions terminate the exchange relationship.

The evolution of reciprocation exchanges into traded exchanges occurred both within the band and among bands, and there is no plausible basis by which external traded exchanges suddenly appeared without a slow and gradual transformation of implicit (delayed in time) into explicit (simultaneous) exchanges. Trading with neighbouring bands was a learned alternative to plundering each other, though this does not preclude the coexistence of violent plunder with peaceful trade; humans have for long experienced practising both methods in tandem.

From the behaviour sets of 'quasi-bargains' and 'bargains', which plausibly arose deep in pre-history and which have been practised since throughout all of human history, I conclude that Smith speculated correctly on the origins of the propensity 'truck, barter, and exchange'.

## Traded bargains

Smith identified the elements of bargaining that constituted the means by which trade is conducted. Surprisingly, his exposition of bargaining was more or less ignored for two hundred years. When a few economists<sup>20</sup> became interested in bargaining from the 1930s, they based their entire approach on modelling conflict and coercion, which, though difficult, were easier to formulate mathematically than the mediation of self-interests as set out by Smith (searching under streetlights rather than in the relevant dark alleys spring to mind). These initial attempts were followed by increasingly sophisticated modelling,<sup>21</sup> but what they did not do was apply Smith's contributions in *Wealth of Nations* or in *Lectures*.

Smith proposes that man in civilised society 'stands at all times in need of the co-operation and assistance of great multitudes, while his whole life is scarce sufficient to gain the friendship of a few persons', contrasting his near total dependence with the mature self-sufficiency of most other animals who do not have occasion for the assistance of their kind. Man is in constant need of the assistance from his brethren. And therein lies the

main problem of total dependence: how to interest others in providing that necessary assistance? Because Smith asserts that it would be in vain to rely on their benevolence, other than in emergency and then only occasionally, his suggested device of interesting their 'self-love in his favour' causes flutters of indignation among those who protest that this is a dismal comment on the generosity of people towards their fellows. But Smith is not talking about occasional help for those in need, nor smearing the good intentions of people with a high sense of moral concern for the unfortunate (which Smith shared).<sup>22</sup> He is talking about the permanent, lifelong assistance that we all need in order to subsist and which we all experience every day. 'No man', he said, 'but a beggar depends on benevolence, and even they would die in a week were their entire dependance [sic] upon it' (LJ493). What is not arguable is that every one of the billions of us cannot become 'beggars'; from whom would we beg for benevolence if the entire population decided to rely on the charity of others?

Many scholars, uncomfortable with modelling social processes, focus instead on outcomes, the latter being more easily cast as equations. John Nash, the tortured genius, typified this approach in his classic contribution 'The Bargaining Problem',<sup>23</sup> by assuming away the bargaining *process* to define the optimal outcome. Smith summarises the bargaining process as an alternative to begging by asserting that the dependent person 'will be more likely to prevail if he can interest their self-love in his favour, and shew them that it is for their own advantage to do for him what he requires of them' (WN26). He must be other-centred, not self-centred. The bargainer has to address the other persons' self-love if he wants to get what he wants from them and must demonstrate how it would be to that person's advantage to do so. Expressing what he wants in a selfish manner would not secure him what he wants.

Bargaining is common to all humans involving a minimum of two persons acting in concert (though not necessarily in tune) and involves more than one ego and expression of self-love or self-interest. If self-love alone drove their behaviour, the propensity to 'truck, barter and exchange' would apply only in a limited number of cases. Bargainers, locking horns, for selfish one-sided gain would never let go and would seldom conclude their bargains. Modern economists modelled the bargaining process as a form of 'warfare' (following Zeuthen)<sup>24</sup> by coercion such as strikes, boycotts and sanctions, all of which are a long way from addressing the 'self-love' of the other party.

Misreading Smith's presentation to say that humans are driven solely by self-love into selfishness ignores the bargaining process that intervenes between the clash of the passions initiating the interaction

(commonly, at least two solutions are proposed for every bargaining problem) and the mediated outcome to which the parties might agree to a single solution. All humans breathe but breathing does not drive their interactions. True, they cannot interact without breathing but the necessity of their breathing is independent of whether they bargain. All people experience self-love or self-interest, but to achieve an agreeable outcome they must modify their self-love to find an outcome agreeable to the other party too; for, clearly, 'truck, barter, and exchange' as a process only works if both parties agree to a common solution. Negotiators square the circle by simultaneously modifying their selfish passions (of each wanting it all) as they approach the moment of agreement. Selfishness is not the driver of joint decisions.

Smith wrote as follows:

Whoever offers to another a bargain of any kind proposes to do this.  
Give me that which I want and you shall have this which you want.  
(WN26)

This is the conditional proposition, and it is a statement of great historic importance, discovered in practice deep in pre-history and not through rational theory. It opened to human relationships the prospect of a viable alternative to the mutually destructive violence of plunder as a means of distributing and redistributing the bounties of nature and the fruits of labour. And Smith taught this long before he wrote *Wealth of Nations* (and possibly before *Moral Sentiments*) and it is perfectly consistent with both. Let us take two extracts from his *Lectures* on the need to address the self-love of others:

This he does not merely by coaxing and courting; he does not expect it unless he can turn it to your advantage or make it appear to be so. Mere love is not sufficient for it, till he applies in some way to your self-love. (LJ347)

and

Man, in the same manner, works on the self-love of his fellows, by setting before them a sufficient temptation to get what he wants; the language of this disposition is, give me what I want, and you shall have what you want. (LJ219)

Wanting something for ourselves is selfish, yet we all (excluding saints) on occasion want things we do not have, hence we all have selfish wants. That is a fact, which does not mean that we are not nice persons. It most certainly is selfish, and not nice, however, to demand that others supply us with what we want without offering to give them something in return (especially if we back up our demands with a threat of doing them harm – the ‘offer they can’t refuse’). Our wants are infinite, our means are scarce; nature is niggardly, and so are we.

Here is his most famous paragraph:

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. (WN27)

Just as I must go beyond my selfishness by offering you some of what you want, you must go beyond yours too. We mediate our self interest. Our ancestors learned this truth long ago in the African savannah when they faced the cold wrath of those to whom they had not reciprocated in kind their services or support. If you do not practise these venerable principles today you will not conclude your exchanges, because absolutely selfish people cannot conclude bargains (they must resort to forms of plunder or go without). Alternatively, both parties may simultaneously modify their selfish motivations to conclude their bargains. They do this by proposing that ‘Give me that which I want, and you shall have this which you want.’ Mutual selfishness (‘give me that which I want’) expresses only half of the conditional proposition. Remain selfish, and the result? Deadlock. Like two dogs fighting over bones, the strongest, or wiliest, wins what the other loses. Or, as Smith put it, ‘Nobody ever saw a dog make a fair and deliberate exchange of one bone for another with another dog’ (WN26).

### **Bargaining exchanges**

In negotiation, voluntary exchange is coercion free. Both of us transact not because we like or love each other (though that is not precluded), but because we want something from each other. The negotiated decision settles the terms of exchange. I can get what I want (my selfish side) only by giving you what you want (my unselfish side), and you can get what you want (your selfish side) only by giving me what I want (your

unselfish side). The transaction transforms selfishness into a mutually wilful exchange, unless either or both of us decline the terms of the transaction. Each of us, in the content of our offers, exhibits our unselfish side in exchange for our selfish demands.

Neither party is selflessly impartial at the start of a negotiation. The labourer seeks the highest wage he can get from the employer; the employer offers the lowest wage he can pay to labourers. But partiality, where there is a conflict of interest, is resolved by relative bargaining power at that moment: too few or too many labourers for hire or too few or too many job vacancies. Itinerant migrants lower the price of labour, and competing employers raise it. Smith commented (sarcastically) on the imbalance of Britain's then laws against labourers combining to raise wages and the absence of laws against employers combining to lower them.

Bargaining integrates the essential linkage in what Smith described as 'a mercenary exchange of good offices according to an agreed valuation' (TMS86). It is the necessary means by which people, who need have no cares for each other and probably do not even know each other, engage in peaceful transactions to secure each other's co-operation:

Bargaining is the process by which we seek for terms to obtain what we want from someone who wants something from us.<sup>25</sup>

Smith's model of the mediation between self and the impartial spectator usefully describes how an analogous mediation of the conflicting passions of the bargainers by the transmutation of self-interest into an 'agreed valuation' is found in the bargaining process.

Recall how individuals seek sympathy from others and the impartial spectator recoils from overly extravagant expressions of their passions. Our intolerable demeanour in front of our close friends is less tolerable to the impartial spectator who disapproves of extravagant expressions of partiality. This prompts us to 'lower [our] passions to the pitch' which 'the spectators are capable of going along' with (TMS23). In a remarkably apposite passage for bargaining, Smith adds as follows:

Society and conversation, therefore, are the most powerful remedies for restoring the mind to its tranquillity, if, at any time, it has unfortunately lost it; as well as the best preservatives of that equal and happy temper, which is so necessary to self-satisfaction and enjoyment. (TMS23)



Bargaining is a purposeful conversation in which the parties propose different solutions to the same problem, be it a price, terms of a contract, disposition of rewards and penalties, and competing outcomes. Bargaining requires communication; nobody bargains successfully by brooding.

In disputes, tones and tempers can be fraught. People passionately express their demands, feel bitterly about their grievances, remember earlier bruising events and nurse deep hatreds for the 'verbal atrocities' committed by the other party. Bargaining as an alternative to violence is not always, or even necessarily, all 'sweetness and light'.

Even in the many negotiations where a degree of 'sweetness and light' is present, different solutions necessarily lie on the table. We bargain because we disagree with each other's solution. We start with our non-agreed valuations and we reach for 'an agreed valuation' by bargaining towards an agreed valuation different from the solutions we started from. How is this movement managed? What brings agreement about? The process highlighted in *Moral Sentiments* is recognisable by studying what bargainers do.

An 'agreed valuation' requires co-operation. Enmity hinders, but does not necessarily preclude, agreement. From two solutions to the same problem the parties can agree, if they are going to agree, only to a single solution, normally different from the original two. One-way compromises are seldom acceptable. The movement of the parties from their original solutions expresses each party's contribution to the joint agreement. My approval of your modified opinions is to adopt them; to disapprove is to reject them (TMS17).

Differences of opinion are endemic in 'truck, barter and exchange'. Bargainers are not price takers – if they were, they would not be bargaining. Emotions as to worth, merit and desert run high. Smith puts it well:

But if you have either no fellow-feeling for the misfortunes I have met with, or none that bears any proportion to the grief which distracts me; or if you have no indignation at the injuries I have suffered, or none that bears any proportion to the resentment that transports me, we can no longer converse on these subjects. We become intolerable to one another. I can neither support your company, nor you mine. You are confounded by my violence and passion, and I am enraged at your cold insensibility and want of feeling. (TMS21)

Walkouts, denigrating rhetoric and angry threats cloud the air as bargainers let loose their passions which, in the absence of empathy, distort their perceptions. Your solution threatens my future; mine threatens yours. The bargainer becomes aware that only by 'lowering his passion to that pitch' which the other party 'is capable of going along with' can he hope for a 'concord of the affections' as a prelude to the harmony flowing from an 'agreed valuation' (TMS22). And what is true for one party is true also for the other. Smith suggests that the angry bargainer 'must flatten the sharpness of his natural tone, in order to reduce it to the harmony and concord with the emotions of those who are about him'. What each feels is never exactly the same because they both view their own interests from different vantages, but by lowering expressions of their self-interests to make them more acceptable and to meet the other side's movement from whence they started the discourse, both sides review their passionate (often extreme) stances, looking at them in some measure with the eyes of the other party.

'The reflected passion . . . is much weaker than the original one' and 'it necessarily abates the violence of what he felt' before the meeting (TMS22). Bargainers, in short, cannot get all they want and by suppressing their selfish inclination to demand everything for nothing or little in return, 'always endeavour to bring down [their] passions to that pitch, which the [other bargainer] may be expected to go along with' (TMS22–3). Traded convergence, prompted by Smithian conditional propositions, brings the negotiators towards 'agreed valuations', which 'are the most powerful remedies for restoring the mind to its tranquillity, if at any time, it has unfortunately lost it; as well as the best preservatives of that equal and happy temper, which is so necessary to self-satisfaction and enjoyment' and 'which is so common among men of the world' (TMS23). This is the 'bargaining dance' through which the parties approach each other's positions by trading reciprocal movement, including trading across issues where I move on one issue that is important to you and, in exchange, you move on another one that is important to me.

Two selfish persons attempting an exchange moderate their selfishness down to what is acceptable and through conditional propositions they transmute their selfishness into an 'agreed valuation', which definitely is not an expression of their otherwise irreconcilable selfishness. They 'give to get' by reducing their demands and increasing their offers.

Linking conditions with offers defines the common propensity of truck, barter and exchange. That Smith taught the conditional proposition over two hundred years before it entered today's negotiation

literature is remarkable, but not quite as remarkable as it lying like the labourer's common coat, virtually ignored and unnoticed for so long.

## Notes

1. Schumpeter, J. 1954.
2. Cosh, M. 2003: 99–102.
3. Petty, Sir W. 1690.
4. Mandeville, B. [1724]. pt.II. 149; Harris, J. 1757; Turgot [1766] in Meek, R. L. 1973, III, IV: 1201; Chambers [1728; 1744]; Diderot, D. 1755.
5. Brown, V. and Taylor, W. B. 1994: 19.
6. Maitland, J. 1800.
7. Cf. Landes, D. S. 1998: xxi.
8. Polanyi, K. [1944] 2001: 59–70.
9. Silver, M. 1995: 95–177; cf. Tandy, D. W. 2001.
10. Diderot, D. 1755.
11. Young, A. 1928.
12. Mandeville, B. [1724]: i.169–70; pt1. 141, i. 356; cf. Khaldun, I. 2004.
13. Young, A. 1928.
14. Domar, E. [1957] 1966; Harrod, R. F. 1948; Solow, R. M. 1956.
15. Young, A. 1928.
16. Brad DeLong ([www.J-brad-delong.net](http://www.J-brad-delong.net)), in Beinhocker, E. D. 2006: 8–11.
17. Hutcheson, F. [1755] (posthumous).
18. Otteson, J. R. 2002: 124.
19. Dunbar, R. 2005.
20. Zeuthen, F. 1930; Hicks, J. R. 1932.
21. Nash, J. 1950; Harsanyi, J. C. 1956; Cross, G. 1965.
22. Ross, I. S. 1995: 406–7.
23. Nash, J. 1950.
24. Zeuthen, F. 1930.
25. Kennedy, G. 1998: 5; cf. Macpherson, H. C. 1899: 75–8.

# 7

## 'had the original state of things continued'

### Introduction

In common with his predecessors, contemporaries, and with his early 19th-century successors, Smith put forward what is widely regarded as a labour theory of (exchangeable) value. There is, however, evidence of his awareness that whatever merits such a theory may have had for explaining the derivation of exchange value in the distant past, consistent with conventional knowledge and his historical perspective, it was insufficient to explain the observed exchange behaviours using prices in markets.<sup>1</sup> And this created one of those conundrums forever associated with his name: to what extent was Adam Smith committed to a labour theory of value? I suggest the answer is 'very weakly', if at all. Therefore, I do not subscribe to the view, expressed by Paul Douglas many years ago, that 'it might seem to be the path of wisdom to pass these topics by in discreet silence'.<sup>2</sup>

The confusion surrounding Smith's treatment of exchange value embarrasses those who believe he was an exponent of an uncompromising business philosophy (the 'Chicago' Adam Smith), and pleases those who see him as a closet socialist (the 'Marxist' Adam Smith), but his treatment merits neither of these interpretations; rather we should study closely what the 'Kirkcaldy' Adam Smith, wrote.<sup>3</sup>

There is no doubt that his presentation of labour as 'the real measure of the exchangeable value of all commodities' (WN47–71) is less than perspicuous (as he would describe it; LRBL3, 25, 36) partly because his presentation straddled two quite different circumstances. In time, successor authorities resolved the value problem by inventing new theories of marginal utility. Meanwhile, those holding on to labour as a measure of value (the Marxists following Ricardo) by then had marched into a

cul de sac, where their theory was ignored. Meanwhile, most economists treated labour theories of value as an historical curiosity.

### **Value in a primitive society**

Smith, following John Locke, showed that in early primitive hunting societies labour was 'the source of value' in 'exchange'. By relating value to exchange, Smith considered 'value' as a ratio and not as something mystically 'inherent' or 'embodied' in a product, or somehow metaphysical (an aesthetic theory of value). However, with the division of labour and, crucially, the co-operation of separate property owners in commercial society, Smith also acknowledged that labour no longer had a unique role in determining exchange value or price once other owners of factors came into consideration. Therefore, the errors of a labour theory of value applied to a commercial society, as put forward by *all* of his contemporaries and his classical and Marxist successors, should not overshadow the contribution of his theory of exchange value based on the mediation of effectual demand with the cost elements driving supply price.

Smith approaches the subject from his familiar backward-looking historical perspective and opens with the following:

In that early and rude state of society which preceded both the accumulation of stock and the appropriation of land, the proportion between the quantities of labour necessary for acquiring different objects seems to be *the only circumstance* which can afford any rule for exchanging them for one another. (WN65; emphasis added)

This statement limits the application of a labour theory of value by asserting without qualification that labour 'seems to be *the only circumstance* which can afford any rule for exchanging them for one another' and is the 'real measure' of *exchangeable* value in early society but, by heavy implication, not afterwards. After 'accumulation' and 'appropriation' occurred, different circumstances superseded those in the original rude society.

The age of the hunter was unrepresentative of what followed, not least because farming and commerce, for instance, had multi-factor production functions (land, labour and capital) which were significantly different from the rude state of society with its unique and singular factor, labour. In consequence, Smith (and others) explored the impact of markets on pricing variations, and versions of 'natural' and 'market' price formulations were advanced by many contemporaries to explain

the distribution of earnings among the co-operating factors, and why market prices could differ from the costs of production.<sup>4</sup>

In his 'parable'<sup>5</sup> of the beaver and deer hunters, he postulated that if in a 'nation of hunters . . . it usually costs twice as much labour to kill a beaver which it does to kill a deer, one beaver should naturally exchange for or be worth two deer (WN65).'

The parable, as an opening illustration, was applicable for a rude society, where both hunters unambiguously owned the product of their labour, because nobody else had a claim on it, leaving aside for the moment the dubious implication that exchange always took place under the constraint that they traded 'equivalent values'. Notions of trading equivalent values were derived from medieval notions of the 'Just Price'. But the parable, a teaching device of highly restricted applicability, was only a 'Just So' story. It is based on a presumption that labour is the only factor and labour is therefore the real source of exchange value. In this case, the two hunters would, perhaps, but need not, calculate their trade (should they wish to make one) on some ratio of the toil and trouble required to hunt and kill the two animals.

Smith drew attention to the problems of determining the quantities of labour exerted by beaver and deer hunters. Despite labour being 'the real measure of the exchangeable value of all commodities', Smith concedes that it would be 'difficult to ascertain' the determinants of the quantity of labour that constituted labour's real value because, in addition to time, other qualities enter the quantity equation, such as the degrees of hardship and the ingenuity found in individuals, degrees by which one hour of arduous work exceeds one hour of easy work, and one hour of work that cost years to become proficient in compared with a month's unskilled industry.

In a sure recipe for argument for the two hunters, tired, dirty and possibly bloodied from their labours, he raises problems of comparability: 'it is not easy', he says, 'to find any accurate measure of either hardship or ingenuity', and while 'some allowance is commonly made for both', the exchange ratio would be found 'by the higgling and bargaining of the market', which he suggests 'is sufficient for carrying on the business of common life' (WN48–9, 65). But once 'higgling and bargaining' are allowed, there is no compelling reason to believe that the 'higgling' confined itself solely to the alleged labour (or any other) costs the parties claimed were involved with their products, which leads us towards a ratio based on what the beaver and deer were worth to the hunters at the time and place when they tried to complete their transaction, and this could involve wholly different considerations from the quantity of

labour supposedly embodied in their kills or taken up in hunting them. But Smith did not explore this matter further, and nor did anybody else for a century. By generalising these conclusions, apparently to both rude and advanced societies, Smith contributed to the subsequent confusion. He drew attention to the continuity of the problem of 'price' determination by making an assertion without evidence or explanation of how it worked:

In the advanced state of society, allowances of this kind, for superior hardship and superior skill, are commonly made in the wages of labour; and something of the same kind must probably have taken place in its earliest and rudest period. (WN65)

If he had stuck with developing exchangeable value, first for a rude society, assuming an acceptable numeraire could be found, with the toil and trouble of labour as prime candidate as the factor owned only by whoever exerted it, and if he had demarcated exchange value very clearly from when societies moved on to the advanced state, when labour was no longer the only factor, and if he had emphasised that others, besides labourers, owned the other factors (of which there are hints), everything might have been clearer. But his text kept switching between the common sources of value in different modes of subsistence, causing impatient readers to miss the significance of the differences in factor ownership. They also missed what he apparently took for granted, namely that they would know that he was talking about two separate phenomena of 'exchangeable value' in rude and in 'improved' states of society after property was invented and became widespread.

## Signs of muddle

He opens Chapter V with a statement reminiscent of Richard Cantillon:<sup>6</sup>

Everyman is rich or poor according to the degree in which he can afford to enjoy the necessaries, conveniences, and amusements of human life. (WN47)

He speaks here of the modern state because this definition applies after the division of labour 'has thoroughly taken place', and he makes the logical assertion that in this state each person can supply from his own labour only a small part of his needs and, necessarily, he must obtain what else he needs from others. In these circumstances, their richness

or poorness depends on the labour they can command by what they can 'purchase' with the products of their own labour. It is the command of other people's products through exchange (irrespective of what they cost in labour) or, more practically speaking, what they can get for what they can trade, irrespective of the supposed labour 'embodied' within them. In rude society everything they consume is acquired by their labour and is necessarily a smaller bundle of goods than the same amount of labour they can command in a society where the division of labour is established.

In terms of the previous chapter on exchange through bargaining ('obtaining what we want from other people who want something from us'), the exchange value of the items in the transaction are a ratio of 'what we give from what we have, for what we want from what they have' (or the ratio of what we want/what they want). Smith stated this clearly, 'Give me that which I want and you shall have this which you want' (WN26). Interestingly, Professor Jevons, one of the progenitors of what became the neoclassical school (and a critic of Smith's) wrote, 'the word Value, so far as it can be correctly used, merely expresses the circumstance of its exchanging in a certain ratio for some other substance'.<sup>7</sup> The essence of exchange as a ratio had remained unnoticed in *Wealth of Nations*.

When labour is no longer the only factor, the notion that what everything 'really costs to the man who wants to acquire' something is purely 'the toil and trouble of acquiring it' takes on a highly significant meaning. People have access to vastly more goods than their predecessors ever 'needed', because in contrast their predecessors could never make the range of modern goods in a lifetime of labour. Exchange was the liberating force than expanded access to unimagined 'necessaries, conveniences and amusements of life'.

In improved society, through the division of labour and specialisation, the labourer acquires what he needs by exchanging his share of earnings (wages, rents, profits) from his budget for the products owned by others. By disposing of the money he receives from contributing to the production of exchangeable surpluses, he saves himself the *toil and trouble* of making all the other products he wants, and in so far as without the division of labour he would forego any hope of acquiring the products offered by other people in exchange, he is better off materially. In effect, he relies upon someone else undertaking the 'toil and trouble' of making everything that he wants to purchase within the limits of his income. This is the main benefit of an exchange economy with its ever-finer division of labour – we have an unimaginable increase of product variability



available for our exchange transactions (as in the Yanomamö and the New York tribes).

It misses the point to bemoan the fact that other people produce millions of things we do not want; it is our access to those we do want that is a positive outcome of the extensive division of labour. All tastes are catered for; not just ours. The rich have greater access to more of what they want than the poor, but the poor in a wealthy society are incomparably better served than the 'powerful' in a poor society.

Confusingly, Smith's text leaves one foot in rude societies and the other in commercial societies where the division of labour 'has thoroughly taken place', without clearly demarcating to which society he refers, nor drawing their distinctions out each time. In the rude, single-factor society, the identity of labour with value from the labour it commands may be sound because people use only their own labour in conjunction with 'open access' to nature to create their consumption goods (absolute self-sufficiency).

Individuals in improved societies consume products created by multiple others in stark contrast to the few products their predecessors created for themselves (absolute independency and minimal access to wealth). In commercial, multi-factor, multi-owner societies, the labour of an individual loses its 'monopoly' of the relatively few items in favour of access to an immeasurably increased range of available products.

'Labour', writes Smith, referring to rude societies, 'was the first price, the original purchase price that was paid for all things.' Indeed, it was by labour that whatever they consumed 'was originally purchased' (by their 'toil and trouble'), and 'its value to those who possessed it and who wanted to exchange it for some new productions' was 'precisely equal to the quantity of labour which it can enable them to purchase or command' (WN48), which was not very much. However, as noted by modern economists, 'It is one thing to charge that the true measure of value, in real terms, is labor time, and another to avow that the source of value is the necessary cost of production of each commodity';<sup>8</sup> that is, what is valid for simple rude societies may not be valid for complex multi-factor societies. But 'all the wealth of the world' when the world consisted of (absolutely fewer) people living in rude societies only, was incomparably minimal in quantity, quality and variety compared to 'all the wealth of the world' when produced by many more people living in successively improving societies. Originally wealth was next to nothing; with the spread of opulence it became almost everything.

Smith's reservations or 'adjustments' show he had moved on from the original notion of labour values:

But though labour be the real [historical] measure of the exchangeable value of all commodities, it is not that by which their value is commonly estimated. (WN48)

Because of the difficulties involved in ascertaining the commensurability of two quantities of labour, we fall back on 'higgling' and bargaining, leaving the 'quantity' of labour as an abstract noun like happiness, difficult to define even for experienced economists and not directly relevant for those involved in myriad exchange transactions for whom such a calculation was of immediate, perhaps pressing, interest. If the quantity of labour actually meant anything, it seems unlikely that anybody tried to calculate labour's value in practice; if it meant nothing, then it being ignored by buyers and sellers in practice was only a loss to those who suggested that it meant something.

In commercial societies, where the division of labour is in full effect and 'barter ceases' in favour of monetary exchange, people rely on the 'palpable objects' of the quantities of commodities (WN49). Hence, 'it comes to pass', writes Smith in Biblical mood, 'that the exchangeable value of every commodity is more frequently estimated by the quantity of money, than by the quantity of labour or any other commodity which can be had in exchange for it'.

In short, there was no credible role for the labour theory of exchangeable value outside of the early ages of rude society and, therefore, once the division of labour became general and property became entrenched, there was no useable labour theory of inherent value, but the 'toil and trouble' expended in an exchange society generated vastly greater access to the products of others created by their 'toil and trouble'. If only Smith had left his comments there, but no, he set about what is seemingly a convoluted argument to reconcile the 'abstract' with the 'palpable' and unwittingly extended by default his association with the labour theory of value, which his successors (including Ricardo) misconstrued. What the various pioneers of economics were arguing about were different ways of trying to define a common numeraire for the exchange ratio. They were attempting to *measure* value, which is not a *theory* of value.<sup>9</sup> They were trying to define value by using invariable units of any plausible numeraire (labour time, a day's ploughing or whatever)<sup>10</sup> to calculate its 'cost' per unit. When changes occur in the numeraire all prices change equi-proportionately, much as the invariable characteristics of weight or length change strictly according to the arithmetical rules of equi-proportionality of weight or scale. The problem was finding an appropriate numeraire, which in the case of units of labour became

increasingly unconvincing (labour costs even in the mid-18th century were highly variable between occupations).

Smith already knew from his essay on astronomy of the absurdities of attempting to make a prevailing paradigm fit a disobedient reality as exposed by increasingly accurate observations of planetary movements (EPS55–9). When reality confronts an impossibly baroque theory, such as the labour theory of value in a multi-factor commercial economy, philosophers should dump the theory and start again. However, he did not take clearly enough his own advice. He left his exposition of the toil and trouble theory of value in single-factor society scattered among his expositions of a market-price theory of exchangeable value in a multi-factor commercial society. Smith may have assumed that what he enunciated was clear enough if readers understood the role of ‘truck, barter, and exchange’ as a ratio of ‘prices’ and the subjective roles of the psychological attitudes to the ‘toil and trouble’ expended by their labour. His problem remained because, despite his repeated qualifications, few readers in practice realised his intentions and his doubters chased hares instead.<sup>11</sup>

### ‘Had this state continued’

Before elaborating on Smith’s theory of the ‘component parts of price’, I shall follow briefly his speculative diversion on a rude society:

In that original state of things, which precedes both the appropriation of land and the accumulation of stock, the whole produce of labour belongs to the labourer. *He has neither landlord nor master to share with him.* (WN82; emphasis added)

The last sentence is crucial to the difference in the labourer’s ownership of his labour in rude society. Smith uses the phrase ‘the whole produce of labour belongs to the labourer’ no less than three times (WN65, 82–3) and always in connection with the original, first age of hunting. It is a simple fact, of which there can be no quarrel in natural justice, that the hunter’s ownership of the product of his labour constituted his property. An individual has a natural or perfect right in their own body and, when ‘trafficking with those who are willing to deal with him’ (*liberi commercii*) (LJ8–9), all persons have a natural right of ownership in their ‘industry, labour or amusements’, when, as Hutcheson put it, not ‘hurtful to other persons or goods’.<sup>12</sup> Smith enunciated what he had learned from

Hutcheson and, through him, from Pufendorf, and he lectured in Glasgow with these clear rights in mind and when writing *Wealth of Nations*. His labour theory of value for man in rude society was simply an exposition of the theory of natural right. He speculates over two paragraphs about an imaginary situation, as if that first rude age when the labourers owned the entire product of their labour had continued indefinitely.

Had this state [i.e., 'the original state of things'] continued, the wages of labour would have augmented with all those improvements in its productive powers, to which the division of labour gives occasion. (WN82)

But he does not elaborate on how this would have worked without a transition to a division of labour in which, necessarily, others also owned their labour as a factor of production. Smith identified exchange as the originating force for the division of labour. However, when in advanced society, owners of other factors (land and capital stock) joined in producing output this changed the former situation when there was only one factor, the hunter's and the arrow maker's labour. But in advanced society, the owners of the other factors do not transfer ownership to their partners. The landlord continues to own his land – he 'rents' it – and its products earn his rent; the labourer does not sell his body to others – he passes over the products to earn his wages; and the undertaker does not pass ownership of his capital – he uses it to facilitate production of the product to earn his advances, plus a profit. So, with the evolution of property in land, the situation was fundamentally different and the old situation of nature as a free resource ended. The arrows-for-meat transaction can be repeated over and over only for as long as the wood for the arrows and their stone points came from a free resource owned by nobody and for as long as the animals which were hunted to feed the hunters' families were owned by nobody; they ranged freely and could be chased by anybody on nobody's land. Ownership of the bounties of nature and the fruits of the combined factors of production changed the distribution of titles to shares in the product arising from their co-operation.

The invention of communal property was inevitable if human populations grew and remained concentrated in a relatively small area. Ten thousand humans depending on hunting for subsistence in a continent-sized territory (India, China, the Americas, Europe and Australia) could subsist in a steady state for millennia, and we assume that for a long time that is more or less what happened. They could always disperse and

move on whenever, as Smith put it, the 'chase' became 'precarious', or if relations within and among the various bands became turbulent.

Once shepherding was practised, the need to keep flocks and herds from wandering away, and the need to keep wandering humans from taking them away, introduced, slowly and gradually, concepts of property and all that went with them, first as communal property (jealously guarded against other communities) and eventually as private property (jealously guarded against all comers). The later developments in agriculture had the same effect, only more intensely, because farming was more propitious for its evolution as a new mode of subsistence. It also changed everything else in respect of the ownership of the products of labour and the necessary co-operating factors, which reduced the share of an individual labourer in the final product by including the shares going to the other owners of the contributing materials, their dexterity and technology, and most particularly the owners of the land. This was no longer a simple case of the exchanges between the arrow maker and the hunter, based on their unambiguous ownership of the products of their labour, before and after the transaction. The evolution of property was associated with the need for adjudication in disputes, the emergence of 'norms', 'rules' and 'laws', and for their enforcement by civil government.

Because primitive exchanges made those participating in them 'better off' (a major incentive of the division of labour), they had a self-reinforcing effect over time of encouraging pair-wise exchange behaviour throughout a society. Therefore, Smith's unique vision of 'truck, barter, and exchange' was a precursor to a social-evolutionary road for those who stepped onto it. Those that did not, there being nothing ordained about individuals in social change, remained subject to their existing mode of subsistence because 'the original state of things' for them continued.

### **Constancy of the subsistence theory of labour**

While qualities of labour, or of any commodity, could vary, and thereby undermine their constancy for purposes of being a reliable numeraire, certain sets of labour were considered more or less 'constant'. Hutcheson had taught that

'a days digging or ploughing was as uneasy to a man a thousand years ago as it is now, tho' he could not then get so much silver for it; and a barrel of wheat, or beef, was then of the same use to support the human body, as it is now when it is exchanged for four times as much silver. Properly, the value of labour, grain, and cattle, are always

pretty much the same, as they afford the same uses in life, where no new technologies for tillage or pasturage cause a greater quantity in proportion to the demand. 'Tis the metal [i.e., money] chiefly that has undergone the great change in value, since these metals have been in greater plenty, the value of the coin is altered tho' it keeps the old names.'<sup>13</sup>

But ploughing has a restricted applicability as a numeraire outside agriculture (similarly with attempts to use 'corn' as a numeraire in a commercial society).

From the labourer's point of view, asserts Smith, he 'must always lay down the same portion of his ease, his liberty, and his happiness' whenever he is working on a task that has not changed in content ('digging' or 'ploughing') for a 'thousand years' or, if that is too long a period to consider, with (slowly) changing technologies; at least it would not have changed much during his working life and, thereby, his awareness of little if any change would form his perceptions of its constant relative worth. In labour terms, 'the price which he pays must always be the same, whatever may be the quantity of goods he receives in return' for his day's labour. It is the plenty or scarcity of what he buys with his labour that varies and 'not that of the labour which purchases them' (WN50). This means that labour alone (or at least a certain form of it), compared to all other commodities, was believed never to vary in its own real value – 'it alone is their real price; money is their nominal price only'. However, the employer sees things differently. As far as he is concerned labour varies in price like anything else, some times costing him more, sometimes less, but, insists Smith, in reality 'it is the goods which are cheap in the one case, and dear in the other' and not labour (WN51).<sup>14</sup> This gives labour, like all commodities, a real price and a nominal price, and the real price covers the 'quantity of necessaries and conveniences of life which are given for it' by the employer as wages, and 'its nominal price is the quantity of money' (WN51).

Building on the long-lasting and unchanging technology of farming, Smith added another element that fixes a constant element in the cost of labour. While gold and silver experience scarcities and abundance, from the 'barrenness' or 'richness' of their respective mines, and their price alters in money terms, the labourer's minimum subsistence stays steady because below that minimal level of subsistence labourers and their families die from starvation, related diseases and illnesses, rising child mortality always being an indicator of deficiencies in the subsistence of labourers. The subsistence of the labourer, writes Smith, is the real

price of labour, though he acknowledged that it was variable in different circumstances: 'more liberal in a society advancing towards opulence than in one standing still; and in one that is standing still than in one that is going backwards' (WN53).

Adam Smith drew attention to such difficulties and advanced a different source of value, which had an important subjective element too and constituted one of his psychological constants, along with 'propensity to truck, barter, and exchange', 'self-betterment' and 'self-interest', that varied for each individual:

The real price of every thing, what every thing really costs to the man who wants to acquire it, is the toil and trouble of acquiring it. What every thing is really worth to the man who has acquired it, and who wants to dispose of it or exchange for something else, is the toil and trouble which it can save himself, and which he can impose upon other people. What is bought with money or goods is purchased by labour as much as what we acquire by the toil of our own body. That money or those goods indeed save us this toil. (WN47)

### **Exchangeable value in advanced societies**

Smith left it unclear when he leapt to a monetised economy from straight barter without any explanation. One moment the reader contemplates life in rude society and in the very next sentence the reader has to shift perspective to an entirely different society, many millennia later (perhaps Smith discarded something he had written here):

As soon as stock has accumulated in the hands of particular persons, some of them will naturally employ it in setting to work industrious people, whom they will supply with materials and subsistence, in order to make a profit by the sale of their work, or by what their labour adds to the value of the materials. (WN65–6)<sup>15</sup>

The original stock of capital consisted of the subsistence (like a gold prospector's 'grub stake') and tools laid out by the owner for labourers until their work was completed and sold. It was an 'advance' to be recouped from the sale of product. The product of 'complete manufacture' was exchanged for money, or for goods in kind at a price 'over and above the price of materials, and the wages of the workmen' and contributed something for the 'undertaker', who 'hazards' his stock in the 'adventure'.

Workmen add value to the undertaker's materials and the added value eventually pays their wages and the cost of the materials they use, and also it pays for the profit on both wages and materials that the undertaker advanced. Crucially, the undertaker 'hazards' his capital stock in the 'adventure' only if he expects to make a profit from the sale of the output and it is the profit motive that promotes the employment of labourers because without expectations of profit there is no employment for them. If a venture did not yield a profit, the undertaker withdraws from it at the earliest opportunity and it is this simple imperative that induces undertakers to focus on the costs of production the world over. Similarly, if the venture did not pay labourers at least their minimum subsistence they look elsewhere for income opportunities from work.

Smith accommodated remuneration of the multi-factors involved, making some progress in analytical economics, which he shares in varying degrees with near contemporaries, Turgot, Quesnay and the French Physiocrats, as well as with the ubiquitous Richard Cantillon, who together constituted links in the progress of mid-18th-century political economy. Sewall, following Jevons, asserted that it was in 'France that the infant economic science was cradled',<sup>16</sup> which was a trifle discourteous to Smith in implying that he was merely a consumer of his colleagues' work in France. Bringing the elements together, Smith found in the prices of all commodities that all three contributing 'owners' shared the revenue among themselves as 'wages of their labour, the profits of their stock, or the rent of their land', making wages, profits and rent the 'three original sources of all revenue as well as of all exchangeable value' (WN69). Money lent to someone who employs it derives revenue for its owner, its 'rent' being the interest paid by the borrower. The profit from the borrower's use of it is divided between the profit for his risks in the venture and the profit for the lender who affords the borrower the opportunity to make a profit (WN69–70). With this, Smith asserted explicitly that labour was not the sole source of value in a commercial exchange economy. Without trumpeting the change, Smith discarded a labour theory of value precisely and as abruptly as he changed the context from rude to commercial society, because that is where his analysis led him.

Smith did not have a labour theory of exchange value beyond his historical account of rude society. His different approach was shown when he unambiguously asserted that 'as in a civilised country there are but few commodities of which the exchangeable value arises from labour only, rent and profit contributing to that of the far greater part of them, so the annual produce of its labour will always be sufficient to purchase or command a much greater quantity of labour than what was employed



in raising, preparing, and bringing that produce to market'. Society, in perfect liberty, spends sufficiently to employ the quantity of labour, the landlords' land and the undertakers' capital required to produce its annual output, and, crucially, to grow the capital stock through each round of the 'great wheel of circulation'. The labourers' families lived off their (socially determined subsistence) wage incomes, leaving little or nothing for savings; the undertakers' families lived off their profits and the landlords' families lived off their rents, both having a greater capacity to save than labourers. Among the undertakers and the landlords there were a fair proportion of 'idle' persons of all ages, who consumed from their family's income streams from rents or profits. The proportion between the consumption and savings of productive and unproductive, including idle, labour determines whether net annual output increases or diminishes or remains the same (WN71).

## Notes

1. Sewall, H. R. [1901] 1968; cf. Bowley, M. 1973: 106–32; Fleischacker, S. 2004: 124–31.
2. Douglas, P. A. [1928] 1989: 77.
3. Evensky, J. 2005: 245–69.
4. Cf. Puffendorf, S. 1672: 'pretium vugare' and pretium eminens; Locke, J. 1726: 'intrinsic natural worth' and 'marketable value'; Cantillon, R. [1755]: 'prix intrinsique' and 'prix de marche'.
5. Robbins, L. 1998: 137.
6. Cantillon, R. [1755; 1931] 1964: 3.
7. Jevons, W. S. 1879: 82n.
8. Ekelund, R. B. and Hébert, R. F. 1990: 108.
9. Sowel, T. 2006: 66.
10. Hutcheson, F. [1755] I: 287–8.
11. Cf. Fleischacker, S. 2004a: 124–31.
12. Hutcheson, F. [1755] I: 293–4; cf. Locke, J. [1690; 1698] 1988: 287–8.
13. Hutcheson, F. [1755] II. XII: 58.
14. Cf. Fleischacker, S. 2004a: 127.
15. Cf. Marx, K. 1954: 77.
16. Sewall, H. R. [1901] 1968: 77; Jevons, W. S. [1881] 1964, in Higgs, H. [1931], Appendix 1: 359.

# 8

## ‘thus at last the age of commerce arises’

### Introduction

As the after-effects of the fall of Rome faded, feudal property laws weakened and commerce revived tentatively. The moral problems of new forms of wealth creation were complicated by trying to fit them into existing Christian doctrine, long hostile to money as a symbol of sin (‘eyes of needles’, ‘lilies of the fields’, ‘love of money as the root of all evil’ and such like).<sup>1</sup> Alleged acquisitiveness and suspicions of profit did not sit easy with piety, on the grounds that profit was believed to have sprung from ‘buying cheap’ and ‘selling dear’, and therefore of questionable moral status.<sup>2</sup>

The Roman Christian Church during that time monopolised the intellectual resources of European society and provided the ritual and liturgy for a widely held belief that an invisible God had created the world and everything in it. The Church demanded that the only acceptable explanations of all phenomena had to be presented as part of His Divine plan, the mysteries of which were beyond the reasoning of human minds. This meant that explanations of price and value were not judged by observed, secular criteria, but by their concordance with biblical doctrines.

By the time Smith published *Wealth of Nations*, philosophical enquiries into price, value and ethics still carried the deadweight of the all-embracing past terms of the debate. Neither Cantillon nor Smith completely broke away from the old forms of presenting their theories. They both remained within the well-established tradition<sup>3</sup> (WN72–81) of the existence of two forms of value: the natural value (intrinsic *within* the good) and the market value or price (dependent on events *outside* the good), the latter treated in religious doctrine with the prejudicial

suspicion that these were unwarranted gains. Distinctions between 'natural' and 'market' price infected writings on political economy until the 1870s.<sup>4</sup>

By modern standards, the market price and inherent value format was regarded as archaic and helped to make a case for economists separating economics from theology and moral philosophy, and their cultivating an aversion to the new discipline of sociology. But like others, Smith found his way through what had become an undergrowth of ideas. In his first steps to an 'escape' (ED3.2–3 in LJ562–81, 345–6, 495–6) he was preceded by Cantillon ([1734])<sup>5</sup> and accompanied by Turgot ([1766])<sup>6</sup> (cf. Chydenius, A. [1765] 1931).<sup>7</sup>

## Natural and market prices

Smith has separated natural from market prices and derived them from an analysis of ordinary and average rates of wages and profits applying in each neighbourhood (WN72) according to the 'general circumstances' of riches or poverty. Another influence was whether the neighbourhood was 'advancing, stationary, or declining', and on whether the average rent of local land reflected its natural or improved fertility, all of which implied that simultaneous differences in wages, profits and rent could exist among separate neighbourhoods and within different societies.

Natural prices were said to occur when precise costs were paid (rent of the land, wages of labour and profits of stock) for bringing commodities to market. The feedback mechanism could not be simpler. Factors not receiving their costs tended to move to other employments, and when factors attracted higher prices above their costs, more of those factors tended to move towards higher-priced employment, 'at least where there is perfect liberty' (WN73). Market price, the actual price paid for a commodity, may be the same, or above or below its natural price, and it depended on the quantity brought to market relative to the effectual demand for it.

Writers have long recognised the two measures of value: an ideal, cost of production measure, with antecedents rooted in theological theories of the Just Price; and the market-driven price based on the quantities demanded. They had separate origins: the former by prescription from theologians, and the latter by individuals acting in competitive exchange transactions in markets. The problem persisted among theorists because of ingenious, but ultimately futile, attempts to reconcile the two notions of price determination.

Turgot expressed it neatly:

The Entrepreneurs, whether in agriculture or in Manufacture, get back their advances and their profits only through the sale of the fruits of the earth or of the manufactured products. It is always the needs and *the means* of the Consumer which set the price at the sale; but the Consumer does not always need the thing which is manufactured or produced at the moment when the harvest is brought in or the work finished. However, the entrepreneurs need their capitals to be returned to them immediately and regularly in order to reinvest them in their enterprises.<sup>8</sup>

Cantillon, while firmly adhering to the existence of the two notions of value, wrote, 'There is never a variation in intrinsic values, but the impossibility of proportioning the production of merchandise and produce in a State to their consumption causes a daily variation, and a perpetual ebb and flow in Market Prices',<sup>9</sup> and he recognised the 'impossibility' of 'intrinsic values' having any practical use (except as a concept of a long-run supply price). They were an abstract notion and it is remarkable that this imbalanced dual-value theory remained in economics for so long.

Similarly, Smith's reconciliation took the natural price to be the 'central price' to which market prices of all commodities were 'continually gravitating' and were 'constantly tending towards' (WN75), but not reaching nor resting at it. These authors noted how market prices varied according to demand, but they did not pursue their analyses of market value in which price was clearly a function of the quantity demanded (WN77).<sup>10</sup>

The dichotomy between cost of production and market demand price determination may be understood better by considering briefly the bargaining process. When people are asked to be 'buyers' or 'sellers' and in experiments in the 'pricing' of simple objects (an old tea cup, a chair and so on), it is found that the buyers' estimates of the object's worth are almost always lower than the sellers'. Buyers normally are not interested in a seller's costs (including their 'toil and trouble') and sellers normally are not interested in a buyer's net revenue after purchasing. It is from this dichotomy that the initial gap between buyers' and sellers' opening prices emerges. Opening offers express their self-interests, but self-interest, Smith said, is not enough to negotiate a common price acceptable to both. They have to mediate their interests via 'higgling' (zero sum) or by conditional bargaining (non-zero sum) across several

issues. Sellers must think of their costs of production, if only to ask, 'can I stay in Business?' Buyers tend to judge price against their preferences for the item and their alternative uses of their money; they seldom, if ever, think of the seller's costs. Buyers in competitive markets compare prices of rival sellers to their desire to minimise acquisition costs; sellers in competitive markets compare prices to their desire to remain in business. Each party comes at commodity prices from different starting points as they attempt to mediate their differences through bargaining.

In wage bargaining Smith makes clear the different approach of the two parties consistent with his general explanation of bargaining between buyers and sellers. From the labourer's point of view the toil and trouble of work was of equal value to him, allowing for 'health, strength and spirits', and his degree of skill and dexterity, because he must sacrifice the 'same portion' of his ease, his liberty, and his happiness'. The price the labourer pays is always the same (work is a disutility) irrespective of what he can purchase out of his wages. His labour is the 'real price' he pays, and his money wages are their 'nominal' price. In contrast, the employer's valuation of the labourer's work varies and is 'sometimes of greater value and sometimes of smaller value'. The toil and trouble of the labourer is not what he is compensating: he buys the output produced by the labourer's toil and trouble, which he sells for a price in markets where the buyers are unconcerned with either the labourer's toil and trouble or the employer's aspirations for profits (WN50-51).

## Wages

The shares of wages, profits and rent in total revenues from selling products in markets are presented as rewards to the factors of Land, Labour and Capital, and they played an important part in Smith's analysis of the dynamics of the burgeoning commercial economy.

Labour in his day, with few striking exceptions, was not organised in large-scale enterprises. While totally independent workmen working for themselves and not for masters were uncommon, but not completely absent, most workmen worked for a master who provided them with their subsistence in the form of wage advances and the materials they needed (Smith asserted that for every one who was independent, 20 others worked for masters, either alone or in concert with others) (WN83). The masters they worked for could be a craftsman, journeyman or tradesman who employed them using capital stock he had saved, and who worked alongside them, or they could be a master who employed several workmen on specific projects. Masters provided them with materials,

perhaps on occasion with hand, not machine-driven, tools, in their own workplaces, commonly attached to their homes. The age of large-scale factories had not yet arrived; Carron Iron, Stoke potteries, Glasgow tanning plants and so on were exceptions.

Contracts between workmen and masters determined wage rates, but not objectively, and each party sometimes resorted to 'combinations' to enforce their writ on the other; workmen to raise, or to prevent reductions in, their wage rates; masters to reduce or to prevent increases in the wages they paid. Smith saw this as an unfair contest (WN83), which only underlined the overall disparity in the availability of the means to sustain a week or more without wages, which applied to every labourer, who if unemployed had no real means to resist wage offers he considered too low, or if employed was hardly in a strong position to resist unilaterally imposed reductions in wages. Even with wage rates rising making it easier to recruit more labourers, the presence of unemployed persons nearby or those able to migrate into a neighbourhood acted as a brake on the scale of any increases. The employer, on the other hand, could in most circumstances 'hold out' to secure what he wanted 'for much longer' than could labourers (WN83-4).

When, as occasionally happened, labourers in a neighbourhood 'combined' in support of their grievances, they felt the full weight of the law if they engaged in collective action. Their desperation to settle the issue speedily, before their collective strength withered from uncertainty, stress and duress, often led to 'the folly and extravagance of desperate men, who must either starve, or frighten their masters into an immediate compliance with their demands'. The labourers' tactical plight provoked recourse 'to the loudest clamour, and sometimes the most shocking violence and outrage', which generally ended 'in nothing, but the punishments or ruin of the ringleaders' (WN85).<sup>11</sup> Smith's analytical tone is dispassionate and pragmatic, and he hints of his sympathy more for the labourers than the employers, who used the existing power structure to secure their interests.

Smith alludes to what appears to be an inevitable relationship between the demand for labour, and thereby the wages offered in a neighbourhood to employ them, and the state of the economy. As demand for labour rose for any reason, the level of wages rose too (without workmen having 'occasion to combine') because competition among masters caused them to bid against each other; similarly when the economy declined, competition among labourers caused wages to fall. He states clearly that the 'demand of those who live by wages, it is evident, cannot increase but in proportion to the increase of the funds which are

destined for the payment of wages' (WN86). Increases in revenue and stock led to increases in the demand for labour 'and cannot possibly increase without it', and wages rose fastest in countries with the fastest-growing economies (WN87). He indicated his respect for the dignity of labour by asking, rhetorically, as follows:

Is [an] improvement in the circumstances of the lower ranks of the people to be regarded as an advantage or as an inconveniency to the society? The answer seems as first sight to be abundantly plain. Servants, labourers and workpeople of different kinds, make up the far greater part of every great political society. But what improves the circumstances of the greater part of the members can never be regarded as an inconveniency to the whole. No society can surely be flourishing and happy, of which the far greater part of the members are poor and miserable. It is but equity besides, that they who feed, cloath and lodge the whole body of the people, should have such a share of the produce of their own labour as to be themselves tolerably well fed, cloathed and lodged. (WN96)

This reveals an important element of Smith's character. He dealt with the conditions of workpeople without overt sentiment, for he was not a missionary with a social agenda. He was trying to nudge people of influence into choosing to make changes to the mercantile policies practised over many generations. *Wealth of Nations* was not a manifesto for social change through explicit redistribution, though it implied a sharing of future affluence expected from growth through an increasing demand for labour. His conclusions, long before he published them, as shown in his *Lectures* and *Moral Sentiments*, were that a society progressing towards spreading opulence would deal in the only lasting way with the problems of what we now call distributive justice in regard to poverty, lack of education, health issues and infant mortality, and of which he produced his evidence in data and examples. For this to happen, his main goal was to identify the nature and causes of wealth creation as reminders of the obstacles in the way of achieving general opulence (cf. WN99–104).

In place of a moral appeal to the consciences of employers or legislators, he based his case for a high-wage economy for all who depend on the productivity of labour for the growth of opulence, by appealing to the self-interest of the masters. He gives a clear example of this:

The liberal reward of labour, as it encourages the propagation, so it increases the industry of the common people. The wages of labour are

the encouragement of industry, which like every other human quality, improves in proportion to the encouragement it receives. A plentiful subsistence increases the bodily strength of the labourer, and the comfortable hope of bettering his condition, and of ending his days perhaps in ease and plenty, animates him to exert that strength to the utmost. Where wages are high, accordingly, we shall always find the workmen more active, diligent, and expeditious, than when they are low. . . . Some workmen, indeed, when they can earn in four days what will maintain them through the week, will be idle the other part. This, however, is by no means the case with the greater part. Workmen, on the contrary, when they are liberally paid by the piece, are very apt to over-work themselves, and to ruin their health and constitution in a few years. (WN99)

Smith recognised the patent contradiction between the reality on the ground and the conclusions drawn solely from deduction. *Wealth of Nations* shows Smith's penchant for 'looking outside his window' to observe the real world and read of events and experiences of it in history. Smith wrote more as an historian used to working from scanty materials than as a modern economist, with complete theoretical constructs laboriously constructed in his mind from the 'systems' created by predecessors (and now accessible on the Internet). For Smith there were precious few theoretical constructs available. He preferred to cite evidence closest to people's experience rather than 'tedious and doubtful calculation' (WN91), and he followed his assertions of a general nature with several paragraphs or pages of data supporting them, and quotations from other authorities, albeit at times adding cautions as to their reliability. He also refers to many instances of his own direct observations of the habits and preferences of common people, with not a few gybes at the pretensions of the well-to-do, for instance – 'place, that great object which divides the wives of Aldermen' (TMS57) – and of the observations reported to him by people he knew.

Smith's discussion on 'perfect liberty' in wages and profit markets (WN16–275) is an important chapter in *Wealth of Nations* because it shows the significance of Smith's use of the moral philosopher's conception of perfect liberty in his analysis of the nature and causes of opulence. Because perfect liberty did not exist in practice (it was a philosophical construct), the nature of the obstacles this created resulted in, in his opinion, a slower rate of the spread of opulence than would otherwise have occurred.



Smith addressed the proposition that the ‘whole of the advantages and disadvantages of the different employments of labour and stock must, in the same neighbourhood, be either perfectly equal or continually tending to equality’ compared to the reality he observed on the ground. In theory, wage and profit rates should tend towards equality because if ‘any employment’ were ‘evidently either more or less advantageous than the rest, so many people would crowd into it in the one case, and so many would desert it in the other, that its advantages would soon return to the level of other employments.’ This would be the case only where a society enjoyed perfect liberty and every man was free to choose whatever employment he felt like trying and to change it as often as he liked. The general rule was that every man’s interest prompted him to seek advantageous, and shun disadvantageous (to him), jobs (WN116). Looking outside his window, he noted that ‘every-where in Europe’ wage and profit rates were different and nowhere ‘equal’, nor tending that way, partly because other (real or imaginary) circumstances in people’s employment beside wage or profit rates are important to them and partly because government policies in Europe ‘nowhere leaves things at perfect liberty’ (WN116). But how valuable is a theory where it does not correspond to experience on the ground?

Smith spent no time trying to reconcile theory with practice; he used divergences from the natural law principles of perfect liberty to explain how the real world worked, and from the evidence, not the theory, he suggested how things might be changed to achieve specific improvements to progress towards the spread of opulence. But note how his description of what should happen in conditions of perfect liberty is what Jerry Evensky calls a ‘beautiful capsule image of the dynamics of competition’ in the ‘ideal liberal order’.<sup>12</sup> The divergences Smith noted were as inevitable as they were natural, and thereby acceptable within wide margins, and this clears space for him to highlight those divergences imposed by breaches of perfect liberty by monopolists, state regulations, mercantile policies and such like, as a prelude to influencing legislators to take action slowly and gradually to remove the divergences.

Smith stated five (natural) circumstances ‘as far as I have been able to observe’ that make up for small pecuniary gains in some jobs and counterbalance large gains in other jobs, leaving labourers to stay where they are rather than move about in accordance with the theory. The five circumstances under which wages vary are as follows:

1. first, with the ‘ease of hardship, the cleanliness or dirtiness, the honourableness or dishonourableness of the employment’ (WN117–18);

2. second, with the 'easiness and cheapness, or the difficulty and expense of learning the business' (WN118–20);
3. third, with 'constancy or inconstancy of employment' (WN120–2);
4. fourth, according to the small or great trust which must be reposed in the workmen' (WN122);
5. fifth, according to 'the probability or improbability of success in them' (WN122–8).

In each case he details how they vary and why, including a supporting discourse on the improbabilities of winning lotteries.

Among the details Smith offered, he explained why

- a journeyman tailor earns less than a weaver;
- a journeyman weaver earns less than a journeyman smith;
- a journeyman blacksmith earns less than a collier;
- the trade of a butcher ('a brutal and odious business') is more profitable than the common trades;
- the public executioner ('the most detestable of all employments') is better paid than any other common trade;
- only poor people 'hunt and fish' but receive only 'scanty subsistence' while rich people pursue these 'activities as a pastime';
- the inn keeper ('exposed to the brutality of every drunkard') 'yields so great a profit';
- expensive machines must at least produce ordinary profits;
- expensive education in acquiring 'extraordinary dexterity and skills' is akin to erecting an expensive machine and why the person with it must attract wages 'over and above' that of common labourers;
- skilled work imposes the necessity of long apprenticeships and all that follows from such laws;
- painters, sculptors, lawyers and physicians earn liberal recompense;
- hours of work vary for masons and bricklayers and hence vary their wages;
- chairmen (who carry people) also work as bricklayers;
- carpenters earn less than masons;
- journeymen artificers, subject to instant dismissal, earn more than common labourers in London;
- colliers in Newcastle and Scotland earn three times the wages of common labourers;
- coal-heavers at the docks earn four or five times the wages of common labourers;

- the constancy or inconstancy of employment does not affect the profits of stock;
- the wages of goldsmiths and jewellers are superior to other workers of similar ingenuity;
- the remuneration of physicians, lawyers and attorneys is in accordance with their 'rank in society';
- the remuneration of the most successful lawyers is so 'extravagant' and public 'admiration' of them is so high;
- the remuneration of players, opera singers and opera dancers is 'exorbitant' while they enjoy popular acclaim;
- the chance of a gain is overvalued and of a loss undervalued;
- people play lotteries;
- the young are contemptuous of risk;
- young men enlist in the army without their father's consent;
- seamen are paid less than common labourers;
- rates of profit vary with risk, but not proportionately;
- apothecaries apparently make 'uncommonly extravagant' profits;
- retail grocers make 40 or 50 per cent profit upon a stock of £100, but wholesalers make 8 per cent profit on a stock of £10,000;
- there are differences in profits and extent between retail trades in the country and those in large towns;
- speculative merchants sometimes make 'sudden fortunes' but are more likely to lose them (WN116–31).

Typical of Smith's expository style, he takes 15 pages to discuss the details of why wage rates differ in the above 32 circumstances. In this context, it is worth contrasting the approach of Smith, the philosopher, with Richard Cantillon's, the banker, who analysed what happened in the real world without any reference to speculation about natural law theories of perfect liberty. He accounts for the differences between the wages paid to time-served tradesmen and husbandmen as the cost and risk of becoming proficient in their trades, and considers them to be so for 'natural and obvious reasons'.<sup>13</sup>

This expository distinction explains the attractiveness of Cantillon, and of Turgot,<sup>14</sup> to Jevons,<sup>15</sup> Canaan<sup>16</sup> and Schumpeter,<sup>17</sup> in contrast to the views they expressed on Smith. Cantillon, unlike Smith, provided limited evidence for his literary statements about political economy (though the influence of his considerable international banking experience is evident). Cantillon's, Turgot's and Quesnay's focus on pure theory, without supporting evidence of the kind that Smith offered in

*Wealth of Nations*, strikes a chord with modern theorists, who immediately want to model any author's assertions, and when finding they can clearly restate them mathematically, however limited or implied, they accord such authors high marks for their scientific effort. Smith wrote for 18th-century legislators and the people who influenced them, a quite different audience to today's economists, impatient as they are with his 'diversions' and 'tedious' data, which they consider redundant. No wonder they were repelled by Smith.

Two of the five circumstances noted by Smith as generating differences in wages also affected the profits of stock, namely the 'agreeableness of disagreeableness' of the business and the 'risk or security with which it is attended' (WN128). Smith considers that agreeableness or disagreeableness and risk affect the owner's stock less than the labourers' wages, because the labourer is more immediately affected by the disagreeableness of a job than the owner of stock who employs him; he more so than his employer personally undertakes the physical risks associated with an employment. Be that as it may, Smith concludes that the 'average and ordinary rates of profit in a neighbourhood from the different employments of stock should be more nearly upon a level than the pecuniary wages of the different sorts of labour'. And he asserts, 'they are so accordingly' (WN128), and goes on to discuss the usual examples that constitute his unique evidential style.

## Imperfect markets

Smith opens his first real assault on the artificial constraints imposed on commerce after discussing perfect liberty and natural divergences from it. Europe, he asserts, does not leave society at perfect liberty and it 'occasions other inequalities of much greater importance' besides the natural divergences. His three examples of unnatural (because institutionally imposed) divergences are as follows:

1. restraints on competition in certain employments;
2. increasing competition in some other cases;
3. obstruction of 'the free circulation of labour and stock' across employment groups and from place to place (WN135).

His first target, the 'exclusive privileges of corporations', recurs throughout his enquiry, backed by numerous specific examples, legislative interventions and comments, plus pages of supporting data. *Wealth of*

*Nations* differs from most of the work on political economy, and distinguishes Smith's contributions from many authors, whose works are unknown except to historians of economic thought.<sup>18</sup>

Incorporated trades restrained competition wherever it was established. Its main feature was apprenticeship, which restrained competition to a much smaller number of men than might otherwise have entered the trade and competed to reduce prices (WN135–45). Smith targeted apprenticeships on efficiency grounds because they misdirected capital and their customers' purchasing power by their uncompetitive higher prices, as well as being offensive to equity by denying work to the free choice of those who otherwise would have exercised their perfect rights.<sup>19</sup> The irrationality of restraints is shown by the coach-maker, who can 'neither make nor employ journeymen to make his coach wheels, but must buy them of a master wheel-wright; . . . But a wheel-wright, though he has never served an apprenticeship to a coach-maker, may either himself make or employ journeymen to make coaches' (WN137). This anomaly arose because coaches were unknown when the statutes became law in 1563, but wheels were known and therefore wheel-wrights became protected trades.

Smith denounces, echoing John Locke, the assault of the statutes on perfect liberty in the most uncompromising terms:

The property which every man has in his own labour, as it is the original foundation of all other property, so it is the most sacred and inviolable. The patrimony of a poor man lies in the strength and dexterity of his hands; and to hinder him from employing this strength and dexterity in what manner he thinks proper without injury to his neighbour, is a plain violation of this most sacred property. It is a manifest encroachment upon the just liberty both of the workman, and of those who might be disposed to employ him. As it hinders the one from working at what he thinks proper, so it hinders the others from employing whom they think proper. To judge whether he is fit to be employed, may surely be trusted to the discretion of the employers whose interest it so much concerns. The affected anxiety of the law-giver lest they should employ an improper person, is evidently as impertinent as it is oppressive. (WN138)<sup>20</sup>

His criticism highlights his common theme about 18th-century Europe: special interest groups sought political and legal powers to enhance their interests at the expense of the public. Self-interest is not always benign. Where traders and artificers dominated the local government

their manifest self-interests kept local markets under-stocked, allowing them to charge higher prices and, in a final irony, they used the Statutes of Apprenticeships to restrict the recruitment, and therefore future numbers, of tradesmen. Instead of, as the statutes originally intended, providing a steady stream of competent and properly trained workers,<sup>21</sup> they achieved the exact opposite; monopolies in the affected trades, higher prices and poorer quality of work in the absence of competition.

Smith speaks of 'the clamour and sophistry of merchants and manufacturers' in their pretence that their private interests are in 'the general interest of the whole' of society (WN154). And he follows this affirmation with that most famous of his quotations:

People of the same trade seldom meet together, even for merriment and diversion, but the conversation ends in a conspiracy against the publick, or in some contrivance to raise prices. (WN145)

Smith, of course, is referring to incorporated 'trades' within a town, such as wool-combers, butchers, handicraftsmen, general journeymen, printers, retail grocers, hatters, linen stores, and the like. By 'corporations' he was not describing modern corporations that did not yet exist. Care should be taken when applying this (famous) quotation to modern circumstances. Smith refers to the behaviour of towns run by 'trades', which were in fact individual tradesmen and artisans, who under law had the exclusive legal power to manage the trades within them. Naturally, being human, the original good intention was subverted by their creating monopolies and restricting competition from non-incorporated tradesmen, such as those who had not served a seven-year apprenticeship with a tradesman in the same town even if they had served their apprenticeship in another town.

One notable victim of this policy (on supposed quality and public safety grounds) was James Watt, who, though a talented and trained instrument maker, was denied permission by the Glasgow Incorporated Trades to practise his trade there. He was 'rescued' from unemployment by the senate of the University of Glasgow, which, as a centre of learning and sited just outside the town's boundaries, was exempted from the exclusive rights of the Glasgow Incorporated Trades. The senate appointed James Watt as the University's instrument maker; if it had not done so he would have never been handed the University's working model of a Newcomen engine for repair in 1763, from which, out of personal interest, he went on to 'improve' it. Worse, the advanced Watt-Boulton steam engine partnership may not have happened, and the process that

led to the power-driven machinery of the industrial revolution might have been delayed. Incidentally, Adam Smith was a member of the senate that responded to the plight of James Watt by offering him a post in the University, with rooms to work in and to practise his trade.

His second example was an ingenious reversal of the policy of restricting supply to raise prices: supply, and, thereby, competition was increased deliberately with the effect that it lowered rather than raised remuneration in certain professions. Like many policies, they were caused less by devious intent than by, perhaps, well-meaning motives that had unforeseen and unintentional consequences. Among those measures he identified were 'pensions, scholarships, exhibitions and bursaries', which drew people into trades that they otherwise would have avoided, such as the 'long, tedious and expensive education' for the church. The result was as follows:

'[T]he church being crowded with people who, in order to get employment, are willing to accept smaller recompence than what such an education would otherwise have entitled them to' because the 'competition of the poor takes away the reward of the rich'. (WN146)

Similarly, he found a parallel in the rewards to teachers compared to that of the lawyers or physicians. It was easier to become a teacher because it was a profession crowded with 'indigent' people and suffered competition from 'yet more indigent men of letters who write for bread'; it was expensive and thereby difficult for a poor person to become a lawyer or physician because they (or rather their fathers) had to pay their way in qualifying. Before printing was invented, remarks Smith, 'a scholar and a beggar seem to have been terms very nearly synonymous,' and he quotes a Scottish Law (1574) giving universities the right to grant licences to their scholars to beg (WN148–9). Ever the classical scholar, he also ends with an exposition of the higher rewards to teachers in ancient Greece compared to modern times with the positive observation that 'the cheapness of literary education is surely an advantage which greatly over-balances this trifling inconveniency' (WN151).

His third example of unnatural inequalities is the obstruction of 'free circulation of labour and stock both from employment to employment, and from place to place'. The prime cause of obstruction of the free movement of labour from employment to employment, even in the same place, was the Statute of Apprenticeships, which exacerbated the problems of rising trades co-located with declining trades in the same place, with no crossover of surplus labour between them, even when the skill

sets of each were similar enough that minimal retraining would solve the problem, if it was not for the 'absurd laws' that prohibited this obvious solution. The inequalities arising from this situation (prevalent all over Europe) were felt differently by the owner of capital stock and the poor labourer who had only his labour to sell: 'It is every-where much easier for a wealthy merchant to obtain the privilege of trading in a town corporate, than for a poor man to obtain that of working in it' (WN152). From this assessment, Smith discusses the impact of the Elizabethan Act for the Relief of the Poor, a favourite topic of his, though the editors of the Glasgow edition cite an authority to the effect that in practice the effect of the Act on labour mobility was probably not as severe as Smith believed (WN152).<sup>22</sup> In a large country, laws and regulations passed by the central government would be applied with different degrees of diligence in many towns as time passed. The severity of a particular law is less important than the general effect of its imposition. That a law gradually fell into disuse in different areas at different rates did not obviate the criticism of its purposes; it highlighted the need to repeal it.

Nevertheless, the prevalence of such laws was important to Smith because what began as a policy to cope with indigence in time became a policy that prolonged it; what sought to prevent unwelcome movement of unemployed labour and their families into neighbourhoods with 'better' prospects became a barrier to the movement of labour seeking employment in expanding trades facing labour shortages. Both obstructions delayed the progress to opulence. On the legal aspects he opined, 'To remove a man who has committed no misdemeanour from the parish where he chuses to reside, is an evident violation of natural liberty and justice' (WN157). For those families affected by such removals it was no comfort to be aware of other families in different parishes who had managed to move without hindrance. In a similar mood of high dudgeon, Smith makes a robust criticism of attempts by parliament to regulate wage rates in particular places, citing one such attempt in 1768. He observes that '[w]hensoever the legislature attempts to regulate the differences between masters and their workmen, its counsellors are always the masters. When the regulation, therefore, is in favour of the workmen, it is always just and equitable; but it is sometimes otherwise when in favour of the masters' (WN158).

He ends his exposition of the unnatural inequalities affecting perfect liberty with a pointed attack on combinations to alter wage rates from their competitive gravitation towards their natural rate. Smith opposed all combinations of masters or labourers aiming to affect the rate of



wages, and this and similar passages should be read with that inclination in mind:

When masters combine together in order to reduce the wages of their workmen, they commonly enter into a private bond or agreement, not to give more than a certain wage under a certain penalty. Were the workmen to enter into a contrary combination of the same kind, not to accept of a certain wage under a certain penalty, the law would punish them very severely; and if it dealt impartially, it would treat the masters in the same manner. (WN158)

His first biographer, Dugald Stewart, was interviewed on behalf of the authorities in 1793 about such passages in *Wealth of Nations* as evidence of Smith's potential, if not actual, contribution to the spread of discontent among a potentially rebellious common people. The political atmosphere at the time was overshadowed by the French Terror and the near paranoia it caused among the Establishment if the French example were to be emulated in Britain by the working poor. This ultra-conservative reading of Smith as an agitator, guilty of 'virtual sedition',<sup>23</sup> also produced a radical reading of Smith that has continued today with attempts to use similar quotations as evidence of Smith's left-of-centre bias.<sup>24</sup> The truth, in my view, is less one-sided. The passage above may be read as a singular attack on the unfairness of combinations among masters, backed by unfair laws, but I think it is more proper to read it as an attack on the principle of combinations being used to decide a price that should, in Smith's opinion, like all prices, be determined solely by competition among the parties. There is no suggestion, explicit or implicit, that combinations of workers should be permitted, like modern-day trade unions, and nor is it the case that wages should be set at the subsistence level (however defined) (he writes explicitly elsewhere that he favours a higher- over a lower-wage economy) (WN99–104). As a moral philosopher educated in the school of Natural Law, he favoured perfect liberty, pure and simple, and followed his analysis wherever it took him (ESP46) without fear or favour to any special interest group. He favoured neither side in the determination of wages, but was not blind to the unfair consequences of the existing arrangements.

## Notes

1. Bible: Mark: 10: 18–30; Matthew 6: 28.
2. Cf. Meek, R. L. 1954.

3. Cantillon, R. [1734; 1755], Chapter X, trans. Higgs, H. 1964; Sewall, H. R. [1901]; Cannan, E. [1893] 1924.
4. Fleischacker, S. 2004: 123–4.
5. Cantillon, R. [1734; 1755].
6. Turgot, R. A. [1766] in Meek, R. L. 1973: 119–82.
7. Chydenius, A. [1765] 1931.
8. Turgot, R. A. [1766]: LXVI in Meek, R. L. 1973: 155–6.
9. Cantillon, R. [1734; 1755], Chapter X: 31.
10. *Ibid.*, Chapter XVII: 97.
11. Cf. Logue, K. J. 1979.
12. Evensky, J. 2005: 127.
13. Cantillon, R. [1734]: 19, 21, 23.
14. Turgot, R. A. [1766].
15. Jevons, W. S. [1881] 1964 in Higgs, H. [1931]: 333–60.
16. Canaan, E. 1896.
17. Schumpeter, J. A. [1954].
18. Cf. Tucker, J. [1755] 1931 in Schuyler, R. L. 1931: 50–220.
19. Rothschild, E. 2001: 87–115.
20. Cf. Locke, J. [1690; 1698] 1988: 287–8.
21. Cunningham, W. [1882] 1938: 27–37.
22. Citing Marshall, D. 1937.
23. Rothschild, E. 2001: 55–61.
24. McLean, I. 2007.

# 9

## ‘setting to work industrious people’

### Introduction

As usual, Smith opens with an historical essay on the fundamental features of the progression towards opulence. It contains items that are never far from his thinking. I look at what he identified as the core elements of the causes of economic growth and real wealth, in the context of the distortions of centuries of mercantile political economy.

### Accumulation of changes

Smith focussed on the habits that contributed to the growth of wealth, thereby implying, and sometimes identifying, that there were habits that affected growth negatively. Though his tone sometimes echoes the indignant moral disapproval of a Kirk Minister surveying the foibles of his flock, his general point was thoroughly pragmatic: society grows towards opulence fastest when its members are not subject to prevalent non-growth-inducing behaviours and grows slower when they are.

It was sufficient to undo mercantile policies without necessarily designing replacements for them because the major negative influences were man-made. This alone created practical problems in the managed transition from growth-obstructing to growth-inducing behaviours, and this confuses those who believe that Adam Smith was an exponent of *laissez-faire*, as if his tirades against government-sponsored mercantile management were evidence of his disavowal of government management in all circumstances.

The emergence of the agricultural ‘revolution’ (actually a process that lasted several millennia) initially occurred close to the boundary between Europe and the Near East, but for which unfortunately no written history

exists (it is briefly mentioned in Genesis, written long after). From recent archaeological evidence and genetic studies of migration trends, some foragers in this region gradually turned towards sedentary lifestyles in permanent settlements as global warming replaced the last ice age. In this period, shepherding and settled agriculture developed, possibly overlapping, and gradually radiated across Europe and to western Central Asia by migration and imitation.<sup>1</sup>

He covered the long and gradual growth of 'the annual produce of the land and labour' (applicable to 'any country') in centuries of time. He asserts that the annual produce of land and labour in the 18th century 'was certainly much greater than it was a little more than a century ago, at the restoration of Charles II' (1662), which was greater than it was a hundred years earlier 'before the accession of Elizabeth' (16th century), and was itself much more 'advanced in improvement' than a century before, 'towards the close of the dissensions between the houses of York and Lancaster' (15th century). Even then, it was probably in a better condition than at the time of the 'Norman conquest' (11th century), which was better than during the 'Saxon Heptarchy' [the seven Saxon kingdoms, 7th–9th century]. He compared the nation's relative impoverishment under the Saxons with the even cruder circumstances of the country before the 'invasion' (more a tentative skirmish) of Julius Caesar in 55 BC. Before the Romans, the inhabitants of England 'were nearly in the same state with the savages in North America' (WN344), described elsewhere as in 'the lowest and rudest state of society' (WN699; LJ107, 201).

Each step in an 'ideal' process through the four ages was 'natural' and 'gradual', and apparently rule-bound too (LJ15). As society 'improved' its agriculture and its 'Arts' (mainly knowledge, including of crude manufactures), it experienced the gradual, occasional and dispersed production of accidental surpluses of output, which led to the possibility of the discovery of simple divisions of labour and scope for the human propensities to 'truck, barter, and exchange'. This assessment is not inconsistent with per capita food consumption in Europe remaining fairly static over many millennia until its steady rise in Britain from c.1800. The difference between improved and hunting societies lies in the production of an increasing surplus that enabled populations to expand and, crucially, a sizeable proportion of the surplus to be diverted by the ruling elite into their consumption, the construction of towns (and churches), arming of retainers and the apparatus of civil governments.

Through time, the age of agriculture ('at last') introduced the age of commerce. It was a localised trickle of population from the land to nearby

'towns' and hamlets, where the people and their living conditions were by no means an advertisement for the upcoming world. Their significance in Europe as centres for a slow and gradual change to a new subsistence mode in the form of commerce meant that for the first time in human history the (unrecognised and unexpected) conditions for a continual improvement in subsistence per capita through successive generations became possible, eventually. It was by no means a certain outcome, but it was realised in Europe first.

When agriculture spread, firmly linked to the invention of property in land, the displacement of people from their ancient hunting mode of subsistence posed serious questions of their survival. Without land and without a role, their alternatives were limited; in the extreme they could engage in brigandage or begging, both occupations with short-term prospects. Millennia later, Smith saw the towns as convenient shelters for runaway landless labourers, who seemed to be 'servile, or very nearly servile' and who were a 'very poor, mean sett of people' (WN397). Towns were also convenient places for merchant traders to congregate. These unpromising cohabitants were joined by individual artisans who sold their services to those engaged in farming, husbandry and shepherding. As Pufendorf put it, 'the meaner People, having no income from Cattel or Land, are forced upon improving divers Arts and Inventions'.<sup>2</sup> People gravitated from the country to the towns. From small opportunities in and around rude manufacture began the long process of developing a nascent commercial age, unintentionally from individual efforts to 'get by' and from some state-sponsored legislation intended to be helpful to commerce. However, they evolved differently, turning the attempts to ensure the supply of skilled tradesmen through the Statutes of Apprenticeship into growth-inhibiting monopoly practices and prices.<sup>3</sup>

### **Elements of commercial society**

Capital stock, productive labour, land and a market-driven division of labour were the elements that induced growth in the context of a slowly expanding knowledge base and slowly expanding markets. Capital stock was originally a supply of food, either saved by a hunter from previous hunts or 'advanced' for a share of the borrower's kills. Stock came from the surplus food and supplies over and above regular consumption. Where it remained occasional, irregular and fairly inconsequential, stock played no role other than facilitating elements of the status quo.

The process by which stock was transformed into the new social construct called capital involved long transition periods. Labour was

characterised initially by each individual acquiring everything for himself – food, clothing, shelter and the tools that he made for himself. In the beginning, all were equal and enjoyed a common, low standard of living and, not unconnected, short lifespans. Where there was no exchange mechanism for distributing it among potential users, uneaten food from hunting and gathering simply rotted where dumped.<sup>4</sup> A similar untidy waste is evident in nature, allowing smaller species of scavengers to eat the scraps left over by the major predators higher up the food chain. It is likely that relatively puny humans, unlike fierce rival predators, started their careers as scavengers at or near the bottom of the food chain, slowly worked themselves up by applying their accumulated knowledge and superior intelligence, and by discovering the advantages of co-operative team work, plus the potential leverage that stone tools, fibrous carrying baskets and fire gave to them.

Until the propensity of 'exchange' promoted the 'division of labour' and a useable surplus over current consumption coincided with an 'effective demand' for items from it (crudely, an early version of the 'extent of the market'), individuals were insufficiently motivated to risk dedicating themselves 'to one employment' (WN31). It was safe to risk dependence on others only when they could exchange surplus output with others (WN47). The need for several elements of the exchange mechanism to come together for it to work effectively indicates how fragile, transient and, perhaps, accidental the concatenation of circumstances were before small minorities of the human population across Euro-Asia took these initial steps, suggesting that the exchange propensity and its consequences were isolated phenomena for much of pre-history.

Smith regarded 'that early and rude state of society' as preceding 'the accumulation of stock' (WN65), but with varying levels of repetitive and primitive accumulation occurring in suitable and initially unique circumstances the possibility for change emerged. After land was 'appropriated' in small areas, primitive notions of property first took albeit shallow forms, initially as a band's jealously contested and vaguely defined hunting territory, and later as broadly defined exclusive grazing ranges for their herds and flocks. Later still, agriculture spread through imitation and, perhaps, by conquest (there is academic dispute on the exact sequence).<sup>5</sup>

The mutual dependence of the humans affected by these emerging changes eventually became firmly entrenched in viable modes of subsistence, which does not mean that the transition was smooth or necessarily always beneficial. It seldom is with humans. Social evolution is untidy; there is no natural, necessary or irreversible imperative

for societies of independent shepherds or of farmers to continue socially evolving towards the fourth age of commerce. History is only about what happened and the present is always blind to the future. The civil governments that protected property rights, in time and in local circumstances, continued to evolve and some became armed governments protecting the property rights of independent shepherds and farmers.

What made the difference in some societies but not in others? Smith does not address this question directly. He pointed to the different psychological pressures that were present in some cases without explaining their absence elsewhere. He was in this case, as in others, ethnocentric (and suffered from an absence of data). In *Moral Sentiments* he alluded to a partial explanation for 'all the toil and bustle' and found in 'avarice and ambition, and the pursuit of wealth, of power, and pre-eminence' that the 'great purpose of human life' is what 'we call bettering our condition' (WN48). It is this ambition that prompts some individuals, a long way down the transition path from rude subsistence, to save some of their stock for future use, which as accumulated (here he leaps across many millennia) 'they will naturally employ it in setting to work industrious people, whom they will supply with materials and subsistence, in order to make a profit by the sale of their work, or by what their labour adds to the value of the materials' (WN65). He did not say anything about the changed circumstances that made unemployed labourers available for work (Marx mocked this passage by asking, 'from whence came these "industrious people"?').<sup>6</sup>

Commercial societies had existed long before their revival from the 15th century. Wherever there were temples in towns and large cities in the ancient world, commerce became an element in their economic life and that of their nearby hinterlands.<sup>7</sup> The four factors needed for a commercial society are as follows: capital in the form of surplus food and material products from the land; landless labour as a significant proportion of the population; land demarcated as private property; and accumulating knowledge, including from classical times, all of which were present in Europe from the 14th–15th centuries.

### **Origins of capital stock**

Smith's nomenclature for commercial society was archaic. He used the word 'stock' interchangeably with 'capital' (sometimes the compound 'capital-stock') widely.

It was not necessary for hunters to accumulate stock because men (and women) satisfied their immediate wants by their own efforts as they occurred or fancied, or went without:

When he was hungry, he goes to the forest to hunt; when his coat is worn out, he cloaths himself with the skin of the first large animal he kills: and when his hut begins to ruin, he repairs it, as well as he can, with the trees and turf that are nearest to it. (WN278)

A minor chicken-and-egg problem arose because 'the accumulation of stock must, in the nature of things, be previous to the division of labour' (WN278; LJ521–2). This makes sense for a time when stock began as small accumulations of uneaten food or unprocessed animal hides and bones set aside as surplus to immediate requirements. Where some individuals perceived surplus items could be used other than immediately, the notion of 'capital-stock' was created, eventually becoming consolidated into social knowledge. It probably had little immediate importance to the individuals who first stumbled on the practice of conserving surplus provisions, but we can recognise retrospectively that the slow, independent and eventual conscious realisation of its potential was truly historic. It meant that people thought about their future.

Smith credited the emergence of primitive capital from ordinary surpluses of daily labour as the original cause that led some populations, eventually, to development. The emergence of primitive capital was an event, doubtless repeated on myriad occasions, unconsciously and without direction by anonymous individuals in rude societies, most of whom took it no further than a mere postponement of current consumption, without giving it further thought. For a few at first, then many, these petty accumulations of saved stock – the original savings that produced capital – became a powerful means to extending their labour because it enabled them to undertake longer hunting/scavenging/scouting trips with the co-operation of others. The change from scavenging to the hunting of bigger game, in competition with rival and deadly predators, required directed and disciplined team work, and was facilitated by access to enhanced capital stock compared to the efforts of scattered individuals hunting small prey.

Smith's interest in capital as the prelude to the division of labour, itself driven by the propensity to exchange, lay in the decisive break it represented from the rudest state of human society towards the initial divisions of labour that set some humans on the long road to opulence. It is known now that this transition was accompanied by a decline in



nutrition as humans adapted to the long struggle to meet the unprecedented demands of primitive accumulation of capital needed to complete the seasonal cycles of shepherding and agriculture.<sup>8</sup> The attrition toll may have been significant for a while.

During the long transition from shepherding to farming, Smith meant by 'capital-stock' the supply of the daily provisions each participant required because of the time gap between capturing animals and their breeding, or planting seeds and their reaping, and the absolute necessity to save stock for next season's planting. Resources for 'advances' were set aside and 'stored up somewhere' (WN276) and consumed during the interval between producing and consuming. This process formed the original capital of society. The longer the duration of the necessary interval between sowing and reaping, the greater the capital stock that must first be saved by individuals for later distribution. In 1764, Smith noted that 'before a man can commence farmer he must at least have laid in a year's provision, because he did not receive the fruits of his labour till the end of the season' (LJ521). In 1766, Turgot also covered the need for advances among day labourers.<sup>9</sup>

It is clear from Smith's account that stock began as a store of food and seed, and gradually enlarged in scope to include raw materials, eventually becoming a stock of money, or what money could buy. His 'rule' was that the number of hands employed in commercial society depended on the 'stored [stock] in the kingdom', and in particular on the amount of stored stock held by each employer, because 'many goods produce nothing for a great while' (citing the case of 'the grower, the spinner, the dresser of flax'). Whenever more hands were required, more stock was required because the produce of labour was not returned in a single day, and proportionally more stock was required to maintain them the longer the interval before the revenue from the products returned. But stock is limited by the quantity of food, clothes and other necessities paid from what manufacturers can afford (LA365–6). The quantity of stock, Smith concluded, was a limiting factor in the expansion of employment because stock was not easily acquired. When it came from the same source that was used for the 'proper consumption' – eating, apparel and sheltering – it had to be replaced before, or coincidentally with, its consumption. 'This is the state', Smith asserts, 'of the greater part of the labouring poor in all countries' (WN279). Most labourers had nothing left over from their scarce means. Frugality mitigated their destitution, as those who could not resist temptations to prodigality were reminded.

Those able to harbour stock carefully for contingencies by the accidents of fortune or from deliberate foresight acquired the services of those searching for work by providing them with 'advances'. These transactions were of the greatest importance to a society's future development. Where a person saved from his family's consumption and used his stock to fund his labour within the necessary interval (days in the case of scavenging/hunting/scouting; months in the case of shepherding and settled farming), his claims to the product of his labours were unambiguous. It was his labour and his capital stock. Ownership gave him rights to the fruits of his labour. When he had no capital stock (for whatever reason), he must necessarily have received stock for consumption from somebody who was willing to advance it to him. That implies co-operative property relations between the two parties; the person who owned capital stock and the different persons who owned their labour. From this point on, a different (unequal) society began to emerge within the age of agriculture.

The early division of labour and the early forms of property created new, shared claims to the product of capital stock arising from someone's savings from past labour and the product of somebody else's labour. The shared claim was settled by 'higgles and bargains' among the parties, just as two or more persons who co-operated to hunt for big, perhaps dangerously contested, animals must divide the prey by an agreed rule related to their individual contributions. No person would co-operate regularly to endure the risks of a hunt, including the risk of it being unsuccessful, if it resulted in his receiving too little a share of the prey. The cost of failure was the time he spent away from alternative opportunities to feed his family.

The origins of capital outlined by Smith were of the utmost importance to the coherent development of an economy, and clears up much of the muddle about his alleged affinity with a labour theory of value. Legitimising a stockowner's claim to a (negotiable) share of the revenues from production contributed to their motivation to offer advances to labourers who otherwise would not work. This required a coincidence of somebody willing to borrow somebody else's stock and somebody willing to lend it. Where these arrangements spread and were sustained, growth became possible; absent these arrangements, subsistence modes remained isolated and primitive. Again, in the social-evolutionary model of separate individual actions leading to unintended outcomes, where the use of surplus stock was managed successfully, labour productivity from finer divisions of labour was enhanced and wealth produced.

## Forms of capital stock

Smith divided stock into two main parts: the revenue reserved for personal consumption as circumstances and inclination permit; and the part that could be used to generate future revenue. The first part, says Smith, remains his 'stock' (as it was for everybody originally), and the (new) second part his 'capital'. He mentions that within the stock reserved for immediate consumption there is an element of stock not yet fully consumed immediately, such as clothes (over several years), household furniture (over 'half a century or a century') and dwelling houses (over 'many centuries') (WN281). Nowadays, this residual of unconsumed stock constitutes the aggregate assets of the people, including the poorest, in developed economies (WN279). The difference between stock as revenue for immediate consumption and capital stock as the source of future revenues is important for Smith's general thesis (WN10). Revenue spent on immediate consumption does not replace what is consumed; it is withdrawn from the 'wheel of circulation'. But capital stock produces output that replaces itself and adds a surplus over and above what it replaces. How society's stock is divided proportionally between these two roles is crucial to the rate of progress towards opulence.

Smith identified fixed capital, which earns revenue or profit without leaving its owner. It consists of the following:

- useful machines and instruments of trade which facilitate labour;
- profitable buildings (premises for rent), shops, warehouses, farm-houses, stables, and granaries;
- improvements to land to make it 'proper for tillage and culture';
- 'acquired or useful abilities of all inhabitants of the society', known today as human capital, from education, study, apprenticeship and practice, and 'realised in his person' (WN282).

He also identified circulating capital, which is 'employed in raising, manufacturing or purchasing goods' for resale at a profit. It passes into circulation and enables its owner to earn revenue. He identified its four constituent parts:

- money by which capital is circulated and distributed to 'proper consumers' (users);
- stock of provisions that 'the butcher, the grazier, the farmer, the corn-merchant, the brewer' expect to sell to derive a profit;

- raw materials for 'cloaths, furniture, and building' remaining in the hands of growers, manufacturers, mercers, drapers, timber merchants, carpenters, joiners and bricklayers;
- completed works in the hands of merchants or manufacturers, not yet disposed of and in the shops of smiths, cabinet-makers, goldsmiths, jewellers and china merchants (WN282–3).

Note the trades that made up Smith's 'manufacturers' are best described as petty manufacturing and shop-keeping. When he mentions, as he often does, 'merchants and manufacturers' in *Wealth of Nations*, these are the people to whom he refers.

In sum, circulating capital sells goods and uses the revenue to buy, or produce, further goods for resale in successive rounds. Its profit is realised on receipt of revenues from sales (WN279). In commercial society, a few steps beyond hawkers, peddlers and wholesalers, profit was not restricted to their purely buying cheap and selling dear, which was the image embedded in moral concerns about the source of profit that was suspected of being derived from dishonest, or at least less-than-candid, merchants who added unnecessary fictions to their real costs. Profits in commercial society were proportioned to the value of capital employed and were independent of the effort expended. Its origins were in the earnings from the use of capital in the employment of labour and this notion marked an advance in Smith from his predecessors.<sup>10</sup>

In different occupations different mixes of fixed and circulating capital are employed. The distinctions of fixed and circulating capital are clear enough, but perhaps not as important for the progress towards opulence as the distinction between revenue stock (immediate consumption) and capital stock (to produce future revenue). Edwin Canaan criticised what he considered to be a muddle in Smith's analysis of constituent aspects of his capital theory. I think that within Smith's theory of capital as stock and revenue as flows it stands up quite well to Canaan's critique, much influenced as he was by modern accounting conventions that required a greater precision for accurate arithmetical calculations than that found in Smith's capital theory.<sup>11</sup>

All stock maintains and augments the revenue that 'feeds, cloathes, and lodges the people' and it is upon this that their 'riches or poverty depends'. Circulating capital provides the materials and the maintenance of the workmen employed on both fixed and circulating capital. Without circulating capital, no fixed capital would produce revenue or profit; there would be no materials to work upon and no people to do the work upon them, because these are paid for from the owner's circulating

capital, which by its nature circulates when the suppliers of the materials spend their receipts and the labourers spend their wages on immediate consumption. In so far as suppliers of materials spend their receipts to hire labour to extract and prepare new supplies of materials, a portion of their revenues goes back into circulation. Any portion of their receipts that they spend on their own consumption (immediate or over time) drains their revenue stock and is not counted as capital stock. The 'great wheel of circulation' turns, some part adding to net capital stock and the remainder diminishing, as it is drawn (spent) from revenue stock.

A nation grows richer or poorer by the growth of net capital stock, which puts into motion circulating capital to create additional net capital stock and to fund rising consumption. If capital stock is not maintained and replaced regularly the economy enters a stationary state, which in due course will decline.

Society's general stock is the sum of the stocks of all its inhabitants and divides into three portions. First is the portion for immediate and residual consumption, which derives no further revenue or profit. Second is the fixed capital, which 'affords a revenue' without changing masters, and third is the circulating capital, which 'affords a revenue only by circulating or changing masters'.

There are two final points of relevance: first, every fixed capital is originally derived from circulating capital, which provides the materials and the maintenance that sustains the labour that is applied to the materials. Even improved land generates no revenue without applying labour to it; and useful machines and instruments of trade produce nothing without employing labour that is paid its maintenance. And 'the sole end and purpose' of both fixed and circulating capitals is to 'maintain and augment' the stock reserved for immediate consumption (WN284). So great is the circulating capital that is withdrawn from the stock to be used for activating fixed capital and adding to the stock reserved for immediate consumption that it requires continual replenishment from the produce of land, mines and fisheries in the form of provisions and materials (agriculture was still the dominant sector of the British economy in 1750). Land, mines and fisheries use both fixed and circulating capital to cultivate and extract produce from them, and their produce replaces the capital they use with profit. An exchange takes place, indirectly in practice, between farmers who replace the provisions the manufacturer consumes and the materials he wrought up in the previous year; the manufacturer replaces finished manufactures that the farmer wore out in the same period. The farmer sells his produce for money and uses money to buy the produce of the manufacturer (WN284).

From the early stage in the evolution of commercial society, people work, without central direction in interlinked production chains and networks, employing their capital stock to procure 'either present enjoyment or future profit'. In societies with 'tolerable security' Smith asserts that every man of common understanding endeavours to employ whatever stock he can command for either 'present enjoyment or future profit'. Immediate consumption reduces his stock and does not replace itself. He replaces his stock with future profits from investing in fixed or circulating capital, and 'a man must be perfectly crazy' who 'does not employ all the stock which he commands, whether it be his own or borrowed of other people', to procure present enjoyment through immediate consumption (food, clothing or shelter), or as fixed or circulating capital (WN284). In conditions of intolerable insecurity, where people are 'continually afraid of the violence of their superiors' (and, I suggest, their neighbours), they 'bury and conceal a great part of their stock' to the detriment of their own, and society's, spread of opulence (WN284–5). Smith considered that burying money stock was such a common practice among 'our ancestors during the violence of the feudal government' that the king imposed laws in Britain (still applying) that declared all such hidden items as 'treasure-trove' and the property of the sovereign.

## **Money as capital**

The roles of fixed capital and of money in the production of net revenue are analogous. They facilitate the production of net revenue, but are not included in it. Fixed capital increases the productive powers of labour and enables the same number of labourers to produce a much greater quantity of output. The expense incurred by fixed capital is repaid with profit and the annual produce is increased by a greater amount than the expense. Hence, the quantity of materials and the labour required, which have opportunity costs elsewhere, are always regarded as 'extremely advantageous' because they enable the same workmen to produce a greater quantity of output with cheaper and simpler machinery than before in ever-finer divisions of labour and specialisation, and what is saved from improved productivity can be allocated to putting displaced labourers to work and to purchase materials for them to work upon (WN287–8).

Unlike circulating capital, fixed capital is excluded from calculating the 'net' (net) revenue of society; if fixed capital reduces material or labour costs by more efficient applications, gross revenue remains roughly the same, but net revenue increases. Of the four parts of circulating capital,

in the forms of money, provisions (food), materials and finished work, the last three are regularly withdrawn either to work with fixed capital (society's future revenue) or as stock for final consumption (society's current revenue) (WN288). This leaves money and fixed capital bearing 'a very great resemblance to one another'. Money requires a certain expense: first to collect it, and afterwards to support it, both expenses (including the expense of erecting 'machines and instruments of trade' and afterwards supporting them) being deductions from society's net revenue (WN288–9).

Smith refers to money as the 'great wheel of circulation' and altogether different from the 'goods which are circulated by means of it', and he asserts firmly that 'not a single farthing can ever make any part of' either the gross or the net revenue of society (WN289). He states this point more than once (WN292). Having derived the origins and evolution of money into pieces of gold and silver in Book I (WN37–46, 51–64, 195–260), Smith elaborates on money's role in its modern forms of paper as the new 'great wheel of circulation' in commercial societies, and regards it as an improvement because paper 'replaces a very expensive instrument of commerce with one much less costly, and sometimes equally convenient' (WN292). The basis for paper money, as for gold before it, is that when people have confidence in the 'fortune, probity, and prudence of a particular banker' and believe him to be always ready to pay on demand the face value of his promissory notes, they come to accept his notes in payment of debts much the same as when they are paid in gold and silver (WN292). Bankers in this position learn that they do not need to keep on hand 100 per cent of that amount in the form of gold and silver in case some customers present their promissory notes for payment. This creates the possibility of 'fractional bank lending'.

Whilst customers have use of his promissory notes (and their customers and suppliers accept the promissory notes as money) they pay him interest on their borrowings. Some notes will return fairly quickly, others over longer periods and some may continue to circulate as money for years. Those that do not return quickly can amount to as much as 80 per cent and his reserves against his notes may fall to as little as 20 per cent (WN292).

The banker lends his remaining gold and silver as bullion abroad for profitable employment or to fund purchases from abroad for sale at a profit. Together, these profits add to the revenue of the country and like all net revenue it depends on what its owners do with it: as stock for final consumption (not increasing production), or as capital for promoting industry through the application of subsistence to labourers and

materials to farmers and manufacturers. By this they enhance the annual revenue, or produce, of society and, after deducting what is necessary for supporting the tools and instruments of trade, they add to society's net revenue (WN294–5).

Fractional bank lending, and the substitution of paper money for gold, benefits society's progress towards opulence, and Smith cites detailed evidence in support of this contention. His themes were consistent, as were his qualifications, which were particularly acute in the case of fractional banking. Through 'the principles of common prudence' which 'do not always govern the conduct of every individual, they always influence the majority of every class or order'. For this reason he believes the 'greater part of' the money 'forced abroad' by banking operations 'will naturally be destined for the employment of industry, and not for the maintenance of idleness' (WN295). Three conditions are required to put industry into motion: materials to work upon, tools to work with and the recompense for the sake of which the work is done. While the last is paid for in money, the real revenue does not consist of money but the things that money will buy (WN295).

Smith elaborated on the role of the new banks in Scotland in contributing to the increasing value of the annual produce of land and labour and traced the 'erection' of competing joint-stock companies, the Bank of Scotland (1695), the Royal Bank of Scotland (1727) in Edinburgh, and Glasgow's Ship Bank (1750), reminding us that he was not opposed to joint-stock companies in principle. He regarded these banks as important causes of the possible quadrupling of trade in Edinburgh and its doubling in Glasgow (then a smaller town), adding that because of latent 'difficulties' in banking operations (discussed below), they required an Act of Parliament to regulate their conduct (WN97; LJ378–9), perhaps of surprise to those claiming Smith's advocacy of *laissez-faire*.

He also asserted that Scotch banks invented 'cash accounts' alongside their promissory notes for use by 'any individual who could procure two persons of undoubted credit and good landed estate to become surety for him', which he had to repay on demand and for which he had to pay interest. This device (akin to a modern cheque overdraft account) on 'easy terms' was the 'principal cause of the 'great trade' of these companies and of the benefits the country received from it. The cash circulated from merchants to manufacturers of goods, from manufacturers to farmers for materials and provisions, from farmers to landlords for rent, and from landlords to merchants for the 'conveniences and luxuries' which they supply to them (WN299).



## Malign consequences of self-interest

These developments all look very neat and comforting, until the waywardness of human behaviour enters into the picture (or, as Pufendorf expressed it elegantly, 'it being much more easie to fansie perfect Men than to find them').<sup>12</sup> And Smith does not dodge the blemishes to the happy picture given by many modern tutors of his allegedly benign model caused by people pursuing their self-interest, though it is remarkable that his detailed comments on the misbehaviour of people in economic systems have attracted so little comment. The self-interested actions of individuals do not always have the benign consequences claimed by enthusiasts for his use of the metaphor 'an invisible hand'. Smith provides many counter-examples (there are over 50 case in Books I and II alone) to a supposedly universally benign invisible hand benefiting society in the universal way that modern economists claim (though never by him).

The limitations of circulating paper in place of gold were clearly understood by Smith. If an excess of paper was printed over the amount of gold the banks held when paper, unlike gold, could neither be sent abroad profitably nor safely employed in circulation, because people would not accept it once banks could not exchange it for gold, there would 'be a run upon the banks to the full extent of this superfluous paper' and the 'alarm, which this would occasion, necessarily' would increase the run, and bankrupt the offending banks and many of their creditors too (WN301). Smith asserts that if every bank understood and attended to its own particular interest, it would not risk becoming overstocked with paper money, and he laments that not every bank always understands or attends to its *best* interests, and consequently becomes overstocked with paper (WN302). By 'particular interest' he must mean the banks' *true* interests, not their self-interests as perceived by them. If banks act on their perceived self-interests in any particular circumstance and these are judged to be different from their 'true' self-interests, then the idea of self-interest becomes contradictory. Banks which overstocked on paper money act in their self-interests, though they regretted it later. Self-interests are not always benign to self nor to society, which makes Stigler's simile of the 'granite of self interest' inappropriate.<sup>13</sup>

Interests motivate actions – people do not act aimlessly. Their self-interests, as they understand them, drive their actions. Whether particular actions are judged by others as best for them is not relevant, because we cannot define self-interests only if they lead to 'best' outcomes, given that outcomes are separated from their intentions. Therefore, acting in

pursuit of self-interests can and often does lead to malign outcomes. Smith spent time detailing instances of individuals, and sometimes institutions, acting in innocent pursuit of their self-interests which do not result in benefits for society. There is no mention of 'an invisible hand' leading them on these occasions!

Banks could pay close attention to the behaviours of their customers by observing if they make repayments of their borrowing as agreed; if they repay on time and in full, the bank may safely continue to lend; if they 'fall very much short' of their repayments, the bank 'cannot with safety continue to deal with such customers'. They could decide whether their debtors were in 'thriving or declining circumstances', and act accordingly (WN305). When banks refused to extend more credit, the unfortunate debtors 'complained of the contracted views and dastardly spirit' of the bank's directors, and they urged the banks to extend their credits 'in proportion to the extension of the trade of the country', by which they meant the 'extension of their own projects' (WN308).

To the 'wearing and clipping' (WN303) of coins, an ancient and fraudulent practice commonly practised by kings and users of gold and silver coins long before banking was established, was added another fraudulent practice in the fraudsters' repertoire, called 'drawing and re-drawing', to which 'unfortunate traders have sometimes recourse when they are on the brink of bankruptcy' (WN308). Regular users on the brink of bankruptcy, mainly because of the over-trading by 'some bold projectors in both parts of the united kingdom', were 'the original cause' of the 'excessive circulation of paper money' (WN304).

The streams of money that left the victim of the fraud do not return because their debtors' promises are fictitious. The projectors conceive of an 'artful contrivance', of which some banks had not the 'most distant suspicion' of fraud, until too late, and with several projectors finding it in their 'interest to assist one another in this method of raising money', they make it 'as difficult as possible' for the victims to 'distinguish between a real and a fictitious bill of exchange'. So serious is the fraud that even when a banker discovers it, he may be in too deep to extricate himself from knowing that if he refused more rounds of drawing and redrawing, he might 'ruin himself' (WN312–13).

In confirmation that too liberal a lending policy, whether from fraud of borrowers or from the false convictions of bankers, was ruinous of the general interest of society, the formation of the 'Ayr Bank' in 1772 in the midst of what David Hume called a 'melancholy situation' of economic depression (Corr162) made matters worse. Smith called its 'design generous, but the execution was imprudent' (WN313) and the practice of

the subscribers of its initial capital of borrowing excessively from their cash accounts also made matters worse. The self-interests of these players worked directly against the best interests of everybody affected by their actions. His frankness about prudent and imprudent behaviour shows Smith's awareness that private interests are not always conducive to the good of society. If this point is understood widely among economists, the false consensus that Smith believed in a 'theory of the invisible hand of markets' would be heard of no more. So important was this point to Smith that he considered it necessary to make the case for intervention by government regulation in banking markets:

To restrain private people, it may be said, from receiving in payment the promissory notes of a banker, for any sum whether great or small, when they themselves are willing to receive them; or, to restrain a banker from issuing such notes, when all his neighbours are willing to accept of them, is a manifest violation of that natural liberty which it is the proper business of law, not to infringe, but to support. Such regulations may, no doubt, be considered as in some respect a violation of person liberty. But those exertions of the natural liberty of a few individuals, which might endanger the security of the whole society, are, and ought to be, restrained by the laws of all governments; of the most free, as well as of the most despotical. The obligation of building party walls in order to prevent the communication of fire, is a violation of natural liberty, exactly of the same kind with the regulations of the banking trade which are here proposed. (WN324)

This seldom-quoted passage written in 1772, six years after Smith met the Physiocrats, directly rejects their purist *laissez-faire* ideas, and shows him not to be opposed to all interventions in free markets. He never supported *laissez-faire* and this paragraph shows why. He went on to argue that on condition that bankers were restrained from issuing and circulating bank notes, or notes payable to bearers for less than a certain sum and were unconditionally obliged to make immediate payment on the presentation of their notes by bearers, their trade 'with safety to the publick' may be 'rendered in all other respects free'. Competition from many other banks (he was not alarmed by the formation of banks in greater numbers) 'obliges all of them to be more circumspect in their conduct' and 'to guard themselves against those malicious runs, which the rivalry of so many competitors is always ready to bring upon them' (WN329). Legal interventions to safeguard the public interest were required and

reliance on perfect liberty was not sufficient protection from the risks of uninhibited laissez-faire. He was not an ideologue in these matters.

Consider the assertions in his *Lectures*, grouped together as 'the causes of the slow progress of opulence' (LA521–9). He identifies two sets of impediments: those from natural causes and those from the oppressions of civil government. The 'one great cause' of slow progress to opulence is the lack of stock sufficient for a labourer to maintain himself and his family for the duration between commencing an activity and receiving revenue. It seems an insurmountable barrier: until stock is accumulated there can be no division of labour and before the division of labour there can be 'very little' accumulation of stock (LJ552). But it is not a purely financial problem. Institutional circumstances must also be addressed.

The gradual accumulation of stock was (still is) an extremely precarious, tentative and slow process, affected by unpropitious events, of which warfare and quarrels among neighbours must count as major impediments, not to mention theft, cheating, corruption and discord among individuals in institutions. People robbed of their possessions and seriously harmed are unlikely to be industrious (in Natural Law terms, these are breaches of the individual's natural or perfect rights) (LJ8–9). Bands of barbarians caused 'violent convulsions' as they participated in plunder, rapine and pillage. And thus, 'large tracts of country are often laid waste and all effects taken away . . . [and] nothing can be more an obstacle to the progress of opulence' (LJ522).

But once accumulation gets underway, the improvement in the 'great productive powers of labour' manifests itself (WN277), subject, of course, to the counter-effects of the oppressive measures of government. Typically, he produces evidence, culled from history, with which he was familiar, and includes the sort of events, measures and attitudes that were 'prejudicial to the progress of opulence' (Exhibit 9.1):

*Exhibit 9.1* Measures prejudicial to the progress of opulence

- the absence of stock, which discouraged the division of labour;
- measures that discouraged the improvement of non-agricultural activities;
- personal insecurity reducing or removing incentives to be industrious;
- widespread indolence of people living off the industrious;
- perpetual wars and hostile invasions preventing capital accumulation;
- measures that discourage improvement in the arts of manufacturing;

- laws that promote primogeniture and entailment that prevent the break-up of large unproductive estates among the more productive through the generations;
- cultivation by slaves;
- cultivation by serfs and villains;
- use of force to seize and hold large tracts of land by local 'strong men';
- tenants on 'strong bow' leases (where the landlord owned the farm tools, implements and cattle, which were 'not to be removed by quitting tenants') (LJ189–90),<sup>14</sup> who had no certainty of tenure;
- rents paid in kind when dearth ruins productive tenants;
- levies imposed on tenants at the will of landlord, king or government;
- ancient families without stock who do not improve their land;
- prohibitions of corn exports which removed incentives and encourage dearth by conversion to grassland;
- disincentives of imports of corn by premiums;
- ignorance of the cause of shortages leading to ineffectual remedies (citing Roman emperors, Caligula and Claudius, and writers Virgil and Cato) and 'highly ridiculous' attempts to oppress manufacturers with heavy taxation to force them to move to the country from the towns (Phillip IV);
- use of slave labour in manufactures, which inhibited progress (slaves have no incentive to invent machines, whereas free labour encourages improvement);
- misleading sentiments that asserted that performance without reward is 'noble'; trade is 'odious' and to barter is 'mean';
- confining trade to the lowest ranks of the people (persecution of Jews) obstructed the spread of commerce;
- attitudes that despised merchants and the levying of high taxes on them slowed stock accumulation;
- retarding effects of imperfections in the law of contracts;
- probity uncommon among 'rude' people (commerce introduces 'probity and punctuality');
- difficulties of conveyance of people and goods;
- presence of 'idle people' and 'retainers' that led to 'violence and disorder';
- piracy and the risks of navigation that retarded commerce;
- enforced fairs on specific days at specific places inhibited trade, as did the punishment of 'forestallers' (people who travel in the country buying produce and who defy laws confining sales to official 'Fairs');
- restrictive effects of designated 'Staple Towns';

- all taxes upon exportation or importation raised prices, lowered sales, discouraged manufactures and hindered divisions of labour;
- all 'monopolies and exclusive privileges';
- 'Bad tendency' of the Statutes of Apprenticeship not securing products against bad workmanship;
- giving bounties encouraged one commodity and discouraged others and 'hurts the natural state of commerce';
- corruption of public officials was a 'dangerous method' of their obtaining income;
- 'Grievous exactions' in taxation alienated the public's affections and weakened the will to defend the country (LJ522–30).

This is not a complete list of obstacles to the progress of opulence that Smith identified, some sanctioned by mercantile political economy and others from the imperfectabilities of human nature and institutions, but it illustrates the problems with which he was concerned (WN276–375).

## Notes

1. Akkermans, P. M. M. G. 2003; Bar-Yosef, O. 1998.
2. Pufendorf, S. [1729] 2005. 7.1.6, cited in Hont, 2nd edn: 283.
3. Cunningham, W. [1882] 1938: 144–70.
4. I am grateful to Yong J. Yoon for this point.
5. Sokal, R. R., Oden, N. L., and Wilson, C. 1991: 351.
6. Marx, K. [1762] 1954: 77.
7. Cf. Polanyi, K. [1944] and Silver, M. 1995.
8. Diamond, J. 1987: 64–6; Cohen, M. N. 1977; Bogin, B. 1997: 96–142; Clark, G. 2007.
9. Cf. Turgot, R. A. [1766]: LIX: 151 in Meek, R. L. 1973.
10. Meek, R. L. 1954.
11. Canaan, E. [1893] 1924, Chapter IV: 52–122.
12. Pufendorf, S. [1729] 2005. 4.4.1, cited in Hont, 2nd edn: 181.
13. Stigler, G. J. 1975: 237.
14. In France a similar system was known as the 'Métayer' (medietarius): Turgot [1766]: XXV: 132 in Meek, R. L. 1973; LJ(A) iii.123: 189–90.

# 10

## ‘increasing the fund for productive hands’

### Introduction

*Wealth of Nations* presented the elements of a theory of growth (not a model),<sup>1</sup> which was supported, in Smith’s style, by evidence and speculation. The implied ‘theory’ is not presented in a manner with which modern economists are comfortable, because Smith weaves into his account a fair amount of historical detail. Nevertheless, it was an important part of his thinking and made a contribution to what became early ‘classical growth theory’.

Britain by the 18th century had developed from a predominantly agricultural society towards a commercial society and within a few decades other countries gradually ‘caught up’, mainly because their history and institutions over the previous two centuries had prepared their commercial foundations. As their economies grew, life expectancy and child survival rates improved marginally at first. Child mortality, which had remained comparatively high for centuries, also decreased slowly at first and then dramatically in the 19th century. The continual redivision of labour and specialisation within and among industries reduced the cost of manufactured goods, and the application of technology increased the range of goods available for purchase, which in turn raised the demand for labour, partly supplied by a growing population with growing participation rates, which in turn raised real incomes. Growth became a virtuous, if shallow, spiral.

Empirical evidence trumps abstract speculation and Smith’s was an evidence-based enquiry, not a compendium of mainly abstract speculation.<sup>2</sup> Smith derived simple economic relationships based on the evidence obtained from an esoteric range of indirect sources.<sup>3</sup> This restriction was imposed primarily by his lack of access to a well-endowed

reference library, isolated as he was for much of the time in Kirkcaldy (of which David Hume complained a great deal, even pleading with Smith to visit him in Edinburgh) (Corr160–3, 166–8, 185–6).

Since *Wealth of Nations*, theories of economic growth have moved on a great deal. No student would get very far professionally without spending time studying growth theory (Hicks, Harrod–Domar, Solow–Swan, Kaldor, Romer and so on).<sup>4</sup> Growth theory has an extensive, prestigious, and rich research agenda, so when graduates turn to Adam Smith's literary presentation of his theory, they often recoil in impatient dismay, making no allowance for his not having desktop access to the abundant literature on growth theory. This creates problems of holding the modern reader's attention, but Smith modestly made growth economics accessible to government ministers and people who influenced them.

### Lowe's 'Smithian' growth

Reporting modern interpretations of Smith's growth 'model', of which there are numerous excellent versions available,<sup>5</sup> would detract from outlining Smith's thinking on the subject. For example, Adolph Lowe provided an account of Smithian growth that took the short cut of assuming that the 'natural, psychological, and institutional factors', by a 'long evolutionary process from rude society', found their 'final shape' in the 'competitive organisation' of modern Western 'system of natural liberty'. This enabled him to treat these institutional factors as constants, because (controversially) they would not then be subject to further 'historical development'.<sup>6</sup>

A competitive marketplace was assumed to be protected by constitutional government through the 'preservation of law and order', which protects property, freedom of contract and personal freedoms, and operates within unequal property distribution, social and technical mobility of factors of production, the division of labour and free exchange.<sup>7</sup> The two innate driving forces were the 'propensity to truck, barter, and exchange' and the 'desire of bettering our conditions' (WN25, 341), with a third, the urge to procreate, which together constitute the psychological constants of Smith's model (WN25, 79, 341, 709–10).<sup>8</sup> However, it is not realistic to claim that the competitive organisation in any Western economy was like a 'system of natural liberty', as Smith understood the idea. Indeed, the very paragraph that Lowe quotes from *Wealth of Nations* to support his contention opens with Smith stating the firm *prior*-condition that only if all 'systems of preference or of restraint' have been



'completely taken away' would the 'the conditions of "natural liberty" apply'. Clearly they did not apply in the real world.

Neoclassical models of perfect competition assume that the obstacles to perfect competition are 'completely taken away', and in consequence they constitute a formidable analytical structure that has developed a 'life of its own', divorced from the real world. This was not how Smith discussed growth in *Wealth of Nations*. For him, the existing 'natural, psychological, and institutional factors' were firmly embedded in society and were obstacles to the potential beneficial effects of commercial growth, hence his critique of mercantile political economy. In fact, because natural liberty was presented as an unattainable ideal in Smith's enquiry (WN471), it left his theory as a 'mixture of theoretical propositions, empirical descriptions, historical discourses, and political recommendations' spread across *Wealth of Nations* in 'widely scattered passages',<sup>9</sup> contributing to Joseph Schumpeter's denial that Smith had crossed the 'scientific Rubicon' to modern economics.<sup>10</sup>

Smith and neoclassical economists speak in different languages about the phenomena of growth. Smith talks about the creation of wealth in a real economy, with idealised natural liberty as background but not as agenda; neoclassical economists talk about perfect equilibrium (partial and general), absent anything recognisable as the real world, including people. Their purposes and scope are quite different. In Smith's mind, his was not a hypothesis of equilibrium, nor did he seek to make it so. He was not interested in specifying a general equilibrium; his goal was to define the practical policies that legislators could undertake to remove the mercantile restraints that inhibited the spread of opulence.

By assuming that natural liberty operates when it clearly does not, Lowe made a modified version of Smith's 18th-century growth theory intelligible to modern economists, but it was different from Smith's purpose of explaining why mercantile political economy and existing statecraft were major obstacles to realising the full potential of economic growth (WN687). Lowe uses the characteristics of a non-existent natural liberty to treat key factors as 'constants' in his analysis, absolving them of exerting their undoubted influence on the economy.<sup>11</sup> In the reality of the 18th century, they influenced an 'ongoing core process', which happened to be on the verge of 'further historical development', in the form we know as 'capitalism'.

It is in the nascent commercial society that *Wealth of Nations* is most interesting, for example, in the manner by which the lifelong 'womb'

to the 'grave' desire for 'self betterment' (WN341) positively promoted competitive market activities and also negatively promoted the monopolistic distortions by 'merchants and manufacturers', which were the main focus of his enquiry.

### **Constituent elements of pure Smithian growth**

Smith discharges 'the sovereign' from attempting to superintend 'the industry of private people, and of directing it towards employments most suitable to the interest of society' (WN687), arguing that to do so was 'delusional'. But in dealing with the real world, the sovereign (the government and its agencies) has not 'discharged itself' from such delusions. Understanding how an economy works is a preliminary step to recognising how both governments and merchants and manufacturers behave in ways that may not be 'suitable to the interests of society', as judged against the standards of perfect liberty, and because of the distortions they impose for an optimum growth trajectory they do not meet the requirements of the optimum progress to opulence.<sup>12</sup>

Smith identified land, labour and capital as the three main factors of production, plus the crucial influence of the division of labour aligned with applied knowledge ('arts'), which over time had enormous implications beyond the mere additive influence of quantities of the factors; they could cause local increasing returns to scale in manufacturing from specialisation and roundabout production methods. Even in the famous 'pins' example, output increased from a maximum of 20 to 48,000 pins a day, which by any standards was a substantial increase. By further divisions of the work into small steps and the spread of roundabout methods of production in separate commercial entities it was possible to envision continuing increases in productivity, at least up to the level of full employment. Once achieving full employment, no more subdivision of a work process can be undertaken unless labour is released from other tasks by capital substitution for labour. This disconnected the rise of output per worker from the amount of employment in an industry – output was not simply pro rata with the numbers employed (WN17); it was related to the 'extent of the market', capital, technological change and product innovation (WN31).

In practice, what happened in pin-making (taking Smith's 'very trifling example') and much else eventually, was replicated across manufacturing in the 19th–20th centuries through the introduction of power-driven machinery that enabled fewer, not more, individual workers to complete the work of many men, and increase output substantially. This 'reversed'

the employment effects of the division of labour noted in Smith's pin-making example by recombining the originally divided operations of the primitive division of labour into the automatically controlled operations conducted by a single machine (later banks of machines), which was controlled by one operator. This enabled one operator to do the famous '18' operations, but at performance levels way above those achieved in the original leap in productivity from one labourer to many. If 18 labourers operated banks of automated machines each, say, the rise in productivity could be formidable, producing significantly increased returns to scale, as indeed it did:

In 1820 there were 11 pin factories in Gloucester employing 1,500 people, out of a total population of 7,500, but by 1870 there was no longer a pin industry in Gloucester... By 1939 the number of manufacturers in the United Kingdom had shrunk to about twelve, and now [1978] there are only two, the Newey Group, with a pin factory in Birmingham, and Whitecraft Scovill, which has a factory in Gloucestershire. The concentration of the trade in the U.K. has evolved through mergers, take-overs, and firms leaving the trade.<sup>13</sup>

Professor Mike Munger (the source of these data) reports that there were about 5,300 employees in pin factories in the U.S. in 2002, down from well over 8,000 in 1997. It's hard to compare historically... but clearly the pin industry in the U.S. employed more than 50,000 in the late 1800s.<sup>14</sup>

Concentrating on Smith's famous example of pin-making, and ignoring his example of the constituent elements in the manufacture of the common labourer's coat, misses an important element in Smithian growth and much of what he was driving at. The single example of the pin factory has the side-effect of isolating the division of labour from what has to be its general application across an economy, with multiple instances of manufacturers 'simultaneously and serially', if I may use the expression, simplifying their production processes in response to the extent of their markets themselves constantly changing as their supply chains increase their productivity quite separately from what is happening further along among their customers and among their customers' customers, most of whom have limited or no connections with each other. Improvements in hand tools from an improved division of labour not only reduces the unit costs of making shears for sheep shearing, for example, but might also improve hammers for carpenters, and all manner of other metal tools for other employments to meet rising

demand in extended markets. As output rises in response to a growth in the extent of the market, it becomes possible for sub-operations to be separated out into roundabout processes, which adds to productivity across more than one manufacturer in one industry. The division of labour is not just internal to one pin factory; it becomes external among numerous factories and several industries, resulting in processes that Allyn Young said, are 'cumulative'.<sup>15</sup> Thus, the 'enlarging of the market for any one commodity, produced under conditions of increasing returns, generally has the net effect... of enlarging the market for other commodities'.<sup>16</sup> Allyn Young gave his own telling example of the cumulative effect of these processes in the early printing industry:

The successors of the early printers, it has often been observed, are not only the printers of to-day, with their own specialised establishments, but also the producers of wood pulp, of various kinds of paper, of inks and their different ingredients, of type-metal and of type, the group of industries concerned with the technical parts of the producing of illustrations, and the manufacturers of specialised tools and machines for use in printing and in these various auxiliary industries. The list could be extended, both by enumerating other industries which are directly ancillary to the present printing trades and by going back to industries which, while supplying the industries which supply the printing trades, also supply other industries, concerned with preliminary stages in the making of final products other than printed books and newspapers.<sup>17</sup>

Allyn Young summarised his variation on themes from Adam Smith by advising that increasing returns are not 'discerned adequately by observing the effects of variations in the size of an individual firm or of a particular industry' because 'the progressive division and specialisation of industries is an essential part of the process by which increasing returns are realised' across 'all industrial operations' when 'seen as an interrelated whole'. He identified increasing returns as dependent 'upon the progressive division of labour, and the principal economies of the division of labour', which cumulatively arise from 'using labour in roundabout or indirect ways'. Lastly, while 'the division of labour depends upon the extent of the market' the extent of the market 'also depends upon the division of labour', and in this 'circumstance lays the possibility of economic progress, apart from the progress which comes as a result of the new knowledge'.<sup>18</sup>

Allyn Young's account clarifies Smithian growth as an open, not closed, process driven by increasing, not diminishing, returns. It is not in a state of equilibrium in that many thousands of individuals participate in it, with no central control, quite independent of each other, no imposed constraints on imitation, innovation or invention, no regulated setting of prices or costs and no supervision of the process of their bargaining exchanges. There is plenty of scope for human error, for mistaken readings of market conditions, and for failures to innovate or adapt when maybe they should have and for innovating or adapting when they maybe need not have done so. In these conditions, business failures were classed by Smith under his definition of unproductive labour because, like prodigality, they contributed to lower growth rates (WN357).

The optimum commercial system may be summarised as a set of constituent elements. The rate of increase in employment depended on the rate of capital accumulation that afforded an increase in the division of labour and specialisation and more roundabout production processes. The division of labour depended on the extent of their markets (WN277), which with technical progress produced increasing returns to scale and lower per-unit prices. Productivity will rise both from (or either) using more capital to employ more labourers to subdivide labour ever more finely (from 'dexterity' and time saving) and from using more capital to add inventions or to purchase machines that 'facilitate or abridge labour', assuming there is 'tolerable security'. The outcome was to increase net output of the 'product of land and labour', and as revenue maintains all labourers, productive and unproductive, and their dependents ('those who do not labour at all') (WN332), the key impact on growth depends on the proportion of the revenue that is spent on growth-inducing productive or growth-inhibiting activities.

Revenue is spent on consumption or is saved. For simplicity, Eltis assumes that spending on fixed capital (the capital consumed over several years) was a small proportion in the 18th century and could be safely ignored<sup>19</sup> and that spending was mainly divided between consumption and saving for circulating capital, which by its nature was also spent on maintaining productive labour and materials for production. Those who also save out of their revenue add to their capital, either by employing productive hands or by lending for a share in his profits (otherwise they would be 'perfectly crazy') (WN285). The only source of such capital is the saved revenue and/or the net gains of those who saved out of profits in a previous production cycle.

It was 'parsimony, by increasing the fund which is destined for the maintenance of productive hands, [which] tends to increase the number

of those hands whose labour adds to the value of the subject upon which it is bestowed', which increases the exchangeable value of the annual produce of the country by putting into motion 'an additional quantity of industry, which gives an additional value to the annual produce' (WN337).

Smith's hero was the 'frugal man', whose savings afforded the maintenance of an additional number of productive hands and, in effect, 'establishes as it were a perpetual fund for the maintenance of an equal number in all times to come'. And this is brought about 'by a very powerful principle, the plain and evident interest of every individual to whom any share of it shall belong'. Should the individual cease or temper his frugality he would make 'an evident loss' from 'pervert[ing]' his capital 'from its proper destination' (WN338).

The strong principle prompting society's savings because it affects most people 'is the desire of bettering our condition' because 'no man is so perfectly and completely satisfied' that he is 'without any wish of alteration or improvement, of any kind' (WN341). Most men better their condition by 'augmenting their fortune' by saving and accumulating their capital and 'in the greater part of men, taking the whole course of their life at an average, the principle of frugality seems not only to predominate, but to predominate very greatly' (WN341, 345, 405, 540).

He underlines the significance of his conclusion that the effort to 'better their own condition' is the driving motivation by adding that

It is this effort, protected by law and allowed by liberty to exert itself in the manner that is most advantageous, which has maintained the progress of England towards opulence and improvement in all former times, and which, it is to be hoped will do so in all future times. (WN345)

## Necessary conditions for growth?

Britain's economy was a long way from the happy concurrence of conditions discussed above, and nobody knew that better than the author of *Wealth of Nations*, especially as his focus was on the 'policy measures [that] could be undertaken to create an environment favourable to rapid growth'.<sup>20</sup> Moving to 'an environment favourable to rapid growth' in the circumstances of 18th-century Britain would have involved a large agenda of institutional, economic and political change, little of which happened, and therefore to understand the full account of Smith

on growth we must consider the inhibiting elements to growth as he saw them.

Smith insisted to 'expect . . . that the freedom of trade should ever be entirely restored in Great Britain, is as absurd as to expect that an Oceana or Utopia should ever be established in it', as indeed history since 1776 has confirmed, which raises the following question: if not 'freedom of trade', the policy for which he is famously associated, what policies short of free trade would be practicable, despite the 'prejudices of the publick' and 'the unconquerable . . . private interests of many individuals' who 'irresistibly oppose' any dismantling of the existing trade arrangements established in Britain since Cromwell and added to continually since then? (WN471)

He had to explain how the less than optimal arrangements that were in place were nevertheless viable enough to produce enough growth that in time would afford a form of opulence for the population, including the labouring poor, and show that they would be manifestly better off than the situation they were in. He asserted clearly in his criticism of Dr Quesnay that perfect liberty was not essential for progress towards opulence (WN673). His proposals to dismantle mercantile political economy and many other state policies, such as the power of the local Guilds, the Statutes of Apprenticeship and the Law of Settlements, and to mitigate common-enough behaviours in society, such as public prodigality, colonial ventures, wars and ambitions for empire through monopoly trading companies, mother-country dominance of colonial markets and jealousy of trade, formed a major agenda. Leaving them in place, he believed, was detrimental to securing a steady increase in opulence within a commercial economy. All of these institutions and their associated policies interfered with economic growth, making it essential that the search for policies for promoting growth took account of their effects.<sup>21</sup>

## **Productive and unproductive labour**

Neoclassical economists dropped the distinction between productive and unproductive labour by aggregating all labour of any kind into a single factor, which may have improved the economic modelling, but it was not Smithian.

What circumstances took England from the near 'rude and savage' state to the vastly increased annual production of land and labour, plainly visible by the 18th century? Smith argued that it was caused by the slow but steady accumulation of that part of the capital stock that is employed

in 'raising, manufacturing, or purchasing goods and selling them with a profit' and in 'improving land' (WN279), and he identified the proportionate balance between what he calls 'productive and unproductive labour' as the driver in the linked chain of capital accumulation. Smith's distinctions between productive and unproductive labour were archaic, but they carried an important sub-message that may still be relevant; certain activities add to wealth creation and other activities do not. *Wealth of Nations* was concerned with shifting the boundaries between the two types of labour.

Compared to the distinctions between 'productive' and 'sterile' labour in the work of the Physiocrats,<sup>22</sup> Smith's distinction (in common with Cantillon's and Turgot's presentations<sup>23</sup>) was a step forward because it brought the labour of manufacturers (mainly petty handicraftsmen, craft artisans and journeymen) into the set of growth-inducing activities, a quality misattributed by the Physiocrats solely to agriculture. The Physiocrats considered that manufacturing was 'sterile' and did not produce a surplus, and that only agriculture was the source of the surplus enjoyed by the rest of society. This theory led them into a dead end. Smith's theory of productive and unproductive labour judged labour's productivity by which forms of labour aided growth and which did not. Eltis returned to a similar distinction in 1976 when he identified labour in the market sector, supplying priced goods and marketable *services*, as wealth-inducing in terms of output, and labour in the non-market state sector, which detracted from wealth production.<sup>24</sup>

For Smith, one set of labour (productive) added to the value of whatever it was bestowed upon; the other set (unproductive) had no such effect. A worker shaping hot iron on a forge produces a saleable object, which returns to the employer his cost and a profit; a domestic waiter uncorking a bottle of fine wine for his master 'adds to the value of nothing', though his service provides a convenience for his master and maybe great pleasure too. The usefulness, indeed the desperate need for the services of unproductive labourers (soldiers and sailors defending society from barbarous invasions, for example), had nothing to do with the accumulation of capital, and, therefore, were 'unproductive', despite their great and vital utility and their individual bravery and sacrifices. If defence expenditures were unproductive, without doubt the far greater costs following the 'unproductive' consequences of an uncontested invasion, given the norm of rapine and destruction in Europe's internecine warfare, made defence expenditures a social benefit and protective of growth in the rest of the economy.



The services of unproductive labourers does not, cannot, 'put into motion a quantity of labour equal' to their cost. Whatever their services 'produce' generally perishes 'in the very instant of their performance, and *seldom* leave any trace or value behind them' (my emphasis) from 'which an equal quantity of service could afterwards be procured' (WN330). This leads to Smith's oft-quoted paragraph, apparently lambasting some of the most revered institutions in the society he lived in:

The sovereign, for example, with all the officers both of justice and war who serve under him, the whole army and navy, are unproductive labourers. They are the servants of the publick, and are maintained by a part of the annual produce of the industry of other people. Their service, how useful, or how necessary soever, produces nothing for which an equal quantity of service can afterwards be procured. The protection, security, and defence of the commonwealth, the effect of their labour this year, will not purchase its protection, security, and defence, for the year to come. In the same class must be ranked, some both of the gravest and most important, and some of the most frivolous professions: churchmen, lawyers, physicians, men of letters of all kinds; players, buffoons, musicians, opera-singers, opera-dancers, &c. The labour of the meanest of these has a certain value, regulated by the very same principles which regulate that of every other sort of labour; and that of the most noble and most useful, produces nothing which could afterwards purchase or procure an equal quantity of labour. Like the declamation of the actor, the harangue of the orator, or the tune of the musician, the work of all of them perishes in the very instant of its production (WN330–1).<sup>25</sup>

This is often taken to mean that the distinction was mainly between labour that produces tangible products and labour that undertakes services, with the implication that for Smith all services were unproductive. I think this is too hasty a conclusion.<sup>26</sup>

In modern times, the productive/unproductive boundary has shifted: musicians, singers, opera performers, actors and so on record their performances on DVDs and in 'downloads'; men and women of letters, sports personalities and 'celebrities' sell books, stories, merchandise associated with their names, and media columns and TV clips, which last beyond their 'live' performances. These developments shift the argument about productivity from work 'perishing in the very instant' to whether those defined by Smith as 'unproductive' sell vendible commodities in markets. Many former services are now vendible. For example,

paid-for entertainment is as vendible as those tangible products he defines as coming from productive labourers,<sup>27</sup> while others (public servants, soldiers and so on) continue to supply their services outside the markets (paid for out of taxation), and therefore they remain 'unproductive'.

Take a case closer to our moral philosopher: Smith's lectures in Edinburgh in 1748–51 paid him £100 a year (Corr24),<sup>28</sup> a handsome sum compared to his annual stipend of £40 as a Snell scholar and presumably covered his costs, leaving a sum to hire the lecture rooms in the next season and a profit for the sponsors (Lord Kames and James Oswald). The output of his Edinburgh lectures perished at the instant he delivered them, but their delivery in the market for education paid him revenue, available for 'immediate consumption' or for capital accumulation. Today, we would consider this activity to be productive, and so must Smith if his definition of productive labour is regarded as more important than his examples of unproductive labour. However, for the 'respectable auditory' that attended, their purchases of tickets was for their final consumption only, with the possible exception of those of the many students among them who, in some small measure, added to their human capital.

Eighty-six years after *Wealth of Nations*, Karl Marx on similar grounds criticised, none too seriously, Smith's distinction between productive and unproductive labour. I think some part of the ambiguity in Smith's distinction comes from not separating the consumers of goods and services for final consumption from their suppliers. The consumer spends on the supplier (of the good or service) and does not replace that expenditure by reselling what has 'perished' in the course of consumption (immediate or over time) and in that sense the labour used is unproductive for the consumer. Those suppliers who hire labour to perform certain tasks and who sell the output of that labour to recover their costs (rent, capital and wages) plus a profit clearly have hired productive labour. Domestic servants are unproductive to the household because their cost is not recovered; servants in a restaurant, bordello, theatre or lecture hall are productive to the suppliers because their costs plus a profit are recovered. In the case of tax-funded defence expenditures, consumers pay taxes and do not recover their expenditures, therefore the labour employed is unproductive for taxpayers; suppliers of goods and services to the defence sector sell their outputs to the government and receive incomes that replace their costs plus profit, and therefore their labour is productive for the suppliers. This was the limited distinction in Smith's mind.

Wherever the boundary dividing productive from unproductive labourers in an economy is set, the proportion between them in Smith's theory determines whether 'the annual produce will be greater or smaller accordingly'. It divides into two parts, the 'largest' part destined for replacing capital, or for replacing the 'provisions, materials and finished work' that were withdrawn in the previous round, and the 'smaller part' (the profits) for the owners of the capital that may go to their revenue spending or to their savings (WN322). '[T]he great landlord or the rich merchant' and 'even the common workman' (if his income allows) share the habit of spending revenue on immediate consumption and all will 'maintain a menial servant', or go to 'a play of a puppet show', each contributing 'towards maintaining one set of unproductive labourers', or they may 'pay taxes' to maintain another set 'equally unproductive' (WN333). All consumption expenditure out of revenue is unproductive – it does not replace its costs plus a profit for final consumers, though for producers of final consumption services it may compensate their costs plus profits for them. It depends on which side of the transaction we look at, which may aid appreciation of the distinction that Smith was trying to convey.

The proportion allocated between capital and revenue is the result of the cumulative choices of thousands of individuals acting separately under whatever motivates their choices, and their actions regulate the proportion between 'industry and idleness'. Smith concludes, where capital predominates in these proportions, 'industry prevails'; where revenue predominates in them, 'idleness' prevails. Changes in the proportions of capital and revenue may change the number of productive hands employed, affecting 'the real wealth and revenue of a country's inhabitants'. In the search for wise prescriptions for progressing to opulence, Smith concludes, 'capitals are increased by parsimony, and diminished by prodigality and misconduct' (WN337). Parsimony is the key to the increase in the exchangeable value of a nation's produce of land and labour.

Revenue spent on 'idle guests' and 'menial servants' leaves nothing behind; capital spent on 'labourers, manufacturers, and artificers', who reproduce with a profit their annual consumption, add to the stock of capital. The latter, in effect, is a 'perpetual fund for the maintenance for an equal number in all times to come' (WN338). A minimal amount of unproductive expenditure on consumption is inevitable (we have to eat), but the prodigal perverts this process: he lives beyond his means, consumes his capital and 'tends no only to beggar himself, but to impoverish his country', by reducing the capital that would be available to society

(WN339). In similar vein, Smith keeps returning to the same theme – 'every prodigal appears to be a publick enemy, and every frugal man a publick benefactor' (WN340). He also generalises from the prodigal, who winds his way to self-destruction, to the misconduct of the projector, from his failed vision, over-trading, naivety, bad luck or outright incompetence in managing a capital project, which also diminishes the productive funds of society (WN341).

With idleness, individual prodigality and failed capital projects, it may be wondered how reliable are the forces within commercial society for countering what could be large leakages from the potential force for growth in a nation's capital. Here Smith strikes an optimistic note. He asserts that a great nation cannot be much affected either by prodigality or by the misconduct of individuals, serious as these behaviours may be individually, because the 'profusion or imprudence of some being always more than compensated by the frugality and good conduct of others'. For this compensatory force to be strong enough to overcome prodigality and misconduct it must be propelled by fairly strong and persistent pressure throughout society. And so it is, claims Smith.

The 'passion for present enjoyment' is sometimes 'violent and very difficult to be restrained' and, fortunately, the passion is lessened by 'the principle which prompts to save', namely the lifelong 'desire for bettering our condition' (WN341).

The other major source of expenditure on final consumption was that raised in preparation for wars of varying degrees of necessity, which is a field largely non-researched for its impact on overall economic growth.<sup>29</sup> Thus, while 'the four expensive French wars of 1688, 1702, 1742 and 1756' cost 'a hundred and forty-five millions of debt' (WN345–6) and the general profusion of government undoubtedly 'retarded the natural progress of England towards wealth and improvement, it has not been able to stop it' because in the midst of all the exactions of government 'capital has been silently and gradually accumulated by the private frugality and good conduct of individuals, by their universal, continual, and uninterrupted effort to better their own condition' (WN345). It should be noted that Smith, characteristically, does not express a point of view about the efficacy or legitimacy of the causes of the four wars, nor on whether wars in general should be undertaken. He simply states their budget costs and consequences for the progress towards opulence.

Given that England had never been blessed with a parsimonious government, he declared that it 'is the highest impertinence and presumption, therefore, in kings and ministers, to pretend to watch over the œconomy of private people' because governments 'are themselves

always, and without exception, the greatest spendthrifts in the society. Let them look well after their own expence, and they may safely trust private people to look after theirs. If their own extravagance does not ruin the state, that of their subjects never will' (WN345–6).

Capital employing productive hands is the engine of growth; spending stock on revenue above that which is necessary – prodigality in place of frugality – diverts annual produce and erodes that which otherwise could contribute to society's net increase in capital. In sum, the proportion of productive labour is at the core of Smith's theory of growth. For Smith this was the definitive choice for all who participate in a commercial economy. How they react to that choice effectively determines the steepness of the growth trajectory of the society. He simplified what was at stake to an extreme choice between 'prodigality' versus 'parsimony'. The prodigal spends revenue and 'leaves nothing behind'. The amount spent adds nothing to his revenue in the next period because his consumption is a leakage, not an investment. If he saves something out of his revenue it is consumed by 'a different set of people', such as productive 'labourers, manufacturers, and artificers, who reproduce with a profit the value of their annual consumption' (WN338).

Prodigality is a sort of 'perversion' (he uses the verb 'to pervert' three times in two paragraphs) in Smith's lexicon because it wastes the prodigal's inheritance from his forefathers' frugality, it diminishes the funds destined for employment of productive labour and thereby the value of the annual produce of the country, plus it diminishes the real wealth and revenue of other inhabitants, including, though unsaid, those among the labouring poor. It feeds, in effect, 'the idle with the bread of the industrious' and beggars not just himself, but 'impoverishes his country' (WN339). And he writes much more about prodigals in a similar vein and temper.

Smith's presentation of his ideas about growth is a mix of history, economics, evidence and assumptions, and it pointed in a broad direction – steadily growing opulence. Modern growth theorists, therefore and understandably, have problems with it because rather than a precisely balanced growth, based on an interlinking of many technical conditions, it says nothing about the conditions necessary to produce equilibrium. In dissecting it and reassembling the parts within an equilibrium framework for which it is not suited, it is like a rough translation of a foreign language that loses in the essential subtleties of the author's plot.

Smithian growth was not about equilibrium. True, implicitly he allowed for an exception at some future terminal stage when it was no longer growing and in a sort of equilibrium (WN111). But this situation,

Smith declared, had never happened because 'perhaps no country has ever yet arrived at this degree of opulence'. He did not appear to consider it a likely contingency at any time soon, but he accepted that 'China seems to have been long stationary, and had probably long ago acquired that full complement of riches which is consistent with the nature of its laws and institutions'. Presumably, but unsaid, 'other laws and institutions, the nature of its soil, climate, and situation' might produce a superior complement of riches.

Smith introduced the role of exports into growth. His observations on stagnant China assert that it was 'self-inflicted', in the sense that its government had chosen to cut itself off from the world, which explained China's problem and the problems of economies that do not trade. Capital mobilises labour and materials to produce surplus output for sale but a neighbourhood may not have sufficient demand to match supply, and this requires capital for 'transporting either the rude or manufactured produce from places where they abound to those where they are wanted' (WN360). Absent such transport, 'no more either could be produced than was necessary for the consumption of the neighbourhood' and thus it would discourage industry and decreases the 'enjoyments' of what would have been exchanged in trade (WN360-1). Clearly a general ban on contact and trade with the outside world, as in China, damaged the country initiating the ban as it spread across all of its products more than the rest of the world (WN680-1).

He discussed 'the progress of our American colonies', and warned that if 'either by combination, or any other sort of violence' (tariffs, prohibitions) it discontinued trade with Britain in manufactures, it would 'retard' that country's 'progress towards wealth and greatness', because this would 'divert' a considerable part of its capital to manufacture goods which it presently imported, and would 'draw towards' manufacturing a greater share of capital than would 'naturally go to it' and force from some other industry (agriculture?) that would otherwise be employed in it (WN366-7, 687).

Apart from his concerns about current events, exports play an important role in his growth theory. They promote effectual demand abroad for surplus products in exchange for products from other countries that widen domestic consumer choice. They are integral to the progress towards opulence, drive the division of labour and roundabout methods of production and increase employment. Without foreign trade, growth would peter out; all restrictions on foreign trade undermine a country's opulence.

## Growth trajectories

Gavin Reid focused on the growth trajectories of Smith's four ages of Hunting, Shepherding, Agriculture and Commerce, and their successions through time in the growth of the 'social product' of each age.<sup>30</sup> Unanticipated new modes of subsistence for the foreseeable future would postpone the limiting case of when a country reaches 'its full complement of riches' that 'the nature of its soil and climate, and its situation with other countries allowed it to acquire' (WN111). Soil, climate and situation are fairly basic conditions typifying an economy dominated by agriculture, as was Britain in Smith's time. In terms of output, with millions more people requiring food today, agriculture represents less than 3 per cent of GDP, the remaining 97 per cent represented by manufactures and services in the post-industrial economy. To soil, climate and situation we should add knowledge and technology, to which there may be no limits.

Growth occurred, and where a new mode of subsistence first appeared, social product increased year by year from its surplus over the previous year. When growth slowed and then ceased to add to social product, society's existing mode of subsistence changed or, as has happened in some parts of the world at certain times, it stagnated or declined.

Reid's growth trajectory idea, intentionally, is schematic in the relative durations of the different ages or in the actual data of their growth rates. There is plenty of scope for distracting quibbles about these matters, serving no good purpose. Each age to some degree reached a maximum growth in gross social product and, when population changes are taken into account, there was little change in per capita social product for millennia. The surplus above subsistence for the majority of the population was appropriated and controlled by powerful elites and used for their purposes (prodigality, wars, construction, arts and such like). The per capita subsistence of the poor majority was more or less unchanged throughout most of history.<sup>31</sup>

Reid cites<sup>32</sup> Dean and Cole on the significant and historically unique changes that began to occur at the end of the 18th century:

Before 1745, when total output grew very slowly, the population changed very little, with the result that output rose slowly... At the end of the century, however, there was a crucial change. After 1785, both total output and population were growing much faster than before, but the former began to draw decisively ahead of the latter. For the first time per capita output started to increase by nearly 9 per

cent per decade – or at more than three times the average rate for the rest of the period.<sup>33</sup>

These historically unprecedented increases in social product, per capita and gross, continued through the industrialised and post-industrialised ages, and for the majority of the population in the developed countries, poverty, overwhelmingly, was no longer absolute.

Growth was seen by Smith to be crucial to resolving the absolute deprivation of the majority of the population. It is from this context that we should judge his tone against mercantile political economy. It was never a matter of Smith wanting to substitute some 'grand plan' or scheme that would remove blemishes on a perfectly free economy just because they ought to be removed. He was not a 'man of system' (TMS232–4). He was hostile to mercantile political economy, and those who would make its prescriptions worse by seeking monopoly status, because it drained the almost, but not quite, fragile growth-inducing forces that, if they were less burdened, would bring about the end of absolute poverty experienced by the majority of the population that much sooner.

He tempered the haste of others (Francois Quesnay and the Physiocrats, for example) because Smith's appreciation of human history showed him that perfection in human affairs was not normal and that long-run positive changes in social and economic arrangements were possibly a long way short of purist preconditions. This suggested that a platform of practical small changes, here and there, that legislators and those who influenced them could be persuaded to adopt was a more responsible basis for advocacy than a long list of impractical demands upon the existing institutions and the men who ran them.

## Notes

1. Adelman, I. 1962.
2. Cf. Cantillon, R. [1734]; Turgot [1766].
3. Fleischacker, S. 2004: 36–44.
4. Hicks, J. 1932; 1965; Harrod, R. F. 1948; Domar, E. [1957]; Solow, R. M. 1956; Swan, 1956; Kaldor, N. 1957; Romer, P. M. 1986; 1987.
5. Young, A. 1928; Adelman, I. 1962; Hollander, S. 1973; Lowe, A. 1975; Eltis, W. A. 1975; 1984; Walsh, V. and Gram, H. 1980; Reid, G. C. 1989b.
6. Lowe, A. 1975: 416–17.
7. *Ibid.*: 417.
8. *Ibid.*
9. *Ibid.*: 416.
10. Schumpeter, J. 1954: 184–6.



11. Lowe, A. 1975: 417.
12. In drafting this section, I have benefited from Walter Eltis on classical growth (1984).
13. Pratten, C. J. 1980; Dutton, H. I.; Jones, S. R. H. 1983.
14. Munger, M. 6 April 2007: <http://divisionoflabour.com/archives/003684.php>.
15. Young, A. 1928: 532. I am grateful to A. P. Thirlwall for drawing my attention to the importance of Allyn Young's 1928 paper.
16. Young, A. 1928: 536.
17. Ibid.: 537.
18. Ibid.: 538.
19. Eltis, W. A. 1984: 78.
20. Adelman, I. 1962: 25.
21. Rodrik, D. 2007: 184–92.
22. Quesnay, F. [1759] 1766; cf. Skinner, A. S. 1996: 123–41.
23. Cantillon, R. [1734; 1931] 1964; Trugot, A.-R. [1766] 1973; cf. Chydenius, A. [1765] 1931.
24. Cf. Eltis, W. 1976.
25. Cf. Steuart, Sir J. [1767]. II.xxvi.i: 369.
26. Fleischacker, S. 2004: 134–8.
27. Cf. Eltis, W. 1976.
28. Ross, I. S. 1995: 86.
29. Kennedy, G. 1975.
30. Reid, G. C. 1989: 6–13; I am grateful to Professor Reid for his work in this area; he is not responsible for my presentational changes.
31. Clark, G. 2007.
32. Reid, G. C. 1989: 10.
33. Deane, P. and Cole, W. A. 1967: 80.

# 11

## ‘a very violent attack’

### Introduction

In 1780, Smith described his criticism of mercantile political economy as a ‘very violent attack . . . upon the whole commercial system of Great Britain’ (Corr251). Four years later he stepped up his attack by adding to the third edition (1784), an equally robust broadside (WN442–62; Corr266).

Major authorities doubt whether Book IV should be regarded as economics, though it is ‘of immense value to historians’,<sup>1</sup> assert that it was ‘an emphatic piece of free trade propaganda’<sup>2</sup> and claim ‘that Smith’s attack on the mercantile system, was utterly inconsistent if that system was, in fact, merely a necessary concomitant of the highest, most civilised stage of social development’, for which ‘there was surely no point in fulminating against it’.<sup>3</sup> These responses misread the significance of Smith’s enquiry.

Successive governments for three centuries followed policies, summarised as mercantile political economy, which involved ‘jealousies of trade’, hostility to neighbours and spending on preparations for, and the conduct of, wars that made the participants worse off than they could be if their ‘enemies’ were seen not as deadly rivals but instead as sources of mutual benefit through trade. It is appropriate to understand Smith’s analysis rather than become agitated about his tone; he regarded mercantile political economy as missing opportunities to spread opulence.

History is untidy, and more than a simple journey through the four ages, which engenders unwarranted images of progression, with tones of inevitability. Such images should be resisted. No age was or is inevitable; different underlying modes of subsistence occurred and were compatible

with variant forms of governance. Progress can be reversed, or seriously malformed, by events. Therefore, it is not inconsistent for Smith to criticise mercantile political economy or to prefer the adoption of different policies. Specific policies of mercantile political economy could be replaced, altering the future from what it otherwise might become; thankfully, he realised, it was not necessary to change everything to change anything.

## **Mercantile policies**

The tenets of mercantile policies interfered with the natural inclinations of people, including the strong impulse to 'better themselves' and, by misdirecting such impulses, they undermined the natural path of economic growth through commerce. He considered exceptions to natural liberty on their merits and not on whether they offended Purist doctrine when he focussed his attention on specific examples of policies that hindered wealth creation. A problem with Smith's polemic is that many of the detailed issues he raises are no longer regarded as current. Much research was conducted into mercantile policies,<sup>4</sup> attracting a new German name of 'mercantilism',<sup>5</sup> which was never used by Smith (though Rosenberg insists that Smith 'invented' it).<sup>6</sup>

Smith attacked the proposition that 'wealth' consisted of gold and silver, rather than the goods that they purchased. Policies challenging notion of money-is-wealth have since become closely associated with Smith's critique, but they were by no means the sole focus of his attention (see the excellent account of 17th-century economic literature by Samuel Holland, and the longer account by Jacob Viner).<sup>7</sup> Notions of money being synonymous with wealth encouraged countries, without their own gold and silver mines, to export more than they imported. Their export surpluses earned gold and silver, which obviously was not possible for all countries at the same time. Smith was in no doubt about the fallacy of the wealth-is-money doctrine, but was unsuccessful in pinning its origins down to someone specifically. The notion of money is wealth was firmly embedded in popular thinking: 'rich people have strongboxes of gold and silver', therefore rich countries should have the same. So widespread was this false notion that he asserted that 'all the different nations of Europe' studied, 'to little purpose', how to accumulate gold and silver.

Prohibitions on the exportation of gold were easily evaded, making it pointless, but 'the balance of trade' could not be hidden and concerns about it crowded out proper attention to other policies. Cantillon, a banker, accepted the idea that somehow regulating the balance of trade

was an important role for government.<sup>8</sup> But if a country imported more than it exported, the balance of trade adjusted itself by merchants sending gold and silver abroad to meet their deficits. Individual merchants adjusted their behaviour as exchange costs became higher or lower. The understanding of the adjustment mechanism, said Smith, was 'solid', but the inference that some took from it was 'sophistical'. He queried the conclusion that gold and silver must be augmented to deal with trade balances, whereas no attention was needed to be paid to the trade balance of other commodities. With 'freedom of trade' in all commodities, including gold and silver, the so-called 'unfavourable' trade balance would adjust 'without fail' and did not require the attention of government (WN432–3):

A country that has wherewithal to buy wine, will always get the wine which it has occasion for; and a country that has wherewithal to buy gold and silver, will never be in want of those metals. (WN438)

Smith asserts that it 'would be too ridiculous to go about seriously to prove, that wealth does not consist in money, or in gold and silver; but in what money purchases, and is valuable only for purchasing' (WN438). He admitted that in compiling the implications of these 'ridiculous' notions, he did so 'at the hazard of being tedious'. For Smith, theories came down to practical legislation. He summarised the errors of mercantile political economy leading to restraints upon imports and encouragements of exports, which, supposedly, were the 'two great engines for enriching a country'.

The following mercantile policies Interfered with trade:

- restraints upon imports for home consumption that could be produced domestically;
- restraints upon imports of all goods from particular countries with which a country has an imbalance of trade;
- restraints imposed by means of high duties and outright prohibition;
- encouragement of exports by drawbacks, bounties, advantageous trade treaties with certain countries and by establishing colonies;
- drawbacks on the duties and excise on home manufactures when exported and when imported materials or manufactures, subject to duties on importation, are re-exported;
- bounties given to encourage new (today: 'infant') industries, or any industry judged to deserve specific favours;

- advantageous treaties of commerce to particular merchants in particular countries beyond that accorded to all other countries and their merchants;
- monopoly privileges for the goods of merchants from the country that establishes colonies (WN450–1).

Smith's sole concern was the significance of these measures in their tendency to increase or diminish the value of a country's annual produce and, thereby, promote or inhibit progress towards opulence.

### Restraints on imports

Smith reported that there seemed to be two cases where it would be advantageous to 'lay some burden upon foreign' industry for the 'encouragement of domestick industry' (WN463). These cases breach his reputation as a free trader and as an advocate of *laissez-faire*. But for Smith, what was advantageous was based solely on pragmatic, not doctrinaire, grounds. His discussion of when free importation should be relaxed was, first, when it was necessary for the defence of the country; and second, when a tax was imposed on domestic production of the same products for reasons of policy. He approved of the former and was sceptical of the latter.

The first exemption centred on the Navigation Acts,<sup>9</sup> dating back to Oliver Cromwell (1651), and enhanced by successive governments. Britain depended on its navy for national defence and he said the Navigation Acts 'very properly' gave British ships and sailors a monopoly of the sea trade of their island country. Foreign owners and crews faced 'forfeiting ship and cargo' and a possible 'double alien's duty' should they attempt to breach Britain's monopoly of its coastal trade and its trade with its colonial settlements. Moreover, foreign vessels were permitted only when delivering cargoes directly from their own countries, where 'the owners, masters, and three-fourths of the mariners' were from the country that produced the cargoes (otherwise this could expose British ships to retaliation) (WN463–4).

Foreign fleets were regarded as hostile to British interests. And it was from this strategic problem, prompted by the spirit of 'national prejudice and animosity', which promoted this singular and most blatant breach of the principles of free trade (WN474). All governments were persuaded that the country's island situation was a serious weakness and potential threat to its independence. Continental rivals had access to continent-wide supplies and markets; Britain was an island. In the shadow of the

'violent animosity subsisting between nations', they preferred to override the nation's commercial convenience in favour of naval security (WN464).

For Smith, the Navigation Acts were a defining criterion of the subordination of economics to national politics. He knew fully and explicitly the economic cost of the Navigation Acts in making foreign imports dearer to buy and domestic exports cheaper to sell. He asserted as a high principle that the first duty of the sovereign (WN687) was 'that of protecting society from . . . violence and invasion', adding, 'the act of navigation is, perhaps, the wisest of all commercial regulations of England' (WN464–5). The Navigation Acts, though clear breaches of free trade, were tolerable in pursuit of preserving prospects for Britain trading towards opulence and natural liberty, despite their distortional effects on capital accumulation among diverse sectors of the economy. This was a pragmatic, not principled, choice brought about by Smith's judgement as to which line of attack on current British policies would be more likely to succeed in bringing about the Act's ultimate demise. In the conditions of mid-18th-century Britain, he judged that there was a small chance of the Navigation Acts being repealed in one step and more chance that they could be undone piecemeal and, wisely, chose the latter as the way forward.

From this breach in Smith's advocacy of universal free trade, Friedrich List was hostile to Smith's perceived role, as he saw it, of 'hiding' Britain's real intentions in 'free trade' advocacy. He picked on Smith's 'warped judgement upon the Navigation Laws', highlighted his distinction between their 'political' and 'economic' effects, and took this as a contrived argument to hide the fact that 'power is more important than wealth'. List argued strongly for Smith's 'candour' to be a precedent for his own nationalistic contributions to debates in his native Germany, specifically that it should take a strong mercantile (protectionist) line in its trade policies and not be lulled into national weakness by adopting 'English' political economy.<sup>10</sup>

Smith, however, found the case against free importation unconvincing. He details the circumstances favouring limited qualifications to the general policy of free trade, broadly under the heading of encouraging domestic industry. He knew that the advocates of traditional mercantile policies had the ear of legislators and they sought special protection for individual cases upon which they exerted strong influence.

Smith presents the exceptions case, with signs of overt scepticism, for when

- there is a domestic tax on specific produce so as to equalise the disadvantage of purchasing a domestic and imported product (WN465);
- ‘all sorts of foreign goods’ that compete with domestic produce, particularly the ‘necessities of life’, should have ‘some duty’ exacted to equalise the enhancement in the prices of domestic produce (WN465–6);
- foreign countries retain ‘high duties or prohibitions’ on domestic exports to them, ‘revenge...naturally dictates retaliation’, particularly if there is a probability of their repeal, but not otherwise (WN467–8).

He shows that these were expedient rather than principled policies by referring to them as ‘according to some people’, who ‘say’ or ‘think’ the arguments for them, and comments that they are ‘certainly a most absurd way of making amends’ to the problems they identify as causing the need for imposing tariffs and duties. He also lists them as being ‘generally advantageous’ for encouraging domestic industry, which were usually conceded by legislatures to ‘stop the clamorous complaints of our merchants and manufacturers’ about being ‘undersold’ by foreigners’ goods. He also comments that judgement about imposing this or that tax

does not, perhaps, belong so much to the science of a legislator, whose deliberations ought to be governed by general principles which are always the same, as to the skill of that insidious and crafty animal, vulgarly called a statesman or politician, whose councils are directed by the momentary fluctuations of affairs. (WN468)

Smith reported on policies and the people who advocated them, and was not signalling a change in his beliefs about the efficacy of free trade. His comments follow a discussion about restoring free trade and the prospects for succeeding in such policies (WN471). He expressed concern that a clamour for revenge against countries that impose duties and prohibitions on British goods, if successful, could worsen the situation for the whole country and not just for those affected by the actions of a foreign government. A judgement whether to retaliate against another country’s imposition of damaging tariffs should turn on prospects for repeal and not on the anger generated against a foreign government by those merchants losing from the foreign tariffs. Domestic prohibitions cause real injuries to others besides those affected initially by a neighbour’s conduct. This called for ‘deliberation’ on the pros and cons in each specific situation, as did consideration of the timing of restoration

of free importation that had been interrupted for some time by domestic protection. The vulgar politician's contribution to debates on issues of timing was not that of the political economist and he put it stronger in his *Lectures*: 'they whom we call politicians are not the most remarkable men in the world for probity and punctuality' (LJ539).

Where an industry has enjoyed protection and expanded as a consequence to employ a 'great multitude of hands', humanity 'requires that the freedom of trade should be restored only by slow gradations, and with a good deal of reserve and circumspection' in case, when duties are removed 'all at once', the flood of cheaper imports into the home market deprives 'many thousands of our people of their ordinary employment and means of subsistence', and causes considerable 'disorder' (drawing the attention of politicians and agitators), though probably with 'much less' justification than is 'commonly imagined' (WN469). The home market will not collapse if the transition is managed carefully, as and when unemployed labourers find other work. How fast a market for domestic products would decline and how many formerly employed would remain unemployed was an empirical question.

Smith the moral philosopher breaks into the muses of Smith the influencer, and he quotes the analogous peaceful absorption into the economy of suddenly demobilised sailors and soldiers (accustomed as many were to 'the use of arms' and lives of 'rapine and plunder') after 'the late war'. He also took the opportunity to draw attention to the legal exceptions to some of the domestic mercantile policies then in force that were enjoyed by ex-servicemen, and suggested that the same privileges accorded to ex-service men be accorded to all labourers by the removal of the 'exclusive privileges of corporations', the 'repeal the statute of apprenticeship' and 'the law of settlements' (WN469–71).

He summarised the political problems obstructing the restoration of free trade in words that give no doubts as to how fragile were the prospects of succeeding. He opens with what appears to be his surrender to total pessimism. He considered the belief that freedom of trade ever be *entirely* restored in Great Britain was 'absurd' (WN471). This, I suggest, is not quite what it seems. It is not a prediction that no progress towards restoring free trade would 'ever' be made. He considered progress could and should be made and that any progress in this direction would help to raise the growth rate. Free trade would not be 'entirely restored', that is all, and nor need it be to improve growth, the division of labour and employment.

The obstacles were impressive, not trivial (they still are). To the prejudices of the public, there were the more 'unconquerable' private



interests of those individuals who were 'irresistibly opposed' to free trade. He contrasts the master manufacturers who are against every law likely to allow rivals into the home market and, in an analogy likely to appeal to politicians, he suggests they think about the consequences if the officers of the army were to oppose with 'the same zeal and unanimity' an analogous reduction in their number. Manufacturers incite and enflame their workmen 'to attack with violence and outrage the proposers' of any free-trade regulation and, like an overgrown standing army, they have become 'formidable to the government, and upon many occasions intimidate the legislature' (WN471).

Smith knew many members of Parliament through his life-long friend James Oswald MP, and from whom he heard about the fate awaiting any MP who 'supports every proposal for strengthening this monopoly' compared to the fate of those who opposed it. The protectionist acquired 'not only the reputation of understanding trade, but great popularity and influence with an order of men whose number and wealth render them of great importance', contrasted with the member who opposed them and, worse, was 'able to thwart them'. For the free trader, 'neither the most acknowledged probity, nor the highest rank, nor the greatest publick services can protect him from the most infamous abuse and detraction, from personal insults, nor sometimes real danger, arising from the insolent outrage of furious and disappointed monopolists' (WN471). These have the ring of Smith's private conversations with both sides of the protectionist argument, which indicates something of a worrying atmosphere around the Westminster, especially to a lack of protection from 'real danger'.

He offers a conciliatory message expressing his 'equitable' understanding of the possible plight of the undertaker of a great manufacturer who 'would no doubt suffer very considerably' should his home markets suddenly be opened to foreigners – did he hear this from individual manufacturers and MPs lobbied by them? The manufacturer could move his circulating capital into some other employment, but his fixed capital 'could scarce be disposed of without considerable loss'. Smith suggests that changes 'should never be introduced suddenly, but only slowly, gradually, and after a very long warning' and that the legislature should direct its deliberations 'not by the clamorous importunity of partial interests', but from 'an extensive view of the general good' and, for the future, it should be particularly careful 'neither to establish any new monopolies of this kind, nor to extend further those which are already

established' (WN471). Within these constraints, Smith remained convinced of the practicality of proceeding with patience over time to restore something akin to freer trade.

### **Extraordinary import restraints**

To the proposals for protective trade restrictions that originated in 'private interest and the spirit of monopoly', said Smith, were added 'still more unreasonable' and unfounded 'national prejudice and animosity' against foreign trading partners who traded with them and, as sinisterly, against foreigners who traded successfully with other foreigners (WN474). In the minds of European rulers and their self-interested 'advisors', the happy successes of rival countries were seen as dire threats to their own happiness and security, every bit as dangerous as suffering territorial conquests.

The slow realisation that foreign trade might be a substitute for territorial acquisition stirred new passions among the rulers of national states, particularly the nagging vice of covetousness, wrapped as ever in jealousy. Fears that simmered from perceptions of dangers to national security from armies marching across frontiers slowly switched to paranoia when exports crossed the same frontiers or were carried in ships under the flags of foreign kingdoms. The political economy of trade in the 17th and 18th centuries was a long way from the model of harmony and reconciliation associated with idealistic expectations for the peaceful consequences of international trade. Latent or rampant xenophobia were made worse by the proliferation of international conflicts and the associated suspicions and distrust that such wars and fears of such wars generated.

Smith took his normal stance against the 'absurd' doctrines that promoted, rather than abated, the historic attentions of 'underling tradesmen' with their false notions of the identity of their self-interests with that of the nation, which they 'erect into political maxims for the conduct of a great empire', and who believe falsely that 'their interest consists of beggaring their neighbours'. This contrasted with free traders, who purchased their 'goods always where they are cheapest and best, without regard to any little interest of this kind' (WN493).

The ruling jealous passions of merchant interests provoked Smith into one of his more strident passages:

Each nation has been made to look with an invidious eye upon the prosperity of all the nations with which it trades, and to consider

their gain as its own loss. Commerce, which ought naturally to be, among nations, as among individuals, a bond of union and friendship, has become the most fertile source of discord and animosity. The capricious ambition of kings and ministers has not, during the present and the preceding century, been more fatal to the repose of Europe than the impertinent jealousy of merchants and manufacturers. The violence and injustice of the rulers of mankind is an ancient evil, for which, I am afraid, the nature of human affairs can scarce admit of a remedy. But the mean rapacity, the monopolizing spirit of merchants and manufacturers, who neither are, nor ought to be, the rulers of mankind, though it cannot perhaps be corrected may very easily be prevented from disturbing the tranquillity of anybody but themselves. (WN493)<sup>11</sup>

In effect, he blames the jealousies of a number of merchants and manufacturers for the wars that Britain became involved in during the century, mostly fighting for hegemony over Dutch and French mercantile interests, under the false impression that trade was like a war for or against territorial expansion – the more you gained the more your rival enemies lost.<sup>12</sup> Inflaming national animosities by taking legislative measures against another country's exports deepened these problems. Smith believed that taxing, turning away or impounding cargoes provoked retaliatory actions which added momentum to warm moods that 'something to be done'. Hume, followed by Smith, spotted the problem and pointed out the flaws in the argument. Wealthy neighbours, while 'dangerous in war', were also 'advantageous in trade' (WN494). Hostile rich neighbours could afford superior fleets and armies, and policies to make them poorer were not thought through properly, particularly in their effects on the home country. Acts that made them poorer even if they worked effectively, of which there was no guarantee, did not lessen their hostility and also weakened the country initiating them.

Trade in lower-priced products raised domestic real incomes; imports plus imposed tariffs raised prices and lowered real incomes, a self-inflicted pain imposed by legislating for tariffs against foreign products on behalf of a minority of domestic interests, which did not coincide with the interests of the majority of domestic consumers. Such weaknesses were exacerbated by mobilising armies and fleets manned by unproductive labour to engage in wars in pursuit of false notions about 'national interests' that were detrimental to the creation of 'real wealth' in the countries at war, and in those third-party countries peripherally affected.

Smith's (and Hume's) alternative policy asserted that 'a state of peace and commerce' was mutually beneficial because it enabled countries to produce and exchange greater values of the 'necessaries, conveniences, and amusements' of life. The richer the neighbours with whom a country traded, the better off it would become, because rich neighbours are better customers for industrious people. True, rich trading nations included 'dangerous rivals', but in the commercial sense only; they may 'under-sell' domestic manufactures, which was 'advantageous to the great body of the people', who would regard, therefore, their rich neighbours as the 'probable cause and occasion' for themselves to acquire riches from trade (WN494-5). Trade, therefore, is a race to the top, not to the bottom. In like manner, Smith drew attention to the real cost of 'mercantile jealousy and national animosity' against France, then prevalent in Britain and mirrored in France:

Mercantile jealousy is excited, and both inflames, and is itself inflamed, by the violence of national animosity: And the traders of both countries have announced, with all the passionate confidence of interested falsehood, the certain ruin of each, in consequences of the unfavourable balance of trade, which they pretend, would be the infallible effect of unrestrained commerce with the other. (WN496)

He told his students that if there were some other means of 'defraying the expenses of government' then 'all duties, customs, and excise should be abolished' and all countries should have 'free commerce' with Britain as a 'free port' (LJ514). For Smith, this was quite radical, but between that ultimate goal and from where the trading nations of Europe would start, there were no modest obstacles, not the least of which was the stubborn persistence of popular notions fanned by interested parties that national survival was intimately joined to the 'balance of trade'. He contrasted the 'balance of produce' with the 'balance of trade' and noted that a surplus of production over consumption adds to, and a deficit reduces, capital accumulation, the former constituting growth and the latter decline. Whereas a surplus of imports over exports adds to real wealth (the flow of goods or the 'exchangeable value of the annual produce of its land and labour') because there is a flow outward of gold plus paper debts, neither of which was real wealth, a surplus of exports over imports reduces real wealth because this causes an inward flow of gold paid by the foreign importers for the country's outward flow of its products of land and labour. In the extreme, a country with little or no foreign trade (China, since the 15th century) could be compared

with countries with foreign trade (18th-century British colonies in North America), and the stagnation of the former with the growth of the latter 'may serve as a proof' of his proposition (WN498).

### **Mercantile political economy and colonies**

Colonies vastly complicated the progress towards the spread of opulence in Smith's analysis. They added an almost ruinous dimension to the developing European nations on the economic level and on the political level, when joined with the risks of jealousy of trade (especially with wars).

As ever, Smith looked to the classical age of Greece and Rome for the roots of colonies and found them in the unexceptional circumstances of domestic population pressure on small territories influencing the mix of motives promoting dispersal and expansion (WN556–8).

The 'discovery' of the islands off the Americas by Columbus in 1492 at first appeared to have no worthwhile importance; they had nothing that constituted the 'real riches of every country' in 'animal and vegetable productions of the soil' (WN560). They consisted of 'country quite covered with wood, uncultivated, and inhabited only by some tribes of naked and miserable savages' (WN559). This gave Europeans in the early colonisation of the Americas different motives from the 'irresistible necessity or from clear and evident utility' of Greece and Rome, whose colonies expanded into territories already peopled predominantly by farmers and shepherd societies. The Americas were peopled by hunter-gatherers in low population densities. The few agricultural societies in and near Central America crumbled relatively quickly under European pressure.

Greed for gold, as a by-product of Spain's search for a western route to China and India, became that country's sordid 'sacred thirst' (WN562) in a despicable class of its own, dressed up, Smith noted, for the 'pious purpose of converting' the inhabitants to 'Christianity', which 'sanctified the injustice' of 'the plundering of defenceless natives' (WN561). Spain took the entire region into its possession, all from the sight of some little 'ornaments of gold' brought back by Columbus, who offered to the crown half of all of the gold found in future. This irresistible motive initiated what was to become the most unfortunate and, in many cases, the most despicable series of acts committed by one people on another as their introduction to the 'modern' world.

Smith showed an interest in what made for prosperity in new colonies, at least for the colonists. He enumerated the causes for the rapid

advance of the colonies to 'wealth and greatness' compared to their 'mother countries' (WN564–90):

- they transfer with them superior knowledge of agriculture and useful arts not (yet) found in 'savage and barbarous nations';
- they transfer the habit of subordination, regular government, systems of laws and administration of justice, which they install in the new settlements;
- they acquire more land than they can cultivate, without having to pay taxes or rent to landlords, and pay but a 'trifle' to the sovereign;
- they pay labourers 'liberally', but labourers move on to land ownership themselves (land is so cheap and labour so dear);
- high wages encourage fertility and lower infant mortality, and on maturity the high price of labour and low price of land create opportunities to emulate earlier generations (WN564–6).

Compared to relations between the mother country and the Roman colonies, the American colonies, because of their distance from 'home', were 'less in the view and less in the power' of the mother country to intervene (WN567). Gold kept Spain's attention firmly focussed on its American colonies; its absence in the British colonies created its own problems, not the least of which was how to pay for defending them against the ambitions of other European powers, while home governments practised benign neglect and colonial legislators engaged in the endemic factional trivia to which distant colonies were prone (WN567–8).

Northern European colonies on the coast of North America were usually the result of ventures sponsored by exclusive companies of merchants, which monopolised supplies to and from the small enclaves. Smith noted the harmful effects and the mitigating counter-effects of the five causes of their progress to opulence.

The government of an exclusive company of merchants, is, perhaps, the worst of all governments for any country whatever. It was not, however, able to stop altogether the progress of these colonies, though it rendered it more slow and languid . . . The plenty and cheapness of good land are such powerful causes of prosperity, that the very worst government is scarce capable of checking altogether the efficacy of their operation. (WN570; cf. 572, 637–41)

He noted that the engrossing of uncultivated lands, while practised on a small scale in the English colonies, had only a small effect on the availability of land, and it was nowhere near to the scale of the practice followed in South America, where vast lands were given to Court favourites. In contrast, in the northern colonies with limitations on, and exclusions from, primogeniture, and the moderation of taxes, greater quantities of labour were put 'into motion', and by leaving greater proportions of income in the hands of the colonists, and not their absentee landlords, they went some way towards meeting the optimal requirements in Smith's growth theory (WN572–3). These happy conditions were due to the freer land laws in some of the English colonies. Proprietors who did not develop their land could have them re-granted to another person (WN572), in contrast to neglected land in Britain which could decay for generations. This is an example of his acceptance that there could be a useful role for government in the progress towards opulence if they adopted the 'right' laws, whereas he emphatically states that the 'liberty to manage their own affairs their own way' is a main cause 'of the prosperity of all new colonies'. In contrast, in the Spanish colonies they imported the laws and practices of the mother country (engrossed land and primogeniture) straight into their local laws. Land laws managed this way brought the negative effects of the mother country into play in the Spanish colonies, making spare land expensive, unimproved and less productive. Liberty under the wrong laws inhibits progress towards prosperity; as always, Smith made his point and left it to legislators to do the 'right' thing.

There is a direct line in Smith's account from the emergence of trade as a national political issue to trade becoming the focus of national animosity and jealousy, from which it seems inevitable that if competition among trade rivals is a cause of stress and discomfort, the notion of their establishing colonies of the modern kind quickly makes them exclusive monopolies for the mother country's benefit. When this is tied to the seaborne exploration of the unknown rest of the world, itself another arena of international competition, the 'race' to find, claim and hold colonies was inevitable. The major maritime powers of the 15th and 16th centuries, which first explored the Americas, made grandiose claims to vast tracts of territory and tried to set up small enclave colonies to 'legalise' their claims. Fortunately, the lands claimed for colonisation were vast, and while local 'incidents' featured in occasional disputes (particularly from English 'piracy'), the process was not normally violent between the European powers until the 17th and 18th centuries, by which time broad 'spheres of influence' were established.

Smith advanced an economic interpretation of European colonisation. The colonial traders had a monopoly of trade (against all comers, including 'adventurers' from their own countries) and the colonial population were obliged by law to buy all of their European goods from the exclusive company and to sell all colonial produce to them. 'It was the interest of the company, therefore,' Smith noted, 'not only to sell the former as dear, and to buy the latter as cheap as possible, but to buy no more of the latter, even at this low price, that they could dispose of for a very high price in Europe.' This had the effect of not only 'degrading the value of the surplus produce of the colony' but also discouraging and keeping down the 'natural increase of its quantity', making Smith summarise the economics of the arrangement as being undoubtedly the 'most effectual' means by which exclusive companies could 'contrive to stunt the natural growth of a new colony' (WN575). He did not hide what he thought of the arrangement. It forced some part of the capital of Britain from the foreign trade in consumption:

- firstly, with neighbours in Europe and the Mediterranean to that of 'distant countries' across the Atlantic (WN601);
- secondly, into a roundabout one (it takes much longer for capital to turnover and circulate) (WN602);
- thirdly, to the carrying trade; which broke 'altogether that natural balance which would otherwise have taken place among all the different branches of British industry' (WN604).

In consequence, said Smith, using a medical analogy, the 'body politick' is 'less healthful', liable 'to many dangerous disorders', of which the threatened 'rupture with the colonies' struck 'more terror' than was 'ever felt for a Spanish armada, or a French invasion'.

He did not believe that Britain would voluntarily surrender its authority over its American colonies because 'to propose such a measure as never was, and never will be adopted, by any nation in the world', citing the precedent that 'no nation ever voluntarily gave up the dominion of any province, how troublesome soever it might be to govern it, and just how small soever a revenue which it afforded might be in proportion to the expence which it occasioned' and noting that such sacrifices might be 'agreeable to the interest' but were 'always mortifying to the pride of every nation', and of 'still greater consequence' they were 'always contrary to the private interest of the governing part of it' in pursuit of the 'disposal of many places of trust and profit, or many opportunities of



acquiring wealth and distinction, which the possession of the most turbulent, and to the great body of people, the most unprofitable province seldom fails to afford' (WN616–17).

In contrast, he advanced the alternative vision that Britain should offer a peaceful separation and settle upon the American colonies a 'treaty of commerce', securing free trade, advantageous to the people, less so to the merchants, that would favour the mother country 'in war as well as in trade' and turn the 'turbulent and factious subjects' into 'our most faithful, affectionate, and generous allies' (WN617). Standing in the way of good sense, however, was that universal fear of loss of 'national honour' and a diminished 'dignity', especially in the 'eyes of Europe', and, at home, 'the rage and indignation at the public disgrace and calamity' from 'dismembering the empire', which his parliamentary friends would have warmly exhibited in their private conversations.<sup>13</sup>

For such passing moods, brought on by the long practice of false mercantile doctrines, the government passed up an opportunity to found a wise settlement based on the growth of commerce, on peace between mother country and former colonies, and on international political stability. But such was the stuff of politics that Smith's advice was to no avail. The king was minded to offer no concessions to maintain his writ in the British colonies and he offered nothing; the colonists chose 'to draw the sword in defence of their own importance' (WN622), and the king, unwilling to concede anything, lost everything.

Smith proposed an alternative plan, ingenious but too late to make a difference and wrapped it in delicate language to assuage the sensitivities of the king and his court. They and the colonists had moved beyond bold compromises in order to settle the issues between them by force. His proposal was for the colonists to send representatives as members of the British parliament in proportion to the amounts each colony contributed to the public revenue, to be augmented as their annual contributions augmented. For the leading men of each colony a 'dazzling object of ambition' from 'the wheel of the great state lottery of British politicks' would be within their reach, 'instead of the piddling little prizes' of 'the paltry raffle of colony faction'. Yet, Smith also recognised that the 'shopkeepers, tradesmen, and attornies' in the colonies who 'are become great statesmen and legislators' contriving 'a new form of government of an extensive empire, which they flatter themselves, will become, and which, indeed, seems very likely to become, one of the greatest and most formidable that ever was in the world' were unlikely to drop all these fancies and ambitions to fall back into line as subjects of the mother country (WN623).

Moreover, Smith suggested, as others did as well, that his plan for parliamentary representation, while the best that a British king and statesmen could hope for, barring military victory, was unattractive for the colonists even though the 'rapid progress' of the American colonies in 'wealth, population and improvement' (the main ingredients of Smithian economic growth) would, 'in the course of little more than a century, perhaps' exceed the amount of taxation raised in the home country, causing, under his plan for representation proportional to taxable contributions, the 'seat of the empire' to move from London to America. In effect, this asked the ambitious colonists to wait until 1880 to reverse their dependence on the British monarchy, even assuming (a large assumption, indeed) that the monarchy would be willing to agree to its eventual demise in this manner.

### **Chartered trading companies**

The chartered trading companies were a natural extension of mercantile colonialism, and were founded on monopoly privileges granted by the sovereign, or acts of parliament, which, because they were driven by intense jealousy of rivals, defended their monopolies tenaciously. They were particular targets for Smith's ire; because of the force of his criticisms and their apparent, but misleading, similarities in their institutional arrangements as 'joint-stock companies' with today's international capitalist corporations, it is not uncommon to find modern scholars applying Smith's condemnations of them to current businesses, as if the contexts were similar and the institutions identical, which on both counts they are not.

There was much for Smith to criticise based on their performance over nearly two centuries. The main problem lay in the extraordinary delay in communication between the trading companies and their governing boards. It took six to ten months for mail to reach India and, allowing for more delays to the up-country centres of the East India Company, it took the same for a reply to reach London. By then, events, personnel and interest in the issues usually had moved on and dated instructions, enquiries and routine reports of governance and audits of supervision left a great deal of discretion in the hands of local managers, and massive scope for malfeasance at all levels. Smith was not coy in condemning the outcome (WN631).

Private fortunes too were made under the protection of the monopoly. Local managers and clerks, supposedly looking after the interests of their masters in London, traded on their own account, despite occasional

efforts to stop the practice. Smith noted that ‘Nothing can be more completely foolish than to expect that the clerks of a great counting-house at ten thousand miles distance, and consequently quite out of sight, should, upon a simple order from their masters, give up at once doing any sort of business on their own account, abandon for ever all hopes of making a fortune, of which they have the means in their hands, and content themselves with the moderate salaries which those masters allow them’ (WN638–9).

Smith, for prudent legal reasons denied that he was throwing any ‘odious imputation upon the character of the servants of the East India company’, and made clear he was blaming the government for the ‘situation in which they are placed’. He described the chartered companies as ‘nuisances in every respect; always more or less inconvenient to the countries in which they are established, and destructive to those which have the misfortune to fall under their government’ (WN641).

Two general points can be drawn here. The first is Smith’s identification of the primacy of the interests of consumers over producers:

Consumption is the sole end and purpose of all production; and the interests of the producer ought to be attended to, only so far as it may be necessary for promoting that of the consumer. . . . But in the mercantile systems, the interest of the consumer is almost constantly sacrificed to that of the producer; and it seems to consider production and not consumption, as the ultimate end and object of all industry and commerce. (WN660)

This statement is unambiguous. Its applicability in a society where interest groups have social leverage over legislators was not encouraging. Merchants and manufacturers, of which order Smith seldom speaks without condemnation, were more likely to gain the ears of legislators than the dispersed mass of consumers. He asserted that the ‘contrivers of this whole mercantile system’ were ‘the producers whose interest has been so carefully attended to’ and from among which ‘merchants and manufacturers have been by far the principal architects’ (WN661). This rebuts accusations that Adam Smith served the interests of the ‘ruling’ orders.<sup>14</sup>

Second, the original rationale for chartered companies was the need for ‘extraordinary protection’ of traders on the West coast of Africa. By the time traders had moved to ‘India’, they insisted on ‘securing their persons and property from violence’ by erecting forts. But who would pay

the expense of the defence of a trading interest – the traders or the government, the first duty of which is 'the defence of the commonwealth?' (WN731–3)

Two distinct company types existed at the time, one 'regulated' and the other 'joint stock', established either by royal charter or by act of parliament (WN740). The regulated companies resembled the corporations of trades found in the towns (WN733); individuals joined them on payment of 'fine' and agreed to be bound by their regulations, mainly in regard to their monopoly status. Individuals who were not members of the corporation were not permitted to trade within their territory. Smith opined that the regulated companies had been less 'repressive' than 'useless', which 'is perhaps the highest eulogy which can ever justly be bestowed upon' them (WN735). Their directors had no particular interest in the 'prosperity of the general trade' and its 'decay' 'may even frequently contribute to the advantage of their private trade' because the regulated company diminishes 'the number of their competitors', which enables them to 'buy cheaper, and to sell dearer' (WN737).

In contrast, the directors of a joint-stock company, having only a share of the profits from the common stock that they managed on behalf of shareholders, and without private trade, found their private interest connected to the general trade of the company, including the maintenance of the forts and garrisons necessary for its defence (WN737).

The joint-stock companies differ from the regulated companies and from 'copartnery' companies. In the latter the partners' capital is locked in and cannot be transferred to an outsider, nor can a member introduce a new partner without the consent of the other partners. They could withdraw from the copartnery and request payment of their share of the common capital. In a joint-stock company, members, or shareholders, could withdraw from the company without the consent of the other members and transfer their shares by private agreement on price to strangers, who then become new members in their own right (WN740). Co-partnery members were liable for the company's debts to the full extent of their private fortune, whereas joint-stock shareholders were bound only to the extent of their shares.

The 'Court of directors' managed the joint-stock company. The proprietors were assumed by Smith to receive 'contentedly such half yearly or yearly dividend, as the directors think proper to make them' (WN741). In the belief that limited liability applied to such companies, they encouraged 'many people to become adventurers in joint stock companies, who would upon no account, hazard their fortunes in any copartnery' (WN741).<sup>15</sup>

The main criticism Smith had of joint stock companies, and which is most often quoted today in comments on the familiar principal-agent problem, was that the directors who managed other people's money rather than their own 'cannot well be expected, that they should watch over it with the same anxious vigilance with which the partners in a copartnery frequently watch over their own' and, consequently, 'negligence and profusion, therefore, must always prevail, more or less, in the management of the affairs of such a company' (WN741).

Smith conceded that there may be a case for granting a monopoly for a limited number of years to a company of merchants that intends at its own expense and risk to open trade with 'some remote and barbarous nation', much like an inventor or author of a book. But a 'perpetual monopoly' would be wrong because it taxes consumers in two ways: the high monopoly prices of the goods, which would be cheaper in free trade; and the exclusion of others from the monopoly trade in which they might make profit if they were allowed to enter it at their convenience. The monopoly status enjoyed by the perpetual monopoly enables 'the company to support the negligence, profusion, and malversation of their own servants, whose disorderly conduct seldom allows the dividend of the company to exceed the ordinary rate of profit in trades which are altogether free, and very frequently makes it fall even a good deal short of that rate' (WN755).

Despite these specific strictures, the principle of a joint-stock company was not completely abandoned by Smith. He suggested there were certain circumstances where such companies would be appropriate, specifically if they required large capitals to function efficiently, and were without monopoly privileges, and where their operations could be reduced to strict rules or routine with little or no variation. These included the following:

- the banking trade (such as the Bank of England, the Bank of Scotland and the Royal Bank of Scotland, and the principal banking companies of Europe);
- the insurance trade;
- the construction of canals and aqueducts;
- the piping of water supplies (WN756–7).

Domestic location was regarded by Smith as crucial to workable joint-stock companies. Of the companies that operated overseas, the only exception was the Hudson Bay Company. The nature of the terrain and climate of northern Canada precluded individual adventurers when set

against the capacity of the company to generate worthwhile cargoes for the few ships calling in the six-week weather window (WN743–4). Importantly too, the operations of domestic joint-stock companies were under closer supervision, with early remedies in the domestic courts for fraud by company directors and officials (excluding share manias in 'bubbles').

## **Colonial trade and capital distortions**

The supposed gains from a thriving colony for the mother country is the access to, and the enjoyments of, the surplus of colonial produce, but the exclusive trade imposed by the mother country renders that surplus below what it otherwise would be and much more expensive (WN593).

Over a long period, the distorting effects of the colonial trade monopolies on the domestic economy came to the fore. Smith analysed these effects in line with his growth ideas. First, the monopoly of colonial trade and their profits drew capital, which would have otherwise been spread across all domestic trades, in pursuit of higher profits than obtainable at home (WN596). The effect is occasioned by the growth in foreign trade not increasing its capital in proportion to its capital requirements from its own resources and therefore having to attract capital from other domestic trades, including from trades engaged in intra-European trade. This last effect further distorted domestic trade because it had to change its product mix from being suitable for intra-European requirements to the more distant requirements of America.

Second, the trade monopoly enforced by the Navigation Acts kept the profit rate above what it would have been if all nations in Europe had been able to trade directly with the American colonies. Smith also pointed out that the higher profit rates, and not, as claimed, high wages, were the main cause of the high prices of colonial products in Europe (WN599).

The domestic capital previously growing to support foreign trade of consumption with neighbouring European countries was forced to switch to the American trade, and because of the greater distance and time required to complete a transaction, it forced part of domestic British capital from direct foreign trade of consumption to the indirect, round-about foreign trade (WN602). This tied up a large capital in what was essentially one great market with a slower turnaround, instead of many smaller domestic markets with faster turnrounds, and it reduced the contribution of capital surplus to other purposes, including the improvement of domestic lands (a favourite target of Smith's) and the increase

in domestic manufactures through finer divisions of labour. The ultimate effect was to reduce commerce in Britain through slower capital accumulation. Faster growth, suggested Smith, would have increased the superiority of Britain over its European rivals (WN603–4).

The greater foreign trade with the American colonies was deceptive until the capital employed and its turnround were considered, when set against Smith's definition of 'advantageous', namely which allocation maintains the 'greatest quantity of productive labour and most increases the annual produce of the land and labour' of the country? A capital of £1000 employed in the foreign trade of consumption, of which the returns are made regularly once a year, maintains a quantity of productive labour that can be maintained by a thousand pounds. The same capital employed domestically that can return itself 'twice or thrice a year' maintains a quantity of labour worth two or three thousand pounds a year, with beneficial effects on the employment of productive labour two or three times the quantity employed in the distant colonial trade. In Smith's mind the folly was obvious; in so far as it affected the minds of some of the country's decision-makers Smith would have achieved his purpose (WN600). He gave examples of trade in tobacco which involved even longer 'round-about' transactions, lasting 'three or four years' and sometimes 'four or five years'. In consequence this kept in constant employment a fourth or fifth part of what could be employed productively (WN602–3). Moreover, because the Navigation Acts required the exports of the colonies to be sent first to British ports and then to wherever they were destined, Britain outlaid a much greater amount of its scarce capital in the process, with much of it lying idle in port warehouses awaiting shipment to other countries in Europe and for the return traded goods to arrive for sale in Britain. It was probable, surmised Smith, that the domestic tobacco trade could be conducted with a much smaller amount of capital, leaving the excess needed under the current monopolistic arrangements to be used in other domestic commercial activities for profit. The beneficiaries of these monopoly arrangements were those engaged in the British colonial trade; the losers were the larger number of unseen people who could be employed productively, earn their maintenance and provide profits to their undertakers (WN604).

Smith summarises his disdain for mercantile political economy, which worked to the detriment of wealth creation and the promotion of growth:

To found a great empire for the sole purpose of raising up a people of customers, may at first sight appear a project fit for a nation of shopkeepers. It is, however, a project altogether unfit for a nation of

shopkeepers; but extremely fit for a nation whose government is influenced by shopkeepers. Such statesmen, and such statesmen only, are capable of fancying that they will find some advantage in employing the blood and treasure of their fellow citizens, to found and to maintain such an empire. (WN613)

Before the outbreak of the 'disturbances' the necessary appurtenances of defence were a charge on the revenue of the British government, plus the costs of the effects of the 'distortions' caused by the overall misplacing of capital on the economy. But when the crunch came, it was over the defence costs issue and not the far greater capital distortion issues raised by Smith.

The flow of cash from the Treasury for line items in a parliamentary budget has high salience compared to the hidden costs of economic flows fundamental to an economy, which Smith had patiently analysed, but which played no role in the decision to contest the rebellion. Smith's enquiry came too late to impact on these issues.

## Notes

1. Robbins, L. 1998: 147.
2. Heckscher, E. 1955, vol. ii: 332 (cited in Coats, A. W. 1975: 219).
3. Coats, A. W. 1975: 222, in Skinner, A.K. and Wilson, T.
4. Heckscher, E. L. 1934.
5. Viner, J. 1937: 3n.1.
6. Cf. Rosenberg, N. 1979: 23, in O'Driscoll, jnr: 19–34.
7. Holland, S. 1973: 33–44; Viner, J. 1937: 1–118.
8. Cantillon, R. [1734; 1931]: 193.
9. Harper, L. A. [1939] 1964.
10. Cf. Nicholson, J. S. 1909.
11. Cf. Hume, D. [1752] 1987.
12. I have benefited in drafting this chapter from reading Istvan Holt, 2005.
13. Gutteridge, G. H. 1933.
14. Cf. Gallagher, S. E. 1998.
15. Cf. Shannon, H. A. 1931; Campbell, R. H. 1967.



# 12

## ‘an invisible hand’

### Introduction

Adam Smith did not credit ‘the invisible hand’ metaphor with the importance that many modern economists give to it, so what then did Adam Smith mean by this metaphor in contrast to what is attributed to him across the world today?

William Grampp identified nine different meanings of the invisible hand (ten, including his own) in modern literature,<sup>1</sup> and Warren Samuels has analysed the way the invisible hand is used by neoclassical economists.<sup>2</sup> I argue that Smith had no ‘theory’ of invisible hands (he used the words only three times) and he showed no inclination to treat them as anything more than an isolated metaphor. Significantly, he gave the metaphor no role in his theory of competitive markets.

Yet, three leading economists lauded his metaphor,<sup>3</sup> describing it variously as follows:

- ‘The profoundest observation of Smith’ ... ‘the system works behind the backs of the participants; the directing hand is invisible’;<sup>4</sup>
- ‘surely the most important contribution [of] economic thought’;<sup>5</sup>
- ‘one of the great ideas of history and one of the most influential’.<sup>6</sup>

How did a casual metaphor achieve such high status when neither he nor contemporary readers took much notice of it?

The invisible hand is called Smith’s metaphor, but he was not the first to use it. There are many early references to ‘invisible hands’, showing substantial prior use of it before Smith:<sup>7</sup>

- Homer (*Iliad*, 720 BC): ‘And from behind Zeus thrust him on with exceeding mighty hand’;<sup>8</sup>

- Horace (65–8 BC), Ovid (*Metamorphoses*, AD 8): 'twisted and plied his invisible hand, inflicting wound within wound';
- Lactantius (*De divinio praemio*, c.250–325): '*invisibilis*';
- Augustine, 354–430, 'God's "hand" is his power, which moves visible things by invisible means' (Concerning *The City of God*, xii, 24);
- Shakespeare, 'Thy Bloody and Invisible Hand' (*Macbeth*, 2.3; 1605);<sup>9</sup>
- Daniel Defoe, 'A sudden Blow from an almost invisible Hand, blasted all my Happiness', in *Moll Flanders* (1722a); 'it has all been brought to pass by an invisible hand' (*Colonel Jack*, 1722b);<sup>10</sup>
- Nicolas Lenglet Dufesnoy said that an 'invisible hand' has power over 'what happens under our eyes';<sup>11</sup>
- Charles Rollin (1661–1741), described as 'very well known in English and Scottish Universities', said of the military successes of Israeli Kings, 'the rapidity of their consequences ought to have enabled them to discern the invisible hand which conducted them';<sup>12</sup>
- Charles Bonnet (whom Smith befriended in Geneva in 1765) wrote of the economy of the animal: 'It is led towards its end by an invisible hand';<sup>13</sup>
- Jean-Baptiste Robinet (a translator of Hume) refers to fresh water as 'those basins of mineral water, prepared by an invisible hand'.<sup>14</sup>
- Voltaire (1694–1778) in *Oedipe* (1718) writes, 'Tremble, unfortunate King, an invisible hand suspends above your head', and 'an invisible hand pushed away my presents';<sup>15</sup>
- Professor W. Leechman (1706–1785) (1755) said, 'the silent and unseen hand of an all-wise Providence'.<sup>16</sup>
- Kant E. (1784) 'Universal History': 'leads on to infer the design of a wise creator and not [the hand of a malicious spirit]'.<sup>17</sup>

The invisible hand was hardly remarked upon after his death in 1790, until assumptions about its role slipped into the mainstream, first almost unnoticed in the last quarter of the 19th century<sup>17</sup> and then in the second half of the 20th century, by which time its linkage to Adam Smith was universally accepted. Among the few exceptions were Karen Vaughan,<sup>18</sup> Noel Parker<sup>19</sup> and Emma Rothschild.<sup>20</sup>

Smith, discussing how Shakespeare used metaphors, described them as a 'figure of speech' in which 'there must be an allusion betwixt one object and an other', and that a metaphor can have 'beauty' if it 'is so adapted that it gives due strength of expression to the object to be described and at the same time does this in a more striking and interesting manner' (LRBL29). A metaphor is representative; it is not identical to its object.

### The invisible hand in the 'History of Astronomy'

Smith, in his 'intended juvenile' 'History of Astronomy' (Corr168), mentions the Roman god Jupiter and his invisible hand (EPS49), which protected the Emperor with thunder bolts. For those believers, the invisible hand was real, not a metaphor at all. His essay explains why mankind had 'little curiosity' in 'the first ages of society'. A 'savage, whose subsistence is precarious and is exposed to the rudest of dangers, has no inclination to amuse himself with searching out what seems to serve no other purpose than to render the theatre of nature a more connected spectacle to his imagination'. As those 'appearances terrify him, he is disposed to believe everything which renders them still more terrifying' (EPS48–9); ignorance fosters paranoia.

Smith's explanations of the origins of pagan religions explains his remark about 'the invisible hand of Jupiter', with absolutely no pretence that he refers to anything other than an imaginary object in the frightened minds of ignorant people.

For it may be observed, that in all Polytheistic religions, among savages, as well as in the early ages of Heathen antiquity, it is the irregular events of nature only that are ascribed to the agency and power of their gods. Fire burns and water refreshes; heavenly bodies descend, and light substances fly upwards, by the necessity of their own nature; nor was the invisible hand of Jupiter ever apprehended to be employed in those matters. (EPS49–50)

Smith reworked this passage to some extent in one of his other essays, when speaking of the 'first ages of the world':

... the seeming incoherence of the appearances of nature, so confounded mankind, that they despaired of discovering in her operations any regular system. Their ignorance, and confusion of thought, necessarily gave birth to that pusillanimous superstition, which ascribes almost every unexpected event, to the arbitrary will of some designing, *though invisible beings*, who produced it for some private or particular purpose. (EPS112–13; emphasis added)

He rooted multiple 'invisible beings' in 'pusillanimous superstition', which compromises those who assert that Smith believed that a providential force guided the modern economy, and despite his showing how

markets in a modern commercial economy worked without any reference to anything invisible. It was and remains a mere metaphor that adds nothing to our understanding of how markets work. In fact, it obfuscates understanding by its metaphysical undertones.<sup>21</sup> Like science explaining the rainbow without taking anything away from our admiration of its raw beauty, Smith analysed the 'connecting chain of intermediate events' that fills 'the interval betwixt them' in the 'ordinary course of things', and while the philosopher lost his 'wonder', he gained his 'admiration' of the 'beauty' of 'eclipses of the sun and moon', which once 'excited the terror and amazement of mankind'.

'Philosophy', he asserted 'is the science of the connecting principles of nature' (EPS41–5) and like the artisan who 'has been for many years familiar with the consequences of all the operations of his art' and 'feels no such interval' between the 'connecting principles' of his trade, the philosopher is able, 'by representing the invisible chains' that 'introduce order into this chaos of jarring discordant appearances', to allay his 'tumult of the imaginations, and to restore it, when it surveys the great revolutions of the universe [and in commerce: when it reveals "so beautiful and so orderly a machine" (TMS186)] to the tone of tranquillity and composure, which is both agreeable in itself, and most suitable to its nature' (EPS45–6).

### ***Moral Sentiments* and the invisible hand**

In *Moral Sentiments* the 'invisible hand' metaphor was a useful rhetorical device in support of the 'connecting chain of events' and their unintended consequences. What is significant is that he revealed his explanation of the 'chain of events' first, followed by the metaphor, and the metaphor therefore merely supported his explanation for those who did not understand the events. Those who do not understand nature rely on notions of 'invisible beings' with 'invisible hands'. Some scholars, presumably not realising the sufficiency of his explanations, focus on the metaphor and detect theology in Smith's language that purport to show that he was, if not a Christian, at least a Deist,<sup>22</sup> or a believer in Divine (presumably 'pusillanimous') Providence.<sup>23</sup>

Smith acknowledges that philosophers before him recognised utility was a 'principal' source of beauty, specifically citing David Hume's definition that the 'utility of any object...pleases the master [owner] by perpetually suggesting to him the pleasure of conveniency which it is fitted to promote'. Smith's chapter title agrees that beauty is closely bound with admiration for an artefact's 'fitness for purpose' (TMS179).

Smith observed that 'any production of art, should often be more valued, than the very end for which it is intended' (TMS179–80). He found it highly significant that people were more interested in 'the perfection of the machine that serves to attain' some end than they were in the end itself. By 'art' Smith was not referring to sculpture or painting, but to the 'art' (skill, knowledge and so on) of making any mechanical or manufactured item, or useful piece of knowledge that serves a purpose, such as that practised, for example, in the 'Edinburgh Society for Encouraging Arts, Sciences, Manufactures, and Agriculture in Scotland', founded in 1755.<sup>24</sup>

Smith describes the tragedy of the 'poor man's son, whom heaven in its anger has visited with ambition', which causes him to devote himself 'for ever to the pursuit of wealth and greatness' and to sacrifice the 'real tranquillity that is at all times in his power'. The rich were admired not so much for their 'superior ease or pleasure which they are supposed to enjoy' as they were for their possession of 'numberless artificial and elegant contrivances for promoting this ease or pleasure'. Nobody imagined that the rich were really happier than others, but they did imagine that the rich 'possess more means of happiness' (TMS180–1).

When the poor man's son reaches old age, 'reduced either by spleen or disease' he 'curses ambition' and 'vainly regrets' giving up 'foolishly' the 'pleasures and ease' of his youth for what he acquired in pursuit of happiness. He realises too that power and riches are 'enormous and operose machines contrived to produce a few trifling conveniences to the body' and in his melancholy elaboration of this 'splenetic philosophy' he suffers 'sickness and low spirits'. However, in happier times 'of ease and prosperity', before low spirits sets in, his ambition and optimism is transformed into admiration of the beauty of 'the palaces and œconomy of the great' because he believes that everything in them is 'adapted to promote their ease, to prevent their wants, to gratify their wishes, and to amuse and entertain their most frivolous desires' (TMS181). It is only later, as a rich man, that he realises that his happiness is ephemeral; lacking the satisfaction he strove for, and not worth the anxiety, fear and sorrow to which he was exposed while acquiring his riches (TMS182–3). These contrasting perspectives run right through society, reach all levels and affect individuals in all stages of the delusion.

Smith turns the direction of his argument from these deceptions to the role that the striving in pursuit of such mirages means for society. For society's sake, he assures us, it is well that these 'deceptions' are widespread, because they 'rouse and keep in motion the industry of mankind' (TMS183).

It is this which first prompted them to cultivate the ground, to build houses, to found cities and commonwealths, and to invent and improve all the sciences and the arts, which ennoble and embellish human life; which have entirely changed the whole face of the globe, have turned the rude forests into agreeable and fertile plains, and make the trackless and barren ocean a new fund of subsistence, and the great high road of communication to the different nations of the earth. (TMS183–4)

These delusions, for example, affect the 'proud and unfeeling landlord', who views his extensive fields without a thought for the wants of his brethren. When looking at his fields and the harvest growing on them, you can almost hear him thinking, 'Mine! All Mine!' Yet, he could not consume anything that he sees before him because 'the capacity of his stomach bears no proportion to the immensity of his desires'. The rich landlord has no choice but to dispose of the surplus above his own extravagant desires in some manner, because he can do no other (TMS184) than distribute the surplus among 'all the thousands whom they employ', namely the labourers:

- who toil in the landlord's fields;
- who 'prepare in the nicest manner' that 'little which he himself makes use of';
- who 'fit up the palace in which this little is to be consumed';
- who 'provide and keep in order all the baubles and trinkets' employed 'in the œconomy of greatness';
- 'all of whom thus derive from his luxury and caprice, that share of the necessaries of life which they would in vain have expected from his humanity or his justice' (TMS184).

This was a large group of particular interest to Smith's moral judgements. The landlord's 'natural selfishness and rapacity' serves his own 'conveniency' and the 'gratification' of his own 'vain and insatiable desires'. Because the landlord does not labour, he 'hires' landless labourers to do everything for him in exchange for their receiving a share for their annual subsistence. Either way, the labourer's subsistence is maintained from the surplus produce of the land, net of next season's seed stock. This is stated clearly, and should not be regarded as exceptional. An otherwise interesting treatment of the invisible hand by Grampp completely misinterprets Smith's statements as an instance of the landlords' 'charity', and claims them to have a proclivity for being 'dumbbells', who 'never

learn' that they need to make only 'one distribution' to the poor, as if the subsistence of the landless was not necessarily perpetual each season – who would plant the crops and harvest them if subsistence was a once-only charitable event? (TMS184; WN908)<sup>25</sup>

Smith asserts famously that the landlords 'are led by an invisible hand to make nearly the same distribution of the necessities of life, which would have been made, had the earth been divided into equal portions among its inhabitants, and thus without intending it, without knowing it, advance the interests of the society, and afford the means to the multiplication of the species' (TMS184–5).

Private property in land was inextricably bound up with agriculture. Open fields exposed to human traffic and to wandering flocks and free-range herds proved too troublesome in practice (as Cain and Abel's travails demonstrated) and resulted in the gradual emergence of property as the mainstay of civilisation. Property is not incompatible with equal portions of the land distributed among aspirant farmers. Equality of land distribution was enshrined in early Roman agrarian law, but, noted Smith, subsequent trends and events undid its chances of succeeding, because the 'course of human affairs, by marriage, by succession, and by alienation, necessarily deranged this original equal division, and frequently threw the lands, which had been allotted for the maintenance of many different families into the possession of a single person', and this law 'was either neglected and evaded, and the inequality of fortunes went on continually increasing' (WN556–7).

Equality of land distribution limits population growth up to the capacity of the settled territory when divided into viable plots. Beyond that capacity, too many individuals seeking equal shares of viable plots would have insufficient land for distribution, without further conquests, possibly displacing the resident population, net of those killed or sold into slavery, a 'solution' associated with Roman imperialism. Minimal subsistence, related to the sustainable reproduction of the population, sets the base below which it cannot drop without impacting on population.<sup>26</sup> Private property in land (equal or unequal shares) as an alternative to a hunter-gathering mode of subsistence was only viable if its total output was at least equivalent to previous pre-farming levels, if population was to be maintained, and it must have risen above these levels as population continued growing, keeping per capita output roughly constant.<sup>27</sup> Therefore, that private landlords could divide their produce 'very nearly the same' as 'would have been made had the earth been divided into equal portions' is not saying anything exceptional. Smith's comparative

measure of the outcome from the deception that drove landlords' behaviour in distributing shares of the surplus produce is fully explained by the necessities of any mode of subsistence with a growing population.

The self-deception reconciled 'proud and unfeeling' landlords to (albeit non-egalitarian) shares of their surplus with their retainers, serfs and tenants, which can and did operate within a wide range of relative 'subsistence' levels, from deep privation for labourers' families to mild prosperity, as seasonal bounties and dearth imposed or allowed.

Pierre Force notes perceptively that 'in the rhetorical tradition, the economy of something is the relationship between the whole and the parts',<sup>28</sup> an idea pregnant with insight into Smith's use of the 'invisible hand' metaphor in *Moral Sentiments*. The landlord was not 'led by an invisible hand', divine or ghostly, in a mysterious or 'miraculous' sense that there was an actual entity driving him to act in the manner that he did; he was led by a necessity that kept the 'operose machines' of the mode of subsistence working, for without sustaining labourers to toil for him on his farms and with his herds, and without his armed retainers to defend his property rights against rival rich, indigent poor and foreign invaders alike, all ambitions for his personal 'vain and insatiable desires' would have been frustrated as population reproduction fell below levels that maintained a basic fitness for labour and multiplied the species sufficient to replace those subject to nature's mortal culls. As the *whole is the sum of its parts*, neglecting the minimal subsistence of the parts, in due course, would have terminated the landlord's 'greatness and riches'. His ambition driving him would have evaporated in failure. The stone detritus of past civilisations testifies to this stark reality since agriculture and property appeared on earth.

Those who seek wealth for happiness are self-deceived into striving for 'greatness and riches', which they do from the principle of 'beauty' that pleases the eye and the imagination in the 'fitness for purpose' of the 'numberless artificial and elegant' appurtenances and contrivances, which are the main drivers of the commercial economy. Smith's original principle explained how utility was less important as a driver than its 'beauty' – a hovel and a palace provided shelter from the elements, but the 'fitness for purpose' of the palace drew aspirants from their beds early each morning to strive to acquire the means to its beauty either by working hard or by ensuring that others worked hard for them.

The 'invisible hand' metaphor, as a 'figure of speech', does precisely its job, as Smith intended, by drawing the image of an 'an allusion betwixt one object and an other', the object being the self-deception of the landlord and the 'beauty' of the metaphor that 'is so adapted that it gives due



strength of expression to the object to be described and at the same time does this in a more striking and interesting manner' (LRBL29). And a prime candidate for undertaking this in a 'striking and interesting manner' was the oft-used, contemporary literary metaphor of 'an invisible hand', now hijacked in a modern version of 'Smithian' economics. But metaphors are representative, not real; they exist only as the imaginary image of what they allude to and they do not define it (LRBL30–1).

### **The invisible hand in *Wealth of Nations***

Import duties, excise taxes and prohibitions, wrote Smith, secure domestic monopolies in the goods affected by them. British grazers benefit from prohibitions on importing Irish live cattle, from which they gain a monopoly in the supply of butchers' meat. Corn growers benefit from high duties such as on corn imports, and likewise for other produce with duties on foreign woollens, silks and linen. Smith confesses that the duties and prohibitions on foreign goods are so widespread that unless you are 'well acquainted with the law of customs' you could innocently breach the law (Corr245–6).

Tariffs and monopolies of the home market encourage those industries that benefit from them and thereby draw a greater share of labour and stock than would be the case in their absence. These distortions of the 'natural balance of an industry' may reduce the employment of capital by causing a below-normal rate of capital accumulation (WN453). The principles he advanced were as follows: 'The general industry of society can never exceed what the capital of the society can employ', and 'the number of those that can be continually employed by all the members of society, must bear a certain proportion to the whole capital of that society, and can never exceed that proportion'. He stated that the regulation of commerce cannot increase the quantity of industry beyond what can be maintained by its capital. Regulations only divert capital from where it might have gone otherwise and these diversions are unlikely 'to be more advantageous' than where capital would have gone 'of its own accord' (WN453).

Protection and prohibitions boost domestic production of certain items, which inevitably diverts capital and employment away from unprotected to protected sectors. The reduced, or eliminated, competition from imports reduces the pressure of price competition on domestic suppliers, and consumers lose out from higher prices and their reduced demand for other products. The net gains and losses distort capital allocation across society.

When the natural inclinations of individuals are considered, they 'continually exert' themselves to find the most advantageous employment for their capital, and he shows that in exerting themselves in this manner they may unintentionally prefer what is most advantageous for society (WN454). When every individual exerts himself to find that employment of his capital which is most advantageous for himself, the sum of individual personal endeavours drives society to the most advantageous employment of its capital. Smith believed this was best achieved by leaving people to find out which employment suits them best, because individuals are the best judge of their self-interests and do not need central direction. But it does not follow automatically that because they know what is best for themselves the outcome is always the best for society. In 1765, a Finnish political economist, Anders Chydenius, published the *National Gain*, carrying similar passages to Smith, such as this:

every individual spontaneously tries to find the place and the trade in which he can best increase National Gain, if laws do not prevent him from doing so. Every man seeks his own gain. This inclination is so natural and necessary that all Communities in the world are founded upon it. Otherwise Laws, punishments and rewards would not exist and mankind would soon perish altogether. The work that has the greatest value is always best paid, and what is best paid is sought after.<sup>29</sup>

Smith gives an example of where it is coincidentally best for society. People prefer investment opportunities as 'near home as possible', with the proviso that they can obtain the ordinary, or not a great deal less than the ordinary, profits from stock. Wholesale merchants preferred their capital 'under [their] own immediate view and command' and therefore preferred the home trade to the foreign trade for consumption, and both to the carrying trade. Their behaviour was influenced by the increased risk (and thereby distrust) of trading over longer distances for longer durations, to avoid which they might accept lower domestic profits because of the greater risks of distant trade (WN454).

The normal predilection among merchants was for them to support domestic investment and thereby produce for the domestic economy the 'greatest possible value'. They could be relied upon to strive in this manner without direction or encouragement. The merchant does not behave with any view to boost domestic industry; he acts to maximise his profits at lower risk and stress than engaging in distant sales and purchases, and in doing so he 'necessarily labours to render the annual

revenue of the society as great as he can'. Given the principles he asserted, this outcome is unexceptional and does not need to be remarked upon. Smith develops his argument, assuming that there are no intervening mercantile regulations diverting part of the nation's capital to protected sectors:

As every individual, therefore, endeavours as much as he can both to employ his capital in the support of domestick industry, and so direct that industry that its produce may be of the greatest value; every individual necessarily labours to render the annual revenue of society as great as he can.

Only after stating this logical outcome from his assumptions does he introduce the then ordinary but now famous metaphor to underline the imperatives of the merchant's natural risk-averse behaviour:

He generally, indeed, neither intends to promote the publick interest, nor knows how much he is promoting it. By preferring the support of domestick to that of foreign industry, he intends only his own security; and by directing that industry in such a manner as its produce may be of the greatest value, he intends only his own gain, and he is in this, as in many other cases, led by an invisible hand to promote an end which was no part of his intention. (WN456)

But Smith had already fully explained the merchant's behaviour before introducing 'an invisible hand' to lead him to do what he did from preferring 'only his own security' in his aversion to the risks of foreign trade. In Smith's corpus, the invisible hand is only a 'relatively small point'.<sup>30</sup> And this is the proper role of a metaphor; in this case it presents the simple arithmetical connection between individual actions and aggregate outcomes in the form of an understandable allusion for those of his readers not alert to his earlier explanation.

Should we interpret Smith to suggest that an individual's motivations are redundant or too weak to affect and direct his behaviour that he needs, to coin a phrase, 'a helping hand'? Surely not! Needing a helping hand makes redundant his explanation of the merchant's risk aversion to losing sight of his capital in the 'the foreign trade of consumption'. So, how does 'an invisible hand' induce the behaviour that a person's insecurity will induce anyway? It does nothing! To believe otherwise implies

an unknown and 'invisible' element to human motivation, akin to credulous beliefs that Jupiter's invisible hand determined human fortunes, for good or ill, which Smith mocked in his 'History of Astronomy'.

The metaphor of an invisible hand is just a metaphor, and modern wonder over its meaning is, well, meaningless. This conclusion is underlined in his next paragraph, where Smith famously (because much quoted) warns that statesmen should not even attempt to direct private people how and where to 'employ their capitals'. That they presume they know better than individuals is a 'folly and presumption', which because it is 'dangerous' cannot 'safely' be entrusted to any 'single person' (WN456).

If statesmen cannot be trusted (as, indeed, he believed they could not) in the allocation role, Smith's leaving individuals to allocate their own capitals, because they are the best judges of their circumstances, makes sense, more so than the false conclusion that Smith introduced an unnecessary and redundant metaphysical entity, supposedly, of a disembodied and invisible, even godly, hand to explain what he has already explained perfectly. The metaphor, not meant by Smith to be taken literally, was for expository purposes only for those readers (including statesmen) unable to grasp the connecting chain between a motivation arising from risk aversion and its 'safer' remedy of investing locally and not abroad.

What then does the metaphor add to what we know about behaviour, and have known since the 18th century, and not just from Adam Smith? As it was Smith's purpose to persuade statesmen, legislators and those who influence them of the benefits of allowing merchants and manufacturers to arrange their own affairs according to their interests, his allusion to an invisible hand read better for those who found the link between risk aversion and social benefit too difficult to grasp or, more important, for them to explain later to others who would not understand.<sup>31</sup>

In all of this, merchants and manufacturers were a most unpromising constituency, he readily conceded, exemplified by their proclivity for 'clamour and sophistry' (WN144); their 'conversation [that] ends in a conspiracy against the publick' (WN145); their 'tacit, but constant and uniform combination . . . always conducted with the utmost silence and secrecy' (WN84); their attempts to 'widen the market and narrow the competition' (WN267); his advice that 'any proposal of any new law or regulation of commerce' from them ought to be listened to with 'great precaution, and ought never to be adopted till after having been long and carefully examined, not only with the most scrupulous, but with the most suspicious attention' (WN267); and their habit of directing

'the most infamous abuse and detraction . . . personal insults, [and] sometimes . . . real danger, arising for [their] insolent outrage [as] furious and disappointed monopolists' (WN471).

### **Absence of 'invisible hands'**

Robert Nozick identified 16 examples of 'Invisible-hand explanations',<sup>32</sup> covering evolutionary theory, ecology, race, religion, genetics, IQ, pricing, equilibria in markets, crime, trade, managerial incompetence and economic theories, and only half of those he cited have benign outcomes. Karen Vaughan accepts, correctly, that 'one could easily imagine a spontaneous order in which people were led as if by an invisible hand to promote a perverse and unpleasant end' (emphasis added; Smith never used the words 'as if') (TMS184; WN456). She comments that 'the desirability of the order that emerges as the unintended consequences of human action depends ultimately on the kind of rules and institutions within which human beings act, and the real alternatives they face'.<sup>33</sup> Vaughan undoes the assumed connection between an always benign invisible hand and its general application.

Because individuals undertake various possible actions in response to their motivations and their regard for their self-interests as they interpret them, we can only know afterwards, and not beforehand, whether the summation of their actions leads to a benign emergent order. What were the mystical invisible hand explanations doing during the, perhaps long, processes that in their aggregate outcomes following myriad human actions emerge as malign for society (for example, the 'tragedy of the commons')? Whatever the answer, the possibility of malign outcomes eradicates the metaphor's generality.

The metaphor languished in relative obscurity, barely noticed during the development of social science, until retrospectively awarded its accolade to give modern theories of markets a mystical aura, sanctified by their alleged affinity with Adam Smith's much-promoted metaphor, but not, significantly, with his theory of markets. The metaphor is also popular with those who seek divine meanings in market activities. The proponents of invisible hands, believing that something mystical is involved, ignore the dynamics of Smith's examples of the necessity for subsistence-level distribution in *Moral Sentiments* and the simple arithmetic of the 'whole is the sum of its parts' in *Wealth of Nations*.

Frederick Hayek,<sup>34</sup> the original author of Karen Vaughan's ascription of the invisible hand's role as the gateway to making social science possible, took Smith's 'borrowed' metaphor to be a first approximation of his own

themes of 'spontaneous order'.<sup>35</sup> Smith's identification of processes associated with the unintended consequences of individual actions in such diverse phenomena as language, money, moral sentiments, exchange and markets,<sup>36</sup> across social experience, are usefully judged to be an early recognition of evolutionary 'emergent order', which in my view is a more helpful phrase than spontaneous, or self-generated, order, because it takes many self-correcting trials over long periods for a workable order to emerge as an accepted norm, whereas 'spontaneous order' suggests sudden change rather than a slowly evolving order. Complex systems like language and markets do not emerge suddenly; a long maturation period is required to bring them to term. Two people trying to communicate in the absence of a common language make many mistakes as they experiment with different combinations of gestures, grimaces and strings of word sounds to make even simple meanings mutually understood and, as important, to make them understood by others; hominids striking stones to make meat-cutters or axes would miss-strike, over-strike and regularly break near-finished hand tools forcing them to start again before they created workable tools, replicable by others, and similarly for other emergent orders. Long periods of individual experiments, including many dead ends that did not produce useable or lasting innovations (or 'spontaneous orders'), and even longer periods of changeless low-level technologies right up to the 18th century and beyond, suggest the absence of an invisible hand.

Smith was not party to the idea that self-interested actions were always socially benign; his was not a generalised explanation of all unintended consequences, but a partial one and it acts 'in this, as in many other cases', but not in all cases (WN456). It was not a universal benign rule for markets, requiring Smith to have written, 'in this, as in all *other* cases'. Indeed, as Fleischacker points out,

'If he had wanted to proclaim that an invisible hand always guides individual economic decisions toward the good of society, we would expect the proclamation at the opening of the book, as part of his grounding theory of economic activity. The theory Smith gives us there does support the claim that individuals generally promote the social good in their economic behaviour without intending to do so, but there is no hint that this holds in all cases, much less that it is guaranteed to hold by either empirical or metaphysical laws'.<sup>37</sup>

Human behaviours in situations where markets operate less than perfectly in aggregate can and do result in sub-optimal outcomes, such as

from monopolies, protectionism and conspiracies to restrict supplies, to which we can add pollution and indifference to spill-over externalities and tragedies of the commons. Whether in perfectly competitive conditions in general equilibrium the 'many other' cases qualifier becomes 'all other cases' is beside the point; these conditions do not exist outside the constructs of that theory from which humans are absent.

First, compare the resort to a metaphorical explanation using 'an invisible hand' to how Smith explains what is going on in mercantile commerce, using economics only, which fully explains the process by which unintentional actions have unintended outcomes beneficial for society without mentioning, or implying, that 'an invisible hand' was at work.

'The mercantile stock of every country, it has been shewn in the second book, naturally seeks, if one may say so, the employment most advantageous to that country.'

The country which conducts a carrying trade 'becomes the emporium of the goods of all countries' but the owner 'wishes to dispose of as great a part of those goods as he can at home' because this saves 'the trouble, risk, and expence, of exportation' even for a much smaller price, a smaller profit than he could get 'by sending them abroad'. In effect he endeavours 'to turn his carrying trade into a foreign trade of consumption'. For the same reason, he will prefer 'to dispose of at home as great a part as he can of the home goods', turning his foreign trade into 'a home trade'. Note these trends are driven by his natural risk aversion preferring 'the near, and shun[ing] the distant employment', where 'the returns are frequent' and not 'distant and slow'. This maintains the 'greatest quantity of productive labour in the country to which it belongs', in contrast to where it maintains 'the smallest quantity'. It generates employment where it 'is most advantageous', and shuns where it is 'least advantageous' (WN628–9).

Smith continues in this vein because distant trade is 'as necessary for the welfare of the society as a near one'. How then does it occur naturally that 'some stock should be withdrawn from advantageous employment locally to distant locations where it is less advantageous? The answer is fully explained in Book II, namely the higher profits obtainable in distant trade (scarcer capital is employed in distant than local trade, raising the market rate of profit above its natural rate), which motivates some individuals to overcome their risk aversion. Note, though this explanation is almost identical to the 'invisible hand' paragon, there is no mention of

the metaphor. This time the 'private interests and passions of individuals naturally dispose them to turn their stock towards employments which in ordinary cases are most advantageous to the society', and for which no encouragement of an invisible hand is needed. The variable that acts upon the merchants is the very real, not metaphorical disembodied body parts, influence of 'the fall of profit' which 'immediately dispose[s] them to alter' their disposition of their capital. Therefore 'without any intervention of law . . . the private interests and passions of men naturally lead them to divide and distribute the stock of every society, among all the different employments carried on it, as nearly as possible in the proportion which is most agreeable to the interests of the whole society' (WN630). Again, he makes no mention of the metaphor of 'an invisible hand'.

There is no need for anything remotely mystical or literary about market incentives. The natural workings of markets are fully sufficient to explain what happens and do not need an invisible hand. The metaphor added nothing to what Smith, the analyst, knew. It was a 'poetic device' to keep the readers' attention. Understanding the processes behind these and other cases is more important than the 'pusillanimous' interpretation of a metaphor.

## Notes

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18. Vaughan, K. I. 1987: 997–9.
19. Parker, N. 1995.



20. I have benefited from Emma Rothschild's study of explanations of invisible hand; Rothschild, E. 1994; cf. also: Ingraio, B. and Israel, G. 1990; Evensky, A. 1993; Nozick, R. 1994.
21. Cliff Leslie, T. E. 1879; Ingram, J. K. [1888] 1967 (cited in Rothschild, E. 2001: 290, Note 10).
22. Nicholls, D. 1992: 217–36; Evensky, A. 1993: 197–205; Khalil, E. L. 2000: 373–93; Hill, L. 2007: 1–29; Denis, A. 2005: 1–32.
23. Fitzgibbons, A. 1995: 89; citing: 88; cf. Flew, A. 1986: 160.
24. Ross, I. S. 1995: 141.
25. Grampp, W. D. 2000: 463; cf. Minowitz, O. 2004; cf. Wight, J. B. 2007.
26. Renfrew, C. 1972: 27–30; cited in Tandy, D. W. [1997] 2000: 34.
27. Cf. Diamond, J. 1987: 64–6.
28. Force, P. 2003: 69–71.
29. Chydenius, A. [1765] 1931 (I am grateful to Professor John Pratt for drawing Chydenius to my attention).
30. Fleischacker, S. 2004a: 139.
31. Rothschild, E. 2001: 125–6.
32. Nozick, R. 1974: 20–1.
33. Vaughan, K. I. 1987.
34. Hayek, F. 1960.
35. Cf. Rothbard, M. 1990, citing Chuang-tzu (369–286 BC): 'Good order results spontaneously when things are let alone.' cf. also: Chydenius, A. [1765] 1931.
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37. Fleischacker, S. 2004a: 139.

# 13

## ‘peace, easy taxes, and justice’

### Introduction

Smith wrote on the role of government for legislators and those who influenced them. Unfazed by a non-existent mass electorate (Adam Smith did not have a vote under the existing franchise), ministers, lords and MPs were sensitive, however, to their image among their peers, and were not comfortable with anything likely to undermine the social respect they expected from their ‘inferiors’. Smith understood this and he chose his words accordingly and his style is fairly clipped and, except in ‘a compleat history of all the chartered companies in Great Britain’ (WN731–58; Corr263–4), it is devoid of rhetoric.<sup>1</sup> The inordinately long section on church governance (WN788–814) contrasts starkly with the section he wrote on government spending on public projects to facilitate commerce (WN724–31).

Posterity has long been confused by what appear to be contradictory messages emanating from his books, allowing readers of widely differing views and perspectives to lay claim to certain passages and to ignore or discredit others. Take the example of a paper, believed to have been written by him but was lost, that minimises the role of government in the economy:

Little else is requisite to carry a state to the highest degree of opulence from the lowest barbarism, but peace, easy taxes, and a tolerable administration of justice; all the rest being brought about by the natural course of things. All governments which thwart this natural course, which force things into another channel, or which endeavour to arrest the progress of society at a particular point, are unnatural, and to support themselves are obliged to be oppressive and tyrannical. (EPS322)<sup>2</sup>

From the perspective of this snippet from the 1755 paper (Stewart's son burned it while suffering from mental illness),<sup>3</sup> if the state had little to do beyond that funded by 'easy taxes', its burdens were not onerous. Those who seize on Stewart's quotation from a paper only he had seen ignore the far longer exposition on the role of government in *Wealth of Nations*. Because Smith was cautious about the interpretation of the exact duties to be undertaken by the sovereign, the passage is read to proclaim him as the author of the minimal state, as was articulated in the 19th century by Ferdinand Lassalle's 'night watchman state', or Carlyle's 'anarchy plus the constable'.<sup>4</sup> Rumour being the mother of belief, these misleading labels stuck, erroneously, as Smith's.

### First duty of government

'The first duty of the sovereign, that of protecting the society from the violence and invasion of other independent societies, can be performed only by means of a military force' (WN689).

Defence expenditures against 'the violence and invasion of neighbours' were a large proportion of government expenditures in 18th-century Britain, and they increased dramatically within a few years of Smith's death with the advent of Napoleon's wars.<sup>5</sup> Britain was at war for 70 years between the 'glorious revolution' (1688), leading to the Hanoverian succession, and the Battle of Waterloo (1816), a long-enough period to test the impact of defence expenditures in an economy. Were defence expenditure and economic growth related in some way, either negatively or positively? War involves retarding effects, from the physical destruction of real capital, the diversion of scarce labour, capital and raw material resources from productive to unproductive use, to the increase in the risks and uncertainties of mercantile and manufacturing enterprise; war also promotes growth to the extent of its demand-inducing effects, draws into productive use underemployed factors, stimulates output in industries whose expansion reduces costs or creates opportunities for other branches of industry, and precipitates fiscal or financial or organisational developments, which redistribute incomes or opportunities in favour of innovating enterprise.<sup>6</sup>

The appropriate balance between these effects is a political question,<sup>7</sup> when taken in context with whatever other events that affect the data. Phyllis Deane cites Professor John's findings<sup>8</sup> that for 1700–63 defence expenditures were positively associated with growth, but less so during the American War (1776–83), when economic activity contracted. Defence expenditures grew from £5–£6 million a year in the early part

of the century to £40 million by its end, or about 5 per cent of national income at the close of Marlborough's wars and 15 per cent by 1801.<sup>9</sup> The impact of specific military expenditures on industrial technologies went beyond their money amounts, and may have contributed qualitatively to the initial 'take-off' stages of the industrial revolution. The connections among manufacturing in shipbuilding, engineering and war technologies were particularly close in the growth of industry and commerce. The Carron Iron works, its furnaces identified by Ashton as the start of the 'industrial revolution',<sup>10</sup> was sustained by government expenditures on naval gunnery, such as the 'Carronades'.

Government-purchased defence goods were from private manufacturers. These added to aggregate demand in certain industries, inciting manufacturers to increase capacity to supply the government's orders. Inevitably, some suppliers tended to specialise in defence goods (ordnance, shipping, victuals, armour, gun carriages and field goods), while for others it was just another market. A steady flow of procurement expenditures into local economies close to garrisons and ports had positive economic effects beyond the original outlays. The cumulative effect of these expenditures over many decades, and their increase over time, had beneficial effects. In Smith's view the labour of the armed forces was unproductive (it did not replace itself), but the labour of armament manufacturers and other suppliers in the private sector was productive (it replaced itself, plus a profit).

If expenditures on defence led to capital being directed to less productive enterprises than their natural commercial destinations, this for him was a necessary sacrifice of some proportion of growth by a prudent state. Defence for deterrence was a worthwhile sacrifice of opulence in normal times (fighting wars being incomparably more expensive than funding deterrence) (WN464–5), but if it rose too high, when survival of the country was not imperilled, it could impair longer-term opulence and provoke or promote wars.

His history of warfare through the four ages of man received his usual historical treatment, and he also detailed the growing expense of warfare in modern times (WN689–708). He summarised the consequence:

In modern war the great expense of fire-arms gives an evident advantage to the nation which can best afford that expence; and consequently, to an opulent and civilised, over a poor and barbarous nation. In antient times the opulent and civilised found it difficult to defend themselves against the poor and barbarous nations. In modern times the poor and barbarous find it difficult to defend themselves

against the opulent and civilised. The invention of fire-arms, an invention which at first sight appears to be so pernicious, is certainly favourable both to the permanency and to the extension of civilisation. (WN708)

## Second duty of government

‘The second duty of the sovereign, that of protecting, as far as possible, every member of the society from the injustice or oppression of every other member of it, or the duty of establishing an exact administration of justice, requires t[w]o<sup>11</sup> very different degrees of expence in the different periods of society’ (WN708–9).

Justice is an essential pillar of society. Its expense has to be provided for, either by the litigants or by the state from taxation. Where the officers of justice raise revenue for their recompense, it leads to corruption (whoever has the largest ‘present’ for the judge wins the case) (WN716) and where it is dispensed free of charge, differential payment to lawyers and advisors necessarily imbalances the chances of success in favour of the hirers of the most talented and expensive adversarial advocacy.

Smith summarised in *Wealth of Nations* much of what he had covered in *Lectures*. His main conclusion, after Montesquieu,<sup>12</sup> was in favour of the separation of powers because the liberty of the individual is safer when the legislature is separated from the executive, and both are separate from the judiciary. He expressed it thus as follows:

upon the impartial administration of justice depends the liberty of every individual, the sense which he has of his own security. In order to make every individual feel perfectly secure in his possession of every right which belongs to him, it is not only necessary that the judicial should be separated from the executive power, but that it should be rendered as much as possible independent of that power. The judge should not be liable to be removed from his office according to the caprice of that power. The regular payment of his salary should not depend upon the good-will, or even upon the good œconomy of that power. (WN722–3)

Smith makes clear that the objective he has in mind is not constrained by considerations of budgetary frugality. The issues at stake in justice and in defence supersede considerations of their expense.

### Third duty of government

Smith divided the sovereign's third duty into three: public works and institutions for facilitating commerce, which were too expensive for private interests to erect or maintain, the education of youth, and the education of people of all ages.

A highway, a bridge or a navigable canal benefit commerce generally and they should be erected out of public funds and maintained out of revenue from small tolls on users to defray the costs of management and repairs. The state should also provide coinage profitably when its face value exceeds its bullion content, and to this approved state-run business he added the post office (WN724). These projects were characterised by their suitability for generating revenue to defray necessary expenses and to reduce the tax burden. Management and revenue collection could be farmed out to private persons, the test being utility not principle (WN725–6).

Public works of benefit to commerce in a locality, for which their expense or maintenance could not be recovered by revenues, formed a special category of public finance. Smith concluded that they were best maintained by local or provincial administration, and thus he opened a second tier of public expenditures, which grew in political importance as towns grew into large municipal cities in the 19th century. He gave the example of the streets of London, the pavements and lighting of which were funded by local street, parish or district taxation rather than funded from national revenue upon the general inhabitants of Britain, 'the greater part [of whom] derive no sort of benefit from the lighting and paving of the streets of London' (WN730–1). He commented too that the 'abuses which sometimes creep into the local and provincial administration of a local and provincial revenue' are almost always 'trifling' compared to the abuses common in the 'revenue of a great empire', and they are 'much more easily corrected' (WN731).

Where projects are required for particular branches of commerce, the costs should fall on the immediate beneficiaries who could be relied upon to pass these costs to their customers, the ultimate beneficiaries. However, the principle of state revenue for civil projects beyond the wealth of a private individual, and their management by public officials or private persons, opened the door to state intervention in other aspects of the economy. If the governing coalition in parliament did nothing about the absence of certain large projects in the economy, nothing would be done by anybody, despite the great boost to commerce that well-placed

good roads, navigable canals and deep ports could provide. However, once the state entered onto this road, the final destination was not obvious, and Smith's name ought not to be invoked with any justice in support or opposition to particular state-financed or state-managed projects. Utility, not principle, was his stance. Far from being modest by contemporary standards, if his programme had been carried out with any degree of diligence it would have cost many tens of millions of pounds to build and maintain a road system at a reasonable standard, suggesting a need for major expenditure just to build a national network of adequate roads between the major cities of the country. The condition of what passed for road links between major towns and cities is unimaginable over two centuries later. Samuel Smiles (1812–1904) reported that Thomas Telford took 20 years to build 1000 miles of roads in Scotland (an average of 50 miles a year), plus numerous bridges and canals. 'Smiles' description of the condition of Scottish roads paints the scale of the problem:

When Smollett travelled from Glasgow to Edinburgh on his way to London, in 1739, there was neither coach, cart, nor wagon on the road. He accordingly accompanied the packhorse carriers as far as Newcastle, "sitting upon a pack-saddle between two baskets, 'one of which,'" he says, "contained my goods in a knapsack." . . . It was not until the year 1749 [two years before Smith made his 'quick' visit to Glasgow University to be elected professor] that the first public conveyance, called "The Glasgow and Edinburgh Caravan," was started between the two cities, and it made the journey between the one place and the other in two days.'

As late as 1763 there was as only one monthly stagecoach in all Scotland for communication with London, and that set out from Edinburgh taking 10–15 days, according to the state of the weather; and those who undertook so dangerous a journey usually took the precaution of making their wills before starting<sup>13</sup> (as Smith did in 1773). Smith frequently took the 44-mile journey between Glasgow and Edinburgh to meet his friends and he travelled from Scotland to London and back several times, so he wrote with feeling about the need for public expenditure on roads. To conceive that these potential expenditures were 'modest' reflects an ignorance of just how badly the roads needed major and costly long-term investment, plus their regular maintenance when built.

## Education and health

The expense of educating youth should be met either from the general revenue of society or from the parents or guardians of the beneficiaries. Smith found himself in a bind here, as he believed that services offered in return by teachers for a salary, paid by taxation, private endowments, charities or legacies, would deteriorate to the point of indifference in their quality:

In every profession, the exertion of the great part of those who exercise it, is always in proportion to the necessity they are under of making that exertion. . . . where the competition is free, the rivalry of competitors, who are all endeavouring to jostle one another out of employment, obliges every man to endeavour to execute his work with a certain degree of exactness. (WN759)

Salaries and their emoluments, the larger part of expenditure on education, when paid for fully (from whichever source) lead to the decline in their teachers' commitments to educating the young to whatever standards they could get away with, it being 'in the interests of every man to live as much at his ease as he can' (WN760).

It remains a major problem in the economics of bureaucracy that the objectives of the administrators often conflict with the interests of the putative beneficiaries of their services and that the costs of administration of indifferently supplied public services are borne by taxpayers, many of whom are not even beneficiaries.<sup>14</sup>

Smith asserted that 'Publick services are never better performed than when their reward comes only in consequence of their being performed, and is proportioned to the diligence employed in performing them' (WN719). Stating the solution does not deliver it. Smith, while unsure of how education should be paid for, had firm ideas on what should be achieved, particularly for the lower orders:

But though the common people cannot, in any civilised society, be so well instructed as people of some rank and fortune, the most essential parts of education, however, to read, write, and account, can be acquired at so early a period of life, that the greater part even of those who are to be bred to the lowest occupations, have time to acquire them before they can be employed in those occupations. For a very small expense the publick can facilitate, can encourage, and can even



impose upon almost the whole body of the people, the necessity of acquiring those most essential parts of education.

He recommended the establishment 'in every parish or district a little school' to teach children for moderate fee 'that even a common labourer may afford it', with the master 'partly paid' by the public. If England's experience followed that of Scotland, the establishment of such schools would teach almost all the common people to read, with many able 'to write and account'. Smith suggested more 'instructive' school books than commonly found and instead of a 'little smattering of Latin', which was not of much use to them, they should be instructed in elementary 'geometry and mechanicks', which would be useful in most common trades (WN785–6).

Examined dispassionately, Smith's proposals, modest as they were and well short of universal compulsory education, represented a substantial intervention by the state and he recognised that intervention on the scale he proposed was not just financial, because he extended it to the curriculum too. The financial consequences of such intervention would temper the government's willingness to undertake a major financial and administrative burden. It is from such considerations that, I believe, he exaggerated the debilitating effect of the division of labour in his rhetoric in support of his reforms, which, some claim, contradicts his analysis of the important effects of the division of labour in Book I (WN13–24).<sup>15</sup>

The man whose whole life is spent in performing a few simple operations, of which the effects are perhaps always the same, or very nearly the same, has no occasion to exert his understanding or to exercise his invention in finding out expedients for removing difficulties which never occur. He naturally loses, therefore, the habit of such exertion, and generally becomes as stupid and ignorant as it is possible for a human creature to become. The torpor of his mind renders him not only incapable of relishing or bearing a part in any rational conversation, but of conceiving any generous, noble, or tender sentiment, and consequently of forming any just judgment concerning many even of the ordinary duties of private life. Of the great and extensive interests of his country he is altogether incapable of judging, and unless very particular pains have been taken to render him otherwise, he is equally incapable of defending his country in war. The uniformity of his stationary life naturally corrupts the courage of his mind, and makes him regard with abhorrence the irregular, uncertain, and adventurous life of a soldier. It corrupts even the activity of his body, and renders him

incapable of exerting his strength with vigour and perseverance in any other employment than that to which he has been bred. His dexterity at his own particular trade seems, in this manner, to be acquired at the expence of his intellectual, social, and martial virtues. But in every improved and civilized society this is the state into which the labouring poor, that is, the great body of the people, must necessarily fall, unless government takes some pains to prevent it. (WN781–2)

In this argument Smith appeals to the sense of humanity in the reader's mind, and in a later paragraph he appeals to their concerns for political stability and the dangers of uneducated people listening to demagogues. By providing for the instruction of the 'inferior ranks', it would make them 'less liable' to be influence by 'delusions of enthusiasm and superstition', and the 'most dreadful disorders'. Educated people are more 'disposed to respect their superiors' and more likely to be 'capable of seeing through the interested complaints of faction and sedition' and less likely to be 'misled into any wanton and unnecessary opposition to 'government'. His concluding argument was stark:

In free countries, where the safety of government depends very much upon the favourable judgment which the people may form of its conduct, it must surely be of the highest importance that they should not be disposed to judge rashly or capriciously concerning it. (WN788)

Only male children of well-off parents were educated formally; the education of the children of the poor waited on opulence spreading down to their households (though the education of the poor in Scotland was better provided for at that time than in England and it aided upward social mobility) and it was unlikely that a market solution would address the problem (WN785–6). But it was unlikely that education would happen of the scale suggested by Adam Smith unless legislators took political action to direct public funds for this purpose. To advocate that they did so underlines Smith's non-reliance on *laissez-faire*.<sup>16</sup>

Smith's recognition that the expense of education cannot be left to *laissez-faire* is of far greater significance than the modesty of his proposals. In much the same way, ingenious modern reforms to recast public funding of education into a quasi-market mode, via education vouchers, are truly Smithian in scope.

In a little-noticed paragraph in *Wealth of Nations*, Smith went much further in his advocacy of state intervention than the funding and provision of education. He proposed a small step from the general view of

disease being the accepted lot of those unlucky to suffer its effects to the idea that the state make modest funding available to ameliorate the consequences of certain diseases. And, interestingly, he did so without seeing a direct commercial advantage in such action. If adopted, it was inevitable that the range of interventions in state health provision would, in time, expand.

He approaches his subject via a discussion of the attributes of a 'coward', a man incapable of defending or revenging himself. He first proposes a remedy for the 'mental mutilation, deformity and wretchedness', which cowardice necessarily involves and therefore 'still deserve the most serious attention of government' (WN787). In his discussion of the ancient militias of Greece and Rome, I discern a preference for regular and compulsory 'military and gymnastic' exercises, and instituting them in Britain required funds and resources (for example, instructors and public fields under the supervision of the local magistrate) (WN696, 786). Interesting, but not as much as the rest of the sentence:

In the same manner as it would deserve its most serious attention to prevent a leprosy or any other loathsome and offensive disease, though neither mortal nor dangerous, from spreading itself among them; though, perhaps, no other public good might result from such attention besides the prevention of so great a publick evil. (WN787)

To advocate public expenditures on the treatment of the foulest of diseases opens the door to wider funding for public health, physical and mental, for lesser debilitating diseases. That Smith included the treatment of disease as well as education in his discussion of public expenditures suggests a more flexible mind than his modern and largely invented image as an exponent of *laissez-faire*.

Smith's final note on an expense which was necessary for government to function was that which supported 'the Dignity of the Sovereign'. This was a necessary expense in an opulent and improved society where 'all the different orders' were 'every day more expensive in their houses, in their furniture, in their tables, in their dress, and in their equipage'. The sovereign's expenses 'necessarily' would grow in his acquiring these articles too, for him 'to hold out against fashion' and for supporting his 'higher dignity'. Similar expenses would be required to meet the 'dignity' of any other head of state, paid for out of taxation, and for all the representatives of the country too (WN814).

## Public revenues

Whatever amount is spent by the state on carrying out its three main duties, the money has to be raised by one means or another with 'the people contributing a part of their own private revenue in order to make up a publick revenue to the sovereign or commonwealth' (WN824). Taxation from the private revenues of the people was the main source of government revenue. Smith did not think much of the commercial prowess of sovereigns, and thought even less of the prowess of merchants, instancing those of the East India Company for particular contempt as they were 'bad traders' and 'bad sovereigns' (WN819).

Smith outlined the 'maxims' (not 'canons'!) for a just taxation system: equality, certainty, convenience and economy.<sup>17</sup> Briefly, subjects should

- contribute taxes 'as nearly as possible, in proportion to their respective abilities, that is, in proportion to the revenue they respectively enjoy under the protection of the state';
- the amount of tax to be paid should be certain not arbitrary, because inequality 'is not near so great an evil as a very small degree of uncertainty';
- taxes should be levied at the most convenient time, such as when the person buys the goods attracting a tax, when he receives the rent or when he imports the produce;
- taxes should be 'so contrived as both to take out and to keep out of the pockets of the people as little as possible, over and above what it brings into the publick treasury of the state' (WN825–6).

Smith laid no claim to the originality of the maxims (often incorrectly labelled as 'his maxims' or, worse, 'his canons'); Smith reported that the maxims had already been brought 'to the attention of all nations' by others (WN827).

Professor Stigler applied his version of the alleged Smithian principle of 'self-interest' to the politics of public finance,<sup>18</sup> and reported that he was puzzled by the abundant examples Smith provides of failures of self-interest to account for the political behaviours of legislators. The 'canons [!] of taxation', if adopted by a Chancellor of the Exchequer, writes Stigler, tongue in cheek, 'would obtain for him at least the temporary admiration of the professors of moral philosophy but this is a slender and notably fickle constituency on which to build a party.'<sup>19</sup> Stigler missed Smith's point. The maxims were only guides to taxation

policy, not iron-bound prescriptions for, and certainly not descriptions of, past or current taxation legislation. Today's taxation regimes are the product of many past legislatures, each consisting of 'elected' interest groups, affiliated individuals and men of party that have crowded the benches of the British and foreign legislatures since the 18th century. The 'two canons' substituted by Stigler for the 'Smith's maxims' have an air of political modernity about them: 'The revenue system must not imperil the political support for the regime' and 'The revenue system must yield revenue.'<sup>20</sup>

In Smith's days, once a government achieved the necessary parliamentary votes (many of whom were MPs with agricultural interests) it was unlikely to face the electoral wrath of the (few) enfranchised electors who might be imposed upon by what they had voted for. The circumstances of electoral politics in 18th-century Britain produced confusing legislative programmes for the beneficiary interest groups listed by Stigler and the necessity, alluded to by Smith, to apply the maxims to the collection of the revenues as closely as practicable in the circumstances, bearing in mind that of the 26 examples in Stigler's list 19 were not taxation measures at all.<sup>21</sup>

Alan Peacock criticised Stigler's assertions:

it is one thing to be employing one's commercial or political talents to promote self-interest in a society which has accepted the necessity for competition as a way for channelling self-interest towards the goals of society and another to do so under conditions where entrenched monopoly privileges abound.<sup>22</sup>

Strangely, Stigler criticises Smith's long-standing and clearly stated preference for moral suasion: 'at best this is an extraordinarily slow and uncertain method of changing policy; at worst it may lead to policies which endanger society'.<sup>23</sup> If persuasion is unlikely to work, what exactly was Professor Stigler suggesting?

## **Government failure**

It is not sensible to leave aside Smith's recognition of the manifest failures of government and its agencies to perform the roles they assumed in the 18th century. It was from concepts of the weakness of primitive capital accumulation in early commercial markets that he saw a role for government to use some of the funds it collected (effectively forced savings out of tax revenues) for public projects and it was from government

failures to administer projects that he took a cautionary stance when considering extending to government any role that could not be left to competitive markets. As usual with Smith, it is not safe to attribute to him clear-cut and dogmatic views relevant to the perennial 'markets versus governments' debates of subsequent centuries.

There are two considerations for judging the efficacy of a large public works project: though it 'may be in the highest degree advantageous to a great society', it could 'never repay the expence to any individual, or small number of individuals' to erect or maintain (WN24). The cost of erecting a public works project had to be considered separate from the cost of maintaining it in proper working order. If private individuals cannot raise the capital to erect or maintain advantageous public works (good roads, bridges, navigable canals and harbours – though individual exceptions are well documented) to facilitate the commerce of any country, who else can? Government is the only option, though this unqualified conclusion does not solve the real problems of government failure in important areas like efficiency, corruption and the diversion of scarce capital into unproductive usage to the detriment of national economic growth. These considerations of finance take us to the heart of the concept of government failure and Smith had plenty to say about the reality of such failures.

Setting aside the costs of erecting public works, Smith considers how they are to be maintained (a major weakness in today's developing countries). Roads and bridges need regular maintenance and repairs, canals and harbours need dredging to be kept navigable and the beneficiaries of such works should be charged small tolls for the use of them. Carriages using toll roads and bridges can be charged by their weight (WN724) (though he also proposes charging according to the value of their contents to make the rich contribute 'in a very easy manner to the relief of the poor') (WN725), navigable canals by the number and tonnage of the lighters, and harbours by the tonnage loaded onto, and unloaded from, ships sheltering in them (WN724).

To these public works, Smith adds the coinage which 'defrays its own expence' and the post-office which 'over and above defraying its own expence, affords in almost all countries a very considerable revenue to the sovereign' (WN724). In all these cases the beneficiaries identify themselves by using the facilities with their expenses defrayed by moderate charges. It seems, he notes, 'scarce possible to invent a more equitable way of maintaining such works' (WN724–5). Final consumers, the ultimate beneficiaries, should pay for the tolls and these too are equitable.

Because of the direct connection between the need for a road, bridge, canal or harbour and the trade carried on them, they should be built only where they are required with 'their grandeur and magnificence' determined by what 'commerce can afford to pay'. Capital diverted to their construction should not be wasted on roads serving little commercial purpose or 'where nobody passes'. Public works funded by 'other revenue than that which they themselves are capable of affording' are wasteful (WN725).

Private persons may be driven by personal profit to keep the road or canal properly repaired and maintained, and public commissioners may neglect that which is not theirs, depending on their sense of public duty. It could go either way. Public commissioners could dissipate tolls in 'ornamental and unnecessary expenses' while letting the 'essential parts of the work . . . go to ruin' (WN725–6). Private proprietors of a high road 'might neglect altogether the repair of a road, and yet continue to levy very nearly the same tolls' necessitating that the road 'should be put under the management of commissioners or trustees' (WN726). Smith was not dogmatic about these issues. Utility, not principle, was decisive here as elsewhere, and the decision would turn on which management works best or 'least bad' in the different circumstances and cases.

A different problem arises from public management: the diversion of their surplus revenues over costs to meet the 'exigencies of the state'. Few governments can resist the temptation to invent new ways of augmenting their revenues and spending them. Road tolls suffer from private owners and government commissioners raising them for general revenue or profit, with both agencies repairing the roads inadequately and both acting as a 'very great incumbrance upon' the inland commerce of a country (WN727–8). The difference between incompetent private operators of turnpikes and incompetent government operators is that the private operators can be replaced but it is more difficult to compel government to spend the toll revenues appropriately, and the greater the revenues raised by the government-appointed 'trustees', the greater the difficulty of altering their behaviours (WN729).

Smith's tirades against monopolies in any form implied a need for vigilance, which implied intervention by agencies of the state, to observe, evaluate and decide what if anything had to be done to prevent them being established or operated and to prevent monopolies occurring by default or carelessness. Interventions were to be preventative; nobody would be told how to invest his stock or labour, only that he could not act non-competitively. There is no doubt that competitors seek ways

to reduce competition and, unless their conduct is watched, their self-interest inevitably turns them to eliminating or deterring competitive rivalry. To police a country's competitive economy requires the availability of instruments of intervention (legislation, inspection, policing, law courts and justice) as well as the political will and intention to allow justice to take its course.

In addition, the duties of the sovereign introduced into Smith's narrative specific and deliberate purposes for which state funding was required. The defence sector was a serious and expensive business, and was getting more so each decade (WN798). Justice provided publicly funded employment for the courts and their officers (clerks, messengers, judges, sheriffs, prosecutors, police, jailers and executioners) and private funding for lawyers, solicitors, barristers, advocates, legal scribes and clerks. The expenses of justice were bound to grow larger with the rapid increase in the number of Acts of Parliament towards the end of the century.

If Smith's modest educational reforms had been put into effect the annual educational budget would have grown significantly. 'Little schools' across the land meant a large increase in expenditure on buildings and on wages for at least one teacher per 'little' school. It was, of course, a century or more before national compulsory schooling commenced.<sup>24</sup>

## **Public debts**

Smith's approach to public debts, raised, maintained and funded by government taxation and borrowing, is not often taken note of in modern discourses. The subject looms larger in modern economics because public debts are now an enormous element in public finance, sometimes looming so large as to cause severe problems for the economy and, occasionally, defaults on international debts. It was of concern to Smith in his analysis of mercantile political economy, to which he applied his usual historical approach.

In pre-commercial societies, when there were few or no manufactured luxuries to be purchased, the rich person had limited options to disperse his surplus agricultural products above his own limited consumption. The surplus consisted of 'plain food and coarse clothing, in corn and cattle, in wool and raw hides', and all he could do with such surplus items is 'feed and cloathe nearly as many people as it will feed and cloathe'. He could spend it in 'hospitality' among favoured retainers, serfs or tenants, and in entertainment like 'cock-fighting'. Given the multi-generational survival of the 'great land-holders', Smith took this as a sign that each



generation tended to live within their means. They sold what little they did not distribute and hoarded the revenues. Social norms frowned on lending at interest (usury), so this aspect of their finances was socially inefficient (WN907–8). Sovereigns had the same problem as their great lords – they had ‘scarce any thing’ to spend their surpluses upon ‘but bounty to his tenants and hospitality to his retainers’ and add to their ‘treasures’ (WN908).

The rougher times that countries faced with jealous and covetous neighbours, claims to thrones by superior lineage and fears of pre-emption by ambitious nearby sovereigns gave way to wars. Whereas peace produced a ‘want of parsimony’, war required the burdens of debt to manage the switch to war fighting. Smith estimated that the expense of war cost three or four times more than maintaining a defence force in times of peace. Moreover, because it took time (‘ten or twelve months’) to raise taxes above current levels, there was a short-term need to borrow the money to conduct a war when it broke out; waiting a year was not an option for the army to ‘be augmented’, the fleet to ‘be fitted out, and the garrisoned towns to be furnished with arms, ammunition and provisions’ (WN909).

Commercial societies had greater access to borrowed funds: ‘a country abounding with merchants and manufacturers . . . necessarily abounds with a set of people who have it at all times in their power to advance, if they chuse to do so, a very large sum of money to the government’ (WN910). The confidence that disposes ‘great merchants and manufacturers’ to ‘trust their property to the protection of a particular government’ also disposes them ‘to trust that government with the use of their property’. And participation in such a loan adds to their security because it is of lower risk in normal times than lending to other merchants. However, for governments with such access to funds it reduced the pressure to be parsimonious and inclined to save (WN910–11).

The habit of borrowing was seductive because it was a convenient alternative imposing additional taxes to pay for contingencies in times of rising international tensions, which could cause widespread ‘disgust’ among the population over a drift to war. Absent direct and the visible costs of a war, people feel ‘scarce any inconveniency from the war’ and they ‘enjoy, at their ease, the amusement of reading in the papers the exploits of their own fleets and armies’, which produce ‘a thousand visionary hopes of conquest and national glory’ (WN920).

Smith’s analysis showed how countries drifted into ever-greater debts from borrowing. Money lent to governments in effect transfers claims on the maintenance of productive labour to unproductive labour (‘to

be spent and wasted'), and if this transfer becomes significant by being 'withdrawn from certain employments in order to be turned to others', (WN924), it 'no doubt hinders more or less the further accumulation of new capital' (WN925). One disadvantage of funding war expenditures by taxation rather than borrowing was that the people felt the 'complete burden' of war when it starts and while the war continues, and would 'soon grow weary of it'. This might have the effect of people choosing carefully before committing to 'wantonly calling for [war] when there was no real or solid reason to fight for' (WN926).

The original source of the resort to borrowing was the inescapable need to augment insufficient public taxation to meet the need to fund ever-increasing defence expenditures. From his understanding of what were likely to be continuing and increasing requirements, Smith turned his attention to the spending of additional revenue. If defence was to be a major requirement, it was natural to examine upon what the revenue was spent. He spotted the anomaly that the British empire was defended at a cost which was passed on to the British public, while the theatre in which wars were fought were located abroad, and the overseas British populations did not contribute to the costs of wars to protect them from threats and intrusions by foreign European powers, primarily France and Spain and, earlier, east of the Cape of Good Hope, by the Dutch.

Smith's remedy was to spread the burden of taxation to the whole of the empire. This immediately ran up against a constitutional problem, in that the British 'constitution' did not admit representation from the colonies (nor from Ireland until 1801). He had already alluded to the possibility that the colonies should have representation in proportion to their taxation contributions (WN622–7) and noted that 'the private interest of many powerful individuals' and the 'confirmed prejudices of great bodies of people seem' at present to oppose so great a change, and these obstacles 'may be very difficult, perhaps altogether impossible, to surmount' (WN633–4). Because of this, he speculated that the proposal to 'extend the custom-house laws' to the colonies should be accompanied with a proposal, 'as in justice it ought to be, with an extension of the freedom of trade'. This would create an 'immense internal market for every part of the produce of all of its different provinces', which would 'soon compensate both Ireland and the plantations, all that they could suffer from the increase of the duties of customs' (WN935). It would produce revenues that in a few years could 'discharge the whole debt' and thus 'restore completely the present debilitated and languishing vigour of the empire' (WN938).

Smith arrived at this position from his critique of mercantile political economy, in which the dominance of the mercantile relationship with the colonies was a major factor. Events in America offered the opportunity for undoing the American economic burden of diverting British capital into 'unnatural' investments to the detriment of 'natural' capital accumulation. Others came to a similar position favouring disengagement, though for different reasons, such as Edmund Burke<sup>25</sup> in 1775, who advocated conciliation, and Josiah Tucker, who as early as 1774 had advocated quitting America.<sup>26</sup>

Smith considered his own proposal to be eminently justified because the debt was contracted to secure for the 'protestants of Ireland' the authority they enjoy 'in their own country' and to which 'several colonies of America' owe 'their present charters' and the 'liberty, security, and property which they have ever since enjoyed'.

## Notes

1. Skinner, A. S. [1979]: 183–208.
2. Cf. Winch, D. 1996: 90–1.
3. Scott, W. R. 1937: 120; Macintyre, G. 2003.
4. Robbins, L. 1953: 34.
5. Kennedy, G. 1975: 23–39.
6. Deane, P. 1975: 91 in Winter, J. M.
7. John, A. H. 1954: 344.
8. Deane, P. 1975: 92 in Winter, J. M.
9. Mathias, P. 1975, in Winter, J. M.: 73.
10. Ashton, T. S. 1948: 65.
11. Misprint in the Glasgow edition: 709; cf. 'two' in Canaan, 1937: 669.
12. Montesquieu, B. de. [1748] 1949.
13. Smiles, S. [1863] 2006: 35–6.
14. Peacock, A. 1992: 57–83; 1978: 117–28.
15. Rosenberg, N. 1965.
16. Skinner, A. S. 1995: 70–96 in Copley, S. and Sutherland, K.; Chapter 14 below.
17. Peacock, A. Sir. 1975: 561.
18. Stigler, G. J. 1975 in Skinner, A. and Wilson, T.
19. *Ibid.*: 243.
20. *Ibid.*
21. *Ibid.*: 238–9
22. Peacock, A. Sir. 1975: 566.
23. Stigler, G. J. 1975: 244.
24. Blaug, M. 1975 in Skinner, A. and Wilson, T.: 568–99.
25. Burke, E. [1775] 1981.
26. Tucker, J. 1774: 333–69; 1775 in Schuyler, R. L. 1931: 370–41.

# 14

## Adam Smith's Legacy

### Introduction

Adam Smith's legacy has attracted a great deal of counterfeit baggage that has little to do with what is recognisably his own. Separating his legacy from that attributed to him is a task in itself and not a little controversial.<sup>1</sup>

Rather than writing a comprehensive account of his legacy, I have selected two areas of it: first, to what extent was Adam Smith an exponent of 'laissez faire', which is still important today because it demarcates two modern schools of political economy; and second, what were his views on the redistribution of incomes to relieve tensions between the inequalities of poverty and wealth, which is surely still a 'big issue' in the 21st century?

### The end of laissez-faire<sup>2</sup>

Laissez-faire is associated, wrongly, with Adam Smith, whether as a compound hyphenated adjective or as a noun phrase. Jacob Viner (1892–1970),<sup>3</sup> simply by noting the evidence in *Wealth of Nations*,<sup>4</sup> showed that Adam Smith was far from a laissez-faire ideologue. Laissez-faire had more to do with the 19th-century 'Manchester School' and their descendants than with Adam Smith.<sup>5</sup> Viner observed, with his characteristic sardonic wit, that 'traces of every conceivable sort of doctrine are to be found in that most catholic book, and an economist must have peculiar theories indeed who cannot quote from the *Wealth of Nations* to support his special purposes'.<sup>6</sup>

Smith identified a fairly large legislative agenda for restoring or initiating natural forms of liberty, and he outlined what was wrong with the mercantile economy. Much needed to be done, including abolition of

the Statute of Apprenticeships, repeal of primogeniture and entail laws to allow free trade in land, domestic free trade and abolition of local customs taxes, and free trade in foreign commerce, through the abolition of the duties, bounties and mercantile protections, and the chartered trading companies. Viner noted Smith's central theme 'that these various restrictions and regulations are objectionable either because they operate to keep commerce, labour, or capital from following the channels in which they would otherwise go, or because they attract to a particular species of industry a greater share of the factors than would ordinarily be employed in it'. In these cases there is an inherent conflict between private and public interests, because the interference by government 'instead of promoting, hinders, though it does not necessarily prevent, the attainment of prosperity', whereas 'under the system of natural liberty' there would be harmony.<sup>7</sup>

Viner, controversially in my view, concluded that *laissez-faire* 'had been achieved' in Britain, with the caveat that unfortunately 'the greatest of his victories, the establishment of free trade in foreign commerce, faced its first serious threat in sixty years' (since 1868).<sup>8</sup> *Laissez-faire* had become a political and campaigning ideology in the 19th century, but it had not conquered widely in Europe. Campaigns for the ten-hour bill and for restrictions on child labour, and the attempted reforms of the Factories Inspectorate, were indicative that *laissez-faire* did not serve the interests of labour.<sup>9</sup> Viner concluded that Smith acknowledged many cases where there were necessary exceptions to the doctrine of natural harmony, which he did not make explicit. Ignoring the many exceptions, and using selective quotations, it was inevitable that an incomplete rendering of Smith's thinking gained currency in the 20th century.

Smith recognised that conflicts between private interests and those of the general public undermined the case for *laissez-faire*. That free markets would resolve these conflicts with the least repulsive of side-effects compared to other forms of intervention was unconvincing in practice. Where the line between market voluntarism and state compulsion should be drawn constitutes a perennial and still unresolved question.

Smith's works were both a systematic treatise on 'social philosophy' and 'tract[s] for the times'.<sup>10</sup> Smith sought to persuade legislators and those who influenced them to terminate many existing legislative interventions, and he left 'to the wisdom of future statesmen and legislators to determine' what should replace them (WN606). Generally, he preferred government to curb interventions that disturbed the natural order and to encourage those that supported it.<sup>11</sup> He did not concede any duties to government that they pretend 'to watch over the economy

of private people' (WN346), nor was it likely that the 'government of England' could conduct a 'parsimonious administration', given that in peacetime it 'generally conducted itself with ... slothful and negligent profusion' and in wartime has 'constantly acted with all the thoughtless extravagance' that a government is apt to do (WN818).

To the accepted roles for government (defence, justice, public works and institutions, and the 'dignity of the sovereigns'), Smith added others of a more controversial nature. For some advocates of laissez-faire it is an issue of fundamental principle and for others a boundary dispute. Among these roles Smith identified the following:

- the Navigation Acts, blessed by Smith under the assertion that 'defence, however, is of much more importance than opulence' (WN464);
- Sterling marks on plate and stamps on linen and woollen cloth (WN138–9);
- enforcement of contracts by a system of justice (WN720);
- wages to be paid in money, not goods;
- regulations of paper money in banking (WN437);
- obligations to build party walls to prevent the spread of fire (WN324);
- rights of farmers to send farm produce to the best market (except 'only in the most urgent necessity') (WN539);
- 'Premiums and other encouragements to advance the linen and woollen industries' (TMS185);
- 'Police', or preservation of the 'cleanliness of roads, streets, and to prevent the bad effects of corruption and putrifying substances';
- ensuring the 'cheapness or plenty [of provisions]' (LJ6; 331);
- patrols by town guards and fire fighters to watch for hazardous accidents (LJ331–2);
- erecting and maintaining certain public works and public institutions intended to facilitate commerce (roads, bridges, canals and harbours) (WN723);
- coinage and the mint (WN478; 1724);
- post office (WN724);
- regulation of institutions, such as company structures (joint-stock companies, co-partneries, regulated companies and so on) (WN731–58);
- temporary monopolies, including copyright and patents, of fixed duration (WN754);
- education of youth ('village schools', curriculum design and so on) (WN758–89);

- education of people of all ages (tythes or land tax) (WN788);
- encouragement of ‘the frequency and gaiety of publick diversions’ (WN796);
- the prevention of ‘leprosy or any other loathsome and offensive disease’ from spreading among the population (WN787–88);
- encouragement of martial exercises (WN786);
- registration of mortgages for land, houses and boats over two tons (WN861, 863);
- government restrictions on interest for borrowing (usury laws) to overcome investor ‘stupidity’ (WN356–7);
- laws against banks issuing low-denomination promissory notes (WN324);
- natural liberty may be breached if individuals ‘endanger the security of the whole society’ (WN324);
- limiting ‘free exportation of corn’ only ‘in cases of the most urgent necessity’ (‘dearth’ turning into ‘famine’) (WN539); and
- moderate export taxes on wool exports for government revenue (WN879).

Viner concluded, unsurprisingly, that ‘Adam Smith was not a doctrinaire advocate of laissez-faire’.<sup>12</sup> That he needed to write this 150 years after *Wealth of Nations* to remind 20th-century readers conclusively that it contained detailed and specific evidence of advocacy of breaches of laissez-faire, popularly attributed to him, suggests that a substantial drift away from important elements of Smith’s legacy had taken place among early-20th-century economists. How could Smith be so closely linked with laissez-faire policies when he so clearly and explicitly was not?<sup>13</sup>

So where did the idea of laissez-faire originate? Not surprisingly, the words were first uttered by a merchant in the French dirigiste regime of M. Jean-Baptiste Colbert (1619–83), the French minister of finance under Louis XIV. The merchant’s name was M. Le Gendre, described<sup>14</sup> as a ‘most sensible and plain spoken’ merchant and, reportedly, he responded to Colbert’s question ‘Que faut-il faire pour vous aider?’ (what do you want from me to assist you?) with ‘laissez nous faire’ (leave us alone). Colbert was the finance minister whose regulation of merchants was notorious for its oppressive licensing, inspection and control, which personified French bureaucracy at its worst (plus ça change . . .).

Jean Vincent, Seigneur de Gournay, popularised a version of Le Gendre’s appeal to be freed of petty regulation, but Marquis d’Argenson (1694–1757) – who was an active promoter of economic theory and a member of the world’s first economics club (salon), the Club d’Entresol

(1726) – was the author who took Le Gendre's words, dropped 'nous' and turned 'laissez nous faire' (leave us alone) into 'laissez-faire' (leave alone) into a principle of economic policy. He was also a foreign minister of France at the Court of Louis XV for two years. He did not publish his ideas, but circulated them, as was the custom, in manuscripts around the French intelligentsia. To govern better, he said, one must govern less. The true cause of the decline of our manufactures, he declared, is the protection we have given to them. Interestingly, Francois Quesnay, for example, did not include laissez-faire in his *General Maxims of Government*.<sup>15</sup>

'Laissez-faire' was first used in English by George Whatley, a contemporary, friend and correspondent of Benjamin Franklin, in 1774.<sup>16</sup> Keynes reported that Jeremy Bentham in 1793 used the expression 'laissez-nous faire'.<sup>17</sup> Bentham, who was not an economist, presented 'the rule of laissez-faire, in the shape in which our grandfathers knew it', adapted into the service of the Utilitarian philosophy. For example, in *A Manual of Political Economy*, he [Bentham] writes, 'The general rule is that nothing ought to be done or attempted by government; the motto or watchword of government, on these occasions, ought to be – Be quiet. The request which agriculture, manufacturers, and commerce present to governments is as modest and reasonable as that which Diogenes made to Alexander the Great: "Stand out of my sunshine."' <sup>18</sup>

From Bentham's 1798 advocacy of his English version of laissez-faire ('leave alone') we arrive at Keynes's 1926 advocacy of something neither laissez-faire nor state socialism:

Let us clear from the ground the metaphysical or general principles upon which, from time to time, *laissez-faire* has been founded. It is *not* true that individuals possess a prescriptive "natural liberty" in their economic activities. There is no "compact" conferring perpetual rights on those who Have or on those who Acquire. The world is *not* so governed from above that private and social interests always coincide. It is *not* so managed here below that in practice they coincide. It is *not* a correct deduction from the Principles of Economics that enlightened self-interest always operates in the public interest. Nor is it true that self-interest generally *is* enlightened; more often individuals acting separately to promote their own ends are too ignorant or too weak to attain even these. Experience does not show that individuals, when they make up a social unit, are always less clear-sighted than when they act separately.<sup>19</sup>



Keynes' caution, rather than acting in accordance with an absolute, unshakable principle, one way or the other, in a choice between absolute 'laissez faire' versus absolute state socialism, is something I feel Smith could have gone along with.<sup>20</sup> Sweeping laissez-faire, however, is not even a pretend option in current circumstances and top-down socialism is discredited.

Smith's legacy, however, leaves room for an extension of state-funded, and possibly state-managed interventions, such as in health expenditures that he ever so lightly touched upon (WN787–8). Smith in all such discussions would ask today's generations to answer 'To what ends are your proposed extensions of state funding aimed?' and 'could they be undertaken or managed a different way by private organisations?' The Smithian guiding measure, as always, would be 'what worked' and not abstract 'principle'. The acceptability of the answers would turn on the 'merits of the detail' and not whether it expanded or contracted the boundaries between private versus public sectors, especially as the constraint, highlighted by Smith that private individuals could not raise the huge capital sums involved in quite modest public works and institutions, no longer applied.

An important element in Adam Smith's legacy is that of natural liberty, mentioned several times in *Wealth of Nations*, and some concoct a connection or, worse, an identity between these two quite different ideas.<sup>21</sup>

Natural liberty has a far larger role in his moral philosophy than as a mere synonym for laissez-faire economics. Natural law was about the fundamental individual human right to protection by the negative virtue of justice from the depredations by others on their person, reputation and estate, and his 'right of trafficking with those who are willing to deal with him' (LJ8). It was the basis by which all societies and their political regimes were judged. It was not linked to any specific society, regime or economy. Laissez-faire was not a policy with which he could, or did, agree wholeheartedly. His suspicions, to put it mildly, of the likely (and well-known actual) conduct of 'merchants and manufacturers' are clear and often stated. Smith gives many examples of breaches of natural liberty by governments persuaded by the 'sophistry' of 'merchants and manufacturers' to enforce their monopoly privileges. It was not enough to set all trades free by righteous declamation; the justice system was needed to prevent 'merchants and manufacturers' reverting to, or introducing, the misconduct for which they were famous. This is the inner fallacy of laissez-faire; it requires governments to enforce it, and also to monitor the behaviour and activities of state-funded agencies which act monopolistically.

Smith, like Hume, followed the Scottish philosophical tradition in asserting that 'man by nature was a creature who could not live without society' and, therefore, 'could not live without laws'. Man is a legal person with 'rights' that 'must be defined and protected by public law' and as such his primary concern is not 'the art of ruling so much as the rational pursuit of his private concerns and interests'.<sup>22</sup> Smith wrote of Grotius as being the 'first who attempted to give the world anything like a system of those principles which ought to run through, and be the foundation of the laws of all nations; and his treatise of the laws of war and peace, with all its imperfections, is perhaps at this day the most complete work that has yet been given upon this subject' (TMS341–2; LJ397, n1).<sup>23</sup>

He described what he meant by natural liberty, while, notably, setting out the legitimate roles of the state (not markets!), which in *Wealth of Nations* contains a surprisingly large-state agenda, with the corollary that funding it would amount to an inescapable requirement for a relatively high level of taxation revenue and borrowing. Smith, in this case, used ideas about natural liberty to outline the duties of government in respect of justice, not laissez-faire, and judged its performance against the standard of natural liberty, which was applicable in law as a standard for 'those principles which ought to run through and be the foundations of the laws of all nations' and to any form of government and not just a particular mode of subsistence. Smith's application of natural law was not a libertarian agenda, though neither was it a 'big' government agenda. Smith, in fact, confirmed that his notion of natural liberty was consistent with significant public taxation and regular government expenditures, ideas not normally associated with advocates of laissez-faire.

In his critique of the French Physiocrats, he focused on their strategic error of 'preferring agriculture to all other employments', and in order to promote it '[they would] impose restraints upon manufacture and foreign trade'. In this manner, should a French government adopt their policies, they would 'act contrary to the very end they propose, and indirectly discourage that very species of industry which they mean to promote' (WN686). And from which error laissez-faire on its own did not offer a remedy.

Smith writes that 'the obvious and simple system of natural liberty establishes itself of its own accord'. Perfect liberty is not, therefore, a previous or historical state of society before it was corrupted by encroachments on its institutions; it is a hypothetical social state established 'of its own accord' if systems of 'preference or of restraint' are 'completely taken away'. It is an option that was obtainable if 'things were left to follow their natural course' and not interfered with by contrary actions or

policies imposed by fiat or by the writ of government, acting either on its own account or on the influence of special interest groups, or powerful individuals among merchants.

Being specific, Smith states that for 'things' to 'follow their natural course' it was essential that 'there was perfect liberty' (WN116, 135; cf. WN131), but in Europe 'nowhere' is there 'perfect liberty' (WN135). Natural liberty is, therefore, an aspiration, not an historical or a known condition; it is a benchmark and not something that had ever existed. But because all governments intervene to some degree or other; all societies, therefore, are not 'at perfect liberty', and some are not to an extremely high degree.

It is always sobering to remember that Adam Smith, primarily, was a moral philosopher. He was well versed in natural law and natural jurisprudence, subjects with which he expected most of his readers would be comfortable when relating them to his comments on political economy. His *Lectures* opened with a discussion on 'those rights that belong to a man as a man' (LJ8) and which expose him to injury in respect of his person, his reputation and his estate. He refers his students to Samuel Pufendorf's [1672/1691] writings, and draws the 'right of trafficking with those who are willing to deal with him' ('libiri commercii', or free commerce) within the ambit of basic rights. Perfect rights are those 'which we have a title to demand and if refused to compel an other to perform' and imperfect rights are those that 'ought to be performed to us, but which we have no title to compel them to perform' (LJ9). We can be injured in our estate, which we possess or which is owed to us by loan or contract.

Smith told his students that

the first and chief design of all civill governments, is . . . to preserve justice amongst the members of the state and prevent all incroachments on the individualls in it, from others of the same society. That is, to maintain each individual in his perfect rights. Justice is violated whenever one is deprived of what he has a right to and could justly demand from others, or rather, when we do him any injury of hurt without a cause. (LJ8–9)

And Smith demonstrates his grasp of the details of the legal minutia in the literature of jurisprudence and shows by his references throughout his works to natural and perfect rights that they were deeply ingrained in his thinking.<sup>24</sup> The rights of 'a man as a man' were independent of the mode of subsistence and the particular regimes of governance associated with them, precisely because they were rooted in the practice

of jurisprudence from within the 'specific historical circumstances of their emergence and subsequent development'<sup>25</sup> through the four ages of mankind (LJ14–16).<sup>26</sup>

In *Wealth of Nations* we see a pattern against which he judges mercantile policies as breaches of natural liberty, in addition to their economic content, particularly in their roles in distorting capital flows. In his discussion of the exclusive privileges of the town guilds, which restrained competition by reserving rights of apprenticeship and by legitimising market restraints mistakenly devolved as a local power to the very bodies that had an interest in narrowing the market in their localities, we see the dilemma of natural justice. The consequences over the 200 years that followed were predictable, whatever the original intention; they had the effect of preventing labour that would otherwise enter a profession from doing so and thereby deprived people of employment (WN135–59). Smith links this outcome to a person's liberty under natural law (WN138) and he follows with the proclivity of 'people of the same trade meeting together', noting that 'It is impossible indeed to prevent such meetings, by any law which either could be executed, or would be consistent with liberty and justice' (WN145). In similar form, when discussing the application of the 1662 Settlement Laws in Britain, he wrote, 'To remove a man who has committed no misdemeanour from the parish where he chuses to reside is an evident violation of natural liberty and justice'. This fully exposed the problem that the standard of natural law that he and others outlined was not applied in this and many other cases because people were ignorant of what liberty meant:

The common people of England, however, so jealous of their liberty, but like the common people of most other countries never rightly understanding wherein it consists, have now for more than a century together suffered themselves to be exposed to this oppression without a remedy. (WN157)

He acknowledged that though 'men of reflection' had complained about the validity of the law of settlements under natural justice, it had not yet led to 'any general popular clamour', though, he noted, scarce a poor man under 40 years of age had not 'felt himself most cruelly oppressed by this ill-contrived law of settlements' (WN157). This sort of passage may have caused concern among the legal establishment in 1793, who interviewed Dugald Stewart for signs that Smith's writings may have incited labourers to cause public disorders.<sup>27</sup>

He defended the 'violation' of liberty, in the case of the law preventing banks from issuing low-denomination promissory notes, though the fiction of presenting a pound note at the Bank of England and receiving 'one pound' in return is hardly noticed by millions of users, whereas in the 18th century the promise was for the bank to pay on demand the note's denomination in gold or silver. The temptation to issue more notes than the bank's gold or silver reserves could pay on demand endangered confidence in the banking system, with its far wider consequences for the economy.

'Such regulations may, no doubt, be considered as in some respect a violation of natural liberty. But those exertions of natural liberty of a few individuals, which might endanger the security of the whole society, are, and ought to be, restrained by the laws of all governments; of the most free, as well as of the most despotical' (WN324). Interestingly, also, he placed the burden of overriding individual liberty on both free governments and those that were 'the most despotical'.

He pressed the case for the application of natural liberty wherever it helped his critique of mercantile political economy. One notable example of this was his discussion on the restoration of freedom of trade and his concern that a 'great number of people' would lose their jobs 'in their ordinary employment and common method of subsistence' and also face restrictions under existing laws that favoured the corporate trades which administered the apprenticeship statutes. His proposal drew a parallel to the liberties to be exempted from these restrictions accorded to discharged soldiers and seamen by various sovereigns since 1660 (WN470–1). He applied the same test of natural liberty to his proposal to replace an existing practice in the corn trade and the usual government response to dearth, which he argued threatened to turn dearth into famine: 'The law, however, which obliged the farmer to exercise the trade of a corn merchant, was by far the most pernicious of the two' (WN530–1).

Smith certainly preferred adherence to natural liberty, but he did not go so far as Quesnay in regarding natural liberty as a precondition in the behaviour of government for the economy to function (WN674).

This is more than a difference of emphasis. It followed from the belief that though perfect liberty and perfect justice 'ought to run through, and be the foundation of the laws of all nations', they most decidedly had not done so. While eminently desirable, they were not absolutely essential in a pure form. The slow and gradual improvement in living conditions compared to previous centuries, to which Smith drew attention, had continued through different political regimes without evidence of full-scale 'perfect liberty and perfect justice', which, mixed with the Physiocratic

policies towards manufacturing and despite their interesting concepts of the circular flow of income in *Le Tableau*, meant it was obvious to Smith that a different, more modest reform strategy was viable. He expressed this in his firm dismissal of the belief that 'freedom of trade' would ever be restored in its entirety in Great Britain as 'utopian' (WN471), and his dismissal fully informs his more gradualist approach and shows why he was sceptical of the laissez-faire policies of some of Dr Quesnay's supporters.

Natural liberty was important but justice was essential in commercial society. He summarised his firm views on the role of justice and indicates clearly where he set his priorities for the spread of opulence:

Commerce and manufactures, in short, can seldom flourish in any state in which there is not a certain degree of confidence in the justice of government. (WN910)

### **What about the poor?<sup>28</sup>**

One of the major debates in the 21st century in the richer countries concerns the unresolved problems of income inequality, especially for the poorest people in rich societies. This is not a new problem; it has a long history, and it is not caused by the failure of commercial consumer societies, but by their very success, because before the age of commerce there was universal poverty. Social welfare in modern poorer societies is subsumed under the general poverty prevailing across society, except for the richest elites in them. Poor societies do not afford social welfare expenditures on anything like the scales practised by some European governments, and as it is not settled as to which particular scheme (all-state, part-state, part-private and/or all-private provision) is appropriate or optimal, or even viable, the subject lends itself to wide differences of opinion, approach and politics.

Where does Adam Smith stand in these controversies? To pose the question leads to not very helpful answers. Bluntly, social welfare, or distributive justice, had quite different meanings in the mid-18th century than since, and Smith was only slightly different to contemporary views that addressed a quite different debate. Modern versions of distributive justice were not on the agenda in the then appearing early commercial economies. Direct redistribution via the state to relieve poverty was not an idea whose time had come, though redistribution was applied in moral teachings about private charity, alms giving and acting to relieve severe distress. This was also a time when strong social views determined that society needed to be highly structured, and poor people were

ordained to remain poor and the rich were ordained to remain rich.<sup>29</sup> Adam Smith was one voice challenging such tenets, though they were widespread and endorsed by religious authority. People who took a different stance were far more common after Smith died than they were before he was born.

Samuel Fleischacker<sup>30</sup> provides a concise history of the meaning of distributive justice as it was in the minds of Plato, Aristotle, Augustine, Aquinas, and the Christian tradition, Grotius and Pufendorf, and what it became after Smith. To summarise over two thousand years of philosophy here would be heroic in the extreme. Instead, I shall present Smith's perspective to appreciate just how different the problem of distributive justice became after some tentative remarks of Smith.

Smith writes that 'perfect rights', or 'commutative justice', can be enforced within a system of jurisprudence, but 'distributive justice' or 'imperfect rights' are rather a 'system of morals as they do not fall under the jurisdiction of the laws' (LJ9). Giving money to the poor is a virtue, but not one that an individual can be punished for. Up to the late 18th century there was no doubt in philosophy, or in practice, that a person's property could not be sequestered for the purpose of giving it to somebody else. To do otherwise, even for good reason, would be an injustice, without which civil society would be at risk. Whether this would be acceptable to readers today is not relevant to the fact that it was not acceptable in law or in moral philosophy when Smith was alive. But Smith's adherence to the traditional consensus in public life was not unqualified. He moved the boundary on a bit too.

Smith entered the debate in a distinct context. The age of permanent poverty would end but only if current trends continued; by extrapolation, abundance on a scale seen never before by the mass of the people was a tantalising prospect, though nowhere near a reality. The existing imperative of no redistribution as there was precious little to redistribute would be weakened if opulence prevailed, as Smith thought it would. And this optimism emerged from all that he was thinking about in his four ages of mankind, which till then had been a history of subsistence for most people.

It was the appearance of a surplus over subsistence in shepherding and agriculture that marked the change in circumstances from the appearance of property, which at first created the opportunity for a richer minority to escape from the equality and limitations of low per capita subsistence. The history of the propertied rulers differentiates the property-based societies from the societies of egalitarian property-less hunter-gatherers. The social evolution of commerce from property and

the division of labour created the resources for a general advance from poverty towards opulence for wider segments of the population than hitherto had ever been possible.

The age of commerce in the unique circumstances of Britain, with stable government under the Hanoverian constitutional monarchy, a firm system of justice and the rule of law, and with modest but persistent growth, raised hopes that there was a way forward from the permanent poverty of the majority of the population. The gross inequality of incomes and circumstances from participation in the division of labour and commerce was a heavy price to pay but it was the only means for the descendants of the poor to escape from their predecessors' poverty, a prospect manifestly denied to the egalitarian societies of hunter-gatherers. The savage poor in America, Africa and Australia had not discovered the route to the spread of opulence; they remained in the age of hunting. In the more recent successor ages of shepherding and farming from around 8000 years ago, the plight of the poor, measured on the historical norms of per capita subsistence, did not fare much better than the poor had ever fared.

In these conditions beneficent individuals with wealth to share – guided by moral views of just desert, or of Christian charity towards God's children, in the spirit of 'generosity, compassion, and foresight' to 'do good to others' – showed strong moral attributes, but in the scale of things, their gestures were palliatives rather than remedies. They merely scratched the surface, though welcome enough for those who received such attention. Saints could give away all they possessed and join the pitiable poor; it made no difference to the numbers of poor in need of pity. Beyond this, the morally good had nothing to offer (I ignore their spiritual gains) as a solution to the continuing deprivations of an absence of wealth, which, as always for Smith, were counted as an absence of 'the necessities, conveniences, and amusements of life'. While classical moral philosophers debated beneficence within the strict format of voluntarism, they relegated 'distributive' justice according to the principle of 'merit',<sup>31</sup> which rewarded with 'honour or political office or money' those selected in 'strict proportion to his or her merits'. Their debates, literally, were worlds away from modern debates on income redistribution and the appropriate tax transfers required to meet even modest redistributions to the poor.

Smith did not discuss the alleviation of the poor directly. Nobody should be surprised by this. He certainly had a lot to say about the condition of the poor, about their significant contribution to society, including in contrast to the indolence, frivolity and waste occasioned by



those 'above' them in the scheme of things. Downtrodden, despised and 'buried in obscurity', the labouring poor and their families supported everybody above them in society's rankings, in return for 'a very small share' of annual output per capita, and the common labourer 'bears on his shoulders the whole of mankind' which thrusts him 'down into the lowest part of the earth' for his pains (LJ341).

Smith abided by his own dictum that a philosopher should 'do nothing but observe everything'. He put forward no plans, schemes or programmes to ameliorate the condition of the poor in the traditional manner. His purpose was indirect because he was never a 'man of system' (TMS233–4). Attempts to relieve poverty meant somehow providing the wherewithal to feed, cloth and shelter the poor who lived in hovels. The celebration of poverty in the manner of religious aesthetics was not the answer. Transfers through government taxation were not on the agenda and therefore not part of an answer.

Smith's answer relied on drawing the labouring poor into employment to share in the annual consumption of the 'necessaries, conveniences, and amusements of life'. This could best be done by continually increasing the annual net capital available for productive purposes, from which there would be a continual increase in employment. Limitations on capital formation that limited the growth of employment slowed the division of labour and specialisation along the supply chains, and inhibited the widening of markets. Only growth in the net product would overcome that constraint and competition among businesses for additional labourers would tend to raise wages and, in Smith's analysis, to depress profits, from employers having to pay higher wages to attract and retain labour and, from the resultant increased output, to lower unit prices to attract and retain customers (raising real wages).

This simple analysis was part of Smith's critique of mercantile colonial policy, which drew away capital from its 'normal' path in pursuit of higher profits in colonial monopolies. The pursuit of profit has both a necessary growth-inducing and a deleterious effect. The deleterious effect leads profit seekers to the divergence of their interests from that of the society they live in. The employers' penchant for monopolies, protection and 'conspiracies' to raise prices, cause them 'to widen the market and narrow the competition [which] is always in the interests of the dealers', to which Smith adds a passing observation that 'profits were always higher in the countries which are going faster to ruin' (WN267). High profits are associated with both poor countries and new products, especially from new technologies. Richer countries are associated with lower profits, though these are 'compensated' by larger capitals producing

larger total profits. Individual employers may see their profit rates fall in particular trades as a disappointment despite 'a great stock though with small profits, generally increases faster than a small stock with great profits' (WN110).

The inverse applies to wages, suggesting that the 'liberal reward of labour', a particular target for Adam Smith, raises population growth (lower infant mortality and better health) and the productivity of labour.<sup>32</sup> As the economy grows, wages rise and profits fall, and opulence spreads slowly and gradually across society. It is from such processes that Smith expected the alleviation of poverty to be realised and continued, provided that revenues were not dissipated on private or public prodigality, and that net capital found its way to inducing productive employment.

To the extent that the passion for self-betterment drove savings and capital investment and that governments restrained their passion for intervention in domestic and foreign affairs, the perpetual spread of opulence could continue, if not perfectly (an unattainable ideal), at least sufficiently to leave a positive and lasting mark on society. It would also raise the per capita living standards, including those of the labouring poor and far beyond, and for longer duration to which alternative schemes, then and now, realistically aspired. Adam Smith's approach to the poverty problems of the labouring poor has proven to be robust against the alternatives.

And so it was proved in the history of the 19th and 20th centuries. As real wages rose (Marx got that one wrong), opulence spread among the labouring poor compared to the subsistence levels of previous centuries. Of course, initial problems and dreadful working and living conditions came with the package; but in time increasing numbers of the poor moved from hovels not to palaces, but to what became industrial slums (and their descendants moved on to 'suburbia'). The poorest, relatively, in 21st-century Britain are incomparably better off than their 18th-century forebears, or if they have migrated into Britain, they are much better off than those they left behind.

Smith saw the result of grand-scheme plans and programmes to relieve poverty, some of long duration by the 18th century; perhaps the grandest of them all was England's Poor Law (1601). By an Act of Parliament, every parish was empowered to collect money from the richer members of the community, and distribute it to the indigent poor in their community. The guardians of the Poor Law funds, in practice, distributed according to their own criteria, which were heavily mixed with notions of 'deserving' and 'undeserving', and 'entitlement' (folk sayings

like 'as cold as charity' were literally true). Itinerant poor families were discouraged from moving into another parish community, supported by the Settlement Acts (1661), which with more justice were the 'Discouragement of Settlement Acts'. What set out to relieve the poverty of the poor in each parish became inevitably a scheme to relieve the parish of the poor. Beyond Smith's time, the 'Speenhamland' system (1795), an income-subsidy plan linked to the price of bread and the number of children, added to the misery and loss of dignity of the poor. It also became an excuse to reduce the local wages of the working poor, so far as they affected an employer's costs. Though Smith did not live long enough to see the Speenhamland 'solution', he would not have been surprised at its longer-term negative effects.

Smith's income transfer proposals were modest but fitted in with the changes brought about by expanding commerce. Fleischacker<sup>33</sup> cites Gertrude Himmelfard's assessment of Smith's role in stating these modest suggestions:

[I]f the *Wealth of Nations* was less than novel in its theories of money, trade, or value, it was genuinely revolutionary in its views on poverty and its attitudes to the poor.<sup>34</sup>

It is clear in several passages that Smith was mindful of the situation in which the bulk of the population lived. For much of his time in Edinburgh he lived and mixed, as was the custom in that city, cheek by jowl with people from all different ranks in society. He walked up and down the High Street to and from the Custom House from 1778 to 1790. Close contact and friendly relations during his 'social hours' with large numbers of people ensured his direct awareness of the social conditions of the poor in Edinburgh, and he would also have seen plenty of poverty when living in rural Fife. You get a feeling for Edinburgh during this time from James Boswell's 'Edinburgh Journals'.<sup>35</sup> Perhaps, the most evocative paragraph in *Wealth of Nations* is from his debate against the prevalent notion that the lower ranks of the people should not be encouraged to aspire above their station by them earning higher wages that allowed them to dress in finer clothes than they ought to wear and which would incite their 'discontent'. Smith replies with his famous (and much quoted) statement that improving the lot of the poor majority was 'abundantly plain' that it can never be regarded as an 'inconveniency' and 'it is but equity' that those 'who feed, cloath and lodge the whole body of the people, should have such a share of the produce of their own labour as to be themselves tolerably well fed, cloathed and lodged' (WN96).

That is the moral case he put for a higher share of the annual wealth of society going to the poorer majority and this meant primarily creating employment for poor people and higher wages through growth. Wages came from employment and poorer people needed jobs to realise their 'self-betterment' goals. Smith saw expanding employment from commercial societies as the real and lasting anti-poverty programme that the country and the poor needed. Employment through wealth creation is the antidote to poverty.

His suggestion was to increase taxation on those with higher incomes, indicated by his preferences (in his maxims of taxation) that the tax burden be set 'as nearly as possible, in proportion to their respective abilities; that is, in proportion to the revenue which they respectively enjoy under the protection of the state' (WN825). In conditions of a fixed low amount of government expenditure, the more the rich paid the less the poor had to contribute.

He favoured higher toll on roads and bridges 'upon carriages of luxury' than ordinary carts and wagons, to make the rich contribute 'in a very easy manner to the relief of the poor', who would pay less for their benefits gained from the carriage of goods about the country (WN725). He also advocated a tax on the higher rents that richer people paid for their splendid houses, which would not be 'very unreasonable' because the 'rich should contribute to the publick expence, not only in proportion to their revenue, but something more than in that proportion' (WN842). In all these recommendations for taxation, specifically on the consumption of richer families, he was conscious of their context, namely that 'there is no art which one government sooner learns of another than that of draining money from the pockets of people' (WN861).

He also recommended a large-scale expansion of education facilities in every parish, noting the fact of the absence of education of girls (except when they are 'taught what their parents or guardians judged it necessary or useful for them to learn') (WN781), which should be treated as a comment on the prevailing practice, rather than an endorsement of it. We may also note that he referred to 'children' in general and not just to boys.

## **Afterword**

The main difference between Adam Smith's approach to political economy and the approach of modern model builders is that Smith attempted to root his theories on the mixture of human motivations within their historical and contemporary context, while modern economists

built their models on the dominant simplicity of utility maximisation and the single dimension of the 'granite of self interest'. This presents an unbridgeable gap between the two approaches and encourages a selective search for seemingly similar-sounding quotations, which are in fact often referring to completely different contexts and historical circumstances.

I shall end by referring to two 'messages', possibly worthy of consideration, particularly by those who have descended from the peoples who embraced Smith's fourth age of commerce in one form or another.

Smith made a little-noticed, cautious and perhaps prescient comment in respect of the relative powers of the countries that explored the globe, took 'possession' of distant lands and formed colonies, for their own aggrandisement, and how their recent ancestors treated the native inhabitants of the 'savage' countries.

Smith's detailed knowledge of those civilisations in North Africa (including Muslim Spain), the Near East and eastwards through to China was fairly limited. Much attention to the marauding powers from the land-based technologies still managed to run an Arab black-slave trade out of Africa, sending them all the way to China for several hundred years. His message, therefore, to those that abused their power over peoples in hunter-gatherer societies applies to all peoples, and not just to the Europeans that Smith knew about.

The armed strength of the Europeans, for example, allowed them to 'commit with impunity every sort of injustice in those remote countries'. Hereafter, he warned, 'the natives of those countries may grow stronger, or those of Europe may grow weaker, and the inhabitants of all the different quarters of the world may arrive at that equality of courage and force, which by inspiring mutual fear, can alone overawe the injustice of independent nations into some sort of respect for the rights of one another'. If this 'equality of force' was not acknowledged politically, he suggested it would come about from economic progress following 'that mutual communication of knowledge and of all sorts of improvements which an extensive commerce from all countries to all countries naturally or necessarily, carries along with it' (WN626–7). It is no exaggeration to suggest that international politics today demonstrate the import of what Smith warned about.

His other 'message' is a general one, though, probably, it has a special resonance with peoples in the British Isles (and for those powers that have replaced the British Empire). It is from the last paragraph of *Wealth of Nations* and addresses what for Smith and his contemporaries could be classed as the 'Americas question'. Britain's first empire in North America

ended soon after 1776. The question was, what would Britain do after it ended? Smith advised as follows:

If any of the provinces of the British empire cannot be made to contribute towards the support of the whole empire, it is surely time that Great Britain should free herself from the expence of defending those provinces in time of war, and of supporting any part of their civil or military establishments in time of peace, and endeavour to accommodate her future views and designs *to the real mediocrity of her circumstances*. (WN947; emphasis added)

The same message from Adam Smith about 'the real mediocrity of her circumstances', though ignored in Britain, and indeed in Europe, in the 19th and 20th centuries, is still worth considering in the 21st century for all the reasons implicit, and occasionally explicit, in *Wealth of Nations*.

## Notes

1. Kennedy, G. 2005.
2. From J. M. Keynes' essay of the same title (1926).
3. Viner, J. [1928].
4. Rosenberg, N. 1979.
5. Hirst, F. W. ed. 1903; cf. Skinner, A. S. [1979]: 183–208.
6. Viner, J. [1928]: 126.
7. Ibid.: 133–4.
8. Ibid.: 134; cf. Paul, E. F. 1980.
9. I am grateful to Patrick O'Farrell for showing me his unpublished research on Leonard Horner.
10. Viner, J. [1928]: 139.
11. Ibid.: 141.
12. Ibid.: 153.
13. Lubasz, H. 1995: 45–69; cf. Rosenberg, N. 1975: 377; 1979: 19*n*–20.
14. McGregor, D. H. 1949, quoting Oncken, A. 1886.
15. Quesnay, F. 1758.
16. Whatley, G. 1774.
17. Keynes, J. M. 1926; Bentham, J. [1843]: 440.
18. Bentham, J. [1793] 1843, 1952–54.
19. Keynes, J. M. 1926; 1952: 312–22.
20. Thirlwall, A. P. 1978.
21. Hugo Grotius (1583–1645), Samuel von Pufendorf (1632–94), Gersham Carmichael (1672–1729) and Francis Hutcheson (1694–1746).
22. Teichgraeber, III, R. E. 1986: 21.
23. Smith, A. 1978.
24. Haakonssen, K. 1981: 99–134; Lieberman, D. 2006: 214–45.
25. Lieberman, D. 2006: 225.

26. Haakonssen, K. 1981: 154–77.
27. Rothschild, E. 2001: 52–71.
28. I have benefited in drafting this section from consulting Winch, D. 1996: 198–222.
29. Baugh, D. A. 1983, cited in Fleischacker, S. 2004b: 64–5: I benefited greatly from consulting this work.
30. Fleischacker, S. 2004b.
31. Cited by Fleischacker, S. 2004b: 19.
32. Winch, D. 1996: 111.
33. Fleischacker, S. 2004b: 64.
34. Himmelfard, G. 1984: 46.
35. Milne, H. M. 2003.

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