

# ADAM SMITH'S LEGACY

His thought in our time



Edited by Nicholas Elliott

*With papers by:*

Professor Norman Barry

Professor William Letwin

Russell Lewis

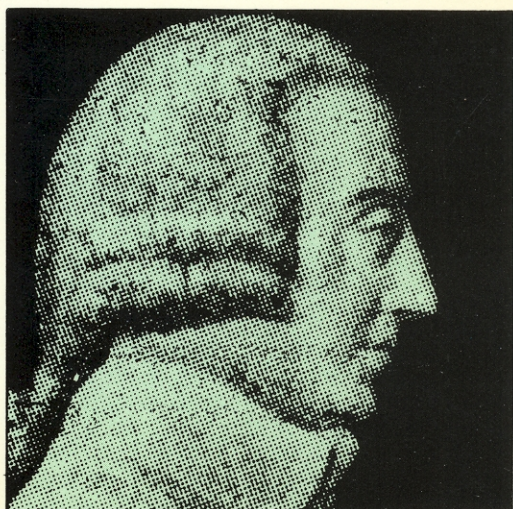
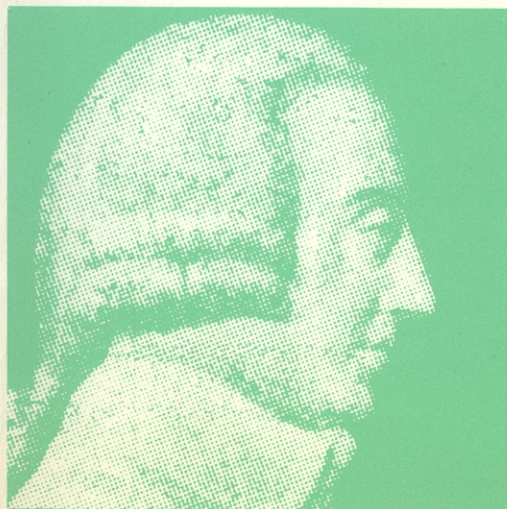
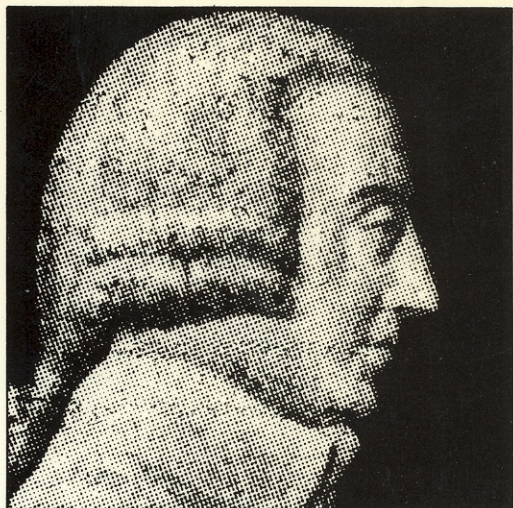
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His Thought in Our Time

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## **ADAM SMITH'S LEGACY**

Edited by Nicholas Elliott

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## 1. INTRODUCTION By Nicholas Elliott

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Although Adam Smith died 200 years ago, his work has arguably had more impact on modern economic policy than any other figure in economic history. While the prescriptions of Karl Marx and John Maynard Keynes have not withstood the test of time, the ideas of Smith are still regularly invoked and modern economic policy is measured against his principles. The bicentenary could hardly have fallen in a more appropriate year, with the worldwide demise of socialism and the growing endorsement of markets. Even now, Smith's works are being translated and distributed in Eastern Europe, and his works have a renewed relevance.

The Adam Smith Institute works to apply the principles of Adam Smith to the modern-day political process. As part of this activity, it has been active in providing advice to the reformers of Eastern Europe on how to dismantle their moribund state-run economies. It is entirely appropriate that the Institute should publish this collection of essays by leading Smith scholars to mark the event.

It is testament to the power of ideas that Smith has achieved the international reputation he holds today. It is all the more notable given his character. He was a shy and absent-minded professor who, as Leo Rosten relates, once wandered down country lanes in his dressing-gown, engrossed in a problem of logic.

Smith was not, strictly speaking, the founder of economics, and his work clearly drew upon the ideas of contemporaries. Yet his analysis of capitalism was exceptionally lucid, and his work forms a coherent system. *The Wealth of Nations*, his most-discussed work, was intended as one in a series of works (including *the Moral Sentiments*) which addressed all spheres of human action.

One of the timeless parts of Smith's writing is his explanation of a spontaneous order arising from the market system. Rather than producing chaos, he said, market forces encourage co-ordination, and networks of order which could never be reproduced by government action. Indeed, he explained, intervention can often disrupt order and thereby promote chaos.

This tendency of free markets, which Smith famously named "the invisible hand", deserves to be more widely understood today. It would counter the still-widespread assumption in some places that planning is better than *laissez-faire*.

We should bear in mind here the context in which Smith wrote *The Wealth of Nations*. Britain was fettered by many restrictions on trade, by laws hindering manufacturing, and by the restrictive practices of labour. He intended it partly, as William Letwin explains in chapter 4, as a polemical work. Similar barriers afflict the world today, and Smithian arguments still need to be made forcefully.

That an eloquent and insightful explanation of free markets can influence events is shown by the impact of *The Wealth of Nations*. It won him a reputation as "the mightiest monarch in Europe", and made him a regular advisor to European governments. Richard Vernier in chapter 6 examines the reception given to the book, its immediate endorsement by some, and its more gradual influence over time.

Detractors have portrayed Smith as the promoter of a morally barren doctrine of self-interest. In fact, Smith's first major work was *The Theory of Moral Sentiments*, and in it he integrated his analysis of morality with that of the wider society. Far from denigrating altruism, Smith believed that people are naturally inclined to fellow-feeling. However, since one cannot have any real fellow-feeling for a trading partner on the other side of the world, self-interest will suffice. The market, he explained, induces people to work for the benefit of others, as if they were motivated by altruism.

The moral component of Smith is important for his system to be attractive. As Nicholas Ridley argues in chapter 8, if Smith's ideas are to win currency in Eastern Europe — where his works are now being distributed — they must have an appeal that is wider than economics.

An appreciation of Adam Smith should not be confined to the realm of academic economics. In his time he was a popular writer and he should remain so today. This volume contains one essay by a minister of the government and one by a mainstream British journalist, as well as several by scholars and academics, reflecting the wide relevance that Smith has, and the fact that his ideas can be understood and discussed by a wide circle of readers. The bicentenary of his death may provide the opportunity to spread this appreciation of Smith still wider.

## 2. A MODEST MAN NAMED SMITH By Leo Rosten

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It is a clumsy, sprawling, elephantine book. The facts are suffocating, the digressions interminable, the pace as maddening as the title is uninviting: *An Inquiry into the Nature and Causes of the Wealth of Nations*. But it is one of the towering achievements of the human mind: a master-work of observation and analysis, of ingenious correlations, inspired theorizings, and the most persistent and powerful cerebration. Delightful ironies break through its stodgy surface:

*"The late resolution of the Quakers (to free) their Negro slaves may satisfy us that their number cannot be very great...."*

*"The chief enjoyment of riches consists in the parade of riches."*

*"To found a great empire for the sole purpose of raising customers (is) unfit for a nation of shopkeepers, but extremely fit for a nation whose government is influenced by shopkeepers."*

So comprehensive is its range, so perceptive its probings, that it can dance, within one conceptual scheme, from the diamond mines of Golconda to the price of Chinese silver in Peru; from the fisheries of Holland to the plight of Irish prostitutes in London. It links a thousand apparently unrelated oddities into unexpected chains of consequence. And the brilliance of its intelligence "lights up the mosaic of detail," says Schumpeter, "heating the facts until they glow." Sometimes.

Adam Smith published *The Wealth of Nations* in 1776 — not as a textbook, but as a polemical cannon aimed at governments that were subsidizing and protecting their merchants, their farmers, their manufacturers, against "unfair" competition, at home or from imports. Smith set out to demolish the mercantilist theory from which those policies flowed. He challenged the powerful interests who were profiting from unfree markets, collusive prices, tariffs and subsidies and obsolete ways of producing things.

We must bear in mind the kind of world in which Smith lived: Different kinds of money and measurements and weights were used in different localities of England. In some cities, laws hobbled the improvement of manufacturing, and punished any who attempted to introduce it. It was a crime to lend money for more than a fixed rate, which shrunk credit even though borrowers were eager to pay more than the law permitted. Business itself was viewed with suspicion by the lords of politics and privilege, as a selfish, *déclassé* activity in which personal gain is achieved at the expense of others. A free market in real estate or in labour, in the modern sense, did not exist, nor did corporations.

The artisans' guilds, no less than favoured manufacturers, petitioned the king to outlaw labour-saving methods: a new stocking-frame was abolished by the Privy Council. To import printed calico was illegal. Farmers, driven off the land so that sheep could graze or aristocrats ride to hounds, were whipped — or branded for vagabondage.



Poverty was accepted as natural, indeed inevitable, part of the natural order and the divine will. Britain, it was assumed, needed an ample supply of the impecunious: especially those with strong backs, grateful hands and ignorant heads. “Nothing requires more to be explained than trade!” complained Dr Johnson. By trade he meant that immense, unstudied structure of production, commerce and calculations that economics embraces.

It was this world, this semi-feudal order that extended from the Caucasus to the Atlantic, that Adam Smith dissected, clarified, and revolutionized. Other theorists had meditated on isolated portions of economic life, but Smith attacked the nuclear concept of wealth itself: wealth is not gold and silver, as accepted doctrine took for granted, but the total sum of a nation's resources and skills and production.

### ***Laissez-Faire* against Mercantilism**

He advocated a new cause, *laissez faire* (the phrase was Gournay's; oddly enough, Smith never used it), against the “self-evident” advantages of having government guide and control the ways in which a nation produces and sells its good and goods. Smith proceeded to spell out in profuse detail why the supposed advantages were illusory: If all men are permitted to act freely, to work how and where they want, to charge whatever prices they can get; if men, that is, are given maximum freedom to try to maximize personal gain; if all men act out their rawest self-interest, pursuing whatever enterprises best satisfy their needs and their egotism and their cupidity, if the government keeps its hands off the economy — the result will be not anarchy or chaos or a jungle of selfish social destructiveness, but an ordered harmony in which the automatic forces of supply and demand, in a responsive and resilient free market, must bring about the most efficient utilization of all resources (labour, land, capital, skills, brains, ingenuity, inventiveness) to supply the largest and most lasting advantages to a nation.

Free, unregulated competition, Smith audaciously argued, converts “the private interests and passions of men” into consequences “most agreeable to the interests of the whole society” — as if by an Invisible Hand, and despite the intentions of rapacious landlords, greedy merchants, mendacious traders, ruthless profiteers.

It was a breath-taking revelation of the grand design that is hidden within the mundane, workaday world of production and trade: The best guarantor of men's welfare, and the rock on which rests man's freedom, is — the profit system. Smith even offered the startling judgment that Britain's colonies and slave labour were more of an economic disadvantage than asset.

Smith illustrated this complex and paradoxical theme with matchless ingenuity, with a ceaseless cascade of facts and reasoning and analytic *tours de force*. And all that rolling, relentless argument came to focus on one conclusion: Government should get out of, and keep hands off, the economy.

Many men cried, as many still do, that Adam Smith offers an apologia for unconscionable aggrandizement by the heartless rich at the expense of the helpless poor. But only those who have not read him can think him inhumane, or cynical, or an apologist for a dog-eat-dog order. It was Adam Smith, not Karl Marx, who warned: “No society can flourish (where) the far greater part of its members are poor and miserable”; or castigated a social order in which “a mother who has borne

twenty children" sees only two survive; or said that mass production would brutalize men's minds unless the government prevented it through energetic public education; or showed how road tolls help the rich "at the expense of the poor."

Smith knew perfectly well that businessmen are prone to possess a "mean rapacity (and) monopolizing spirit." "They seldom meet," he wrote, without concocting "a conspiracy against the public." In a typically dry, wry, memorable passage, he observed:

*"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 self-love, and never talk to them of our own necessities but of their advantages."*

Not the least of Smith's charms are such shrewd and ironic arguments. Judges would try their cases faster, he said, if paid by the litigants instead of the state. Many religious sects are far better for a nation than one or two, because the need to compete, even in sacred persuasion, will ultimately foster a:

*"... pure and rational religion, free from every mixture of absurdity, imposture, or fanaticism, such as wise men in all ages have wished to see established. The ... zeal of religious leaders can be dangerous only where there is ... but one sect (or two or three) tolerated in the society. That zeal must be altogether innocent where the society is divided into two or three hundred sects, of which no one would be considerable enough to disturb the public tranquillity."*

Who was this man who would change the intellectual structure of the world?

### **The Glasgow Professor**

Adam Smith was born in Scotland, at Kirkcaldy, Fife, in 1723, and raised by his widowed mother. Briefly kidnapped as a child, by gypsy tinkers, and recovered by his uncle, he went on to live a life devoid of drama. At the University of Glasgow he concentrated on mathematics and moral philosophy, then went to Oxford for seven years.

We cannot be sure what he looked like: the best portrait of him was probably painted after his death. He is described as having been of middle height, "full but not corpulent," with large grey eyes that beamed with dignity. He was a shy man, embarrassed with strangers and inattentive to ordinary things. He was deeply devoted to his mother, and never married; after his mother died, a maiden cousin looked after him: Someone had to, for the professor was notoriously absent-minded. He once brewed bread and butter, instead of tea. He walked fifteen miles down country lanes, still in his dressing robe, absorbed in some problem. On another occasion, he fell into a pit because he had not looked where he was going. He would stride along in his breeches and broad hat talking to himself, entirely blind to his surroundings, consumed by concentration on some problem.

In 1751 he was appointed to the chair of Logic, and later Moral Philosophy, at the University of Glasgow, where he was once reprimanded for the un-Scotsmanlike frivolity of smiling during a religious service.

He began by lecturing on theology, ethics, and jurisprudence, and he won such repute as a teacher that students came to him from as far away as Russia. This is all the more noteworthy because Smith had some sort of nervous disorder, often faltered in his speech, and became so lost in pursuing an idea that he was prone to forget where he was or what he had set out to demonstrate.

He never could organize his thoughts easily or quickly. He would walk up and down his study, dictating to a secretary, abruptly digressing or pursuing an impromptu hunch. His mind was an immense library and catalogue system; he possessed phenomenal memory.

He was a good if disrhythmic talker, but a better listener, who soaked up information and insights from the conversation of others. He loved poetry and could recite classics from English, Latin, Greek, French, and Italian without a flaw. He was profoundly influenced by David Hume and Hume's writings and thinking; they were close friends; and Smith was at Hume's deathbed and wrote a moving account of the philosopher's last hours.

Smith could not resist buying books, and he assembled a vast personal library in history, science, astronomy, philosophy, physics. He loved the life of the clubs, in Edinburgh and especially London, where he revelled in the sparkling repartee and learned discourse of men whom history would place among the immortals: Edmund Burke, Samuel Johnson, Edward Gibbon. I drool over what that sparkling company spent their hours discussing.

At the age of thirty-six Smith published his college lectures in a volume called *The Theory of Moral Sentiments*. It was an investigation of how man's moral judgments can be explained, if men are primarily driven by self-interest. Smith postulated "social propensities" of Sympathy, Justice, and Benevolence. In a brilliant foray into psychology, he designated Sympathy as the human capacity to feel for others by imagining one's self in the place of another, as if by an impartial spectator. This construct anticipated Kant's categorical imperative, and what modern psychiatry calls identification and empathy.

*The Theory of Moral Sentiments* brought Smith international fame. One of its admirers was the Chancellor of the Exchequer, who invited Smith to tutor his son, to take the young duke, indeed, on the Grand Tour.

Smith went to the Continent with his pupil in 1763. He met the great Voltaire in Geneva and spent almost a year in Paris, where he discussed political economy with Turgot, Necker, and various luminaries of the thriving circle of philosophes. Quesnay, physician to Madam Pompadour (!), ex-pounded to Smith the doctrine of the Physiocrats, who held that national wealth was not to be reckoned as the sum of the Treasury's supply of gold or silver, but as the total production a nation creates. But Quesnay thought only farmers produce real wealth; he missed the fructifying operations of the entrepreneur, the manager, the planner, the risk-taker.

When Smith returned to Kirkcaldy, he settled down to devote himself to his inquiry into the nature and causes of national wealth. He had pondered the problem now for over twenty-five years. He had often discussed it in Edinburgh, often with David Hume, often in London and France. He proceeded to dictate his masterpiece, slowly, haltingly, breaking off from time to time to travel down to London to consult others on special problems. (Benjamin Franklin gave him invaluable information about the economy and trade of the colonies).

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

It took Adam Smith ten years to dictate and edit *The Wealth of Nations*. He conceived it as a sequel to *The Theory of Moral Sentiments*, we should not forget, for he never ceased analyzing human behavior and moral obligations. Smith did not think of himself as simply an economist: He was a philosopher, a theoretical psychologist, a sociologist, an analyst of political and social institutions. He was, that is, an eighteenth-century intellectual. He examined the conduct of men in a constant search for the whys of ethics and the musts of morals. And because it is a sequel, *The Wealth of Nations* accepts, and does not try to stress, what Adam Smith had emphasized in his previous work: that man, for all his acquisitive and predatory appetites, is a social creature, put on this earth for God's purposes. His critics forget that central to all of Smith's thinking was his unshakable conviction about man's nobler social propensities: the instinct of Sympathy, the sense of Benevolence, the impulse to Justice.

Smith showed that a truly free market is a huge, sensitive polling booth. To buy an article or a service is to vote — for it and against others less desired or more costly or less useful. Prices therefore fairly reflect utility (or demand) and operate, in their fluctuations, to shift and channel and allocate resources with impartial efficiency, rewarding efficiency, quality, improved services. The decisive power is wielded in the most democratic of all methods: by the lowly, individual, sovereign customer.

The magic of the division of labor, Smith held, the specialization of skills, the encouragement of ingenuity and experiment and innovation, all energized by the potent magnetic lure of personal profits and the personal acquisition of riches, will serve to lead mankind to “universal opulence.” And the freedom to venture, to risk gain or loss, in a class-free and depoliticized marketplace, must nourish, as no other economic system can, the priceless growth and strength of individual liberty.

Smith showed that the buyer profits no less than the seller (an unconventional idea in that time); that England's imports are valuable to those who buy them and in addition provide other nations with the money to buy England's exports. International trade must reduce international frictions, Smith held, and promote international peace.

Smith never tried to evade or rationalize what his eyes and mind told him: “Landlords,” he said, “love to reap where they never sowed.” They are prone to “violence, rapine and disorder.” Businessmen, in general, are prone to gratify “the meanest and most sordid of vanities.”

He also knew that a system of enterprise deprived of special favors, and rules backed by governmental power, would be fought tooth and nail by “the insolent outrage of furious and disappointed monopolists.” He knew that he would be ridiculed and misquoted by “that insidious and crafty animal ... (the) politician.” But his analysis led to one unalterable goal: The government must enforce competition, punishing any who conspire to fix prices, or divide up markets, or restrict production.

Adam Smith knew that in human affairs the best must yield to the best obtainable, what is logical to what is possible. He favoured certain public works and departures from free trade — for national defence, for instance. He denounced primogeniture, the hallowed custom under which only oldest sons inherit land, in a passage any socialist theoretician would be proud to have written:

*"This custom ... rests upon the most absurd of all suppositions, the supposition that every successive generation of men have not an equal right to the earth, and to all that it possesses; but that the property of the present generation should be restrained and regulated according to the fancy of those who died perhaps 500 years ago*

*"It seldom happens that a great proprietor is a great improver. To improve land with profit ... requires an exact attention to small savings and small gains; a man born to a great fortune is very seldom capable (of this).*

*"Every generation has an equal right to the earth and to all that it possesses."*

I do not think many people realize that *The Wealth of Nations* is a *tour de force* of psychology and sociology, no less than economics. It offered men a theoretical scheme that, for the first time, encompassed the multitudinous intricacies of political economy.

### **A Revolution in Economics**

The work is so rich, so germinal, that for a century it gave Europe's kings, prime ministers, philosophers, politicians, their basic conception of human behaviour, and guided their prescriptions for progress. The effect of Adam Smith on such men as Pitt, or Stein of Prussia, or Gentz of Austria, his influence on statesmen, social theorists, ministers of trade, would be hard to exaggerate.

Smith transformed the very way in which men thought about private economics or public policy. He lifted the national welfare above the special interests of the august and the privileged: the ruling lords, the landed gentry, the romantic, impatient builders of empire — and also above the special interests of the aggressive merchants, the clamoring protectionists, the clever traders, importers, exporters.

He heralded a new kind of freedom. He virtually founded a secular faith, Individualism, and *The Wealth of Nations* became its bible. "Next to Napoleon", one writer concluded, Adam Smith was "the mightiest monarch in Europe".

He never thought his system perfect; he did demonstrate how much better it was than any that existed, because his economic model operated independent of men's personal motives or monetary goals: it was governed and regulated by larger, impersonal laws. He had thought deeper of an economic order, and perceived the hidden equilibrium of interactions between contending forces.

I should interject that Adam Smith did not invent economics, or elevate it to a science single-handed. He owed much to Hutcheson, Hume, Quesnay, Turgot; and Professor William Letwin has recently shown us how much Smith owes to John Locke, who discerned social laws "akin to the forces of nature", and to the astute Dudley North, who had related supply to demand, foreseen the functions of interest and rent, understood the balancing process in the movements of bullion, and extolled the spacious national benefits of free trade.

But Smith was surely economics great architect, and remains its commanding theoretician. The gifted economists who followed him — Ricardo, John Stuart Mill, Bastiat, Karl Marx, Alfred Marshall, Irving Fisher, John Maynard Keynes, Beveridge, von Hayek, Schumpeter — all began, as every economist must, with Adam Smith's stupendous scheme.

### **The Anti-Capitalist Backlash**

The system was not (it could not be) without grave and unresolved defects. "Even perfect competition", notes Paul Samuelson, "could lead to starving cripples; to malnourished children ... to the perpetuation of great inequality for generations or forever. If Smith were alive, he would agree." I have no doubt he would.

Smith did not foresee the fantastic off-shoots of the Industrial Revolution the role of gigantic corporations, the power of unions, the problem of business cycles. Nor could he foresee how catastrophic depressions, frightful wars, and massive unemployment would create the most violent hatred for an "inhuman, profit-mad, conscienceless capitalist system."

The visible hardships of life have animated powerful movements for social reform. Governmental aid to the un-propertied — farmer or worker, artisan or tenant — became the battle cry for intellectuals, reformers, and labor unions. Hunger, lost jobs, unfound work are intolerable evils to the innocent victims of vicissitude.

To understand capitalism and its ramifications requires a degree of sophistication that is much rarer than compassionate oversimplifications. In the competition for political support, humanitarian appeals drown out reassurances about necessary readjustments. And a nagging sense of guilt about their self-enrichment weakens those who, one would assume, would be the staunchest of capitalism's defenders.

The simple promises of humane social order have launched welfare states that respond to the demands of the millions. For men want security, no less than liberty. Men seek a proper share of justice and reward no less than higher wages for their work. It is surprising that the gap between the very rich and the very poor, between bourgeois luxuries and widespread misery, between the discriminatory effects of inflation or deflation, between war's profiteering and war's horrors, would drive men to revolutionary protest?

Even had Marx or Engels never existed, the very objectivity of capitalism's operations would have imposed economic penalties on men sooner or later angered by them.

How can *laissez faire* win advocacy among the weak, the unlucky, the dull, the unwilling, the inept? Those who fail — the incompetent or imprudent, the lazy or all those to whom the Lord gave mediocre talents and extravagant aspirations — such men do not comprehend or accept the market's unfeeling effects. Diligent men cannot reconcile themselves to the demoralizing verdicts of competition. How can those battered by illness or old age or sheer misfortune philosophically accept their hopeless prospect? Can they care about a system that does not seem to care about them?

It is folly to expect the dispossessed, the confused, the unskilled, the foolish, the scorned, the insecure, the jobless, the emotion-ridden, the impatient, the unanalytic, the failures of this world to accept an abstruse, unreachable scheme which they, in fact, blame for undeserved adversity and unjustified defeats. The crucial point about democracy, I think, is that men who feel too poor to cast significant votes in the marketplace do cast very large votes in the polling booths. And having said all this, believing in its verity and effects, what I find most amazing about Adam Smith is how much more often he is right than wrong.

He was to economics what Newton was to physics, or Darwin to the study of man: a giant in the kingdom of intelligence. The cheerful, absent-minded master analyst of the great, invisible scheme that shapes a million variant acts and calculations into the harmonious and beneficent whole was far from being the desiccated priest of what Carlyle would call "the dismal science."

I think the best way to gauge Adam Smith's contribution to mankind is this: List the six books you think have most profoundly shaped our world. Start with the *Bible*. Include Newton's *Principia* and Darwin's *Origin of Species*. Now, can you possibly name three more without including that astonishing outpouring of an epoch, *The Wealth of Nations*?



### 3. ADAM SMITH'S REVOLUTION, PAST AND PRESENT

By Edwin G West

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In one of the distinguished after-dinner speeches at *The Wealth of Nations* Bicentennial Conference at Glasgow University in 1976, Professor George Stigler brought tidings that Adam Smith was alive and well and living in Chicago. Considering the growth rate of articles about him in subsequent years, the Founding Father of Economics appears to have been flourishing in other major cities also. Smith would surely be a contender for the highest rating in any citation index, and he has now appeared on film and television. Hundreds of essays were written on him in the bicentenary year 1976, although many of these no doubt were prompted more from the spirit of veneration than anything else. Much of the writing, nevertheless, has, I believe, been seminal. This is so either in the sense of a new appreciation of Smith's insight and a fresh exploration of paths he opens for us in the 20th century, or in the sense of presenting Smith in a new perspective in the light of a deeper understanding of the historical circumstances of his time.

#### **"The Mightiest Monarch in Europe"**

One of the most important of these historical circumstances, of course, was the set of events surrounding Thomas Jefferson's Declaration of Independence, a classic document that appeared in the same year as Smith's *Wealth of Nations*.

A comparison of these two luminaries is interesting in its own right. While both were distinguished men of letters, Jefferson was also a "man of action", prominent especially in politics and law. Adam Smith's influence, though taking longer to register, was nevertheless ultimately just as far-reaching.

Twenty years after Smith's death in 1790, Alexander von der Marwitz, a German student, wrote to a friend about the author of *Wealth of Nations*: "Next to Napoleon he is now the mightiest monarch in Europe." Pitt and Shelburne, in their advocacy of free trade, both declared themselves disciples of Smith. Indeed, Pitt's commercial policy from 1784 to 1794 was explicitly based on Smithian Principles. The commercial treaty with France, the reduction of debt, customs reform and resolute retrenchment in public expenditure, all of which occurred within a few years of 1776, were clearly connected with the great book published in that year.

It was not only the American and French political revolutions, but also the revolution in commercial and economic thinking which put an end to the remnants of medieval society. Smith's contribution to this thinking was enormous. His treatise of 1776 struck a mighty blow at the trade walls which had been erected around the nation states of Europe by the traditional protectionist or mercantilist politicians. In particular, the belief of many of the latter that one nation could become richer only if a rival became poorer was subjected to an especially devastating assault. In Chapter III of Book IV of his *Wealth of Nations*, Adam Smith remonstrated:

*"The modern maxims of foreign commerce, by aiming at the impoverishment of all our neighbours, so far as they are capable of*

*producing their intended effect, tend to render that very commerce insignificant and contemptible...*

*"A nation that would enrich itself by foreign trade, is certainly most likely to do so when its neighbours are all rich, industrious, and commercial nations. A great nation surrounded on all sides by wandering savages and poor barbarians might, no doubt, acquire riches by the cultivation of its own lands, and by its own interior commerce, but not by foreign trade."*

Smith ridiculed in particular the artificial barriers against trade between the two neighbouring rich countries of France and England. Such restrictions, he argued, were the outcome of deals between self-seeking tradesmen and politicians, phenomena described today as "rent seeking". Smith was one of the first to emphasize that the pursuit of self-interest was not intrinsically bad; what was needed was a system in which self-interest would be so harnessed that it would be an ally and not an enemy of social prosperity. In general, the private free market mechanism provided such a system. By pursuing his own interest the individual frequently promoted that of the society "more effectually than when he really intends to promote it." But his result could only occur when the market was free, open and truly competitive. The argument of protectionist traders that restrictions on imports would promote society's interest" was hypocritical. "I have never known much good done by those who affected to trade for the public good."

The excessive restrictions on trade between England and France had led to the diversion of trade to the more distant colonies of the two countries. Smith denounced the futility of this development in words that are particularly ironic in the light of Britain's long struggle over entry into the European Common Market nearly two centuries later:

*"If those two countries, however, were to consider their real interest, without either mercantile jealousy or national animosity, the commerce of France might be more advantageous to Great Britain than that of any other country, and for the same reason that of Great Britain to France."*

*...But the very same circumstances which would have rendered an open and free commerce between the two countries so advantageous to both, have occasioned the principal obstructions to that commerce. Being neighbours, they are necessarily enemies, and the wealth and power of each becomes, upon that account, more formidable to the other; and what would increase the advantage of national friendship, seems only to inflame the violence of national animosity."<sup>1</sup>*

Down to Adam Smith's time in the eighteenth century the occupations of commerce and trade were suspect. The activities of buying and selling and lending money were frequently inhibited by the vague feeling that they were sinful. It was felt by some that of two parties to a bargain, the gains of one would somehow be offset by the losses of the other; this was believed to be especially true where the two parties were great nations. Adam Smith's writing shattered these notions. In his condition of "natural liberty", exchange relationships are entered into freely and voluntarily by both parties; the outcome must therefore be mutual acceptance. No one individual would dare enter into such a relationship knowing that he would come out of it

worse off than he started. To quote from Professors Buchanan and Tullock's book, *The Calculus of Consent* (1962):

*"...the simple fact is, of course, that in normal trade all parties gain; there exist mutual gains from trade. The great contribution of Adam Smith lay in his popularization of this simple point..." (P 250)"*

## **Producer Privilege**

Adam Smith seems to have been fully aware of the difficulties of devising a: "suitable political framework wherein the beneficial operations of the free market could best operate". This problem, on which Buchanan and Tullock centre their attention, can readily be recognized the moment we remember that the play of individual self-interest can take place not only in the market place but also at the ballot box and in the political process. These two separate stages of activity can give rise to much conflict. Acting in their capacity as consumers who accept some products and reject others, individuals constitute a potent though dispersed force making for market efficiency. In their capacity of producers, however, they often recognize that in majority-voting democracies their self-interest is more effectively promoted by rent-seeking, which means political lobbying to secure special protection and privileges for their particular occupation or trade. Thus, although as Adam Smith said, "The sole end of economic activity should be consumption", in practice, because of the particular political framework, the interests of producers often predominate. Hence Smith's rather pessimistic conclusion:

*"To expect, indeed, 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. Not only the prejudices of the public, but what is much more unconquerable, the private interests of many individuals, irresistibly oppose it."*

With sentiments like these, Smith would have been surprised at the extent of the triumph of free trade policies over the next century. He under-estimated the power of his own influence and that of other economists to come. Disciples and admirers emerged everywhere. Developing the Scottish professor's arguments and presenting them with his own particularly devastating kind of wit, the French economist Bastiat, for instance, made a telling onslaught upon entrenched monopoly positions in France. In the development of economics during the first half of the nineteenth century, meanwhile, Smith's work became the common point of departure for most professionals and academics. And in politics, undoubtedly the crowning triumph came in 1846 with Sir Robert Peel's overthrow of the Corn Laws, those most notorious of all symbols of protectionism. By 1850 Disraeli was confident that "protection is not only dead, but damned."

While it can fairly be claimed that Smith's treatise both shocked and instructed his fellow men in the late eighteenth century, it can also be argued that the times were ripe for such a work. The first edition was exhausted in six months. Such a reception came as a surprise both to his publishers and to his friends.

Comparing *The Wealth of Nations* with *The Decline and Fall of the Roman Empire* by Edward Gibbon, which had been launched by the same publisher in that same year, Smith's best friend David Hume remarked:

*"The former (Gibbon's work) is the most popular work; but the sale of the latter, though not near so rapid, has been more than I could have expected from a work that requires so much thought and reflection (qualities that do not abound among modern readers) to peruse to any purpose."*

Five editions of Smith's book appeared between 1776 and 1786. Another five, four English and one Irish, appeared between 1791 and 1799. By the end of the century several editions had appeared in France, Germany, Italy, Spain and other European countries.

### **A Popular Writer**

But while the timing of the publication of his work was fortunate, we must not neglect to give due credit to its particular internal qualities. Leaving aside for the moment the novel and sophisticated aspects of his arguments, one obvious reason that can explain the immediate popularity of Smith's work is the fact that his words and sentences were selected with such pungency and bite as to register well with the man in the street:

*"By means of glasses, hot beds, and hot walls, very good grapes can be raised in Scotland, and very good wine too can be made of them at about thirty times the expense for which at least equally good can be brought from foreign countries. Would it be a reasonable law to prohibit the importation of all foreign wines, merely to encourage the making of Claret and Burgundy in Scotland?"*

Of Smith's general system of economics, it is true that the individual components were not new. Obviously he had drawn upon French economists, such as Cantillon, Quesnay and Turgot. British influences upon Smith patently included those of Mandeville, Petty, Stuart and Hume. For his basic philosophy he leaned particularly upon his tutor at Glasgow University, the "never to be forgotten" Hutcheson. Smith's greatest personal achievement was to weld these individual components into one exciting whole; and one which, as we have seen, because of its down-to-earth, commonsensical approach, appealed to the ordinary reader as well as to the academic.

Not only was Smith's style direct, it was also entertaining, colourful and amusing. He was master of the apt phrase. The publishers of *The Book of Quotations* have selected from *The Wealth of Nations* the following:

*"To found a great empire for the sole purpose of raising up a people of customers, may at first sight appear a project fit only 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."*

It must be remembered that Smith's economic arguments in *The Wealth Nations* were presented in a far different way from that of the narrow technical writer and specialist which today so easily frightens off the layman. Smith's reasoning was graced with eighteenth century literary elegance that made it more palatable. But the

literary style served the economics; the latter was not sacrificed for the sake of the former.

*"There are some very agreeable and beautiful talents of which the possession commands a certain sort of admiration; but of which the exercise for the sake of gain is considered, whether from reason or prejudice, as a sort of public prostitution. The pecuniary recompense, therefore, of those who exercise them in this manner, must be sufficient not only to pay for the time, labour, and expense of acquiring the talents, but for the discredit which attends the employment of them as the means of subsistence. The exorbitant rewards of players, opera-singers, opera-dancers, etc., are founded upon those two principles: the rarity and beauty of the talents, and the discredit of employing them in this manner."*

Another obvious reason for Smith's success was the rich appeal to historical illustration as well as to contemporary experience. Indeed, *The Wealth of Nations* started out not as a book on economics but, according to the contemporary biographer, Dugald Stewart, as an "essay in conjectural history". By this was meant the systematic study of the effects of legal, institutional and general environmental conditions upon human progress, a branch of study which had started with Montesquieu and was taken up not only by Smith, but also by his Scottish friends and colleagues, Lords Kames, Hume, Ferguson and Millar. This field of study today would be called sociological evolutionism, and there is no doubt of Adam Smith's preoccupation with it throughout his book. His readers are continually treated to elaborate accounts of the differences in character between rural and urban population, barbarous and civilized states, the foundation of rank and precedence in rude as well as civilized societies, the peculiarities of ecclesiastical government and the effect of geography upon national character and power.

Living in the days when it was still possible for an individual to hold sway over a broad domain of knowledge, Smith himself was widely accomplished in the fields of science, art and philosophy. Besides being the author of *belle lettres on poetry*, aesthetics, and literary appreciation, he had written essays which were the foundation of a grandiose plan of a "History of the Liberal Sciences and Elegant Arts". But his fame was first firmly secured by the publication of the philosophical work, *The Theory of Moral Sentiments*, in 1759. It was in this earlier work that Smith had already made a full investigation into the ethics and philosophy, as distinct from the economics, of 'riches'. And one can derive much pertinent information from this relatively neglected writing, providing as it does a rich source of evidence on Smith's personality, as well as on the evolution of his thought.

When examining Smith's economics, we notice how its expression radiates the love of classical scholarship that he sustained throughout his life. Thus, in his chapter in *The Wealth of Nations* on the economics of wages:

*"Isocrates, in what is called his discourse against the sophists, reproaches the teachers of his own times with inconsistency. 'They make the most magnificent promises to their scholars,' says he, 'and undertake to teach them to be wise, to be happy, and to be just, and in return for so important a service they stipulate the paltry reward of four or five minae. They who teach*

*wisdom,' continues he, 'ought certainly to be wise themselves; but if any man were to sell such a bargain for such a price, he would be convicted of the most evident folly'".*

Additional details of Adam Smith's life help to explain further the evolution of his ideas and to give us a fuller understanding of the great eighteenth-century classic that he produced. Smith was born in the small town of Kirkcaldy, on the coast of Scotland a few miles north of Edinburgh, in January 1723. His father, who had died only a few weeks before had been a Clerk of court Martial and Comptroller of Customs in the Kirkcaldy district. After an education at Kirkcaldy burgh school, Smith went to Glasgow University and matriculated there in November 1737 at the age of fourteen. In 1740 he was elected to an Exhibition at Balliol College, Oxford. He began his teaching life in Edinburgh, where from 1748 to 1751 he delivered public lectures which were sponsored by influential friends. From 1751 to 1763 he lectured in moral philosophy at the University of Glasgow. Then, in 1764, he left Glasgow for London *en route* to France as tutor to the Duke of Buccleuch. With his protégé, Smith met and conversed with many eminent French writers and philosophers, including Voltaire, Turgot, Quesnay, Helvetius and Dupont

Smith returned to Scotland in 1767 and spent most of his time working *The Wealth of Nations*, which he had begun to write in France. By this time he was receiving a substantial pension from the Duke of Buccleuch which enabled him to devote himself entirely to his writing. In 1778 he became Commissioner of Customs in Edinburgh, an appointment which he held for the remaining years of his life. He died at Edinburgh in 1790, outliving his mother by only six years.

### **Influence to 1876**

In my opening words reference was made to the 1976 bicentenary of Adam Smith's *Wealth of Nations*. What of the first centenary of Smith's work in 1876? It has already been explained that the triumph of free trade policies down to the middle of the nineteenth century developed with such vigour as to defy much of Smith's own pessimism. We must now record the strong adverse reaction in the last half of the nineteenth century. The extent to which the extension of the franchise in 1867, fluctuations in economic activity, and technological developments of overseas competitors played a part in this reaction is a matter for individual judgement. Whatever the reason, Adam Smith's disciples found themselves a diminishing group after the late 1860s.

Ample testimony of this setback can be found in the records of the centenary celebration in honour of *The Wealth of Nations* organized by the Political Economy Club of London in 1876. The meeting addressed itself to the question: "What are the more important results which have followed from the publication of *The Wealth of Nations* just one hundred years ago, and in what principal directions do the doctrines of that book still remain to be applied?" The discussion was opened by Sir Robert Lowe, Chancellor of the Exchequer in the Gladstone Government of 1868–1874, and was presided over by Mr Gladstone himself. After many acknowledgements of the achievements of the preceding century, several speakers referred to the prevailing reaction towards dirigisme. Mr Gladstone expressed the view that economists of his day had the urgent duty of "propagating opinions which shall have the effect of

confining government within its proper province..." William Newmarch, the treasurer of the club, lamented:

*"The full development of the principles of Adam Smith has been in no small danger for some time past; and one of the great dangers which now hangs over this country is that the wholesome, spontaneous operation of human interests and human desires seems to be in course of rapid supersession by the erection of one government department after another, by the setting up of one set of inspectors after another, and by the whole time of parliament being taken up in attempting to do for the nation those very things which, if the teaching of the man whose name we are celebrating today is to bear any fruit at all, the nation can do much better for itself."*

Over a century later, in these days of Perestroika and the acknowledged economic failures of communism, Smith's ideas are receiving new respect throughout the world. And this is the case also within the narrower field of the economics profession. It is true that up to recent times several economists have been concerned that certain industries participating in international trade tend to operate under imperfect competition due to the enormous economies of scale involved. And for this reason some of them have argued against completely unregulated free trade, and in favour of more government intervention by way of what they call "the strategic trade policy argument". The argument proceeds as follows: Suppose, for example, the potential economies of scale in a new "leading edge" industry are so large that there is room for only one profitable entrant. In this case a government subsidy might assist a domestic company to enter the field to the future benefit of all nationals. Where, moreover, research and development is a large component of the activity of the pioneering industry, the new knowledge created will spill over to the benefits of other national firms so compounding the future national benefit.

### **The Modern Adaptation**

According to Professor Krugman, however, economists are now willing to be much more cautious of this kind of argument. They are concerned, for one thing, about how government can obtain reliable information to determine which industries will be "leading edge". If a government errs in its selection, after all, the results could be disastrous. (One is reminded, to take an example, of the expensive failure of the British government's subsidy of the DeLorean car production in Northern Ireland. Some would also include the huge investment of taxpayer's money in Concord).

But Smith warned two centuries ago that information about which new industries have the greatest promise cannot be accumulated in a political body, let alone in the head of a single government functionary or planner.

*"What is the species of domestic industry which his capital can employ, and of which the produce is likely to be of the greatest value, every individual, it is evident, can, in his local situation, judge much better than any statesman or lawgiver can do for him. The statesman, who should attempt to direct people in what manner they ought to employ their capitals, would not only load himself with a most unnecessary attention, but assume an authority which could be safely trusted, not only to no single person, but to no council or senate*



*whatever, and which would nowhere be so dangerous as in the hands of a man who had folly and presumption enough to fancy himself fit to exercise it.” (p.456).*

Professor Krugman reports that economists are now sensitive to another issue:

*“When a particular sector receives a subsidy, this gives firms in that sector a strategic advantage against foreign competitors. However the resulting expansion of that sector will bid up the price of domestic resources to other sectors, putting home firms in these other sectors at a strategic disadvantage. Excess returns gained in the favoured sector will thus be offset to at least some extent by returns lost elsewhere.”<sup>2</sup>*

Such reasoning is another re-vindication of arguments in *The Wealth of Nations*. Compare, for instance, Adam Smith's analysis of the eighteenth century subsidy on British grains, the so-called “Corn Bounty”. The bounty, he argued, would cause more grain to leave the home country and so cause domestic grain prices to rise. This, in turn, would raise other prices.

*“It (the corn bounty) regulates the money price of all the other parts of the rude produce of land, which, in every period of improvement, must bear a certain proportion to that of corn, though this proportion is different in different periods. It regulates, for example, the money price of grass and hay, of butcher's meat, of horses, and the maintenance of horses, of land carriage consequently, or of the greater part of the inland commerce of the country.”*

Like Smith, Krugman emphasizes the need for a political economy approach that complements “pure” economic analysis especially because intervention via subsidies etc. has income attribution effects. And in politics these usually come to dominate efficiency considerations. The outcome, therefore, is likely to involve inter-country retaliation and within-country “rent-seeking” by special interests. When we reconsider the previous example of the government of country A subsidizing a “leading edge” industry, we must now recognize that such action might simultaneously be matched by country B. such retaliation will leave both countries worse off than if a *laissez faire* approach had been universally adopted. So, in Krugman's words, “there is a reasonable case for continuing to use free trade as a focal point for international agreement to prevent trade war”.

Adam Smith's position is very similar, although he explores more thoroughly the case where national retaliation is conducted with no hope of the foreign country repealing its tariffs:

*“When there is no probability that any such repeal can be procured, it seems a bad method of compensating the injury done to certain classes of our people, to do another injury ourselves, not only to those classes, but to almost all the other classes of them. When our neighbours prohibit some manufacture of ours, we generally prohibit, not only the same, for that alone would seldom effect them considerably, but some other manufacture of theirs. This may no doubt give encouragement to some particular class of workmen among ourselves, and by excluding some of their rivals, may enable them to raise their price in the home-market. Those workmen, however, who suffered by our*

*neighbour's prohibition will not be benefited by ours. On the contrary, they and almost all the other classes of our citizens will thereby be obliged to pay dearer than before for certain goods. Every such law, therefore, imposes a real tax upon the whole country, not in favour of that particular class of workmen who were injured by our neighbour's prohibition, but of some other class."*

It is interesting that Britain in the twentieth century has joined with other countries in international conventions such as GATT with the aim of reducing the costs of protectionism just described. The degree to which such international co-operation has stemmed from the pressure of events rather than from the influence of *The Wealth of Nations* is, of course, a matter for speculation. But the fact remains that a study of Smith appears to be rewarding for any age. If his many brilliant contemporaries and friends such as Hume, Gibbon and Burke have earned a place in our intellectual heritage, the more so has he. For, as the biographer Francis Hirst has argued, most of them, unlike Smith, were in a certain sense men of the past:

*"Though their radiance can never fade, their influence wanes, But Smith has issued from the seclusion of a professorship of morals, from the drudgery of a commissionership of customs, to sit in the council chamber of princes. His word has rung through the study to the platform. It has been proclaimed by the agitator, conned by the statesman, and printed in a thousand statutes."*

## NOTES

1. Adam Smith, *The Wealth of Nations*, R H Campbell, A S Skinner and W B Todd (eds), Clarendon Press, Oxford, 1976, pp 495–496.
2. R Krugman "Is Free Trade Passe?" The Journal of Economic Perspectives, Vol 1, No 2, 1987, pp 131–144.

## 4. THE WEALTH OF NATIONS By William Letwin

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All great books are liable to be misunderstood, and *The Wealth of Nations* more than others. Confusion arises, in the first place, from an apparent ambiguity in Smith's intentions. The book opens as a treatise in pure science, and indeed it is the foundation of theoretical economics; but about midway it seems to turn into a work of advocacy, a sort of lawyer's brief in favour of capitalism, free private enterprise, *laissez-faire*, or, as Smith called it, the "System of Natural Liberty".

This conjunction of science and polemic strikes the modern reader as uncomfortable, for we have fallen into the habit of believing that truth and objectivity are inevitably sacrificed when knowledge is impressed into the service of policy. Science, we are inclined to say, tells us how things are, and scientists have no business telling us how things ought to be. This view, correct as far as it goes, does not enable us to judge the merit of statements which, though they seem to be prescriptive in form, are technical in substance. If, therefore, Smith used science as the groundwork for establishing his views about the best economic policy, this procedure does not, when properly understood, imperil the one or invalidate the other. We will, however, need to examine the extent to which Smith succeeded in proving the case of *laissez-faire*.

In the second place, difficulty is encountered in tracing the main lines of Smith's argument because *The Wealth of Nations* is so rich in detail and complex in texture. After working out the framework of his economic analysis, Smith spent thirty years thinking about it and ten years writing the book. During that long time he was able to gather a prodigious fund of concrete historical information with which to fill out, enliven and embellish the main lines of the argument, on to which in the meanwhile he had grafted numbers of corollaries and qualifications. The lavishness of the yield is best illustrated by a renowned passage on the value of silver, which Smith formally labelled a "Digression" and for good reason, as it goes on for sixty-three pages, long enough to accommodate within itself a sub-digression on raw materials. This thick scatter of variegated detail of fact and argument tends, like camouflage, to disguise the solid shape beneath.

The third and perhaps most important reason why many misread *The Wealth of Nations* is that Smith tried hard to make the book palatable. He wished to induce busy men to read, with pleasure or at least patience, half a million words about an unpopular subject, all tending to an unpopular conclusion. Before they read the book, many educated men would have confessed willingly that whatever little they knew about economic affairs was more than enough; some of them thought it a base illiberal subject, not to be studied in a university or by a gentleman. By presenting the material as though it were a cross between history and philosophy, politics and ethics, Smith persuaded contemporary readers that it was fit fare for a thoughtful man of the world and for the scholar. As to his policy proposals, Smith tried and more or less managed to soften the paradox of his conclusion that the best way to regulate a nation's economic life is not to regulate it. Given that the wares he had to offer were offensive to many potential buyers, Smith purveyed them with great tact and delicacy. The reader must look beneath the calm and mild rhetoric to find the rigour and power of Smith's view.

## The System of Natural Liberty

The whole of *The Wealth of Nations* is a single protracted argument. Smith set out to prove that the best of all economic policies is to leave the economy to work according to its own intrinsic laws or, what is equivalent, to leave each person to respond as he will to his own natural economic incentives. He aimed to demonstrate with the utmost logical strictness that government should renounce all interference with private efforts except so far as was necessary to prevent force and fraud and to ensure national defence and domestic peace. The whole book is arranged as a plea for the System of Natural Liberty.

The proof proceeds in stately steps. In order to establish that free private market gives good results, Smith showed first that it tends naturally to set the prices of goods at their proper levels (Book I), and to steer capital into the uses that are most beneficial to society (Book II). He then demonstrates that efforts of government to improve on the working of the free market are injurious, whether they aim to stimulate commerce or manufacture or agriculture (Books III and IV). Then, as Natural Liberty is not to be equated with anarchy, he explains what things government must do because they must be done in a civilized community and cannot be done reliably by private persons responding to private incentives (Book V).

The ultimate conclusion in favour of the System of Natural Liberty and the carefully designed proof that supports it are not thrust on the reader as though he had come along asking for nothing better than to be told that all his notions about economic matters were false. Being a subtle teacher, Smith knew that students are most easily led into a subject along paths that fit their own pre-occupations and curiosities. He therefore started out with the question implied in the full title of the book: why are some nations richer than others, and how does a nation grow richer or poorer? After hastily specifying that he will answer in terms of annual income, he argues that a nation is rich in the degree to which (1) its workers and managers are skillful and (2) its workers and managers are usefully employed. The skillfulness of its labour force depends on division of labour, and this topic — familiar since Plato and little likely to stir anyone's passions — serves gently to lead us into Book I, dedicated to the contentious proposition that a free competitive economy will result in prices being what they ought to be.

The division of labour, according to Smith and many others, increases the national income because it encourages specialization, which in turn facilitates the growth of skill. In order for specialization to be beneficial, in order that each man may sensibly accept the risk he runs in abandoning self-sufficiency, all the members of a community must be willing to exchange their specialized products for those of others. Instead of each family growing its own grain, baking its own bread and taking up arms in its own defence, there come to be farmers, bakers and soldiers, all dependent on each other and all able to rely on each other because everyone is willing to trade with the others. Division of labour, and all the benefits arising from it, become possible as the “necessary, though very slow and gradual consequence of a certain propensity in human nature ... to truck, barter, and exchange one thing for another”.

Exchange takes place because men are able to trade with each other, a power possessed, as Smith points out, by no other animal. And being able, they are also willing. Why is that? Because, being rational, a man sees that he improves his condition by giving something he does not want very much for another thing that he

wants more. The motive of trade, then, is the benefit each man expects from it. Animals, foreseeing no such thing, live as self-sufficient individuals.

*'But man has almost constant occasion for the help of his brethren, and it is vain for him to expect it from their benevolence alone. He will be more likely to prevail if he can interest their self-love in his favour, and show them that it is for their own advantage to do for him what he requires of them.'*

### **Harnessing Self-interest**

The finding that self-love is a more dependable motive than benevolence has always seemed to some readers to signify that Smith was a thorough cynic. Nothing could be more mistaken. When Smith says that Benevolence cannot be depended on, it is his sad comment on a world which would be better if the only motive were love, or the more general quality which in his treatise on ethics, *The Theory of Moral Sentiments* (1759), he called 'sympathy'. It is his acceptance, reluctant yet unavoidable, that outside of family and friendship, no reasonable man can depend on anybody else's benevolence. But he is so far from being a cynic, or even a confirmed pessimist, that he believes sheer luck, of a sort, has made it possible for men to live together on terms which ensure not benevolence, but at least justice. The economic system does not treat people gently or mercifully, but it can — if not distorted by interference — give them a decent reward for their efforts. Seen as the moving cause of such a result, self-interest is not intolerable.

Economic theory today is still firmly based on the assumption that something like self-interest is the engine that moves the economy. But it is no longer called anything quite so narrow or moralistic as "self-love". Economists today speak, instead, of 'maximizing behaviour'. One standard definition of Economics calls it the science of maximizing the satisfaction of given ends by the use of scarce resources.

In saying that maximizing, or that special sort called profit-maximizing, is the main motive power of economic activity, economists today — like Smith in the first place — are doing no more and no less than to offer a scientific explanation. In doing so, they do not endorse maximizing behaviour as morally commendable in itself. In so far as they are scientists they neither approve nor disapprove of the things they study, any more than a physiologist would approve of thyroid or a chemist disapprove of mercury. In their other roles, as men or citizens or public servants, economists may and often do deplore the excessively self-interested behaviour of many men. Yet as economists their only job is to explain the operation of the economy, and if "self-interest" does much to explain it, then common honesty requires us to face that unlovely fact. To face it is not to approve it.

Neither does facing the fact require economists to exaggerate its scope. Economics does not assume, and has absolutely no need to assume, that men are selfish and calculating. Economists are well aware as anyone else that most men are benevolent, loving, spiteful, silly, courageous, malicious, gay and careless and thus — only in a restricted part of their action — rational and self-seeking. All they say is that economic theory can explain that part of men's behaviour that is rational and self-seeking. As there is a good deal of perfectly well-known behaviour that economic theory can explain, economists infer that a good deal of human behaviour is rational and self-seeking. For an economist to assume maximizing behaviour is

like for a physicist to assume the law of gravity, nor does he make the silly mistake of saying that because gravity is the dominant cause of some motion (such as free fall) it must be the sole cause of all motion (including, say, magnetic attraction). This path of detached rather than moralistic analysis, which economics shares with all sciences, was first laid down for it by Adam Smith.

## **The Process of Exchange**

Given that “every man thus lives by exchanging, or becomes in some measure a merchant ...”, the next question is how exchange is carried on. The simplest technique is barter. A farmer grows more potatoes than he wants, and a fisherman catches more trout than he can eat. They fall into a habit of exchanging potatoes for trout, which is satisfactory for both of them. But suppose that one day the farmer has temporarily had his fill of fish; how then can the fisherman buy potatoes? He might trade his trout with a neighbouring lumberman for some boards and then exchange the boards for potatoes. But this triangular barter puts a burden on the fisherman of finding something that the farmer will accept. In time the fisherman might have to spend far too much time and effort in finding something the farmer wants and in carrying it to him, and equally so for the other participants. Trade among them would break down, not because there was nothing they wished to exchange but because barter is so clumsy a mode of exchange.

A remedy can be found in money, which everyone will accept in exchange for goods and which therefore obviates the searching and carrying that arise in barter. This simple yet revolutionary idea was recognized, as Smith points out, by primitive peoples. In some pastoral communities the commodity chosen to serve as money was often cows; among some American Indians it was the polished shell beads called wampum; and in many places it came to be gold or silver. What makes anything into money is the general consent of people to treat it as such, which may be codified in and fortified by the law, though it need not be. When the use of some particular commodity, be it cows, wampum, silver or any other, as money becomes well established in a community, the value of all other things is expressed in terms of it. In a community that uses salt as money, everybody comes to know that the price of cod is usually one ounce of salt per fish and the price of lamb thirty ounces per head and so on. In a community that uses silver as money, people will say that a lamb costs six ounces of silver. Money serves the same end, whatever stuff it is made of.

But not all money is equally convenient. For one thing, silver and gold have certain advantages, being light for their value (unlike, say, seashells), able to be subdivided pretty easily (unlike a cow), and fairly imperishable (unlike fish or grain). They have accordingly been adopted by many peoples as their chief monetary commodities, though since Smith's time they have been superseded in many places by paper. Having adopted gold or silver, the next improvement was to establish tokens of dependable weight and fineness, i.e. coins, which relieve everyone of the need to assay and weigh the monetary metal before taking it in payment. All this evolution of money took place in response to practical common sense, and long before there were any economists to advise it.

Having arrived at this point in analysis, Smith now raised one of the most fundamental questions of economic theory. What determines the particular value in exchange of any particular commodity at any given time? Why is a cow worth as much as twenty bushels of corn, or why, to put it in terms of money, is a modest car



worth 1000, a reasonable coat 60, and a haircut about 1? The monetary price of each good or service represents its relative value in exchange; how are the relative prices of those things determined? Why, to consider the hypothetical values above, should a car be worth about 17 coats and 1000 haircuts? There is nothing about the intrinsic nature of the commodities and services that makes it obvious why they should exchange at those rates or at any other rates.

In fact, Smith argued, the one thing certain is that the value in exchange of any article is not determined by its value in use:

*“The things which have the greatest value in use have frequently little or no value in exchange; and, on the contrary, those which have the greatest value in exchange have frequently little or no value in use. Nothing is more useful than water: but it will purchase scarce anything; scarce anything can be had in exchange for it. A diamond, on the contrary, has scarce any value in use; but a very great quantity of other goods may frequently be had in exchange for it.”*

The only orderly relation between exchange-value and use-value that springs to mind at once is that the buyer of any commodity must feel that its use-value, to him, is at least as great as its exchange-value, otherwise he would not buy it. But among all the things that he does buy, the relations among their use-values are by no means the same as the relations among their exchange-values. This difficulty, which came to be known as The Paradox of Value, fascinated and irritated economists — as any scientific asymmetry irritates craftsmen-like scientists — until it was definitively resolved almost a century later by “marginal” analysis.

After saying what does not determine the relative values in exchange of commodities, Smith goes on to say what does determine it. At first he seems to say that relative values in exchange depend on the relative amounts of labour that go into making different goods. But he then makes it clear that this rule would hold only in a society so primitive — if any can be so primitive — that people produce goods without using any capital and without having established private ownership of land. Nevertheless, in order to illustrate the principle, he considers the rate at which goods would exchange under such hypothetical conditions. “If among a nation of hunters, for example, it usually costs twice the labour to kill a beaver which it does to kill a deer, one beaver should naturally exchange for or be worth two deer.” And the reason for this, he says, is that “it is natural that what is usually the produce of two days” or two hours’ labour, should be worth double of what is usually the produce of one day’s or one hour’s labour’.

The basic principle invoked here is that relative values in exchange are determined by relative costs of production. And it was probably in order to stress this principle that Smith chose an example in which the more expensive product, the beaver, will strike most people as being relatively of less value in use; it is much smaller, unfit for human food, and troublesome rather than pleasurable to hunt.

It is worth mention in passing that modern economists would agree with Smith that if it takes the hunter twice as much effort to kill the beaver, it is worth two deer, if in fact the same hunter typically hunts either animal and is equally skilled in hunting both. But their agreement does not rest on accepting at face value Smith’s assurance that “it is natural”. It rests instead on the much later idea of “opportunity cost”. On this view the real cost of any good is not the difficulty of producing it, in terms of the

amount of toil required to make it, but rather the sacrifices that must be made in order to have it, that is, the other goods or opportunities that must be foregone in order to get this one.

So, in Smith's example, analysed in terms of opportunity costs, a beaver is worth two deer because in order to catch the beaver the hunter had to give up the opportunity to catch two deer. Similarly, for a cabinetmaker the opportunity cost of a table is the cabinet that he could have made with the same effort, tools and raw materials. One advantage of thinking in terms of opportunity costs is that it emphasizes the full range of choices any producer must make, not only in how he will produce any particular commodity but also to which commodities he will produce. More important, this way of regarding the matter reveals a deeper meaning of cost which is often overlooked, that the cost of any object is fundamentally whatever has to be given up for it, by the producer and equally by the consumer. In the end, after all, costs are determined by values in use.

Relative costs of goods depend, in reality, on more than just the relative quantities of labour that go into producing them. Smith knew this very well. He used the beaver–deer example as a hypothetical illustration rather than as a description of reality. He went on to say that labour inputs must be measured, in reality, not just by number of hours but also by hardships of one job as compared with another and by the comparative skillfulness of the workers. Costs will depend, moreover, on the amount of capital used in production. If an employer advances the salaries of ten workers, who must work say a month to finish a product that the employer can sell, and if he advances during that month also the price of the raw materials, then the cost of this capital will enter into the cost of the product. So, in the example that Smith gives, if the capital used in this way by an employer is £7,300 and of the interest rate is 10 per cent, then the annual cost of capital to that employer is £730, which is part of the cost of the year's output. Modern economists wish that Smith would have taken account here as well of “fixed capital” — machinery and buildings, and all other productive resources which have themselves been produced by human effort.

Why he put the argument exclusively in terms of “circulating capital” is difficult to tell. It was certainly not for want of knowing about the use of machinery in production, for Smith referred repeatedly to machinery, as well he might, writing in the middle of that time of fertile mechanical invention which was later named the Industrial Revolution. Perhaps the explanation is that in Smith's time most people made their livings in agriculture. The small fraction that worked in towns generally engaged in trades and handicrafts, and only a tiny fraction worked in factories or mines, where the costs of machinery and plant would be very noticeable. For all the kinds of machinery that were being invented just then, and despite all the processes that were being mechanized, the number of people working in such industries was still quite small enough (certainly under 5 per cent of the population) to help explain why Smith overlooked the cost of fixed capital even though he knew perfectly well about machinery. In any event, the oversight does not affect the validity of the argument that the cost of goods consists partly of the cost of capital identified as the third component of the cost of any good the rent of the land that went into producing it.

## The Market Value

He was now ready to usher in the theme for which all the foregoing was merely a prelude. It is the explanation of how the market keeps the value-in-exchange (or price) of any good at the correct level. It is the explanation of a self-regulating mechanism which assures that over the long run the price of a commodity will equal the cost of producing it.

Smith starts this central exploration by positing a “natural price” of any commodity, which is the “correct” price in the long run of that commodity in a given place and during a given era. His question is, how does the market see to it that the price actually charged for a good is its correct price? His answer depends fundamentally on the businessman's determination to earn a profit. If the price he can get for say a hat at any given moment — in Smith's terminology, the “market price” as distinct from “natural price”; in modern economics, the “short-run price” as distinct from “equilibrium price” — is too low to afford him a profit, he will stop making hats. If the market price is so high that he makes unusually high profits, then he will expand his production of hats. The “natural price” then is that price which is neither too low nor too high, which does not result in stopping production nor expanding it but which ensures a steady flow of the commodity.

Given one more group of actors, the operation of the market mechanism could be analysed fully. They are the buyers, but “buyers” must be interpreted strictly. Many people might like to own a hat, but only those matter, for the moment, who are prepared to pay the price of a hat, the “effectual demanders”, as Smith called them. They want a certain number of hats, and if not enough hats are available to satisfy all of them, some will outbid the others, which will raise the market price of hats. Conversely, if the supply of hats exceeds the quantity effectually demanded, then sellers will be left with unsold and undesired stocks, on which they earn no profits. In order to reduce these surplus inventories, the sellers may reduce the prices they ask, and may even reduce the market price below the equilibrium price or natural price. At this point, the sellers will cut back production. In due course, as buyers enter the market, demand will drive the market price up again.

In short, in Smith's view, whenever market price is different from natural price, the price mechanism automatically tends to correct itself. If the market price is too high, producers rush in to benefit from the high profits; if the market price is too low, producers withdraw in order to minimize losses. Whenever the output is too small, consumers bid up the market price; whenever the output is too large, sellers bid down the market price. The market price tends always towards the natural price. Market price is determined, in the short run, by accidents and mistakes. But in the long run it is determined by the operation of a self-regulating mechanism, a market propelled by self-interest — on the part of consumers as well as producers — and by competition among buyers and among sellers.

Besides being the level towards which the market price forever tends, the natural price has another significance. It is also the level at which the total cost of producing the commodity is correct or natural, or the level of price that is consonant with the natural rate of wages, the natural rate of profits and the natural rate of rent. Indeed, what made the natural price of a commodity seem natural to Smith was that it was correct, proper, or just — because it corresponds to the true costs of production. The price of a hat is justifiable, in Smith's view, when it exactly compensates its makers for their effort.

To establish what constituted the natural level of wages, of profits and of rent was, however, for Smith, a much more difficult problem. Indeed it was a problem that he did not solve very satisfactorily. The puzzle of how to explain why labour, capital and land were paid the rates that they are is part of the legacy of scientific questions that Smith left to his successors.

The component of cost that Smith found it easiest to explain was wages. And it was particularly easy for him to define the lower limit of the natural rate of wages. Wages must be high enough to keep the worker alive. And if the race of workers was not to die away, wages must be high enough to enable workers to have children. But the natural rate of wages, Smith held, often rises well above this subsistence standard, especially in an expanding economy, where the long-term demand for labour is brisk because employers are constantly wanting to hire more labour in order to expand the output of commodities.

The natural rate of profits, Smith held, was determined largely by how much capital a society possesses at any given time. The more capital there is, the lower will be the natural rate of profit. Competition assures this outcome. Owners of capital seek to find profitable uses for it. The more capital they own, the more they seek to invest into profitable uses, the more they bid down the normal price of its use, that is the natural rate of profit, or as modern economists might say, the basic rate of interest. Smith's reasoning suggested that in a very rich society — one possessing a great deal of wealth, that is, a great deal of capital — the natural rate of profits would be very low. That this inference does not correspond with the experience of developed economies since Smith's time can be interpreted either as proof that Smith was in error or evidence that Smith's model did not make room for some of the major characteristics of modern economic life. In any event, the theory of what determines the rate of profits is very much under debate by economists today.

The third and last component of cost, the rent of land, Smith found least explicable. He held that rent is a residual, determined by how much of the natural price of a product is left after wages and profits, at their natural rates, have been paid out. A producer will pay a given rent for land if his enterprise yields enough income to pay that rent over and above the necessary wages and natural profits of the enterprise. Unfortunately this effort to analyse rent as a residual left Smith in a theoretical dilemma: either price is determined by wages, profits and rent, each of which is determined by causes distinctive to itself; or if rent is determined by price, then it is no longer possible to say what determines price. Smith could not resolve this dilemma, though others did about a century later.

### **A Self-Ordering System**

Leaving aside the theoretical gaps in Smith's analysis of markets and prices, the broad sweep of his view was that markets work as a self-correcting mechanism. Markets tend towards equilibrium, a state which tends to persist when once achieved. At equilibrium, output of each commodity exactly equals effectual demand, and the price of each commodity exactly equals the cost of producing it. At any departure from equilibrium, reactions would be set off throughout the system tending to restore it to equilibrium.

Smith's analysis of how the price system works is an objective scientific explanation, which like any other scientific explanation might be incomplete and partially

mistaken (as indeed it was), but which did not in itself either praise or blame the Price System nor suggest that it be preserved or revised. It merely explained the mechanism that makes market price tend towards natural price.

To this basic, scientific analysis, Smith then added a non-scientific, normative layer. He implied that because the natural price of a commodity covers the natural cost of producing it, the natural price of a good is a just price for that good. In this way Smith reaffirmed the criteria established by the Scholastics, whose views had been transmitted to him by their own works as well as by dissident disciples such as Grotius, Puffendorf and Barbeyrac, and whose views Smith had regularly reviewed in his years of lecturing on moral philosophy while professor of that subject at Glasgow. Smith did not, like certain of his seventeenth-century predecessors, wave aside all moral considerations; on the contrary he faced the moral questions raised by the Scholastics, and answered them. He answered by asserting that the Price System tends to establish the universal reign of just prices.

Yet Smith would not have satisfied the Scholastics. For they were inclined to think of the just price that would be charged by a just man, a decent man, moderately interested in gain perhaps, but very far from greedy, unwilling to take excessive advantage of the need of others. Smith, on the contrary, explained that just prices would emerge from a Price System operated by ordinary men, moved by self-interest, self-love, and often by greed. Whatever heights of virtue men might be capable of ascending, it was not virtue that ordinarily activated them.

*"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."*

The beauty of the Price System, according to Smith, is that it leads ordinary men to do good, that is to benefit their fellows, as an **unintended consequence** of their deliberate efforts to benefit themselves. So, in one of his most famous passages, Smith argues that the capitalist will always tend to invest where it will do the most good for workers and for everyone else in the nation:

*"He generally, indeed, neither intends to promote the public interest, nor knows how much he is promoting it ... 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."*

In the same way, just prices are just not because they were intentionally made so by men who are benevolent or unfailingly just, but because the system within which they operate happens by good fortune — as if by an invisible hand — to be a good system. Smith was at one with the Scholastics in caring whether economic life was just. He was, one might almost say, something of a Scholastic himself, though a Scholastic with a difference.

## **The Attack on Mercantilism**

The sane set of views that made him the last Scholastic made him the Nemesis of the mercantilists. For if prices tend always to be kept at the correct level by the self-seeking, self-stimulating reactions of private persons, then there can be little

need for government to step in on the pretext of raising or lowering prices to “more beneficial” levels. If, further, prices tend always to cover the necessary costs of production, yielding to everyone involved in production (the labour, capitalist and landowner alike) a correct return for his efforts, then government need not step in on the pretext of making prices “more just”. The most reasonable policy is “hands off”. Government need not try to do what the market already does automatically.

To reinforce this fundamental attack on Mercantilism, Smith spent a great deal of effort rebutting the main beliefs of the mercantilists by showing that though their favourite policies could not help them much they would certainly harm everyone else. So, as for the argument that government must regulate foreign trade in order that the nation should acquire the greatest possible stock of silver and gold, Smith briskly dismissed it — much in the manner of Sir William Petty and Sir Dudley North — by saying:

*“A country that has no mines of its own must undoubtedly draw its gold and silver from foreign countries in the same manner as one that has no vineyards of its own must draw its wines. It does not seem necessary, however, that the attention of government should be more turned towards the one than towards the other object.”*

And he rounded out this part of the rebuttal by showing that a government could not prevent its treasure from being exhausted, if it tried to keep more on hand than was demanded for use as coin, jewellery and tableware.

Again, as to the favourite argument of the mercantilists, that a nation must depend on its treasure to finance foreign wars, Smith countered that whatever had been the case in the past, the costs of war in his time were generally met by drawing on current income rather than on accumulated wealth, a lesson that modern economists frequently repeat.

But his harshest criticism, his most ironic treatment, Smith reserved for the argument that identified the interests of merchants with that of the public at large. He refused to accept that a set of policies beneficial to merchants, aiming to increase their profits, would thereby contribute to the public good by increasing the size of the “favourite” balance of trade. This argument was dispelled, in Smith's view, by recognizing that foreign trade is not a sort of tug-of-war, a struggle in which one side was certain to lose whatever the other might gain. This perverted view arose from erecting

*“the sneaking arts of underling tradesmen ... into political maxims for the conduct of a great empire”. “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”*

all because merchants persuaded people that what was profitable for themselves was necessarily good for the rest of the country.

*“They who first taught it were by no means such fools as they who believed it”.*

Smith's attack was full-scale. Very little of the mercantilist mentality escaped his attention. But like other popular errors, this one too has great power of survival; and

so, although Smith demolished its intellectual foundations, mercantilism still exists: in, for instance, the tariff policies of most countries. Smith was better able to change men's beliefs, even to change them substantially, than to revise their desires. The will of some men to prosper at the cost of others is not broken by reading books on economics.

Being unusually sensitive to such desires, Smith was especially insistent that government limit itself to defence, police, administration of justice, education and very little else. Only a government whose functions were severely limited was safe from being used by mercantilists to exploit their fellows. Only a government that refused to create monopolies for merchants and domestic producers, only one that would on the contrary try to destroy monopolies, would naturally aim at the public good rather than at the private good of particular groups. Such a government, limited in scope, follows 'the obvious and simple system of natural liberty':

*"Every man, as long as he does not violate the laws of justice, is left perfectly free to pursue his own interest his own way, and to bring both his industry and capital into competition with those of any other man, or order of men. The sovereign is completely discharged from a duty, in the attempting to perform which he must always be exposed to innumerable decisions, and for the proper performance of which no human wisdom or knowledge could ever be sufficient; the duty of superintending the industry of private people, and of directing it towards the employments most suitable to the interest of the society."*

No man could do it, but the mutually accommodating efforts of all men could: it is the most glowing tribute ever paid to an economy co-ordinated by free competitive markets.

### **A Normative Analysis?**

Taken as a whole, the "normative" components of Smith's argument can be summarized as follows. The market, when government does not interfere with its operation, tends to stability, which is desirable; and it distributes income in accordance with each person's contribution to output, a basis of distribution which is just. Government should not interfere with the free operation of the market because it would unduly reward one section of the community at the expense of others, which is unjust; and as it can never be so well informed or deeply concerned as the whole body of individual economic actors, its efforts must inevitably be less efficient, which is wasteful. The best policy, then, is for government to do nothing in the economic sphere except to enforce the laws preventing force and fraud, and to sustain (by taxation and public expenditure) those few necessary activities such as national defence, primary education and criminal justice, services which cannot be provided by private markets because they cannot be produced by profit-seeking entrepreneurs or would not be voluntarily purchased by all who benefit from them. Subject to these vital qualifications, which are generally overlooked, it is possible to adopt the short-hand formula that Smith advocated *laissez-faire*.

Is that policy, as Smith understood it, to be regarded as normative? If one equates the distinction between positive and normative with the distinction between "is" and "ought", then one might say that as any policy expresses a view about how things ought to be, every policy is normative. As Smith maintains that government ought



not to interfere in the operation of markets, he must on this view be putting forth a normative prescription. Its normative character is further documented in that, as Smith himself insists, governments have in fact been intervening in economic affairs; in other words, his “ought” is directly opposed to what ‘is’. And it follows, on this common view, that Smith committed the cardinal error of believing that he could deduce normative propositions from scientific propositions. But the matter is not that simple. Smith was not issuing moral admonitions but technical advice. In order to understand why the latter can readily be mistaken for the former, it is necessary to distinguish between two senses of the word “ought”. One sense is purely normative; it advocates an end which it urges men to pursue. To say that men ought to be compassionate, kind, just, pious or prudent is to suggest ultimate ends to be pursued for their own sake. The other sense of “ought” is purely instrumental, taking the form ‘if you wish to accomplish such and such an end, you ought to do this’.

The difference can be summarized as that between an absolute imperative and a conditional imperative. The former might be exemplified by ‘You ought to be kind’; the latter by ‘If you wish to be kind, you ought to be less caustic’. If the former is properly called normative, it is convenient to label the second as ‘quasi-normative’. And it is vital to notice that quasi-normative statements are often indistinguishable in outward form from normative statements. When the physician orders a patient to rest, when he says ‘you ought to rest’, that statement is quasi-normative, since it is prefaced by the implicit condition, ‘if you wish to prolong your life’. Lawyers, accountants, engineers, indeed all professional and expert advisers speak in quasi-normative language, though they sometimes confuse themselves and their clients by omitting the condition proceeding the imperative.

Now quasi-normative statements, unlike normative ones, can properly be founded on scientific knowledge, as they often though not always are. For instance, an engineer’s advice that his client “ought” to build a particular bridge with reinforced concrete is in effect a translation of certain propositions in theoretical mechanics coupled with particular information about the expansion constants of concrete and wrought iron rods. The scientific version takes the form of a statement that if pressure is applied to a rod, it will compress in a certain way; the engineering version reverses this into the statement that if one wishes to compress a rod in a certain way, one must apply that sort of pressure to it. In a similar way, many conditional laws of science can be directly converted into conditional imperatives of technology. This is not to say that the application of scientific knowledge to practical purposes is an easy and automatic operation; on the contrary, it is often extremely difficult, not least because the practical effects which people wish to achieve comprise many conflicting or delicately balanced particular objectives. Nevertheless, in principle, quasi-normative statements (in some fields at least, economics being one) can be derived directly from theoretical scientific knowledge.

### **Advocate of *Laissez-Faire***

It is in this sense that Smith’s advocacy of *laissez-faire* is not a gratuitous addendum to his scientific theory but rather a closely linked corollary. It can be recognized as such if we understand it as quasi-normative rather than normative, and if we supply the conditional premise which Smith left largely unstated. Properly interpreted, Smith was saying this: “If we desire to maximize national income, while preserving the orderliness of economic processes and ensuring a just distribution of income, then *laissez-faire* is the best policy”.

Having established that Smith's policy was logically coherent with his scientific analysis, it is still open to us to ask further questions. Did he conclusively demonstrate that *laissez-faire* is the most effective policy at all times and places for implementing the ends he posited? Did he demonstrate, did he even believe, that the ends served by *laissez-faire* are the highest ends to which men can aspire?

The efficacy of *laissez-faire* as an instrument for maximizing national income is a question still hotly debated by economists. Most of them would probably agree that if national income is measured by the value of goods and services exchanged in the market sector, and if markets were perfectly competitive, then *laissez-faire* could not be improved upon as a means of maximizing income. But many maintain that well-being ought not to be measured exclusively in terms of goods and services exchanged in private markets, that markets can never in fact be perfectly competitive, and that the distribution of income effected by even a perfectly competitive market would be too unequal to accord with prevailing views of justice; from all of which they conclude that *laissez-faire* is not the most desirable policy. This debate will no doubt continue as long as free debate is permitted.

As to the broader question, whether we should believe or whether Smith himself believed that a community practising *laissez-faire* should be regarded as ideal, it seems easier to find a point of rest. On the one hand, *laissez-faire* carries with it the great benefit of maximizing the individual's freedom from government interference, at least in respect of his economic activities. Much has been said since Smith's time about the intrinsic relations between economic freedom and other freedoms, and much remains to be said. Certainly those relations are complex. There exist nations in which freedom of speech and thought flourish despite economic centralization, and there may have existed tyrannies which allowed substantial economic freedom though little or no political freedom; on the other hand, all freedoms coexist in liberal states and all are denied in totalitarian states. Economic freedoms do seem, on the evidence to be contagious.

Turning from freedom to other values, the community practising *laissez-faire* seems open to the charge that it encourages material acquisitiveness at the cost of spiritual excellence and encourages impersonal relations to the detriment of love and friendship. Smith, as he showed plainly in his treatise on ethics, *The Theory of Moral Sentiments*, regarded selfishness as a vice and benevolence as the key to virtue. But men do not live by virtue alone. As for bread, Smith maintained that one could not depend on the baker's benevolence to supply it. This can be read, and generally is, as a sad admission by Smith that men are too far from virtuous to make a society resting on virtue anything more than a utopian dream; and accordingly the society he advocates in *The Wealth of Nations* is interpreted as distinctly second best, not what he desired but what he felt men had to settle for.

Smith's ethical doctrine should, however, be interpreted quite differently. Men are capable, he maintains, of disinterested sympathy and affection, and it is from these natural sources that virtue stems. But affection and benevolence are feelings that every man naturally concentrates on a selected number of persons who are closest to him in the moral sense, his family, old friends, neighbours and compatriots, in descending order. Benevolence and affection cannot in their nature be extended to all the people whom a man encounters in his everyday world; with the many his relations must be impersonal and may yet be satisfactory provided they are just. Smith, in other words, does not regard the general impersonality of the market

economy as a defect but as a necessary accommodation of society to the necessarily limited scope of love, friendship and affection.

If men were content or able to live in tiny isolated tribes as bands of brothers, then love might solve all their problems — except the problems arising from parochial narrowness. If men were content to live in self-subsistent isolation excluding all strangers and everything novel. Life in the large and open world, which Smith posited and which prevails wherever men are civilized, cannot go on without the impersonality of markets. But as Smith made clear, this is compatible with virtue at the level of personal relations and justice at the level of impersonal relations. Far from being a hymn in praise of anarchic greed, *The Wealth of Nations* is a reasoned argument for justice, order, liberty and prudent plenty.

## 5. THE THEORY OF MORAL SENTIMENTS

By Edwin G West

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In 1759, when he published his first book, *The Theory of Moral Sentiments*, Adam Smith, aged 36, had served for seven years as Professor of Moral Philosophy at Glasgow. His lecture course was divided into four parts: first, Natural Theology; second, Ethics; third, Justice (or jurisprudence); and fourth, Expediency. The fourth part contained the seed of the famous *Wealth of Nations*, published seventeen years later. The third section (jurisprudence), as Smith tells us on the last page of *The Theory of Moral Sentiments* is based mainly on the second section of his course, Ethics, although the first section, Natural Theology, also had some influences on it, as we shall see.

Some observers have impatiently criticized the eighteenth-century style of *The Theory of Moral Sentiments* as too diffuse and rhetorical for modern taste. Such criticism is misplaced; indeed it is in the same category as the complaint that Mozart had too much predilection for the baroque! Connoisseurs of the eighteenth century, in contrast, actually find charm in its faults and delights in its idiosyncrasies. To them *The Theory of Moral Sentiments* will certainly be a rare collector's piece. Yet whatever the trappings of style, Smith's shrewd genius shines through with timeless authority. He, as much as anybody, knew the limitations and parochialisms of literary convention and fashionable expression:

A well-contrived building may endure many centuries; a beautiful air may be delivered down, by a sort of tradition, through many successive generations; a well-written poem may last as long as the world; and all of them continue for ages together to give the vogue to that particular taste or manner, according to which each of them was composed. Few men have an opportunity of seeing in their own times the fashion in any of these arts change very considerably.

Prior to his teaching course in moral philosophy, Smith had lectured on Rhetoric — a fact which is evident from the painstaking care with which he built, punctuated and varied his sentences. Yet the writing is often more appropriate for intonation than for reading. It is Professor A L Macfie's opinion<sup>1</sup> that we only begin properly to understand the book when we remember that Smith is lecturing to large, young classes of beginners. (The classes contained up to ninety students, aged between fourteen and sixteen.) Smith reveals the experienced lecturer's tricks in his use of much disguised repetition together with occasional bizarre illustrations, all with the purpose of keeping his audience attentive. Where he thought it appropriate, he also used extravagance and sweeping statement, if reasonably innocuous and suitably arresting:

*"In China, if a lady's foot is so large as to be fit to walk upon, she is regarded as a monster of ugliness."*

*"Some of the savage nations in North America tie four boards round the heads of their children, and thus squeeze them, while the bones are tender and gristly, into a form that is almost perfectly square. Europeans are astonished at the absurd barbarity of this practice, to*

*which some missionaries have imputed the singular stupidity of those nations among whom it prevailed. But when they condemn those savages, they do not reflect that the ladies in Europe had, till within these very few years, been endeavouring for near a century past to squeeze the beautiful roundness of their natural shape into a square form of the same kind."*

Similarly, Smith's humour was calculated to beguile his pupils:

*"Alexander the Great appears not only to have wished that other people should think him a god, but to have been at least very well disposed to fancy himself such. Upon his death-bed — the most ungodlike of all situations — he requested of his friends that, to the respectable list of deities into which himself had long before been inserted, his old mother Olympia might likewise have the honour of being added."*

Meanwhile, Smith's audience is treated at every turn to a feast of epigrams:

*"The greatest secret of education is to direct vanity to proper objects."*

*"A woman who paints could derive, one should imagine, but little vanity from the compliments that are paid to her complexion."*

*"The fair sex, who have commonly more tenderness than ours, have seldom so much generosity."*

### **A Popular Volume**

Whatever the judgement of modern critics, both the argument and style of *The Theory of Moral Sentiments* were received with rapturous praise in its own day. Smith's friend David Hume wrote to him from London soon after the publication telling him that "the public seem disposed to applaud it extremely" and that the publisher was exalting in the knowledge that two-thirds of the first edition was already sold. The "mob of literati," Hume added, "are beginning to be very loud in its praise." Reviewing the work in *The Annual Register*, Burke observed that Smith had raised from the simple truth "one of the most beautiful fabrics of moral theory that has perhaps ever appeared. The illustrations are numerous and happy, and show the author to be a man of uncommon observation. His language is easy and spirited, and puts things before you in the fullest light; it is rather painting than writing."

Between 1759 and 1790 the book went through six different editions, and it firmly secured Smith's reputation well before the publication of his *Wealth of Nations* in 1776. When he visited France in 1764, his work had already been translated and his name fairly well established in that country. It seems to have been a particular success with female readers. According to Smith's biographer, John Rae, the Comtesse de Bouffler-Rouvel — one of David Hume's friends — observed to two distinguished English visitors to France in 1770 that "*The Theory of Moral Sentiments* has come into great vogue in France, and that Smith's doctrine of sympathy (therein) bade fair to supplant David Hume's immaterialism as the fashionable opinion, especially with the ladies." At that time three different persons were preparing or contemplating another translation. The best translation, Rae tells us, was published by a fourth person, the widow of Condorcet, some years later.

Considerable changes were made in this seventh edition of the book in 1790, the last year of Smith's life. Although written when he was suffering severe illness, these alterations contain no sign of diminution of vigor or style. According to John Rae, one of the most significant additions is to be found in

Chapter III of Part 1, Section 3: "of the corruption of our moral sentiments." It contains the rather melancholy verdict that "The great mob of mankind are the admirers and worshippers, and, what may seem more extraordinary, most frequently the disinterested admirers and worshippers, of wealth and greatness." Such a disposition to a kind of hypnotic admiration of wealth was necessary among the poor, since it acted as a beneficial illusion which resulted in the maintenance of order in society; nevertheless, it was still "the great and universal cause of the corruption of our moral sentiments." In another important addition Smith gives an indication that he was moving away from particular orthodoxy and more towards natural religion. At the same time his personal conviction and faith appear with new and fresh expression. Illustrating from the horrifying case of the brutal execution of Calas, he maintained that the only effectual consolation of such "disgraced and insulted innocence" was the contemplation, which religion afforded, of the other world, with its "all seeing Judge," a world "of more candor, humanity, and justice than the present, where their innocence is due time to be declared and their virtue to be finally rewarded ..."

### **The Invisible Hand**

It is clear that while *The Theory of Moral Sentiments* largely reproduced the second part of Smith's lecture course (the ethics section), the preceding first part (Natural Theology) also had its influence. The question that raises itself at this point is how "theological" was Smith's Total view of man in society, man in his economic as well as in his moral relationships? The simple image of Smith as the author of *The Wealth of Nations* used to be of a "believer" in a supernatural Invisible Hand, which brought society into a grand and spontaneous Natural Harmony wherein all private interest is "divinely" reconciled with the social interest. Professional economists today see Smith's vision of economic balance in *The Wealth of Nations* more in terms of a scientific, not a theological, equilibrium. There is a strong case, too, for this interpretation of Smith's economic vision in *The Theory of Moral Sentiments*. The Invisible Hand insight is, interestingly enough, more fully expressed in the latter work. Rich landlords have no larger stomachs than the poor; yet their desires are disproportionately bigger. With these extra appetites to be ministered to by the provision of luxuries, work is created for those who produce them. The poor are thus enabled to earn their own necessities:

*"They (the rich) 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 proportions among all its inhabitants; and thus, without intending it, without knowing it, advance the interest of the society, and afford means to the multiplication of the species."*

Inter-relationships so stated today would be described by social scientists as spontaneous or self-determining orderings. Indeed, biologists are now recognising that Smith was an early user of the idea of cybernetics<sup>2</sup>. Possible connection with Deistic design would not nowadays be the first reaction.

In the real world there is the practical problem of reconciling not only different economic interests but also different political values, upheld by people of varying dispositions, philosophies and creeds. Smith's social equilibrium attempts to contain all these tensions, but in a pragmatic rather than in an a priori or theological way. It is true that he continually refers to the need, through some sort of faith, to direct one's private behavior towards God's wishes, "to co-operate with the Deity, and to advance as far as in our power the plan of Providence." As mortals, however, we see only part of this plan, and because of this partial view we are often perplexed by what appear to be serious imperfections in it. We must nevertheless believe in full reconciliation in the next world. Smith's concept of harmony, in other words, straddles this world and the next; it is for this reason that the fuller statement of the work on the Invisible Hand appears in *The Theory of Moral Sentiments* rather than in the later *Wealth of Nations*, which deals only with the economic aspects of life — an area which abounds in "untidiness" and "imperfections."<sup>3</sup>

### The Impartial Spectator

On what basis do we on earth begin to try to cooperate with the Deity in fulfilling His plan? We do it, Smith asserts, through the exercise of our reasoning and feeling as reflected through the medium of the "Impartial Spectator." It is apparent, however, that when Smith gets down to an examination of this reasoning he produces pieces of inductive or "practical" analysis which can appeal, as self-sufficient, to those who would reject his complementary theology. After much deliberation, assertion and speculation on the level of the supernatural, Smith pronounces that after all:

*"The administration of the great system of the universe, however, the care of the universal happiness of all rational and sensible beings, is the business of God and not of man. To man is allotted a much humbler department, but one much more suitable to the weakness of his powers, and to the narrowness of his comprehension; the care of his own happiness, of that of his family, his country ..."*

This "humbler department" which was for man "more suitable to the weakness of his powers" consisted largely of reason and "speculation." It is in this department where Smith finds himself much more at home, and at this level he produces insights and perceptive analysis that are worthy of consideration on their own account. In Chapter VI of Part III, he examines openly whether religious principles should be regarded as the only proper motive of action. Should we do things only because God has commanded them? Characteristically, Smith replies that while it is the first precept of Christianity to love the Lord our God with all our heart, it is the second to love our neighbour as ourselves; "... and we love ourselves surely for our own sakes, and not merely because we are commanded to do so." Philosophy and common sense had therefore an important and independent part to play. The inductive quality of Smith's moral philosophy and its ability to be considered in its own right has already been indicated. We shall next illustrate the development in Smith of another line of thought which seems to cut itself loose and to begin to stand on its own feet: we refer to his treatment of political theory.

## The Political Constitution

One of the most important tasks for man's own intellect was to devise a set of rules, a "system of justice," upon which mankind could live in concord. Men could not passively rely on some Invisible Hand to do this, they had to do it themselves. Smith did not entertain that kind of conservative political philosophy which believes that constitutions appear by some mystical process. True, we often respect those that we inherit: but the respect is directed not so much at Nature as at the accumulated wisdom of our predecessors. The ability, rationally, to improve constitutional rules was the quality which characterized the great statesman; the "greatest and noblest of all characters" was "the reformer and legislator of a great state."

In examining this process of constitution-building, Smith almost stumbles upon important positive, as distinct from normative, propositions. In Part II, Chapter II, he starts with the Greek-like sentiments that man can subsist happily only in society, which will flourish where love, friendship and gratitude prevail. Smith then leads himself into the consideration of whether a society could subsist even without these positive virtues and concludes that it could. "Society may subsist among *different* men as among *different* merchants, from a sense of its utility, without any mutual love or affection; and though no man in it should owe any obligation, or be bound in gratitude to pay another, it may still be upheld by a mercenary exchange of good offices according to an agreed valuation." (p. 124 Italics mine.)

Smith was not saying that society can subsist among those who are ready to hurt each other; only that positive mutual affection is not a necessary condition. "If there is any society among robbers and murderers, they must at least, according to the trite observation, abstain from robbing and murdering one another." (p. 125). This peculiarly Smithian departure from the Greek traditions of thought that he had inherited is the political analogue of the mutual-benefit-by-exchange theme in economics. By such "calculus of consent" argument Smith reveals his grasp of a truth which is not theological or even scientific, but essentially political. Politics, in the functional or constitutional sense, as distinct from the Greek idealistic sense, is about consensus, not about visions of the virtuously perfect and comprehensive state.<sup>4</sup> A constitution can be expected to emerge, Smith now argues, whose function is simply to allow the coexistence of heterogeneous people. On the "great chess board of human society," Smith tells us, "every single piece has a principle of motion of its own."

Whether a constitution which contains such a society may possibly be consistent in the theologian's mind, as it seems to have been in Smith's, with the idea of total unified picture visible only to God, will to many people be an open question. Meanwhile, the interesting fact is that skeptics can accept the proposition as it stands, shorn of any Deistic implications. For they will acknowledge as many individualistic worlds in a given legal constitution as there are individual members in it: such a constitution, in other words, is seen by the skeptic not as the good society but simply as a mechanism for tolerant interaction of almost as many "good societies" as there are individuals or groups within it. The above quotations of Smith, although certainly somewhat spasmodic, do suggest that his thought was moving in this individualistic direction, a direction which was in some conflict with the Platonic and Stoic elements in his work. Smith, the believer in "natural liberty," was clearly beginning to acknowledge a kind of pragmatic negative libertarianism which sees politics, in the constitution-making sense, as an attempt to reach compromise between individuals with admittedly different values. He had arrived, in other



words, at the threshold of the open society, as it is conceived by such modern writers as Karl Popper, F A Hayek and others.

## Self-Interest and Virtue

Although now probably conceding that the “theistic” attributes, at least in his economics, have been grossly exaggerated, several of his adversaries still attack Smith for his fatalistic attitude toward, and preoccupation with, the role of private self-interest in society. His severest critics in this respect see him as the classical “apologist” of capitalism, the insensitive theorist, the man who believed in the “survival of the fittest” in a world dominated by the cash nexus and ruthless warlike competition. No writer has been more responsible for the promulgation of this interpretation than Karl Marx. Consider the following Marxian extracts:

*“According to Adam Smith, society is a commercial enterprise. Everyone of its members is a salesman. It is evident how political economy establishes an alienated form, and that which corresponds to human nature.”<sup>5</sup>*

*“The less you eat, drink, and buy books, go to the theatre or the balls, or to the public-house and the less you think, love, theorize, sing, paint, fence, etc., the more you will be able to save the greater will become your treasure which neither moth nor rust will corrupt — your capital. The less you are, the less you express your life, the greater is your alienated life and the greater is the saving of your alienated being. Everything that the economist takes from you in the way of life and humanity, he restores to you in the form of money and wealth. And everything which you are unable to do, your money can do for you ...”<sup>6</sup>*

Even if we depend on *The Wealth of Nations* to derive this view, as Marx seems to have done, it is a serious misrepresentation. For in that same book Smith's man is not pre-eminently involved in a desire for money; he has many sides and motivations. He is certainly not a “work-machine”: indeed, Smith tells us that “It is in the interest of every man to live as much at his ease as he can.”<sup>7</sup> Man is usually too prone to human folly and error to be a perfect calculating money-seeker, even if he wanted to be one. Many professions were overcrowded, to take just one instance, because of the “over-weaning conceit which the greater part of men have of their own activities” and of “their absurd presumption in their own good fortune.”

It is true that in Smith “self-love” is ultimately the source and mainspring of, or at least the necessary condition for, all successful economic activity. He tells us that the division of labour (Which is his great engine of national economic growth) arises from man's disposition to “truck, barter and exchange,” and that this in turn is probably the necessary consequence of reason and speech. The content of the bargaining dialogue between two traders, meanwhile, is always in terms of reciprocal self-love. The person who seeks a bargain or a deal with others will be more likely to prevail if he can interest their self-love in his favor. What is crucial, however, is that “self-love” in Smith's philosophy is, in its proper setting, one of the human **nature**. It is certainly not to be confused with selfishness. It is Smith's first book, *The Theory of Moral Sentiments* (1759), that makes this point explicit.

Here he explains why self-love actually has its place in the evolving pattern of the virtuous life. Revealing a philosophy developed from elements of Platonic and Stoic ideals and which pays special respect to the guidance of the Aristotelian golden mean, Smith insists that a balance is required among: three subjects of virtue: prudence, strict justice and proper benevolence.

Such attainment, however, is not a mere mechanical operation, it can only be obtained by imagination and genuine feeling for others. Of the three virtues — Prudence, Justice and Benevolence — it is the first where self-love receives its due recognition. Prudence is concerned with the achievement of the necessary conditions for preservation. Certainly man does not live by bread alone; but neither does he live by "Benevolence" alone. It is perfectly right that the individual should look after his own body; this is not a selfish act in the pejorative sense of that word. "Thus, to give a very low instance, to eat when we are hungry, is certainly, upon ordinary occasions, perfectly right and proper, and cannot miss being approved of as such by everybody." Stories maybe received from travelers that famine in some foreign parts was in widespread. A person may properly display some anguish at the news (which may or may not be perfectly true). It would be going beyond the bounds of common sensibility, however, to starve himself on that account. The most telling and characteristically "Smithian" quotation in this context is the following. "As to love our neighbour as we love ourselves is the great law of Christianity so it is the great precept of nature to love ourselves only as we love our neighbour, or, what comes to the same thing, as our neighbour is capable of loving us." (pp. 27, 28)

There is indeed a problem, Smith acknowledges, in identifying the practical boundaries which encompass those we would call our "neighbors" those we are duty-bound to love; but common sense dictates that such an attempt be made. It is natural that we respect people who are closest to us. We rank our own families highest and we show loyalty and sympathy in a diminishing order: our immediate neighbours are more important to us as individuals than our nation, and the latter is more important than the rest of the world. (Smith was a devout patriot; see Chapter II, Part VI, Section II.) Such were the dictates of Prudence. But Prudence, although a necessary guide, is not a sufficient one. It is not one of the "most endearing, or of the most ennobling of the virtues. It commands a certain cold esteem, but seems not entitled to any very ardent love or admirations."

## **Justice and Beneficence**

Next to Prudence comes Justice. By this Smith means the observance of a set of legal rules by which each person's freedom is reasonably secured and coercion is outlawed. Justice, therefore, unlike Prudence and Beneficence, is implemented by authority; it was the area of the creation and observance of man-made laws. But again, Justice, Like Prudence, provides a necessary, but not a sufficient condition for the achievement of full virtue in mankind. The remaining requirement is what Smith calls "Benevolence" or "Beneficence."

Like Prudence, Beneficence refers to behavior that is voluntary and discretionary; without its free exercise man is not complete. Beneficence is "an ornament which embellishes, not the foundation which supports the building." Justice is, upon most occasions, "but a negative virtue, and only hinders us from hurting our neighbour." On the other hand, "Beneficence is always free, it cannot be extorted by force, the mere want of it exposes us to no punishment; because the mere want of Beneficence

tends to do no real positive evil.”<sup>8</sup> Society, however, is just as disappointed, just as unsympathetic, when any individual demonstrates a lack of Beneficence. The disapproval, of course, is in a different category from that associated with an act of injustice such as physical injury. While Prudence may be the strongest motive of human behavior, Beneficence is the highest.

It is this claim more than any other which disposes of the interpretation of Smith, which presents his society as being populated by selfish “money-making machines.” consider especially the following Smithian quotation: “...to feel much for theirs, and little for ourselves, ...to restrain our selfish, and to indulge our benevolent, affections constitutes the perfection of human nature; *and can alone* produce among mankind that harmony of sentiments and passions in which consists their whole grace and propriety.” (p. 27, italics mine.)

Thus in Smith's comprehensive and panoramic view of society, self-interest lives with perfect propriety side by side with Benevolence. The two are not incompatible; each has its part to play at the appropriate time; and to concentrate exclusively upon one dimension of life is seriously to distort the picture. Smith's men were certainly more than “salesmen,” as Marx thought No one would entertain this view of a man who could protest “how disagreeable does he appear to be, whose hard and obdurate heart feels for himself only, but is altogether insensible to the happiness or misery of others!” (p. 26)

Smith's remark in *The Wealth of Nations* that it is not from Benevolence that the butcher provides you with your dinner, can now be seen in appropriate perspective. It is obviously quite wrong to assume that Smith had no important place for Benevolence or “unselfishness.” Indeed, in *The Theory of Moral Sentiments*, Smith argues that the strongest human motive of all is to win the affection of society. “Humanity does not desire to be great but to be loved. To seek the love of his fellows demanded insight, creative behavior and the observance of certain rules — not because they were naturally beneficent but primarily because they were just.

Smith in fact takes us through a whole subtle range of human relationships wherein human beings say or do things, not for the purpose of reward, but because it is the “right” thing to do. As in *The Wealth of Nations*, he here also adopts the pragmatic approach. He is impatient with the obsession of Natural Law philosophers with one ultimate, immutable and unifying principle. If there were such a supreme and exclusive principle to which people referred before performing these “right” actions, it had not yet been found. There was an infinite number of real life situations. No one rigid “set of rules” could be adequate to cover each and every set of circumstances, since societies were constantly changing. Wide scope for judgment, creativity, imagination and inspiration must accompany the quest for a generalized and comprehensive moral code in each separate society according to its evolving circumstances.

## The Innate Moral Sense

Special assistance is available to us, however, if we look deeply enough. This assistance comes to us through a certain agent, a “guiding light,” which Smith calls the Impartial Spectator; and with it he offers his own original contribution to moral philosophy. This agency, as we shall see, is something akin to “conscience” or what he called “the internal spectator or man within the breast.” Smith is not content, however, to rest his case simply on some triumphant utterance of a single word or the announcement of a new and magic instrument. Instead, he makes a serious attempt to go behind such terms as “conscience” in search of deeper meaning.

The categorical idea put forward by his predecessors Shaftesbury and Hutcheson — that every man is endowed by nature with an innate moral sense to which he can at all times make clear the reliable reference — is rejected. Rather, Smith speaks of a certain propensity in men to “sympathize with” each other's emotion and to do so with a care and imagination which is both sincere and human. There is within us a true-hearted desire to enter into or identify ourselves with the joys and sorrows of others. This desire in turn leads us to try to win and to keep the sympathy of others. The behavior prompted by such sympathy is at the root of all benevolent acts.

Start with a simple case of one person — call him the actor — who behaves in such a way as accidentally to bring misfortune upon himself. There is a 10 second individual, the Spectator, who can be an imagined or real person, who has, says, Smith, a propensity to enter into a share sorrows of the actor. The actor, seeing that he is being sympathized with, then begins to regret being the cause of the evident distress in the Spectator. He next tries to improve the situation by a renewed attempt to control his own grief. By such reciprocal action the discrepancies in the intensity of the feelings between the two are gradually modulated. Such marginal adjustments eventually lead to a new emotional equilibrium, “a concord of feelings.”

The whole Smithian analysis is based upon an assumption which he shared with Hutcheson, that man is naturally a social animal. Without the society of his fellows, Smith maintained, the individual could have no “mirror” of his own actions and therefore no proper gauge of his progress. This idea was a direct rebuttal of the arguments of Mandeville and of Rousseau's *Discourse on Inequality*.

*“Were it possible that a human creature could grow up to manhood in some solitary place, without any communication with his own species, 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. All these are objects which he cannot easily see, which naturally he does not look at, and with regard to which he is provided with no mirror which can present them to his view.” (p. 162)*

When such a person is brought into society, not only is he given a measure of the “propriety” of his own passions but he is led to modify his life according to new and unfolding motivations.

*“Bring him into society, and all his own passions will immediately become the causes of new passions. He will observe that mankind approve of some of them, and are disgusted by other. He will be elevated in the one case, and cast down in the other; his desires and*

*aversions, his joys and sorrows, will now often become the cause of new desires and new aversions, new joys and new sorrows; they will now, therefore, interest him deeply, and often call upon his most attentive consideration."* (pp. 162,163)

The practice of living with his fellows has the psychological result of moderating all the extremes of feeling. This desire for moderation, together with the notion that ethics is a function of social life, is clearly reminiscent of Aristotle. Whereas Aristotle presented the "golden mean" as an ideal to be striven for, Smith goes further and suggests that the mean will be reached **in fact**. The success is achieved by the convergence of feelings brought about by the silent agency of the Impartial Spectator's guidance of each member of society.

Smith's principle cannot be written off as mere conformity with public opinion. Man is motivated, certainly, by the search for approbation of his fellows; but he desires not only praise, but **praiseworthiness**, "or to be that thing which, though it should be praised by nobody, is, however, the natural and proper object of praise. He dreads, not only blame, but also blameworthiness; or to be that thing, which, though it should be blamed by nobody, is, however, the natural and proper object of blame." (p. 166) Smith observes that the most sincere praise can give us little pleasure when we know in our heart of hearts that we have not deserved it. We know that the man who applauds us for actions which we did not perform "applauds not us, but another person." Our anxious desire that we ourselves should excel is, says Smith, "originally founded in our admiration of the excellence of others." Neither can we be satisfied with being merely admired for what other people are admired. We must at least believe ourselves to be admirable for what they are admirable. In order to attain this satisfaction, however, we must become the Impartial Spectator of our **own** character and conduct. In other words, we are prompted by the desire not only of gaining the respect of others but also of increasing our own self-respect.

The Spectator sometimes makes mistakes. In the short run his judgment may be impeded by temporary excitements and fashionable enthusiasms. It is, says Smith, the quiet retrospective judgments which are the most reliable; and it is these that give us the best starting point for any search for a code of general rules or principles of conduct. If we persist in the search we should remember, he insists, that there could be no basis in mere deductive logic. "Codification" of moral rules could only be the patient outcome of innumerable observations and generalizations from experience, a multitude of judgments and the vast variety of life's circumstances. The basis of the moral laws of nature, therefore, is certainly not some simple mechanical, utilitarian ethic; morality grown out of an infinity of situations, feelings and intuitions.

Smith's general reluctance in his moral philosophy to make reference to one ultimate "system," one "code," or to rely upon one exclusive principle, reflects the same pragmatism that reappeared in his later book, *The Wealth of Nations*. He draws from so many directions, however, that it is easy for the wanton caricaturist to indulge in selective quotation. The various expressions and attitudes of the Impartial Spectator, for instance, provide one such opportunity. True, for much of the time this agent serves as a fruitful inductive device, hypothesis or metaphor. In special "emergency" cases, however, Smith seems to present it in some quasi-divine or transcendental terms, and it is in these parts of *The Theory of Moral Sentiments* — not in *The Wealth of Nations* — that Smith most qualifies to be considered as the believer in "theistic design."

## The Urge for Accumulation

It is with his individual philosophy of the accumulation of riches, a philosophy wherein the Spectator plays a part, that we find Smith at his most "metaphysical." Here he poses the problem why men indulge in "the race for wealth." There was no overwhelming physical need, argued Smith, for most of man's struggle for "opulence." The capacity of the landlord's stomach, as we have seen, "bears no proportion to the intensity of his desires, and will receive no more than that of the merest peasant." Much inequality was illusory or superficial.

*"In ease of body and peace of mind, all the different ranks of life are nearly upon a level, and the beggar, who suns himself by the side of the highway, possesses that security which kings are fighting for."*  
(P. 265)

There were two important reasons why men indulged in feverish work beyond what was necessary to provide for their basic physical needs. The first was simply the human fascination with the working of machines, a fascination which Nature had implanted in men as a necessary part of its preconceived Design. Man was always "tinkering" with gadgets and "systems"; always inventing, innovating and improving; always wistfully admiring (not coveting) the latest device in some other's possession. The Impartial Spectator was here not so impartial; he was almost obsessed with the idea of "proper fitness" of things.

*"A watch, ... that falls behind above two minutes in a day, is despised by one curious in watches ... But the person so nice with regard this machine will not always be found ... more scrupulously punctual than other men ... What interests him is not so much the attainment of this piece of knowledge (the time), as the perfection of the machine which serves to attain it."* (p. 259)

This "obsession," explains Smith, had a useful function. The very acts of invention and mechanical innovation led to the improvement of man's mental stature through his development of those sciences and acts which "ennoble and embellish human life." The obsession was a "necessary deception." "It is this deception which rouses and keeps in continual motion the industry of mankind. It is this which first prompted them to cultivate the ground, to build houses, to found cities..." (p. 263)

The second reason why every man undertook "excessive" travail was the need to live up to, and keep up with, his station in society — or, more precisely, his image of it. Needing the sympathy of mankind, and realizing that the latter is more disposed to sympathize with our joy than with our sorrow, each individual was motivated to parade his riches before the Impartial Spectator and to conceal his poverty.

*"Nay, it is chiefly from this regard to the sentiments of mankind, that we pursue riches and avoid poverty. For to what purpose is all this toil and bustle of this world?"* (p. 70)

*"... what are the advantages which we propose by that great purpose of human life which we call bettering our condition? To be observed, to be attended to, to be taken notice of with sympathy, complacency and approbation, are all the advantages which we can propose to derive from it."* (pp. 70, 71)

## The Folly of Planning

There are important problems associated with Smith's claim that the above two causes of the feverishness of men's industry are implanted by nature, so providing a "necessary deception" in the service of providential design. Human folly, a matter on which Smith himself enlarges, obtrudes so prominently as to question the smallest probability that the design will ever begin to be realized. Recall the primary cause of action — the human fascination with, and "belief in," gadgets, machines and "systems" almost for their own sakes.

Smith subsequently laments that government legislators, themselves revealing the same passion for "systems", are a constant social hazard. Since the "main pillar" of Smith's edifice was justice, it was important to have exceptional legal architects, the builders of wise constitutions in which individual incentives to the creation of wealth could be secured by respect for contracts and property, and peace and individual freedom within the law fully secured. However, the "spirit of system" in the leaders was apt seriously to overwhelm the requisite "public spirit." While the latter was founded "upon the love of humanity, upon a real fellow feeling ...," the "spirit of system" was the insatiable desire of the planner to construct society like a machine.

*"This spirit of system commonly takes the direction of that more gentle public spirit, always animates it, and often inflames it, even to the madness of fanaticism ... The great body of the party are commonly intoxicated with the imaginary beauty of this ideal system, of which they have no experience, but which has been represented to them in all the most dazzling colours in which the eloquence of their leaders could paint it. Those leaders themselves, though they originally may have meant nothing but their own aggrandizement, become, many of them in time, the dupes of their own sophistry, and are as eager for this great reformation as the weakest and foolishlest of their followers. Even though the leaders should have preserved their own heads, as, indeed, they commonly do, free from this fanaticism, yet they dare not always disappoint the expectation of their followers, but are often obliged, though contrary to their principle and their conscience, to act as if they were under the common delusion." (p. 341)*

By demanding too much, the governing party frequently obtained nothing, and the inconveniences and distresses were left altogether "without the hope of remedy." The man whose public spirit was not so tainted, but was prompted by true benevolence, will act with tactful diplomacy and go along with some of the imperfect constructions of society, "moderating what he often cannot annihilate without great violence ... He will accommodate, as well as he can, his public arrangements to the confirmed habits and prejudices of the people, and will remedy, as well as he can, the inconveniences which may flow from the want of those regulations which the people are averse to submit to." The "man of system" in contrast, was "wise in his own conceit":

*"... he seems to imagine that he can arrange the different members of a great society with as much ease as the hand arranges the different pieces upon a chess-board; he does not consider that the pieces upon the chess-board have no other principle of motion besides that which the hand impresses upon them; but that, in the great chess-board of human society, every single piece has a principle of motion of its own,*

*altogether different from that which the legislator might choose to impress upon it.” (p. 343)*

Some planning, some erection of rules of justice, was of course necessary. And some element of vision of perfect policy and law was helpful. But in the end this needed the supreme effort of human reason and will. There was no Invisible Hand to solve this problem, the very persistence of which indeed brings into question the whole notion or possibility of natural and spontaneous harmony in this world. Although Smith presents the love of machinery and systems as a “necessary deception,” it is clear that it was by the same token so much of an unnecessary one as to be self-cancelling.

Consider next the second Smithian “cause” of the pursuit of riches, the individual's desire to keep his place or rank as befits his “image” and as maintains the approval of the Spectator. Smith shows that such a desire, because of human folly, loses all perspective.

*“The great source of both misery and disorders of human life, seems to arise from over-rating the difference between one permanent situation and another. Avarice over-rates the difference between poverty and riches: ambition, that between a private and public station:*

*“vain glory, that between obscurity and extensive reputation. The person under the influence of any of those extravagant passions, is not only miserable in his actual situation, but is often disposed to disturb the peace of society, in order to arrive at that which he so foolishly admires.” (P. 210)*

In another place Smith considers the case of such intemperate behavior in the man who “devotes himself for ever to the pursuit of wealth and greatness.” This unfortunate individual, devoting himself relentlessly throughout his life to working, eventually “... in the last dregs of life, his body washed with toil and disease ... begins at last to find that wealth and greatness are mere trinkets of frivolous utility ...” (p. 261) Similar observations occur in *The Wealth of Nations*, where workers who work on piece rates “are very apt to overwork themselves, and to ruin their health and constitution in a few years.” Until some maximum earnings level was stipulated, “*mutual emulation and the desire of greater gain*” (italics mine) would prompt them to overwork themselves.

To the ordinary reader the idea of Smith's theistic design is thus difficult to grasp, because those instincts in human beings which are the supposed agencies for ultimate harmony are both constructive and destructive. There may not be very sophisticated methods of resolving this problem in Smith's own terms. Indeed, he himself tells us, but in a rather obscure way, that **some** of the disorders of human nature were also divinely ordained. (See Chapter 3, Part II, Section III)

## **Predictive Theory**

It would be too hasty, however, to leave aside *The Theory of Moral Sentiments* on account of the theological enigma. Modern economists and sociologists will surely be attentive to the illuminating Smithian insight into the acts of human motivation. In other words, if it is a fact — as Smith argues — that individuals are prompted to



acquire more riches and progressive novelty with the aim of commanding attention and keeping up with an image if their “rank”, then it is arguable that these facts are of social scientific interest irrespective of any deeper metaphysical or theological intention. Some of these “facts” have the property that they can be verified or refuted, by psychological analysis. Such facts, moreover, can be consistent with both the harmonious society and the more realistic discordant one where conflict and error are abundant. Here (as in *The Wealth of Nations*, where the characteristic is much more pronounced), Smith seems to have produced “hypotheses” which, although they might have had their original inspiration in theological speculation, are so fruitful as to be of self-sufficient interest. Many social scientists, these days, rank hypotheses not according to their realism but to their predictive value. The origin of such hypotheses, like their realism, would seem to be of subordinate importance.

Interestingly enough, Smith's hypotheses, separated from their theological overtones, have a relevance that is peculiarly modern. Twentieth-century welfare economic concepts such as “consumption interdependence” and “demonstration effects” seem to have a distinct Smithian ancestry, and the same is true of much of Veblen's sociology. Benthamite utilitarian economics, which immediately succeed Smith's, changed the emphasis and dwelt largely in mechanical and unsophisticated forms of consumer demand and economic motivation. Economics during the first half of the nineteenth century became rigidly “scientific” in the sense that it postulated an “economic man” who knew in advance, definitely and accurately, all the facts and magnitudes that would influence his behavior. The search was for economic principles to which human conduct would perfectly conform.

Today it is recognized that if such conduct were perfectly conformable, it would degenerate to mere mechanical response to known stimuli and would thereby cease to be “economic.” It is a truism which seems in need of continued repetition, that human behavior cannot be predicted like that of physical objects. Men do not have stable satisfaction functions: indeed they often do not know what they do want, or they want new wants which will only reveal themselves in exploratory activity. One of the very motives of human action is curiosity, and this implies considerable ignorance at the outset.

Answers to economic questions thus depend on judgments and insight into human nature — and a realization that man's action consists of a continual search for new things and values, is undertaken often for its own sake, and is associated with much ignorance and stumbling error. Man was meant for action, Smith asserted; but human action (as he especially acknowledged) was characterized by substantial disappointment, together with much hopeful creative probing for new excellence. Nevertheless one must constantly strive:

*“Man was made for action, and to promote by the exertion of his faculties such changes in the external circumstances both of himself and others, as may seem most favourable to the happiness of all. He must not be satisfied with indolent benevolence, nor fancy himself the friend of mankind, because in his heart he wishes well to the prosperity of the world. That he may call forth the whole vigour of his soul, and strain every nerve, in order to produce those ends which it is the purpose of his being to advance, nature has taught him, that neither himself nor mankind can be fully satisfied with his conduct ... unless he has actually produced them.” (pp. 153–154)*

## The Range of Moral Sentiments

Human economic motivation in Smith is clearly multidimensional. One of these motives, the stoical instinct for self-preservation, was to him obvious enough. What was more interesting, however, was why men worked so hard beyond the requirements of their basic physical (calorific) needs. Smith's hypotheses on this account are moral, aesthetic and sociological. Morality, he suggested, consisted of an endeavor for a proper balance of Prudence, Justice and Benevolence, and endeavor which was constantly witnessed and monitored by the Impartial Spectator. Prudence dictated that part of economic activity which was necessary for self-preservation. Justice was commutative; its rules, truly embodied into law, underpinned the whole system. Benevolence consisted of a proper amount of disinterested or "right" behavior, behavior which in many senses involved economic deliberation.

Beyond this men strove upwards and outwards to gain attention and "sympathy." Such action manifested itself in the search for fascinating novelty associated with "fitness" and aesthetic appeal, or what can generally be called "excellence." If one's fellows were naturally intrigued with such qualities, then their attention would be won by the individual who produced or acquired "things" that embodied them (although the line drawn between elegant novel contrivances and "trinkets of frivolous utility" seems to have been a fine one). Smith's explanation of the human urge for "nicety" in *The Theory of Moral Sentiments* is clear enough.

A more succinct account appears in Smith's Glasgow Lectures. There, after telling us that animals are sufficiently provided for by nature in all those wants to which their condition is liable, he continues:

*"Such is the delicacy of man alone, that no object is produced to his liking. He finds that in everything there is need for improvement."*<sup>9</sup>

*"The whole industry of human life is employed not in procuring the supply of our three humble necessities, food, clothes and lodging, but in procuring the conveniences of it according to the nicety and delicacy of our tastes."*<sup>10</sup>

The theme persists throughout Smith's works. In his essay, *'The History of Astronomy,'* he again presents man as a creature who cannot live in an excessively routinized or stagnant society. Man could not live without Wonder, Surprise and Admiration. "What is new and singular excites that sentiment which, in strict propriety, is called Wonder what is unexpected, Surprise, and what is great or beautiful, Admiration."<sup>11</sup>

The author of *The Theory of Moral Sentiments* and *The Wealth of Nations* clearly has many aspects with which to be reckoned. Wealth is the potential expression not merely of natural power but also of the emerging human personality. When wealth increases, men may not decay but may indeed liberate and fulfil themselves. The pursuit of *the wealth of nations* provided the necessary dynamic condition for that of the happiness of individuals. It is a striking fact that whereas Karl Marx was later to admonish Smithian capitalism for causing people to lose their identities in the pursuit of wealth, it was Smith's claim that it was only within its province that men could successfully discover themselves. True, there were imperfections in the fabric of capitalism. Some factory environments, for instance, Smith acknowledged to be culturally stifling and "alienating."<sup>12</sup> Such imperfections, however, could for Smith be overcome with suitably devised antidotes such as education. The Marxian "cure"

— revolution and the evisceration of private property — would have been to him like throwing the baby away with the bathwater. It is indeed ironic that while both Smith and Marx saw “true” human development in “production” and “action,” and while both emphasized the importance of “humanity” and social and aesthetic fulfillment, the one espoused means (markets and property) which to the other implied total destruction of the ends.

## NOTES

1. A L Macfie, *The Individual in Society*, 1967, pp. 42, 43
2. See G Hardin, *Nature and Man's Fate* (New York, 1959) quoted in F A ~ Hayek, *The Confusion of Language in Political Thought* (London: Institute ~7 of Economic Affairs, Occasional Paper 20, 1968)
3. A L Macfie, *op cit.*, Chapter 6
4. J M Buchanan, *Politics and Science: Reflections on Knight's Critique of Polanyi* Vol. 77, No 4, July 1967
5. Marx–Engels, *Gesamtansgabe* (Berlin, 1932), p. 130. See also Marx's economic and political manuscripts in Eric Fromm, *Marx's Concept of Man* (1967), pp. 155–158
6. Fromm, *Marx's Concept of Man*, P. 144
7. *The Wealth of Nations* (Arlington House edition, 1966), Vol II, P. 250. This statement is not inconsistent with Smith's remark (quoted above) that mankind **admires** wealth; that admiration is largely a sort of vicarious pleasure.
8. *Moral Sentiments*, Vol. I, p. 194
9. *Lectures on Justice, Policy, Revenue and Arms*, edited by Edwin Cannon, 1896, p. 158
10. *Ibid*, p. 160
11. *Essays on Philosophic Subjects by the Late Adam Smith*, 1795
12. A detailed comparison of Smith with Marx on the ideas expressed in this concluding paragraph is contained in E G West, *Political Economy and Alienation: Karl Marx and Adam Smith*, Oxford Economic Papers, March 1969.

## 6. ADAM SMITH'S REVOLUTION OF 1776

By Richard Vernier

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On the 9th March, 1776, a long wait by Adam Smith's friends came to an end, with the publication of *An Inquiry into the Nature and Causes of the Wealth of Nations* (2 vols., 1.16). Smith's labours on the work had stretched over decades, and intimates expected the book's publication in 1773. Adam Ferguson had promised readers that Smith's forthcoming book would be "equal to what has appeared on any subject of science whatever." By 1776, some were worried by the long delay. David Hume was so anxious that he wrote Smith on 8th February wanting to know why the book was not even being advertised, as it must have been printed long ago. He warned Smith that if he was delaying publication still longer, until the American controversy was settled, he may wait too long.

When Hume at last had read the book, he sent his congratulations, and noted his relief: "I am much pleased by your performance, and the perusal of it has taken me from a state of great anxiety. It was a work of so much great expectation, by yourself, by your friends, and by the public, that I trembled for its appearance; but am now much relieved." Others of Smith's circle quickly joined in the chorus of praise. Hugh Blair and William Robertson both wrote that the book had surpassed their very high expectations, and that his work, as Blair put it, "ought to be, and I am persuaded will in some degree become, the Commercial code of nations." Blair gave it the ultimate accolade, putting it in the same league as Montesquieu's *Esprit des Loix*. Joseph Black congratulated Smith on the very good standing of the book in "the opinion of good judges" — among whom Gibbon who wrote to Smith that he "had enlightened the world by the most profound and systematic treatise on the great objects of trade and revenue that had ever been published in any age of country."<sup>1</sup>

Whatever the opinions of such august supporters as to the merits of Smith's book, however, there seems to have been some concern that it would not be received by the public with the enthusiasm with which they believed it deserved. Hume wrote that "the reading of it necessarily requires so much attention, and the public is disposed to give so little, that I shall still doubt for some time of its being at first very popular. But it has depth and solidity and acuteness, and is so much illustrated by curious facts, that it must at last take the public attention." Black cautioned that "although it will be admired immediately by discerning and impartial judges it will require some time before others who are not so quick sighted and whose minds are warped by prejudice or interest can understand and relish such a comprehensive system composed with such just and liberal sentiments."<sup>2</sup>

What sort of reception did this extraordinary book get from its early audiences? The response was varied, and in many ways strange. While there is no gainsaying the singular influence the book had on the development of all subsequent economic thought,<sup>3</sup> a substantial portion of the commentary on his book was critical, even if always respectful of his vast erudition and insight. Scholars of Smith's reception on the continent have emphasized the very readers worthy of being called disciples. The book's several translations went through ten separate editions before the standard translation of Garnier in 1800; after the Revolution, Smith "held undisputed sway over the scholars", Jean Baptiste say studied and annotated the book, "and thereafter

kept it by him.”<sup>4</sup> In Spain, the book's first translation in 1793 by Jose Alphonso Oriz managed to slip past the censorship of the inquisition by careful bowdlerization of “questionable” passages, and the use of frequent dissenting footnotes.<sup>5</sup> In Germany the “cameralist” tradition held sway well into the 1820s; insofar as Smith had influence, it was only as he was “reinterpreted” by cameralist writers. His book was accepted “only with important qualifications and never ... became really popular.”<sup>6</sup> In Italy the book gained acceptance in the wake of the revolutionary armies; before 1800, even free-traders in Italy seemed to know little of the book.<sup>7</sup>

As I am not an economist, I cannot assess Smith's influence on the development of the discipline. What I propose is a more modest exploration of some aspects of Smith's reception in Britain and America, which show that although Keynes may well have been correct in emphasizing the power of ideas and seeing statesmen as the slaves of economists, genius alone is not sufficient to guarantee a sympathetic hearing for new ideas. Smith's much touted revolution in economic thought was most favourably received by an audience in tune with other revolutions as well.

### ***The Wealth of Nations* first reviews**

The book's edition (probably 1000 copies) sold out in 6 months, and was followed by editions in 1778, 1784, 1786 and 1789. In addition, Smith lived to see editions published in Ireland (1776, 1785), France (1778–1779, 1781, 1786), Denmark (1779), Germany (1776–1783) and the United States (1789).

His publisher Strahan said that the book's sales were “better than I had expected.” Some commentators have thought that the book was poorly reviewed in contrast with the now forgotten Watson's *History of Phillip*, which got a 16-page review in the all-important *Annual Register*. *Wealth of Nations* received only a short 2-page notice, largely a reprint of Smith's own plan of the work.<sup>8</sup> That review by his friend Edmund Burke praised the work for sagacity and penetration of mind, extent of views, accurate distinction, just and natural connection and dependence of parts”, but also observed that “many of the speculations are new, and time will be required before a certain judgement can be passed on their truth and solidity”.<sup>9</sup>

However, *The Monthly Review*, a dissenting Whig publication whose circulation was said to be twenty times greater than any other contemporary journal, gave the book a very detailed treatment, a précis stretching over four issues and over 40 finely printed pages. The reviewer, William Enfield, was a dissenting minister who had received a degree at the University of Edinburgh in 1774. He found the book a “happy union of fact and theory” and Smith's system “on the whole more satisfactory, and resting on better grounds than any which had before been offered to the public.” He praised the book's “depth and accuracy” and noted that “though several new opinions are advanced ... contrary to those that have been generally received, we apprehend that upon close examination they will appear to be well supported.” The review concluded by saying that although the focus of the review had been largely expository, leaving no room for strictures on particular parts of the work, Smith's principles “appear to us to have been formed with the most mature deliberation and on the most solid grounds ... his leading ideas are highly deserving of attention, and are capable of being employed with great utility in the regulation of the commercial and political system.”<sup>10</sup>

## A pattern of dissent

But if Smith received glowing accolades from the likes of the Scottish literati, Gibbon and the *Monthly Review*, perhaps more representative was the lengthy critique of Governor Pownall in his Letter to Adam Smith. The *Monthly Review*, in their notice to Pownall's tract observed it "was natural to expect that a work so original in its plan and deviating so widely in its particulars from the common track of thinking on the subjects of commerce and policy as Dr Smith's Inquiry, could not pass without censure."<sup>11</sup> Pownall professed "the highest opinion of your abilities, learning and knowledge" and found much to admire in Smith's "very scientific and learned treatise," especially his treatment of factors of production, wages, profits and rent, the progress of improvement, and the employment of stock. Reading such parts of his book made him believe that the book could be "considered as INSTITUTE OF THE PRINCIPIA of those laws of motion by which the operations of the community are directed and regulated, and by which they should be examined."

Yet, overall, he said that the book would require substantial correction from the standpoint of theory and policy before it could be so considered. He saw very clear dangers in many of Smith's doctrines — "dangerous" is an oft repeated term on Pownall's letter. Rooting the division of labour in a human propensity to barter, for example, suggested to Pownall that the sources of human community might be construed as residing in voluntary desires and caprice, rather than in the human inequality which was "the essence of our nature." In Smith's discussion of value, he argued that labour could not be the standard of value as it lay in the "nature and feelings of the persons estimating (value)." He insisted that value was purely a consequence of the "haggling and bargaining of the market" and dissented from Smith's distinction between natural and market price. In such "abstract notions" he saw the grounds for meddling in the market and worst of all, for creating "an imaginary phantom of circulation." Over and over Pownall warned against the spectre of paper money, which he thought Smith had done much to promote. Pownall was also deeply distressed by Smith's strictures on Britain's commercial policies. He defended protection for British manufacturers, saw free import of corn as a recipe for the destruction of British agriculture, defended the bounty system as a just and wise policy for protecting oppressed farmers, insisted on the value of the colonial trade and castigated Smith for advocating "the dismemberment of the empire."<sup>12</sup>

A controversy over a change in the Corn Laws in Scotland occasioned the first references to *Wealth of Nations* in British policy debate, which reveals that while the book enjoyed enormous respect it had won few converts. The pamphlet war began with The Memorial for the Merchants, Traders, and Manufacturers of Glasgow (1777) which argued that a freer policy in grain imports had to be allowed as lower grain prices meant wages could therefore be more competitive, thus encouraging the city's trade and manufactures.<sup>13</sup> Although the Memorial didn't explicitly cite Smith, the defenders of the Corn Laws and bounty system saw Smith's arguments as an implicit part of the opposition's artillery. One pamphlet began by acknowledging that totally free trade would be best in an ideal world, but in the real world nations had to protect themselves against the jealousy of other nations. The only way to guarantee reliable grain supplies was to increase domestic production by bounties. And, he argued, the effects of the bounty system "have been as fortunate as could have been desired": supplies were up and prices were stable. Stable prices in grain had occurred when all other commodities were rising in price, which contradicted any claims ("though supported by a very great authority") that corn prices regulated the

price of labour. Moreover, the argument of manufacturers to allow free trade in grain, "though borrowed from a work very justly admired", flew in the face of the host of protections which Glasgow manufacturers enjoyed; if free trade were to be the policy, it ought to be general "it cannot with propriety be made with regard to one manufacture and not to the rest." In fact, all have benefited from the security of the home market: farmer, merchant, and manufacturer alike.<sup>14</sup>

*Corn Bill Hints*, another tract, noted that, whatever the weakness of the Memorialists' arguments, just when an opponent could claim victory, they would open their "masked battery, (and) push out that tremendous piece of ordnance: the Dr Smith ... and blow him, (his landowning supporters), and their arguments, like their own chaff, into the air." The pamphlet combined encomiums to Smith's work with strictures on his principles. "I admire, I had almost said revere, the great abilities of Dr Smith displayed in his writings", wrote the author, before going on to dispute Smith on the wisdom on relying upon foreign grain. Smith's arguments favouring free trade in grain were fallacious; free import would swamp domestic farmers, the mainstay of the nation's security, and put them out of work. As Smith himself favoured restraints on trade for national security, what was more central to the nation's security than a robust and numerous peasantry?<sup>15</sup>

If, as John Dunn noted, to view Smith as the ideological spokesman for his age is nonsense, the assumption that Smith's book carried all before it is at least dubious. While *Wealth of Nations* was viewed with enormous respect, Pitt was by no means correct in describing his countrymen as "all (Smith's) pupils." John Gray's vigorous defense of the physiocrats in the face of Smith's theories in 1797 was, along with the Earl of Lauderdale's 1804 *Inquiry into the Nature and Origin of Public Wealth*, evidence of continuing dissent from Smith's work decades after it is supposed to have taken the world by storm. Even Dugald Stewart, in his famous lectures on political economy, included Smith as merely one of a number of writers to be studied, and himself was more inclined to support the physiocrats when Smith diverged from them. Nor should it be forgotten that the vogue of political economy in Britain coincided with the rise of a host of problems engendered by the French Revolutionary wars (poverty, the Poor Laws, population; currency and suspension of specie payments; rising rents and the growth of manufactures) on which Smith had little to say; or that the first of the great inheritors of Smith's mantle, Thomas Malthus, did battle with the radicalism of Godwin by declaring of his argument that "the principles on which it depends have been explained in part by Hume, and more at large by Dr Adam Smith," at the same time that he introduced a radically new conception of the *wealth of nations* by revealing Smith's "probable errors". *The Edinburgh Review* in the early nineteenth century certainly professed devotion to Smith's doctrines, but Francis Horner would privately write that "We owe much at present to the superstitious worship of Smith's name; and we must not impair that feeling till the victory is more complete ... his popular and plausible and loose hypothesis is as good for the vulgar as any other."<sup>16</sup>

### **British radicals and The *Wealth of Nations***

Jacob Hollander long ago took a rather sanguine view of Smith's reception by his contemporaries, writing off the many dissents from Smith's views as "minor." He wrote that the quarter from which he most expected to find dissent, the British radicals, was silent, a fact he attributed to the exclusively political goals of the radicals.<sup>17</sup> In fact, this view (born of a rather historical conception of "radicalism" as



somehow “socialistic”, and therefore hostile to Smith's enthusiasm for free markets) obscures our understanding of the real sources of Smith's first enthusiasts. Was it so strange that the radicals should embrace what Smith himself described as “a violent attack ... upon the whole commercial system of Great Britain”?<sup>18</sup> The radicals who excoriated rank and privilege, who enthused over the American revolution, championed “the rights of man”, cheered the overthrow of the *Ancient Regime* in France, and pressed for reforms at home, were, after all attempting to remake society very much along the lines of Smith's “simple and natural system of liberty.”<sup>19</sup> “*Laissez-faire!*” was the radical cry of the day; “All Power to the Soviets!” would not come for over one hundred years.

Lord Shelburne earned a very unsavory reputation (a “Cataline”, was a popular epithet) for surrounding himself with the radical intelligentsia of the day (Richard Price, Joseph Priestly, Jeremy Bentham, David Hartley, Charles Stanhope, Benjamin Vaughan, to mention a few) and patronizing the True Whig club in London. Shelburne had known Smith since 1760, and was converted to Smith's free-market views during a long coach ride from Edinburgh to London. He later told Dugald Stewart the journey “had made the difference between light and darkness through the best part of my life. The novelty of his principles, added to my youth and prejudices, made me unable to comprehend for some years after, I can truly say has contributed ever since to the happiness of my life, as well as the source of any little consideration I may have enjoyed in it.” It was Smith's influence which led him to seek free trade with the newly independent United States, perhaps the bitter experience of that policy led him to reflect much later, “Professor Adam Smith's principles have remained unanswered for above thirty years, and yet when it is attempted to act upon any of them, what clamour!”<sup>20</sup>

Joseph Priestly (for a time Shelburne's secretary and tutor) was, in addition to being one of the most illustrious scientific minds of his age, a notorious political radical who fled Britain to America in the aftermath of a mob attack in 1791. His *Lectures on History and General Policy*, a general treatise on political and social theory, was a popular text in British dissenting academies and American colleges. Its overarching theme is that “since experience is our best guide in things so complex a nature as the interest of large bodies of men, it is most advisable to leave every man at perfect liberty to serve himself, till some actual inconvenience be found to result from it.” Priestly's discussions of political economy show very clearly a debt to Adam Smith, as the book is literally studded with footnotes to *The Wealth of Nations*. The discussion of division of labour, value, money, wages, population, free and slave labour, productivity, government debt, paper money, and the funding system are explicitly based on Smith's authority.<sup>21</sup> Priestly castigated bounties, saying “politicians have injured commerce by restricting, and confining, or burdening it too much; the consequence has been that by aiming at great advantage they have cut off the springs of all future advantage” — would that politicians have heeded the simple advice, *laissez nous faire!*<sup>22</sup> He extolled free trade, arguing that when “jealousy of trade” had been laid aside, and “a state of perfect liberty” achieved, a global division of labour would be achieved.

*“In this natural course of things, the connexions of mankind in consequence of being found advantageous, would be so multiplied, that they would find a common interest in being at peace with one another, and common loss in hostility. When differences arose they would find some other method of deciding them than force, and the world would in time recover its pristine paradisaical state.”*<sup>23</sup>

He attacked the notion of sumptuary legislation, saying that the government was the least worthy to make decisions for individuals about their money as:

*"...the governors are, in general, the most ignorant of their own business, because it is exceedingly complex, and requires more knowledge and ability than they are possessed of ... By foolish wars in which they involve nations, and the endless taxes they impose upon them, governors are continually pulling down highest impertinence and presumption in kings, and ministers, to pretend to watch over the economy of private people, and restrain their expenses... They are themselves always, and without any exception, the greatest spendthrifts in the society ..."*<sup>24</sup>

Benjamin Vaughan, Priestley's pupil, and Shelburne's personal secretary, was another radical who made his way to America in 1796, fearing arrest as a Jacobin. Vaughan had been instrumental in the negotiations for peace in 1782, and had briefed Shelburne for his speech defending the trade treaty with the US. In 1788 he anonymously published a tract, *New and Old Principles of Trade Compared*, which was a strongly free-trade, *laissez faire* attack on British commercial policy. Large portions of the tract consist of paraphrases or direct quotations from *Wealth of Nations*. Vaughan called Smith "an author of the first consideration, to whom the age is deeply indebted." He took special pains to argue at length in favour of free trade in foodstuffs and grain, supporting his position with pages of extracts from *Wealth of Nations*. Indeed, the only dissent from Smith in the book is from Smith's defense of the Navigation Acts; a school for seamen, or a naval militia, or subsidies for seamen's wages would all accomplish the objectives of national defense far less destructively than the Navigation Acts, Vaughan argued.<sup>25</sup>

Charles Mahon, 3rd Earl Stanhope, was a political protégé of Shelburne's notorious for his radicalism. A close friend of Priestley's, he was also friendly with Franklin and a warm supporter of the American cause. He had travelled with Smith and the Duke of Buccleuch in 1765. Friendly with Condorcet and other French luminaries, he was a warm supporter of the French Revolution, publishing a rejoinder to Burke in 1790. His house was attacked by mobs in 1794. His secretary, Jeremiah Joyce, a radical dissenting minister, was active in The Society for Constitutional Information and the London Corresponding Society. He was arrested for "treasonable practices" in 1794, along with his friend John Horne Tooke. Joyce published in 1797 the first abridgment of Smith's great work, *A Complete Analysis of Abridgment of Dr Adam Smith's Inquiry into the Nature and Causes of the Wealth of Nations*, which went into three editions. The best abridgment of the book I have seen, it distils Smith into 290 manageable pages but sticks very close to the original language of the book. Joyce's work was a very important step in the promotion of Smith's views, as over and over people complained about the book's "difficulty".<sup>26</sup>

Another good example of the radical's embrace of Smith is the Scot James Callender, who fled Britain in the aftermath of the publication of an incendiary tract of great success, *The Political Progress of Britain*. His first literary excursion *The Deformities of Samuel Johnson*, Selected from his Works (1782) closed with a panegyric to Adam Smith:

*"Dr Smith's language is a luscious and pure specimen of strength, elegance, precision and simplicity. His Enquiry into the nature and causes of the wealth of nations deserves to be studied by every member*

*of the community as one of the most accurate, profound, and persuasive books ever written. In that performance he displays an intimate and extensive knowledge of mankind, in every department of life, from the cabinet to the cottage; a supreme contempt of national prejudice, and a fearless attachment to liberty, to justice, and to truth. His work is admired as a mass of excellence, a condensation of reasoning, the most various, important, original, and just"*<sup>27</sup>

His next pamphleteering venture, *The Political Progress of Britain* (1792) led the authorities to attempt to suppress its publication and arrest its author. Although his publishers both received jail terms, Callender managed to elude the authorities and make his way to America, where he put out a second, third and fourth edition of the pamphlet. Callender's slashing attack on the British state, the Crown, privilege, and above all, the state debt and the taxing system which funded it, made use of the authority of Dr Smiths to excoriate the stupidities of British Statism.<sup>28</sup> He went on to publish a number of tracts in the United States, which made extensive use of Smith's authority to attack the excise and funding systems, the Federalist regime, the injustice of colonies, and the wickedness of British policy.<sup>29</sup>

The support of radicals for Smith's work, plus the taint of atheism which attached to Smith in the aftermath of his poignant account of Hume's last days (and the firestorm of controversy it provoked)<sup>30</sup> served to put Smith's reputation under a cloud by the 1790s. Dugald Stewart wrote of the early years of the French Revolution:

*"it was not unusual, even among men of some talents and information to confound, studiously, the speculative doctrines of Political Economy, with those discussions concerning the first principles of Government which happened unfortunately at that time to agitate the public mind ... the doctrine of Free Trade was itself represented as a revolutionary tendency; and some who had formerly prided themselves on their intimacy with Mr Smith, and on their zeal for the propagation of his liberal system, began to call in question the expediency of subjecting to the disputations of philosophers, the arcana of State Policy, and the unfathomable wisdom of the feudal ages."*<sup>31</sup>

Smith, of course, was no radical. By 1800 both Grenville and Pitt were united in the conviction of the soundness of Smith's principles.<sup>32</sup> Yet Stewart felt obliged, in 1792, to respond to criticism for teaching political economy with the disclaimer "ever since I was Professor of Moral Philosophy, I have concluded the course with a set of lectures upon the English Constitution, the excellencies of which I have always enlarged in the warmest and most enthusiastic terms." Indeed, it was the energy, brilliance, and safe, conservative force of Dugald Stewart who brought the new science of political economy to the position of eminence it enjoyed throughout the nineteenth century. Out of the lectures he delivered in 1799–1800, to an audience of eminents such as James Mill, John Ramsay McCulloch, and Viscount Palmerston, emerged the group of intellectuals who would form the nucleus of the Edinburgh Review, the major intellectual organ of the British supporters of commercial society and early English Utilitarianism. The outstanding feature of the new disciples of political economy was their repudiation of the language of rights, and of the "natural and just" order of society.<sup>33</sup>

## Smith's American readers: Smith's American influence

Establishing the readership of Smith's work in America is terribly difficult, because the number of unknown is so great. The number of copies in circulation cannot even be guessed at, although there is good evidence that comparatively speaking, it had wide circulation. After the war (which severely disrupted the transatlantic book trade) it was available to Americans in both imported and domestic editions. *The Wealth of Nations* was published in 43 separate editions from 1776 to 1830, most of them by British or Irish publishers. Most of what Americans read was of European printing, and they could order books direct from London. Scholars have argued that American reading tastes were highly sensitive to English fashions, the revolution notwithstanding. But the number of American printings of Smith's book suggests popularity among American readers, and booksellers reported good sales for the book.<sup>34</sup> That *The Wealth of Nations* was read by Americans and considered important by them is beyond question. David Lundberg and Henry May's survey of some 250 early American libraries, for example, shows that Smith's book was present in 28% of the libraries surveyed by 1790, 42% by 1800, and fully 62% by 1813, so that the book's distribution in libraries was surpassed only by that of his friend David Hume's *History of England*.<sup>35</sup>

How did this acceptance come about? There is reason to suspect that the American climate was far more hospitable to free market ideology, and hence to Smith's acceptance, than was the case in Britain, where the idea had the taint of radicalism. Vaughan, for example, could bemoan the fact that with "the exception of a few enlightened persons, especially in Scotland, the free system of commerce has been little patronized by the writers of our own island"; while Shelburne's biographer noted that his championing of free-market economics further alienated the Whigs, who were "more deeply pledged than any other school of politicians to existing tariffs."<sup>36</sup>

There was in America, as in England, a well-established readership for exercises in "political economy": Smith was no more the inventor of economics there than in Britain.<sup>37</sup> In America, Smith was introduced to a country in which free-trade, free market writing had been a staple for many years. The description of the market as a mechanism and producer of its own order was familiar to Americans. Benjamin Franklin, America's most distinguished political economist, had championed free-market ideas for decades, and had great influence.<sup>38</sup> Joyce Appleby has shown that an appreciation for the spontaneous order of the market and the socially beneficent consequence of self-interest action form the very core of liberal thought which was integral for Revolutionary ideology and the thought of the early national period.<sup>39</sup> Peletiah Webster's 1779 *Essay on Free Trade and Finance* was a hard-money, anti-price control, free-market tract that owed nothing to Smith. During the struggles over price controls in Philadelphia the artisans who declared that trade should be as "free as the air" were certainly echoing Webster, not Smith.<sup>40</sup>

Another important factor in Smith's relatively favourable reception in America, as well as the received meaning of the book, was the exodus of radicals and republicans to the new nation. Priestly and Vaughan are just two examples of the phenomenon, but a number of scholars have pointed out the enormous influence which the émigrés had on American political ideology in the formative years of the Republic.<sup>41</sup> As the émigrés gravitated to the emerging Republican party, and shaped Republican economic views, the long period of Republican national political hegemony beginning in 1800 meant that Smith's book, it no more exploded onto the American

scene than it did the British. Although I will argue that the American reception of the book was more favourable than the British, in both cases the reaction took place gradually and cumulatively.

Few people seem to have read the book in the early 1780s.<sup>42</sup> But when James Monroe wrote to Jefferson in 1785 about the prospects for pushing a bill favouring American shipping through the Continental Congress, he worried that the opinion of “Mr Smith on *the Wealth of Nations* that the doctrine of balance of trade is a chimera in pursuit of which GB hath exposed herself to great injury”, and that the measure would come into disfavour.<sup>43</sup>

Over the course of the 1780s, the book increasingly made its way into the awareness of the intellectual elite.<sup>44</sup> James Madison put the book on a list of recommended reading for the delegates of the Continental Congress in 1783; Robert Morris and Alexander Hamilton studied the book. Sometime around 1784, Bishop James Madison, President of the College of William and Mary, and Professor of Moral Philosophy, introduced the study of political economy, using *Wealth of Nations* as the text. It remained the basic text at colleges and universities throughout the South into the 1830s. Josiah Meigs reprinted long portions of the book over four issues of his New Haven Gazette and Connecticut Magazine in 1786.<sup>45</sup> The publication of the American edition in 1789 (followed by edition in 1796, 1804, 1811, 1816, and 1818)<sup>46</sup> attests to the book's readership in America, as British publishers were so competitive that American publishers dared not take risks.<sup>47</sup>

By 1785, the charter for Robert Morris Bank of North America (originally chartered on the basis of wartime expediency and the needs for finance) was up for renewal and a fierce debate was being waged by the pro and anti-bank forces.<sup>48</sup> A number of participants in the controversy turned to political economists, and to the authority of Adam Smith to defend their positions. James Wilson's pamphlet effort to defend the bank<sup>49</sup> appealed to the authority of Adam Smith to prove that banks encourage trade, and that the trade of Scottish cities had doubled and even quadrupled after the institution of banks. Yet Wilson's argument owed its fundamentals to the political economy of James Steuart. Wilson was a close student of Steuart's *Principles of Political Economy*, and was especially taken with Steuart's emphasis on the importance of credit. For Steuart, it was upon the wise supervision by statesmen of the economy and of investment that prosperity rested. Moreover, Wilson also accepted Steuart's views on the priority of balance of trade.<sup>50</sup>

The debates in the Pennsylvania Assembly over the BNA charter revolved mostly over matters of law, and the revocability of the charter, but economic analysis sometimes entered in. Mr Clymer defended the bank against the charge that it encouraged an unfavourable balance of trade, by calling the doctrine “metaphysics of commerce, which serves no other purpose than to disturb the imagination”, he later recounted the history of the Ayr bank taken from *The Wealth of Nations* to argue against banks of mortgage. Mr Fitzsimmons defended banking by citing “a writer in great repute, Mr Smith, who treated on the *wealth of nations*” who showed Glasgow's trade and doubled after banks were instituted.<sup>51</sup> In the press, a debate between “Philadelphensis” and “Artemon” over the bank found a dispute over Smith's descriptions of Scottish banks. “Philadelphensis” cited Smith to show that Scottish banks were banks of mortgage, which doubled the trade of the city, but he also quoted James Steuart on the importance of banks for controlling the influx and efflux of specie, to argue that the BNA had failed in this important task. “Artemon” wrote that “that great author” established the principle that bank loans should be relatively

short-term, and the Ayr bank of mortgage had gone bankrupt. He ridiculed "Philadelphensis's" concern over the specie balance: "But what are gold and silver that they should be watched over with such unremitting anxiety? Is their increment or decrease the infallible criterion of good or ill condition of the commonwealth? I am afraid he will be poorly illuminated in political and commercial science, unless he quits the dark lanterhorn of Sir James Steuart for the clear and bright lamp of Smith."<sup>52</sup>

## Republican stalwarts and *Wealth of Nations*

By the 1790s, Smith was probably the pre-eminent authority in political economy for the United States elite. Among the leadership of the Federalist Party, however, the reaction to Smith's ideas was lukewarm at best. Hamilton, having read *Wealth of Nations* with care, still retained a profound admiration for James Steuart, and expressed contempt for the "wildly speculative paradox (that) ... contrary to the practice and sense of the most enlightened nations" trade will regulate itself, or industry find its own "most useful and profitable employment." Indeed, his extensive paraphrasing of the book in his famous Report on Manufactures was primarily to set forth the arguments made against his policies, for purposes of rebutting them. Fisher Ames, as well, expressed the view that "the principles of the book are excellent, but the application of them to America requires caution. I am satisfied, and could give some reasons to evince, that commerce and manufactures merit legislative interference in this country, much more than would be proper in England." Refus King wrote, on finishing *Wealth of Nations*, "if his theory is just, our plans are all wrong."<sup>53</sup>

As Smith had directed his powerful intellect against the mercantilist policies of Imperial Britain, the emerging opposition to the policies of Hamilton's state-directed programme for the economic development of the US found in *Wealth of Nations* a powerful armory of arguments to attack the plans for funding of the debt, extension of taxes, encouragement of manufactures, and the Bank of the US. Congressman James Jackson argued for a complete free trade in 1790 by using extensive quotations from Smith, and attacked the funding system proposed by Hamilton in 1791, again with extensive references to Smith. When he attacked the plans for the Bank, resting his argument on Smith's authority, he was rebuked by a fellow congressman for not quoting Smith correctly as a supporter of banks.<sup>54</sup> The Republican tracts by George Logan and John Taylor attacking the Federalist programme are similarly shot through with references to Smith.<sup>55</sup> The Republican Mahlon Dickerson wrote in his diary in 1795, "Finished reading Smith's *Wealth of Nations* three volumes. The best book in the English language. (Bible excepted)."<sup>56</sup>

Albert Gallatin, the Republican Secretary of the Treasury, was a close student of *Wealth of Nations*, and his devotion to Smith's principles stretched over fifty years. As an Assemblyman in the Pennsylvania Assembly in 1792, he led a fight against the restrictive trading practices of the corporation of the city of Philadelphia. "Every law which put a restriction on trade, instead of being attended with a beneficial would introduce a contrary effect; all such laws would tend to impoverish the countryside and starve the towns, Self-interest, without the interference of legislatures or corporations could regulate the concerns of trade much better than any regulations they could make would do it," he argued, reading a long passage from *Wealth of Nations* condemning restrictions on trade.<sup>57</sup> In the US House of Representatives during the 1790s, he led the attack on the Hamilton programme, frequently citing

Smith in opposition to the funding system, excise taxes, prodigality in government spending, and encouragement of manufactures. Indeed, he even argued that the US Constitution incorporated the language of *Wealth of Nations*<sup>58</sup> His writings show that he closely followed Smith on a host of issues: the nature of wealth, value theory, capital formation, division of labour, money and specie flows, paper money, banking, wages, taxes, transportation, and of course, free trade.<sup>59</sup>

The book's dominant influence in early nineteenth-century America is attested to by its adversaries, as well as its friends. In 1810 Robert Hare charged that the Madison administration had exposed the nation to ruin by inadequate attention to naval defences. The reason for this dangerous parsimony in naval appropriations was a nearly universal obeisance among politicians to the prejudices of Adam Smith against public debt and credit.<sup>60</sup>

The economic downturn following the War of 1812 led to a growing demand for the protection of American manufactures and a strong backlash against Smith's authority. Mathew Carey's efforts to expose Smith's "fallacies" in 1822 was accompanied by the statement that the Hamiltonian (anti-free trade) school of political economy had hitherto been everywhere a tiny minority viewpoint ("perhaps one in twenty of our citizens generally") while the school of Adam Smith had "enrolled in every quarter a most overwhelming majority."<sup>61</sup> When Thomas Jefferson undertook to put Destutt de Tracy's *Political Economy* before the American public in 1816, he wrote that Smith's "rational and systematic" political economy had required much argument and detail to establish its "novel" system. Now, however, his "principles are assented to as soon as proposed."

The very acceptance of Smith's doctrines had rendered the book, suffused with defensive apparatus, to contemporary readers "prolix and tedious."<sup>62</sup> Smith's supporters, among politicians, academics, and journalists, agreed that *The Wealth of Nations* was "the authoritative treatise" on political economy, that its "celebrated author" could be summoned to support the "self-evident truth" of their arguments: that Smith's book "contributed more than any other to make known the principles of political economy"; and that heresy could be defined by its "defiance of Adam Smith and the whole host of our orthodox economists."<sup>63</sup> When Britain's economic discourse was dominated by the followers of Ricardo's "improvements" upon Smith's work, *Wealth of Nations* remained the starting point for policy debate. By the time of the great debates over the tariff in the 1820s, tariff proponent George Holcomb of New York attacked "the specious, captivating theory" of Adam Smith; while George Mc Duffe of South Carolina would still found his opposition to tariffs "upon the authority of Adam Smith, who, notwithstanding the terms of sweeping condemnation which have been applied to his speculations, had done more to enlighten the world on the science of political economy than any man of modern times."<sup>64</sup>

### **Adam Smith and *laissez-faire***

Perhaps no work of scholarship on Smith has been influential as Jacob Viner's famous essay, "Adam Smith and *Laissez-faire*" which argued it was an error to see *The Wealth of Nations* as the great defense of *laissez-faire* which it was popularly imagined to be. "The modern advocate of *laissez-faire* who objects to government participation in business on the grounds that it is encroachment upon a field reserved by nature for private enterprise", he wrote, "cannot find support for this

argument in the *Wealth of Nations*". Yet, whatever the merits of Viner's arguments in terms of Smith's intentions, it seems clear that among the eighteenth-century enemies of big government," who scorned the programme of state intervention in the public interest in preference to the establishment of liberty and the rights of man, Smith's book was, for them, an armoury of arguments against the policies of the old order, and a vision of society predicated not on the dictates of kings or the best people, but the actions of free men guided only by the rule of law and "the invisible hand." John Dewey once wrote that liberalism is the overthrow of authority and the search for its substitute. In the *Wealth of Nations*, some early readers found that substitute.



## NOTES

1. Adam Ferguson quoted in John Rae, *The Life of Adam Smith*, (London, 1893), P. 264; *The Correspondence of Adam Smith*, Ernest Campbell Mossner and Ian Simpson Ross, eds (Oxford, 1987): Smith to William Pulteney, 3 Sept 1772 p. 163; Hume to Smith, 23 Nov 1772, p. 166: Hume to Smith, 8 Feb 1776, p. 185; Hume to Smith, 1 April 1776, p. 187–88; Blair to Smith, 3 April, 1776, p. 187–8; Black to Smith, April, 1776, p. 190; Gibbon to Smith, 26 Nov, 1777, p. 228, Smith may, indeed, have been inclined to delay publication until the American controversy had been resolved: in fact, he seems to have taken a gamble that by the time the book was before the public, he could refer to the “late distances” in America. See Edward Canaan, “Introduction” *The Wealth of Nations*, (NY, 1937) P. xxiii.
2. *Correspondence*, pp. 187–8, 190
3. Cf. D P O'Brien *The Longevity of Adam Smith's vision: Paradigms, Research Programs and Falsifiability in the History of Economic Thought* *Scottish Journal of Political Economy* v.23 (June, 1976) pp. 133–51
4. See the French editions listed in *The National Union Catalogue*: Melchior Palyi “The Introduction of Adam Smith on the Continent” in *Adam Smith 1776–1926* (Chicago, 1927)
5. R S Smith “*The Wealth of Nations* in Spain and Hispanic America, 1780–1830” *Journal of Political Economy* v.65 (April, 1957) pp. 104–25
6. See Keith Tribe, *Cameralism and the Science of Government* *Journal of Modern History* (1984) pp.263–84; Palyi *Adam Smith on the Continent* p.225
7. *Ibid*, pp. 187–91
8. See John Rae, *Life of Adam Smith* (London, 1895) pp. 283–6; Salim Rashid, “Adam Smith's Rise to Fame: A Re-examination of the Evidence: The Eighteenth Century, v.23, no 1 (1982): Richard Teichgraeber III “Less Abused than I had Reason to Expect”: The Reception of *The Wealth of Nations* in Britain, 1776–90” *Historical Journal*, v.30, no 2 (1987)
9. *Annual Register*, “Account of Books” (1776) pp.241–3
10. On William Enfield, see Leslie Stephen and Sidney Leed, eds. *Dictionary of National Biography* (Oxford, 1921–2); on *Review* circulation, see Rashid, “Fame”, p.72; *Monthly Review*, or *Literary Journal*, vol. 54–44 (April–August 1776), pp.300–301, 308,92
11. *The Monthly Review*, v.56 (1777) p.117–20
12. Thomas Pownall, *A Letter from Governor Pownall to Adam Smith*, LLD FRs; (London, 1776) pp.23,48,4–6,9–12,13–14,15,19,22,27–9,33–4,37–43, *passim*.
13. Cf. Istvan Hont and Michael Ignatieff, “Needs and Justice in the Wealth of Nations” in *Wealth and virtue: the shaping of political economy in the Scottish Enlightenment* (Cambridge, 1983)
14. *Considerations on our Com Laws, and the Bill proposed to amend them* . (Edinburgh, 1777) pp.4–5,9,16–17, *passim*
15. ComBillHints, in answer to the memorial for the merchants, traders, and manufacturers of the city of Glasgow (Glasgow, 1777) pp.16–20 ~2
16. John Gray, *The essential principles of the wealth of nations, illustrated, in opposition of some false doctrines of Adam Smith, and others* (London, 1797); Joseph Schumpeter, *History of Economic Analysis* (Oxford, 1954) p.487; Bianca Maria Fontana, *Rethinking the Politics of Commercial Society*, ch.2, p.46; Thomas Malthus *Essay on the Principle of Population* (London, 1798; 1970) pp.69,183–91; Horner, quoted in John Clive *Scotch reviewers: The Edinburgh Review*, 1802–15 (London, 1957) p.127
17. Jacob Hollander, “The Founder of a School” *Adam Smith*, 1776–1926, pp.22–25

18. *Correspondence*, Smith to Holt, 26 Oct, 1780, p.251
19. Cf. Cf. two outstanding articles by Isaac Kramnick, "Republican Revisionism Revisited" *American Historical Review*, v.87, (1982), pp.629–684; and "English Middle Class Radicalism in the Eighteenth Century" in *Literature of Liberty*, v.3, no.2, (1980). See also Robert Palmer, *The Age of Democratic Revolution* (Princeton, 1959); Alfred F Young, *The Democratic Republicans of New York* (NY, 1967); Eric Foner, *Tom Paine and Revolutionary America* (Oxford, 1976); Colin Bonwick, *English Radicals and the American Revolution* (Chapel Hill, 1977); Albert Goodwin, *The Friends of Liberty: The English Democratic Movement in the Age of the French Revolution* (Cambridge, Mass.,1979); Joyce Appleby, *Capitalism and a New Social Order*, Richard J Twomey, "Jacobins and Jeffersonians: Anglo–American Ideology, 1790–1810" in Joyce Appleby, Margeret Jacob, and James Jacob, ed., *Origins of Anglo–American Radicalism* (London, 1984)
20. On Shelburne's life and career, see *Dictionary of National Biography*; Peter Brown, *The Chathamites: A study in the Relationship between personalities and ideas in the second half of the eighteenth century* (London, 1967); Edmond Fitzmaurice, *Life of William, Earl of Shelburne, afterwards 1<sup>st</sup> Marquis of Lansdowne* (London,1875) 3 vols.; and Vincent Harlow, *The Founding of the Second British Empire*, 1763–1793 (London, 1952) 2 vol., esp. v.1, ch.VI on Shelburne's association with Smith, see R H Campbell and Andrew Skinner, *Adam Smith*, (NY., 1982) pp. 42– 417,204. Quotes: Shelburne, quoted in John Rae, *Life of Adam Smith*, (London, 1895) p.153, cf.pp.1533; "Chapter of Autobiography" in Fitzmaurice, *Shelburne*, v.1, p.24. Shelburne's biographer attributes his conversion to free–market principle to his friendship with Morellet (cf. v.2, pp.235–6). Shelburne wrote to Morellet, near the end of his life, "I have not changed an atom of the principles I first imbibed from you, and Adam Smith. They make woeful slow progress, but I cannot look upon them as extinct; on the contrary they must prevail in the end like the sea." quoted in *Ibid*, v.3,p.566
21. *Lectures on History and General Policy*, (London, 1765; 2nd ed. 1788). The second edition shows extensive revision, and abandonment of "mercantilist" doctrines in the 1765 edition. It went through many editions, including an American (Phila.,1809) and Irish edition (Dublin,1788). I have used the London 1803 edition. Quote is in v.1, p.viu; see v.2, pp.81–2,206–8,220–3,238–9,200,254–5,275,349–51.
22. *Ibid*, pp.240–1
23. *Ibid*, pp.247–8
24. *Ibid*, v.2, pp.209–10; Priestley's reference to *Wealth of Nations*, v.11, p.27
25. *New and Old Principles of Trade Compared; or a Treatise on the Principles of Commerce between Nations, with an Appendix* (London; Phila. repr 1788). The National Union Catalogue (under separate listings) attributes the book to both Benjamin Vaughan and to his brother, William Vaughan. Although William (1752– 1850) was strongly pro–free trade, he published many tracts during the 1790s under his own name, while Benjamin always published anonymously. Moreover, the dedication to Lansdowne seems unlikely to have come from William. William's tracts do not show any special interest in political economy, or familiarity with Smith's work, although he does assert that commerce prospers "in proportion as the principles of free trade have been adopted" and cites Colbert's rebuff by the wise merchant who called for "laissez–faire!" See William Vaughan *Tracts on Docks and Commerce printed between 1793 & 1800* (London, 1839) pp.8–18,21.
26. On Stanhope, See Members of Parliament, 1780–90; *Dictionary of National Biography*. On Joyce, see DNB. The first edition of theAbridgement (CaTnbridge, 1797) remained unchanged in later editions (Cambridge, 1804;1821). An Oxford 1877 reprint of the abridgement of books I and II, edited by W P Emerson, was used as a pony for the Oxford Board of Studies Requirements.
27. *Deformities of Dr Samuel Johnson* p.84
28. James Callender, *The Political Progress of Britain; Or an impartial history of abuses in the government of the British Empire, in Europe, Asia, and America; from the Revolution of 1688 to the present time: the whole tending to prove the ruinous consequences of the popular system of taxation, war, and conquest* 2nd ed. (Phila., 1794) passim. See reference to Smith, pp.26,46,47,52,53. The first edition,

published in England, is shorter than the succeeding 3 editions, all published in the US. His first publishers received 3 and 6 month prison terms for the tract.

29. James Callender *A short history of the nature and consequences of excise laws; including some account of recent interruptions to the manufacturies of snuff and refined sugar* (Phila., 1795); *Sketches of the history of America* (phila., 1798), pp.37–8,42–3,50
30. His “Letter from Adam Smith, LL.D., to William Strahan, Esq.” *The Life of David Hume Esq., Written by Himself* (London, 1777) was viewed as a vindication of Humes infidelity: Boswell called it a “daring effrontery”. It provoked a bitterly angry response by the Bishop of Norwich, George Horne, *A letter to Adam Smith, LL.D. on the Life, Death, and Philosophy of his Friend David Hume Esq.* (1777) which went through many editions, and which openly implied that Smith was an atheist: cf. pp.9–11,29. Smith ruefully reflected that “a single, and as I thought, very harmless sheet of paper” brought more abuse upon him than *The Wealth of Nations*. Boswell, quoted in Campbell and Skinner, *Adam Smith* p.193; Smith to Holt, *Correspondence*, p.251
31. Dugald Stewart, William Hamilton, ed., *Collected Works*, (Edinburgh, 1860) vol.X, p.87. Still later, highlighting the unfavourable associations of the natural rights philosophy central to Smith's thought, Stewart wrote, “How often have Mr Smith's reasonings in favour of the freedom of trade been ridiculed as **metaphysical** (a code word for natural rights arguments) and visionary! Nay, but a few years have elapsed since this epithet (accompanied with the still more opprobrious terms Atheistical and Democratical) was applied ... in general, to every speculation in which appeal was made to the beneficent arrangements of nature, or to the progressive improvement of the human race.” Stewart, cited in Michael O'Connor, *The Origins of Academic Economics in the United States*, NY. 1944, p.86
32. I think the characterization of him as a “skeptical Whig” along with his friend Hume is closest to the mark, although his anti-statist skepticism is more developed than Hume's. Cf. Skinner “Skeptical Whigism”.
33. Stewart, *Works*, v.X, p.1xxii, Hollander, “Founder of a School” pp.30–36; Biancamera Fontana, *Rethinking the Politics of Commercial Society: the Edinburgh Review 1802–1832* (Cambridge, England, 1985) p.19, ch.1,2, passim. Nathanson points out that the earliest figures in the Edinburgh Review circles sought not to replace the language of the balanced constitution with a language of economic utilitarianism, but to rather re-invigorate it. Cf. Nathanson, p.38
34. See Robert Winans “Bibliography and the Cultural Historian: Notes on the Eighteenth-century Novel” in William Joyce, David Hall, Richard Brown and John Hench, eds., *Printing and Society in Early America* (Worcester, Mass.) pp.177,181; Samuel J Rogal “A checklist of Eighteenth-century British Literature published in America” *Colby Library Quarterly* 10 (1973), pp.231–3. See Richard Beale Davis, *Intellectual Life in Jefferson's Virginia, 1790–1830* (Chapel Hill, 1964), pp. 78,80
35. David Lundberg and Henry May “The Enlightened Reader in America” *The American Quarterly* (1976).
36. Vaughan, *New and Old Principles of Trade*, p.viii; Fitzmaurice, *Shelburne*, v.2, p.235
37. Joyce Appleby *Economic Thought and Ideology in Seventeenth Century England* (Princeton, 1978); Anna Haddow, *Political Science in American Colleges and Universities, 1636–1900* (NY. 1939) p.94; Michael O'Connor, *The Origins of Academic Economics in the United States* (NY. 1944); *Bulletin of the College of William and Mary* (1897)
38. See Lewis Carey, *Franklin's Economic views* (Garden City, NJ., 1928); Drew McCoy, *The Elusive Republic*, pp.49–62
39. Joyce Appleby “Liberalism and the American Revolution” *New England Quarterly* (March, 1976); “The Social Origins of American Revolutionary Ideology” *Journal of American History* (1978)
40. *Essay on Free Trade and Finance* (Phila., 1779), Webster (1726–1795) was trained at Yale for the clergy but became a merchant in 1755. He turned his attention to economic issues in 1776, with an attack on inflation. Webster was an ardent free-trade advocate long before any possible exposure to Smith's views: a comparison of his thought with that of others who had read Smith

- will help to resolve questions about the relative influence of the other free-trade traditions such as those explored by Appleby in her work. See DAB; E A J Johnson, *Foundations American Economic Freedom*; Wilhite, *Founders of American Economic Thought*, pp. 161–208, Douglas Arnold, “Political Ideology and the Internal Revolution in Pennsylvania” pp.127–135, Foner, *Tom Paine*, pp. 145–82. 2
41. Cf. Joyce Appleby, *Capitalism and a New Social Order*, Richard Twomey, “Jacobins and Jeffersonians” *Roots of Anglo-American Radicalism*; and Michael Drurey, “Tom Paine's Disciples” *William and Mary Quarterly* (1987)
  42. Lord Sheffield, *Observations on the Commerce of the American States* (London, 1783); William Binham, *A Letter from an American ...* containing strictures on Lord Sheffield's pamphlet (Phila., 1784); Edward Long, *A Free and Candid Review ... (of Sheffield's Tract)* (London, 1784); *Remarks on Lord Sheffield's Observations on the Commerce of American States; by an American* (London, 1784); *A short address to the disinterested and unprejudiced citizens .. by a manufacturer* (London, 1785); Brian Edwards, *Thoughts on the Late Proceedings of Government, respecting the Trade of West India Islands with the United States of America* (London, 1784).
  43. Monroe to Jefferson, June 16, 1785, in Julian Boyd, ed. *The Papers of Thomas Jefferson*, v.8
  44. It is important to remember how few people were exposed to the printed word in the eighteenth century: even in highly literate America, most people were likely to read a newspaper only a few times a year. See Alan Pred, *Urban Growth and the Circulation of Information* (Cambridge, Mass., 1973) pp.63,21
  45. Elbert Wills, “Political Economy in the Early American College Curriculum” *South Atlantic Quarterly*, (1925); *New Haven Gazette* July 13; July 20; July 27; Nov 2, 1786
  46. The editions of 1789 and 1796 were printed by Thomas Dobson in three volumes. Dobson was an ambitious publisher, who undertook the largest printing project in America, an American edition of the 18-volume *Encyclopædia Britannica*. He also published some of the first books in Hebrew in America. On Dobson, see John Tebbel, *History of Book Publishing in the US*, v.1, pp.56,118,174,512. He was later a friend of Joseph Priestley's when he came to America, and active in Jeffersonian politics. The 1804 editions were published in Hartford, Connecticut by Oliver Cooke. The 1816 edition was published in Philadelphia by D Hanna, and the 1818 edition was published again in Hartford by the firm of Cooke and Hale.
  47. Cf. Robert Winans “The growth of a novel-reading public in late eighteenth-century America” *Early American Literature* (1975) pp.267–8
  48. See Bray Hammond, *Banks and Politics in America from the Revolution to the Civil War*, (1957) ch.3; Douglas Arnold, “Political Ideology and the Internal Revolution in Pennsylvania,1776–1790” PhD. dissertation, (Princeton, 1976) ch.6; Hans L Eicholz “Banking and Market Culture in Pennsylvania during the 1780s” MA thesis, UCLA,1986; Eric Foner, *Tom Paine and Revolutionary America* (Oxford, 1976) pp.192–203; M St Clarke and D A Hall, eds., *Legislative and Documentary History of the Bank of the United States including the original Bank of North America* (Washington, 1832) ch.1
  49. James Wilson, “Considerations on the Bank of North America” (published in Philadelphia,1785) In Robert Green McCloskey, ed., *The Works of James Wilson*, V.2, (Cambridge, Mass., 1967) pp.824– 840
  50. Wilson, “Considerations”, p.837; Charles Page Smith, *James Wilson: Founding Father* (Chapel Hill, 1956) pp.145–6,153–4. On Steuart see E A J Johnson, *Predecessors of Adam Smith* (NY., 1937); and Andrew Skinner, “Sir James Steuart: Author of a System” *Scottish Journal of Political Economy*, v.28, no.1 (1981) pp.20–42
  51. Mathew Carey, ed *Debates and Proceedings of the General Assembly of Pennsylvania on the Charter of the Bank of North America* (Philadelphia, 1786) pp. 26,131,106
  52. See “Philadelphensis” *Freeman's Journal*, Jan 19, March 2, 1785; “Artemon” *Pennsylvania Gazette*, Feb 16, 1785. “Artemon” refers to the “quarto edition” of *Wealth of Nations*, which means either the first or second edition.

53. Hamilton in 1782 is said to have prepared a lengthy annotation and critique of the book now lost. Alexander Hamilton, *Papers of Alexander Hamilton*, Harold Syrett, ed (NY., 1961) v.3, p.76; v.10, p.266; Forrest McDonald, *Novus Ordo Seclorum*, P.121–2, passim; Gerald Strouzh, *Hamilton and Republican Government* (1790), ch.4. See his *Papers on Public Credit, Commerce, and Finance* Samuel McKee, ed., (NY., 1934)
54. Gales and Seaton's *Congress Debates*, p.116, 118–9, 246–7, 618, 118081, 1215. Jackson's speech is reported in NY. *Daily Gazette*, June 27, 1790, with long quotations from Smith. See, in response, Madison, in *Papers of James Madison*, 25 June, 1790, pp.255–6. See, also the speeches by Jackson and Laurence in Clarke and Hall, ed. *History of BUS*, pp.37,54
55. *Ibid*, (4 Feb., 1791) pp. 55–6
55. See George Logan's *Letters to the Yeomanry of the US... on public revenue and commercial regulations* (Phila., 1791) ..; .. *on national manufactories* (Phila., 1792); ... *on funding* (Phila., 1793)
56. *Diary, Papers of Mahlon Dickerson*, NJ. Historical Society
57. See report of the Penn. Legislature debate on 14 Jan., *Dunlap's American Daily Advertiser*, (Phila) Jan. 17, 1792
58. Albert Gallatin, *Sketch of the Finances of the US in 1796* (NY., 1796) p.12
59. See *The Writings of Albert Gallatin*, Henry Adams, ed. (Phila., 1879) (3 vols.) v.3, pp.159,247–8,246,250,243–54,312–20,76,144–45; Memorial of the Committee Appointed by the Free Trade convention (NY., 1832)
60. *A Brief view of the Policy and Resources of the United States* (Phila, 1810), p.17,19
61. Mathew Carey, *An Appeal to Common Sense and common justice: or, irrefragable facts opposed to plausible theories, intended to prove the extreme injustice, as well as the utter impolicy, of the existing tariff* (Phila, 1822) pp.3–4
62. Thomas Jefferson, "Introduction" to Destutt de Tracy, *Principles of Political Economy* (1816) p.v1. Jefferson, it should be noted, went on to assert that the work of Say and Tracy represented "considerable advances in correctness and extension of principles." Nine years earlier he had written that on the subject of commerce and money "Smith's *Wealth of Nations* is the best book to be read, unless Says *Political Economy* can be had, which treats the same subject on the same principles, but in a shorter compass and more lucid manner." Jefferson to John Norvell, June 14, 1807, In Merrill Peterson, ed. *Jefferson: Writings* (NY., 1984) P.1176
63. Cf. Congressmen Charles Ingersoll (1814), Henry St George Tucker (1816), and Sen. William Wells (1817), quoted in Dorfman, *Economic Mind*, pp.349,365,366; Thomas Cooper, *Lectures on Political Economy* (Columbia, SC., 1826; repr. NY,1971) p.15; *Analectic Magazine*, (May,1816) pp.450–62
64. *Annals of Congress*, April 15, 1824, pp.2391; April 16, 1824, p.2403

## 7 THE RELEVANCE OF ADAM SMITH TODAY

By Russell Lewis

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It is only by chance, so Edwin Canaan tells us, that Adam Smith's masterpiece, *An Inquiry into the Nature and Causes of the Wealth of Nations*, was not called "Principles of Political Economy" or simply "Political Economy". The chance was that the same publisher had already used a title of that kind nine years before for a work by Sir James Steuart and *The Wealth of Nations* was simply a synonym. It was just as well, for, otherwise, the seminal work of economic science would have been first introduced to the public in the guise of a textbook, and it was surely much more than that. It was indeed a tract — though a bulky one — for the times, for it had much advice to offer the statesmen of the 18th century. Yet it was of more than passing interest, for, despite the vast economic changes which have since taken place (including the industrial revolution) it looks increasingly like a tract for all times most certainly including our own.

It is a book with a large view of the subject and, what is more, informed by a generous spirit, though that is not the common view. For Smith is generally considered to be the originator, or, jointly with Bentham, the inventor of that key figure in the socialist's demonology 'economic man' — that limited creature (upon whom so much of classical economics is build) who is uniformly motivated by the desire for economic gain and whom Marx dismissed, with his customary brusqueness, as an example of "bourgeois asininity". The parody has persisted until the present day. Yet we know that Adam Smith was himself, though very donnish and quaint, far from selfish or mean in his personal outlook and behaviour. For instance, after his appointment as travelling companion to the young Duke of Buccleuch (which meant that he could not finish his term's lectures at Glasgow) he insisted on returning his pupils' fees.

Even so, there is this much justification for those who find Smith's notions of human nature circumscribed — that his picture of man, in the *Wealth of Nations*, as a creature impelled almost exclusively by self interest was incomplete, and, in a sense, a deliberate distortion of his real view for sound polemical reasons — he wanted to show that purely self-interested activity could show beneficent results. In fact he had already indicated in his earlier work *The Theory of Moral Sentiments* that men also had a natural urge to compassion and co-operation. As he said:

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

This question of his theory of human motivation is important not only in setting the record straight as to what kind of a person Smith was, but in the way we regard and in the end pass judgement upon the market economy, with the cause of which his name is for ever indissolubly linked. It is important therefore to recognise that the kind of society in which Smith saw the harmony of interests occurring, and the invisible hand producing its universally useful work, was not a fortuitous concourse of atomised humanity — i.e. one in which each of the individuals composing it was

expected to ignore the feelings of others. Rather was it one in which each member had sufficient regard for each other member's utility functions to wish each and every one of them to exercise consumer sovereignty in full. Smith surely understood the truth of the saying that the love of freedom is the love of others — just as the love of power is the love of self.

With this important qualification about his real view of human nature in mind, it remains true that the message of Adam Smith for today's world is to be found above all in *The Wealth of Nations*, the writing of which cost him the most painstaking effort extending over twelve arduous years.

It is much less of a coincidence than it seems at first blush that 1776 was the date of publication of the first volume of another celebrated work of scholarship, namely Edward Gibbon's *Decline and Fall of the Roman Empire*. For Gibbon and Smith, who were good friends, had this in common — that they were both, if from different points of view, concerned with the fate of what we would now call western civilisation. For both men the enemies of progress were superstition and barbarism, and both shared an optimistic faith in the power of reason to improve the human condition. Again, both saw history optimistically as an ascent from bondage to freedom, particularly from the brutality, cruelty and ignorance of the feudal era, to the enlightenment of their own — “the silver age of the European Renaissance” — and beyond.

It is important to recognise Smith's attachment to the value of freedom, the enjoyment of which he recognised as the purpose of wealth. His great book is in one aspect an elaborate proof of the superior economic efficiency as wealth producer of the “obvious and simple system of natural liberty” over all other systems of direction, performance or restraint. Yet it is also implicitly a justification of a free economy as the foundation of political freedom and not just the freedom of a politically conscious and privileged minority like the citizens of ancient Athens, or the English gentry and the Whig aristocracy for that matter, but the freedom of the man in the street.

Indeed, considering the aristocratic period in which he lived and considering too that he was himself an establishment figure, both through his attachment to the great Whig dynasty and the Townsends and as the confidante and adviser of Prime Ministers, his outlook was remarkably democratic. He believed for example that the great benefit of the union of Scotland and England was to the “middling and inferior ranks of people” who “gained complete deliverance from the power of an aristocracy which had always before oppressed them”. He wanted Ireland to be similarly united with England so that the Irish people should be delivered from “an even more oppressive aristocracy”. He made it clear in *The Wealth of Nations* that he accepted his friend Benjamin Franklin's view about “no taxation without representation” and actually outlined a plan under which the American colonies would be represented in the Mother or Parliaments.

One further preliminary comment on Adam Smith's message for our time is that, if it rests, as on the whole it must, on his major work *The Wealth of Nations*, then there is some disadvantage in that book's structure because it is likely to discourage the ordinary reader of today. Partly this is because the economic analysis in the first two books, despite the undoubted charm of the writing, must seem unappealing, at least to the typical student, who probably knows enough to realise that in sheer analytical rigour, if not in the wisdom of its application, we have developed a great deal since

Smith's day. For, in the formal, logical, mechanical development of his thought we stand on the shoulders of this particular ancestor higher than in his other more empirical work.

It is arguable that the contemporary interest of Smith's ideas grows as his book progresses. Book III is really his theory of economic growth, the mania over which subject is only now starting to subside. Book IV admittedly contains his attack on mercantilism, true, but, on a closer look, there is nothing antiquarian about this, for, among the policy-makers the world over, the spirit of Colbert is still very much alive, even if the vocabulary has changed. As for Book V on Public Finance, was there ever a period when popular government, in its financial affairs, was in more need of Smith's commonsense than ours?

### Contemporary Lessons

In all this there are contemporary lessons galore, and the problem is more one of selection rather than of expansion. Yet the point is seriously worth considering, whether the — from a modern point of view — unappealing arrangement of *The Wealth of Nations* in addition to the extremely long digressions (e.g. on corn and silver prices, which are well calculated to bore the ordinary reader stiff) merits a new presentation, to make this all time classic of economics more palatable. An entirely re-arranged and abridged edition, with different headlines for the main sections, and published in paperback, would do wonders for public enlightenment.

Turning directly to *The Wealth of Nations*, we are plunged on the very first page into Smith's basic theory of wealth creation through the division of labour. In the sense that labour is less important in our day than in his, and that other factors, notably capital and technology, are more important, this might, at first sight, appear to be of less than compelling contemporary interest. Yet the principle of specialisation is not, despite the vocabulary, limited to one factor of production. In any case the gains even from labour specialisation remain enormous when the market is international. Indeed, the spread of multinational companies into the developing world — potentially one of the most beneficent trends possible for the economic welfare of people in recipient countries — is largely based on the search by the corporations concerned for cheap labour — which is hardly surprising when the ratio of wages paid in the United States to that in the relevant third world country might be as high as twenty to one.

The shopping around in world factor markets by multinational companies for the cheapest resource mix (of labour, capital and land) is a growing influence on location of plant. Indeed it is becoming a dominant feature of world economic development. Increasingly it is cost competition in the factor markets between these trans-national giants, rather than price competition between the end products, which is shaping the world economy today.

Thus even as long ago as 1970 the world value of sales by foreign-owned subsidiaries at \$300 billion comfortably exceeded the merchandise exports between major countries. So, more and more, the vehicle through which Smith's division of labour principle takes effect in the world economy is the in-house transactions of multinational enterprises rather than what conventionally goes by the name of international trade.



On the domestic front, that is in terms of a national market, the principle of the division of labour might be thought too obvious and well accepted to require advocacy. Yet, for many years after World War II, in a number of western countries this principle was seriously infringed by progressive taxation. Britain, with a top marginal rate of income tax of 83% (and 98% on investment income) was one of the worst affected. As a result of the tax cuts of the Thatcher years we now forget how the British executive in the 1970s earning over 25,000 had to earn an extra 200 in order to buy the marginal bottle of whisky or, perhaps more to the point, earn about 50 to buy a bottle of indifferent claret.

In these circumstances the penalties upon hiring an expert — i.e. upon practising the principle of division of labour — were excessive, and this had much to do with the do-it-yourself industry's massive growth. DIY stores enabling budding amateur handymen to paint, repair and extend their houses have sprung up everywhere. Other shops have sprouted which cater for those who are pressed by circumstances into cultivating their gardens (so that the Chelsea Flower Show now largely consists of machinery), to repair and service their own cars and make their own wine.

The net effect of all this is difficult to assess. No doubt there has been much inefficiency as a result of this retreat into the household economy, but there has also been adaptation to circumstances by manufacturing industry making the producers rethink their approach to the market. Because they have had to deal with part-timers, they have had to simplify their instructions, and, in consequence think out more clearly what their equipment has to do.

The new market and the new clientele are more demanding and more discriminating than before, and, in response to their needs, there have arrived handy power drills, concertina work-benches, non-drip paint, drip dry 20 clothes, electric hedge-cutters and thirty day wine. One must also mention the vast proliferation of kitchen equipment and the renaissance in English-cooking which has taken place since the disappearance from the upper middle class home of the Cook-General (who could scarcely cook potatoes properly) and the purposeful take-over of the kitchen by the mistress of the house. She has not only improved the kitchen itself beyond recognition, but introduced electric mixers, self-adjusting ovens (some exotic versions of which will obey instructions given by telephone), microwaves, and electronically programmed washing machines and dishwashers. The bad effects of abandoning the old division of labour have been considerably offset by the application of new intelligence to what Smith would describe as menial tasks with great resultant growth in productivity through new invention, widespread investment in capital equipment embodying new ideas and a huge improvement in information services. This not only shows that necessity is still the mother of invention, but that the old Adam of commercialism which Smith called "the propensity to truck, barter and exchange one thing for another" will usually find a beneficial way of expressing itself as long as it is free of do-gooding interference.

## Theories of Value

It is often gleefully pointed out that Smith was eclectic, and that we can find in his pages at least two value theories, i.e. a theory of price determination and a labour theory of value. It is not profitable here to dwell on the great man's confusions, for in this as much else, if we can loftily look down upon them, it is because we stand upon the shoulders of this remarkable pioneer.

With regard to the Smithian idea of an underlying value based on labour content, which is only imperfectly reflected in market price, and which looks like the start of the metaphysical confusions of Marx, it is worth referring to the interesting comment of Schumpeter. He says, in his *History of Economic Analysis*, that Smith used labour as the most constant measure of value (superior in its lack of wild fluctuation to corn or silver) because of his ignorance of the theory of index numbers though that was already available in his time. Certainly this makes more sense of Smith than crediting him with two incompatible theories and the fallacies of the labour theory of value (or actually three labour theories of value — quantity of labour a commodity will exchange for, its labour cost of production, and the 'toil and trouble in producing it'). The main thrust of Smith's analysis is towards a theory of price in a free market with the injunction implied, when not explicit, to leave the determination of price to the free play of market forces.

His concept of the “natural” as opposed to the exchange value is not in the least metaphysical. It is easily translated as the price towards which the market price tends to move, in other words it is an equilibrium price. The theory of a natural price or rate is useful when applied to factor markets and has sprung to life in recent times in the debate on inflation with the concept of a natural rate of unemployment. This was interpreted (as it is now generally thought wrongly except in the short term), under the Phillips curve analysis, as the rate at which there is price stability, on the assumption that there is a trade-off between the unemployment level and the rate of inflation. In the Milton Friedman analysis, however, it became much more, namely, the level of unemployment which reflected real as opposed to monetary forces, ie. the level that reflects “structural characteristics of labour and commodity markets, including market imperfections, stochastic variability in demands and supplies, the cost of gathering information about job vacancies and labour availabilities, the costs of mobility and so on”. (Friedman Presidential Address to the American Economic Association, December 1967). The latest version of the natural rate of unemployment is the 'non-accelerating inflation rate of unemployment', known to the cognoscenti by its initials NAIRU.

One can find the beginnings of both the subsistence theory of wages and the wages fund in *The Wealth of Nations*. But what deserves our notice in contrast to the pessimistic and unhelpful conclusions which, in all other hands, these theories led to, is his optimistic idea that high wages derive not from the amount of national wealth so much as from the rate of growth. He pointed out that, though the Britain of his day was richer than America, wages were lower. The reason, he said, was that America was more 'thriving' (i.e. growing faster) than Britain and so the demand for labour was greater, hence the higher wages. The means to this advancing state was, he believed, through the free circulation of both labour and capital. Yet this condition was just what he found lacking in the Britain of his time, though not to the same extent as in most countries on the Continent.

### **“Privileges of Corporations”**

Adam Smith's remarks on how government policies produce immobilities and irrational inequalities in the rewards of labour still apply but with less force in Britain, at any rate since Thatcherite reforms of trade union law. The labour market is nonetheless far from being in a state of perfect liberty, and, restrictions upon entry into some trades due to the “exclusive privileges of corporations” persist.

The last bastion of flagrant labour restrictive practices in Britain is among the trades unions in Television. Intensified competition in the industry however suggests that it is only a matter of time before they bite the dust like the much more publicised extortions of the Fleet Street printers.

The abuses were highlighted when a technician of the TV union A.C.T.T filed an overtime claim of 94,000 for covering the Zeebrugge disaster. His employer, Tyne Tees Television, objected and he eventually accepted 10,000. This incident prompted newspaper investigations which brought to light the fact that cameramen and production staff could claim eight times their normal pay by working a few extra hours. Indeed, under the old arrangements on round-the-clock coverage of the Olympic Games they would have been earning — if that's the right word — 3,000 a week.

Other examples of the television unions' quaint old "Spanish customs" include ghost payments for hours not worked, grossly inflated crew sizes and job demarcations — a whole days filming of the popular TV soap Emmerdale Farm had to be scrapped because two unions could not agree who should move a basket of eggs! Some deals have already been made by television companies, like Tyne Tees for instance, to eliminate the worst of these abuses, to introduce flexible working and to reduce staff.

Adam Smith's strictures on long apprenticeships which he ruthlessly applied to the learned professions too, as in his Defence of Quackery as the only means of entering a trade, are as pertinent as ever. The method of imparting knowledge by "sitting next to Nelly" is now even more reprehensible than in his day because far better methods of learning exist, though, poised as we are on the threshold of the age of teaching machines, the fatuity of these restrictions is due to become even more marked. Smith's indignant condemnation of restrictions on employment based on bogus claims to skill rings out with the same truth as when he wrote it.

"The affected anxiety lest they should employ a proper person is evidently as impertinent as it is oppressive." The principle he asserted is unchanged but needs to be asserted even more emphatically. "The property which every man has is his own labour ... is the most sacred and inviolable."

In Smith's day of course the fault could be laid at the door of the already obsolete Statute of Apprentices: in ours it is more a matter of the resistance of the closed shop professions to any reform. A good recent illustration is the stubborn and cynical defence by barristers of their monopoly, in the face of proposals to allow solicitors into the higher courts. Doctors too still manage to limit entry into their professions through control of training and qualification. They also do all they can to discredit and block official recognition of qualifications (and therefore their payment by the National Health Service) of potential rivals like osteopaths. They generally label homeopathic practitioners cranks and refuse to have any dealings with them.

The enforced immobility of labour due to workers being forced to stay in their own parish also roused Smith's ire. Nowadays that immobility takes the subtler form of attachment to council dwellings with subsidized rents.

Equally contemporary was Smith's other more famous observation on businessmen's proclivity to restrictive practices which showed that his antipathy to restrictions was universal and not angled at those practised by the working class:

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

The present government's privatization programme has reduced the scope for major industries to conspire against the public. Industries which have been returned to the private sector are now forced to serve the consumer, whereas before they were cosseted and able in their own interests to keep competition at bay. To the Government's credit, programmes and subsidies that were previously used against consumer interests have also been swept away.

But the danger that Smith identified is ever-present, and will not disappear because of a few years of consumerist policy. The subsidies and programmes of the European Community have often been used by producers to evade competition. The agricultural policies of the EEC have cynically exploited the consumer, making the food bill of the average family even more onerous than the poll tax. The danger of producer interests is pertinent to Eastern Europe, where the ability of reformers to dismantle the entrenched monopolies and privileges of years of socialism will determine whether they succeed or fail.

### **Capital Accumulation**

The dynamic element in Smith's scheme of economic progress was capital accumulation, and this is what his second book was about. It was capital which put workers into productive employment. His concern, in contrast with today, was particularly with improvements in land and with circulating capital: the massive plants and machinery of the industrial revolution, and still more of the mass production era, were still, when he wrote, but a glimmer of light on the economic horizon. He was at pains to show not only the value of bank capital (for instance in economising in specie) but also its limitations, and he pointed to the extravagant scheme of John Law of Lauriston, as the author of a disaster (the South Sea bubble) which could only come from the "idea of the possibility of multiplying paper money to almost any extent".

It is a pity that this lesson on the dangers of promoting inflation through the uninhibited printing of money has been ignored so much in recent times. In another respect, however, the belief in capital investment as the key to economic progress, the Smithian view has been too much taken to heart. The growth mania, by which until recently at least the West had been severely afflicted more or less since the launching in 1957 of the first Sputnik (an event which was held to show the superiority of the Soviet economic system) led to a rash of international economic comparisons. The league table most popularly resorted to was that comparing countries in terms of the ratio of gross national product which was used for investment.

The implication, which was quickly seized upon by politicians, was that capital investment was the only factor which mattered in promoting economic growth. The question of quality which Smith emphasized — "The effects of misconduct are often the same as those of prodigality" — was easily overlooked, as was the possibility that the causal relationship might be the other way round. The few empirical studies suggested that capital investment was less important than what Smith called "acquired and useful abilities ... or ... capital fixed and realised as it were" in the

population. Indeed one study by R C O Matthews showed that capital investment accounted for only one third of UK Growth. As these quotes surely show, the larger extravagance of the “Capital is the way to growth” view might have been avoided if those with the power to say yea or nay to large capital expenditures, especially on the state sector, had been more familiar with the *Wealth of Nations*.

Smith was therefore led naturally to a belief in the value of private frugality and proceeded to point to a moral of resounding relevance to our own day:

*“Great nations are never impoverished by private though they are by public prodigality and misconduct. The whole, or almost the whole, public revenue, is in most countries employed in maintaining unproductive hands.”*

This, however, raises the intriguing question about what constitutes productive labour, and to consider this matter goes right to the heart of Smith's theory of economic progress.

### **Productive Labour**

At first sight, Smith's conception of what distinguishes productive activity may appear to be an evil inheritance. His starting point was the doctrine of the French physiocrats whom he regarded with benign indulgence as, in some degree, his mentors. They, with the extravagance and luxury of the French court before their eyes, and also confronted with the remnants of Colbertism — ie. the attempt to bias the development of the French economy towards maximising the export of manufactures — reacted with the typically 18th century idea that all true wealth derived from nature. In other words agriculture was “productive” and all other occupations were “sterile”. Smith said that the “capital error” of the physiocrats lay in “representing the class of artificers manufacturers and merchants as altogether barren and unproductive”. Unfortunately he himself went on to uncover a new class of parasites, namely menial servants. They were barren and unproductive because their maintenance and unemployment was altogether at the expense of their masters and the work they performed was not of a nature to repay that expense.

He was led on to put into the same “unproductive” category some of “the most frivolous professions, such as players, buffoons, musicians, opera singers” as well as “some of the gravest and most important” such as “churchmen, lawyers, physicians and men of letters of all kinds”.

Here we have what looks like the beginning of the pernicious doctrine (though in fact far from being the beginning as we can trace it back at least to Aristotle) that services are unproductive. This way lies the classic fallacy which led to Sir Stafford Cripps's pronouncement (19 October 1945), “Pre-war we had nearly three million people in distribution producing nothing”. This way lay Nicholas Kaldor and the tendency of British politicians to favour manufacturing over services, and the curious and wide spread belief that services have next to nothing to contribute to British exports, though they now constitute 40% of the total.

As it stands, this discrimination in favour of goods to the detriment of services is irrational. As his disciple McCulloch pointed out, Smith's menial servant, bringing coal from the householder's cellar, was raising coal just as surely as the miner. Why

did he insist on this distinction which actually arrogated his own work as an author to the unproductive sphere? It is only possible to make sense of it by examining his theory of progress. He says:

*"There is one sort of labour which adds to the value of the subject upon which it is bestowed: there is another which has no such effect ..... the labour of a manufacturer adds, generally, to the value of the materials which he works upon, that of his own maintenance, and of his master's profit. The labour of a menial servant, on the contrary, adds to the value of nothing."*

The decision then on whether labour was or was not productive depended on whether it did or did not add to the national capital. Services were counted out because they "perish generally in the very instant of their performance and do not fix or realise themselves in any vendable commodity". Like the memory of a brilliant cricket innings, they were gone, leaving nothing more substantial than a myth, treasured in the minds of the spectators, but, otherwise, nothing.

This theory will not, however, stand up. Besides, services have a way of becoming tangible assets, just as the songs of contemporary pop stars, however desirable their disappearance, are frozen and preserved for posterity on records or tapes which are tangible and saleable assets of the first order.

The only way in which we can make sense of Smith's theory of what constitutes productive activity is to take it step by step. Productive activity is that which leaves in its wake some residue of productive assets. Why then the anti-service bias, and why do productive assets have to be thought of in material terms when Smith dearly understood that non-material advantages like skills were immensely important to progress?

The answer seems to be that his theory of economic progress concentrated on the transition from the household, do-it-yourself economy to the modern division of labour, for sale to a larger market economy. Or, to put it another way, he saw the transition from the traditional feudal economy to the market economy as one in which the surplus of produce of an estate could only be consumed by the servants — hence the great banqueting halls of the barons, or even the great hall of Westminster. ("The great earl of Warwick is said to have entertained every day at his different manors thirty thousand people" says Smith). A great lord was one who fed many retainers, and what he received in return was their loyalty and their readiness to fight for him in times of war. Menials thus did not add to wealth of the nation, they were merely part of the panoply of baronial power, a power which was on the whole misused, because it was not handled so as to add to the national capital but for the most part, through war, to reduce it.

All this was changed by the coming of trade. For trade made available to the feudal magnates many desirable luxuries, silks, furs, tapestries and spices:

*"For a pair of diamond buckles, perhaps, or for something frivolous and useless, they [the feudal potentates] 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 ... 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."*

That was not the end of the matter, for, in order to maximise their power to purchase such baubles, the medieval barons were reduced to commuting their rights over their dependents into a money rent (and of course it was a key part of Adam Smith's historical scheme that the tenant farmer or the yeoman, who could without fear of further exactions improve his property, was the main agent of economic progress). The feudal lord thus sacrificed the reality of power for trinkets. His dependents thus reduced, he could no longer wage war and concentrated on increasing his rent roll instead. The history of economic progress was not a case of trade following the flag, it was rather a matter of the flag (symbolising civilian peace and order) following trade.

It is against this background that one must see Adam Smith's belief that menials are not productive. He saw them, together no doubt with the jesters, players, buffoons and troubadours, as part of the unproductive oppressive apparatus of feudalism.

We do not have to accept Smith's categories in order to receive his message, which is that every economy has its parasites. In his time there were, as in ours, the placement of a corrupt Whitehall, and, looking across the Channel at the far more numerous lawyers and administrators of an even more corrupt regime, plus the fawning courtiers at Versailles, he saw a whole army of idle hands.

It should be a warning to us who take national statistics seriously, that not all activities are equally productive. It is an old joke, which underlines the fragility of definitions, that if a man marries his cook the national income declines. Even in those societies which took it as read that they revered laws rather than men, like the 18th and much of the 19th century Britain and America, where the parasitism of bureaucracy was negligible, they had to put up with a degree of parasitism from the lawyers.

That, at least, was tolerable compared with the myriad of state dependents who arose in the 18th century and still more in the 19th century in France. Bagehot, in his book on the English Constitution, wrote of the French army of civil functionaries which in 1848 actually exceeded the military and already numbered 800,000! It is worth observing that at the very same time the British civil service, corrupt and useless as Dickens was keen to tell everybody it was, numbered (according to the Northcote/Trevelyan Report) only 16,000. Yet who could say that booming Britain, then earning the title of "workshop of the world", was worse governed than contemporary France?

It is distressing to have to admit that the parasitism afflicting the democracies of today (which seem to have managed to visit upon themselves a plague of both bureaucrats and lawyers simultaneously) is rather worse than in the days of the absolute monarchs of the 18th century. And, if we are asked our criterion of what productive labour is, perhaps we shall not go too far astray if we pose Adam Smith's question, and ask whether it "adds to the value of the subject upon which it is bestowed". Any such principle applied as a survival test to Whitehall and local government, could only lead to a vast and beneficial shrinkage in the numbers of retainers succoured in these neo-feudal appendages of the modern British, and, indeed, modern western state.

## The Developing World

As for the countries which compose the developing world, Book III could not be more suitable, written as it was during Britain's take-off into the industrial revolution. Smith's priorities were quite unambiguous:

*"The cultivation and improvement of the country, which affords subsistence, must, necessarily, be prior to the increase in the town, which furnishes only the means of conveniency and luxury."*

What a contrast with the order of priorities to be found in the melancholy procession of socialist development plans, with their craze for industrialisation and stimulus to urban growth at the cost of rural improvement.

Yet wait! Smith has one more tier to add to his simple linear programme of economic development:

*"According to the natural course of things ... the greater part of the capital of every growing society is first directed to agriculture, afterwards to manufactures, and last of all to foreign commerce."*

His criterion is the commonsense one of the best return on capital. Yet many developing countries seem bent on doing things quite the other way round. For long their first requirement has been a diplomatic establishment especially at the United Nations which is costly and, directly at least, produces no revenue at all. Thereafter, typically, the aims have included an airline, also a loss maker, a nuclear power station, which produces costly energy, a steel mill which produces uncompetitive steel, and an automobile plant to use the uncompetitive steel in making even more uncompetitive cars. It is only quite recently that the fashion in these wasteful follies has begun to wane.

The wisdom in these and succeeding sections of Smith's great book is almost embarrassing in its riches, and in its contemporary flavour and pertinence. How very much, amid the clamour of interest groups, we need to remember his pronouncement that "consumption is the sole end and purpose of all production" or his condemnation of bounties (soft loans to industry are a prime modern example) as benefitting the producer at the expense of the consumer.

How we need today his clear understanding that mercantilism old and new exploits the mass of consumers for the benefit of producer groups or for the chimera of national prestige. How salutary to read his comment about university education, "Were there no public institutions for education, no system, no science would be taught there for which there was not some demand". The "pedantic heap of sophistry and nonsense, of which he complained in his day, consisted of dead languages, today it consists largely of sociology, which Lord Franks defined as "the study of those who don't need it by those who do". How salutary it would be if more well-meaning radicals, who shout for defence cuts regardless of circumstances, would ponder Smith's dictum that defence is more important than opulence.

Would that our moralists and our Chancellors of the Exchequer would read Smith's observation that "if we consult experience, the cheapness of wine seems to be the cause not of drunkenness but of sobriety. The inhabitants of the wine countries are, in general, the soberest people in Europe". How profound his, at first sight cynical,



aphorism that civil government is the defence of the rich against the poor, because when governments make themselves the instruments of the attack on the rich they create impoverishment for all.

There is this and much more in Smith's pages — including his very last sentence warning Britain to free herself from grandiose and insupportable commitments and instead to endeavour “to accommodate her future views and designs to the real mediocrity of her circumstances”. It must be plain from this brief foray into the thoughts of this, the first of the race of economic professors in point of chronology, that he was the first in point of understanding too. There is a touching tale of Smith arriving to advise the Younger Pitt and his kitchen cabinet consisting of Wilberforce, Addington and Dundas, at which they all rose to their feet. “Be seated, gentlemen” said Smith. “No” replied Pitt, “we will stand till you are first seated; for we are all your scholars”. Would that Pitt's generous tribute to his mentor were more apposite to those who rule the world today!

## 8. THE NEW EUROPE: MAKING THE CASE FOR THE MARKET

By Rt Hon Nicholas Ridley MP

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The past year has been an extraordinary one in the history of Europe. For 40 years there seemed to be no chance that the citizens of Eastern Europe would ever be liberated from Communism. Yet within twelve months all has changed. In only one country, Albania, are old style Communists still in control. The only thing that is certain is that more changes will come. In Western Europe as well the future evolution of the Community has come to the top of the political agenda. On the bicentenary of his death what would Adam Smith have made of it all?

He might have found some ironic amusement in the story of the Czechoslovakian greengrocer as told by a more modern philosopher, the present President of Czechoslovakia — Mr Vaclav Havel. The greengrocer in question was instructed to put in his window the slogan 'Workers of the World Unite'. If he had refused to display the poster he would have lost his managership and with it the chance of holidays on the Black Sea and University places for his children. So he displayed it. For Communism to be beaten, Mr Havel wrote, the greengrocer would have to take down the ridiculous poster and begin "living the truth".

In Eastern Europe they are tearing down the posters and the statues of Marx and Lenin, but they should not erect statues of Adam Smith instead. He was essentially a modest man, an empirical philosopher who rejected deception and grandeur. But it would do them no harm whatever to study Adam Smith to help them to understand how the pursuit of market solutions leads not only to greater prosperity but towards a happier and more moral society.

### The Moral Case for the Free Market

The word "moral" requires elaboration because some see Adam Smith as a preacher of a sort of extreme liberalism based on a view of society motivated solely by individual greed and selfishness. Such a depressing view of his creed and his nature would hardly be likely to appeal to people who have just risked all for the sake of "living in truth". To portray Adam Smith in this way is inaccurate and unfair, because there is in fact a strong moral basis to his philosophy which is central to his economic thought as well.

Before we can proselytize in Eastern Europe, we need to proclaim the moral basis of the free market society here at home. Indeed I would have found it useful myself a few years ago to have been better versed in Smith's *Theory of Moral Sentiments* when confronted by the Bishop of Durham's angry attack on our bus deregulation policy.

In common with Adam Smith I believe that a freely competing market with different suppliers striving to gain a greater share of the market and make profits is the best guarantee for the interests of customers — or in this case bus passengers. This involves no moral judgement about the virtues of the bus operator himself. His character is irrelevant to the quality of the service he provides, although competition will encourage him to behave with courtesy and consideration toward his customers

lest he lose them. We must suppose the Bishop started from the generalized belief that the profit motive encouraged “greed” which was morally repugnant in itself and the quality of service which resulted was therefore irrelevant. What was objectionable to him was the idea of people making a profit out of supplying other people's needs — and often less well off people at that.

Nearly all the essentials of life — food and drink, clothes and housing tend to be provided by those seeking profits in a competitive market. The truth is that such a system provides the best value for money for its customers, be they rich or poor. In the case of the buses, the services improved and the prices came down in most instances after deregulation.

Followers of Adam Smith have been on the receiving end of abuse from assorted keepers of the Nation's conscience, from pressure groups demanding money for worthy causes, and from what remains of the left-wing intelligentsia, for pursuing policies which allegedly sacrifice higher human feelings. We are accused of sacrificing the interests of “Society” and “Community” to the altar of “individualism” and “greed”, rather than teaching concern for our fellow human beings. These attacks are untrue and it was Adam Smith who, perhaps better than anyone, set out the relationship between the moral and economic spheres which we should study again to remind ourselves of how we can articulate our basic beliefs.

Smith based his thought, his economic and social thought, on his perception of the psychology of man. He believed that man is endowed with certain faculties (reason and imagination) and particular propensities (self-love and fellow-feeling) which incline him both to the social state and at the same time are potentially disruptive of it. Certain controls are required over the self-regarding activities of individuals; controls such as the rules of justice administered by the State, and morality.

In analysing what should be those moral rules, Smith develops the idea that we all have a natural sense of sympathy with others — fellow feeling — which enables us to judge whether a particular situation contributes to the happiness or unhappiness of the individual. Thus people achieve an idea of propriety and moral behaviour. And because part of the self-regarding side of human nature is the desire to be worthy of approval by others, this creates self-restraint, a sort of internal discipline on individual behaviour.

Smith recognised that these human propensities which are social in character, fellow feeling and sympathy, disposed man towards society without being sufficient to sustain it. He did however believe that they were essential to society. He argued that men act with an eye to the positive virtues of morality and where behaviour is characterised by beneficence rather than merely by justice then the society is flourishing and happy. Where only the negative virtue of justice is observed, then life in society can be characterised by “nothing more than a mercenary exchange of good offices according to an agreed valuation”.

Smith's moral rules were the “ornament which embellishes” while “justice on the contrary is the main pillar which upholds the whole edifice”. Both are essential to a civilized society. Within this moral as opposed to judicial sphere, Smith believed that the role of the State was limited. However, contrary to popular myth, he did not believe it was altogether absent. He argued, for example, that certain types of tedious jobs in a modern economy could weaken the moral sense of the individual, creating in the modern jargon an “underclass”. On grounds of welfare, Smith argued that the

Government should assume some responsibility for cultural activities to educate the moral sense of people whose experience was too narrow. He thus defended Government support for “public shows”, let us say the arts, and more importantly for basic education.

### **The Moral/Economic Synthesis**

So Smith is much more subtle than is often credited. It is, of course, his economic thought which has had the most influence. Yet it cannot be seen as distinct from his basic moral philosophy. Smith argued that in considering the economic activities of men, the most important motivating factors were the “selfish propensities”.

He was not suggesting that these propensities provided an adequate statement of man's psychology or that they provide the only motivation in economic behaviour. He was simply arguing that within the economic sphere mankind is motivated, broadly speaking, by a desire for gain, and indeed that this is a characteristic feature of our experience. As he put it in the famous passage:

*“It is not from the benevolence of the butcher, the brewer or the baker we expect our dinner, but from their regard to their own interest”.*

In other words, though we may get our dinner because they were benevolent, we *know* we will get it because of their self interest. He was concerned to discuss how best this aspect of human nature could be harnessed for the greater good of mankind. By “good” he was not only concerned with *material wellbeing*. He was also concerned to explore how the operation of man's “selfish” propensities in the economic sphere could be used to bring out the best of those social and moral feelings which make all the difference to the type of society we live in. His conclusion is that the free operation of a market unfettered by monopolies and price-fixing, and by misguided government intervention, is the best way to create a fair and moral society. The butcher and the baker given scope legitimately to pursue self-interest are more likely to be happy and to contribute more to society, than if their self-interest is quashed — either forced into the corrupting “black” market, or constrained by the corset of a Socialist economy.

It is exactly when people try to suppress the self-regarding instincts or pretend that they don't exist that they also kill off the ideas of propriety and morality. The irony of the story of the Czechoslovakian greengrocer lies in the fact that the slogan “Workers of the World Unite” implies a world in which fellow-feeling and selflessness are dominant; yet the only reason the greengrocer is prepared to subscribe to the slogan is because he wants to protect and pursue his own interests. In other words he is consciously “living a lie” and it is the State which has forced him to do so.

As we watch the cameras pan in on the luxury saunas, swimming pools, shooting lodges, Swiss bank accounts, cheap drinks shops enjoyed by the old Communist elites in Czechoslovakia and East Germany, we also remember the claims made by these same Communists to govern “for the people by the people” “to each according to his need.” We can see how the big lie at the centre of Communism and Socialism — or any Utopian dogma which denies key elements in the basic characteristics of humanity — leads inevitably to corruption. If there are no checks and balances to regulate and harness self-interest because you pretend that it does not exist, then it rampages unchecked.

Faced with these appalling revelations in Eastern Europe and the obvious gulf between the rhetoric and the reality of socialism, Socialists in this country have been trying to pretend that Eastern European Socialism wasn't really Socialism after all. "They got it wrong and became corrupted by Capitalism", they say. Of course democratic Socialism would be "different." What Smith proves is that in many respects it would not.

Though periodic free elections and a free press in a democratic society limit the possibility of corruption in Government, the fundamental Socialist belief in public sector monopolies and Government intervention represents a form of conspiracy against the public which is essentially similar to what happened in East Europe. That was one of Smith's central messages. Hence his diatribes against monopolies and cartels. Hence also his opposition to policies of control and restraint on market forces at a national level, on the grounds that they distort the allocative mechanism. Those politicians both within and without the Conservative Party who talk of "backing winners" or "Strategic intervention" should consider the following text:

*"No regulation of commerce can increase the quantity of industry in any society beyond what its capital can maintain. It can only divert a part of it into a direction in which it might not otherwise have gone: and it is by no means certain that this artificial direction is likely to be more advantageous to the society from that into which it would have gone of its own accord".*

With the benefit of decades of Socialist lame ducks, one can only regret that he was not a bit more vigorous in his doubts! His lesson has not yet been learned in some quarters.

### **Interest Group Resistance**

One particularly enjoys reading Smith's advice to politicians on the blandishments of monopolists or would-be monopolists. Proposals from such interests, he argues "ought always to be listened to with great precaution and ought never to be adopted 'til after having been long and carefully examined, not only with the most scrupulous but with the most suspicious attention. It comes from an order of men whose interest is never exactly the same with that of the public; who have generally an interest to deceive and even to oppress the public and who accordingly have on many occasions both deceived and oppressed it". When MPs receive letters by the score orchestrated by Trades Unions from NUPE to NUM and from pressure groups seeking monopoly or protection, they should have that passage inscribed in letters of gold in front of them.

In pre-bus deregulation days, we were all on the receiving end of lobbying from representatives of bus monopolies and cartels — operators and regulators. There was much talk of the "public service" they were performing, almost, one would have thought, out of charity. There was no mention of the way in which their costs had escalated, nor of the number of their customers they had driven away. The bus licensing laws, because they placed the emphasis on planned public service rather than competition, removed controls over the self-interest of the operators. The result was that costs and fares and subsidies all went up, while services declined.

Perhaps some of the lobbyists imagined that they really were in the business of providing a sort of beneficent Social Service. All that politicians had to do was to provide the 'funding'. But as Adam Smith recognised, another strong facet of human nature is the power of self-delusion, especially when one is justifying the pursuit of self-interest against the interests of other people. He said: "This self-deceit, this fatal weakness of mankind is a 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." And a reformation is what took place in the bus industry, with wholly beneficial results.

In deregulating the buses, what we did was what Smith had urged long before. We "discharged Government and Local Government from the duty of superintending the industry of private people and of directing it towards the employment most suitable to the interests of society". Smith's view of Government was that it should in the main confine itself to providing an exact administration of justice, defence, and such public works as may be necessary to facilitate economic activity where those are "of such a nature the profit could never repay the expense of any individual or small number of individuals and which it therefore cannot be expected that any individual or small number of individuals shall provide or maintain" — in his view, roads, bridges, canals and harbours.

As an early pioneer of cost-benefit analysis, he argued that where possible services should be paid for by those who benefit from them partly on the grounds of equity and partly because it would help to ensure that services were provided only where there was a recognised need for them. Where payment was not possible, the State should take care to simulate market conditions where possible. If he were living now, he might have added two extra dimensions to the role of the State: the setting and enforcement of health and safety standards; and also of environmental standards for industry to protect the public interest while not in any way affecting competition in a fair open and free market place.

## **The Demise of Socialism**

Adam Smith preached the antithesis of Socialism — or Communism. And indeed is there so much difference? The difference between the two seems to be that Socialists have democratic elections, but Communists do not. The essentials of their economic policy are the same. They both believe in public ownership, whereas Smith did not. They both tolerate monopolies and cartels, because there is no other way of State provision. Smith hated monopolies. They both believe in State planning of industry and the allocation of resources in accordance with the plan. Smith saw this as directing resources in directions where they would be less useful than where the free market would allocate them. They both employ slogans which everyone knows are a travesty of the truth. In communism it is 'Workers of the world unite'. In socialism it is striking to "protect the public" or to 'protect jobs', or it is 'Public ownership in the public interest'.

Now, we have seen the results of Socialist policies in the overthrow of six communist regimes in six months — their people yearning for freedom, prosperity, an end to corruption; and to be able to own houses, land, shares and other possessions and not least to enjoy the benefits of a free market.

The demise of Socialism is near absolute in East Europe. It is not that there was 'a little too much', and a smaller dose would have been fine. The lesson has to be that a small dose is not fine. What Socialists in the East and West believe in has been shown to be a disaster and rejected, probably for ever, in those six states which had it imposed upon them. Even now in so far as Labour's policies have been revealed, they still promise a little bit of nationalisation, just a little bit of intervention, just a little bit of economic planning, just a little bit of extra taxation. In other words just a little bit of what failed in Eastern Europe.

How would Adam Smith have advised us to help Eastern Europe? In the 1970s, Eastern European countries got all the dollars they needed from the West. They were wasted. They may have headed-off food riots, kept bureaucrats in employment, helped pay wages in bankrupt industries and propped up lame ducks, but the inheritance of most of those countries was vast foreign debts. The more democratic societies which are now evolving do not ask us to throw money at them to sustain state-run socialist industry. That would be just as much of a waste of money as it would be in this country. Of course in many countries there is an immediate need for direct aid, to allow them to feed themselves and provide basic essentials, so total has been the failure of Socialist economies.

Adam Smith would no doubt advise, and they would agree, that more than anything else they need the risk capital, the technology, the managerial skills that businesses in the West can provide. They also need to introduce property rights, — to own land, houses and they need the freedom to invest to go bust. In other words they need the institutions and structures of the free market — the institutions that allow and control the legitimate pursuit of self-interest. Foreign investment can help enormously as it brings in foreign exchange, more industrial capacity and a commercial culture which soon teaches the people the skills of entrepreneurship.

Once these freedoms and laws are in place, they will have no need of saints and saviours to run the country. Ordinary people, acting with Smith's mixture of self interest and moral conscience, with the State providing just the basic checks and balances vital to a market economy, will succeed remarkably quickly.

So those who accuse Adam Smith of being the philosopher of greed have deliberately misinterpreted him. His was a philosophy which was concerned to discipline and regulate "greed" or self-interest so that it reinforced the cultural and moral fabric of society and did not destroy it. It is Utopian Socialism which is in reality the philosophy of greed because in refusing to accommodate self-interest in its blueprint for society, it imposes few practical disciplines to control it. Hence the behaviour of Herr Honecker and Mr Ceausescu. Hence the would be behaviour of Arthur Scargill et al.

### **Applying the Ideas to Europe**

What of Western Europe? What would Adam Smith have made of the current arguments about the future direction of the Community? First, he would have probably seen the accusations about Britain being "non-communitaire", of dragging feet over the "Building of Europe", of "falling short of the European ideal", as the special pleading of interest groups. He would, I am sure, suggest as with domestic interest groups that their proposals "ought to be listened to with great precaution and ought never to be adopted 'til after having been long and carefully examined".

He would have been amazed and depressed at the suggestion seriously made by some leading British politicians that we should sign over control of major instruments of macro-economic policy for political reasons. He would probably not be surprised to find that those who boast loudest about their good Europeanism are often those who have done the least to implement the single market directives, surely the key litmus test — almost as if the rhetoric of commitment to the European “Common Market” had nothing to do with the reality.

It would indeed have been helpful to have had his pen at work in deflating some of the windy nonsense that is talked about Europe in exposing the particular interests at work behind the slogans and in helping us to create a Europe where all citizens can pursue their own interests in a community which is a genuine free market, without monopoly, State direction, intervention or unnecessary regulation. And as Margaret Thatcher has said, the people of Eastern Europe do not want to shed the centralized system of the East for a centralized European Community.

When Adam Smith wrote *the Wealth of Nations* his colleague David Hume commented prophetically that “the reading of it necessarily requires so much attention and the public is disposed to give it so little that I shall still doubt for some time of its being at first very popular”. I suppose the regrettable truth is that another strong element of human nature is a willingness to be seduced by Utopian theories and ideologies, in order not to have to think. Smith's determined anti-romanticism has never been a creed that would appeal to the Utopians amongst us. It would never provide a platform for the rabble rouser. It does not provide much in the way of beer and circuses. But it does provide a secure intellectual framework for politicians in Government who believe, as we do, that the free market is the best foundation both for a prosperous and for a moral society. Our achievements have come from following these precepts.



## 9 ADAM SMITH AND THE ETHICS OF CAPITALISM

By Norman Barry

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Despite the popular image of Adam Smith as the first serious systematic economic theorist and moral philosopher of capitalism, recent historical scholarship on his life and work has cast some doubt on this. The advocate of the market, the discoverer of the “invisible hand” metaphor and the sceptic of the ethic of benevolence as an appropriate moral force in social life, is not now indisputably hailed as the prophet of the bourgeois commercial order with which we are familiar in the contemporary Western world. Indeed, the emphasis now seems to be on the treatment of Smith as a purely eighteenth century figure whose thought is an expression of the nuances and intricacies of an essentially pre-capitalist society rather than the celebration of a universal commercial order.

The quintessentially liberal capitalist phenomenon of self-interest seems superficially to be only a part of Smith's economic writings: other motivations are invoked to explain our moral, social and political arrangements<sup>1</sup>. In contemporary economic liberalism, however, the egoistic behavioural assumption underlies most analyses of social life so that political actors are treated as just one other species of that analytical abstraction — the market trader.

There is something to be said for this view. After all, the eighteenth century world, though a nascent commercial order, is a long way from modern corporate capitalism. The business world described by Smith was largely inhabited by small owner-managers held together not simply by abstract rules and the cash nexus, but by common ties and the sense of belonging to a particular social order. It is a far cry from the division between owners and managers that characterises the abstract modern business enterprise. In fact, Smith was highly sceptical of the capacity of the emergent joint-stock company to reproduce the efficiency properties of markets which he had identified precisely because, in his view, its organisational structure put the owners of capital at some remove from immediate operations.<sup>2</sup>

Again, the very anonymity of modern business, a feature which places traders at arm's length to each other, and which renders them almost strangers, generates a business ethic which is bound to be formal and legalistic. In contrast, Adam Smith's ethics, with their emphasis on 'sympathy, “fellow-feeling” and the opinion of other people as a source of the moral value of an individual's action, seem almost communal. Indeed, in well-known passages of *The Wealth of Nations* he writes regretfully of the way in which an untrammelled and remorseless progress of the division of labour has a deleterious effect on moral character, and which may render industrial society unstable.<sup>3</sup>

### Modern Capitalism

The ethics associated with modern capitalism (especially in its more libertarian guise) is sparse, individualistic and most often disconnected from specific forms of life; and it imposes few positive moral duties on individuals. It presupposes that all that economic agents require is a set of rules by which their activities can be

regulated in the absence of shared values. The rules are justified to the extent that they enable exchanges to be made in some security and predictability; the only enforceable ones are those that underpin property and contract. All other moral duties, for example, that of benevolence, or those that relate to the promotion of social goods which are irreducible to individual experiences are, strictly speaking, supererogatory (desirable but not compelling). This is true whether they have a utilitarian or a deontological natural rights foundation.

The attractiveness of such an economical ethical code lies precisely in the claim that it is the only one consistent with pluralism and the only one which can tolerate incommensurable and often incompatible ways of life. It is as if the rules of international trade were to form the model of the ethical life. Indeed, this is an appropriate analogy since nineteenth century apologists for capitalism maintained that these rules were essential for peace and that the promotion of active, communal identities led inexorably to the triumph of bellicosity and hence the production of permanent discord. Yet did not Smith lament the decline of the “martial spirit” that accompanied capitalism? Is it true, as some writers claim, that the propagation of the market was for Smith a necessary means for the advancement of national glory? Did he not worry about the weakening of communal bonds that resulted from unrestrained capitalism?<sup>4</sup>

I shall assume throughout this essay that whatever “republican” flourishes there are in Smith's writings, his philosophy in essence contains an ethics which is appropriate for a modern exchange, private property economy and that, although he may have had doubts about some of that morality's wider implications, his scepticism about other forms of life was sufficiently deep) rooted to encourage a qualified approval for it.

This approval is evident from his major works, *The Theory of Moral Sentiments* (1759) and *The Wealth of Nations* (1776). The works are often thought to be less than fully compatible, since the former describes the whole range of moral sentiments, of which self-interest is only one, while the latter presents a picture of man driven solely by the desire for gratification, and for whom other moral imperatives seem to be, at best, distractions. However, the apparent tension between the two works dissolves once we realise that the impulse of self-interest is not in itself immoral (especially when it is translated into the highly commendable virtue of prudence) and when we appreciate the differing, but not competing, purposes of the two works: one to do with the science of human conduct, the other with the science of wealth creation.<sup>5</sup>

A further confusion has been generated by a misunderstanding of the use of “sympathy” in *The Theory of Moral Sentiments*. The concept is often taken to mean something opposed to self-interest when it is really a part of Smith's technical moral vocabulary: it describes one of the descriptive features of a moral judgement. Sympathy must not be taken to be a surrogate benevolence since that has the unfortunate implication that the ethics of the market is in competition with the principles of the ethical life.<sup>6</sup>

Perhaps the key to all this is Smith's treatment of Bernard Mandeville, author of the notoriously amoral book *The Fable of the Bees* (1708) and anticipator of typical Smithian doctrines, such as the spontaneous co-ordination of individual actions, the benefits of the division of labour and of international trade. However, he deliberately posited a dichotomy between virtue and commerce: claiming that prosperity depended upon the suppression of the traditional virtues and a flourishing of the

vices of vanity and greed. In fact, Mandeville had a thoroughly cynical view of human nature; men are driven by the baser motives so that even acts of altruism are disguised attempts at self-glorification<sup>7</sup>. Since men are not naturally moral, government and law can only be artifices to restrain the excesses of their egoism.

It was the aim of Smith, in *The Theory of Moral Sentiments*, to show that the dichotomy made by Mandeville was false. There he argued that “self-love” may frequently be a virtuous motive for action and he maintained that: “the desire of doing what is honourable and noble, of rendering ourselves the proper objects of esteem and approbation, cannot with any propriety, be called vanity.”<sup>8</sup>

Thus, although Smith frequently speaks of one of the major motives of moral action as the desire to secure the approval of others, and to be “well-thought” of by them, this is by no means, he claims, an ignoble impulse. The truly vain person is one who desires fame and esteem for actions which are not themselves praiseworthy. However, since the actions that characterise capitalist enterprise, e.g. prudence and a studied care for one's own well-being so as to avoid being a burden to others, are actions that would meet with general approval they cannot be indicative of vanity. Nevertheless, as I shall show below, Smith's reliance on self-interest as a motivating force in economic society and his virtual exclusion of benevolence from that realm make him closer to Mandeville than he admitted.

## A Sociology of Morals

The point is that Smith wanted to construct a sociology of morals, an empirical description of the essential features of moral conduct and an account of the way in which moral judgements are made. It is not therefore a rationalistic demonstration of the moral value of capitalistic exchange, as might be made by Lockean natural rights individualists, but an attempt to show that commerce is consistent with what most people understand by morality. In this context the activities of both economising and moralising are natural to man, and the rules that validate them are grounded equally in empirical features of the human condition. Whether they are 'right' in some foundational sense was not Smith's concern.

Smith, like his friend David Hume, had a marked distrust of 'reason' as the source of knowledge in economics and value in ethics. Of the benefits of the division of labour, he wrote that it 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 no extensive utility: the propensity to truck barter and exchange one thing for another.”*<sup>9</sup>

In a similar vein he criticised the rationalist in ethics who forgets that “in the great chess-board of human society, every single piece has a principle of motion of its own, altogether different from that which the legislature might choose to impress upon it”.<sup>10</sup> In this Smith is anticipating those modern liberal capitalist theories which stress that spontaneous co-operation under general rules is likely to advance prosperity and liberty more effectively than the deliberate prosecution of the general happiness. As he pointed out: “I have never known much good done by those who affected to trade for the public good”.<sup>11</sup>

It might be thought that Smith's ethics of capitalism was purely utilitarian, and indeed much of his economics is about the malign (or at least inefficient) consequences from interferences with the natural signalling functions of the market. But this would be misleading for, unlike David Hume, Smith had a foundation for ethical judgements which was independent of utility: and it is this foundation which has relevance for individual conduct in the commercial order. Our immediate perceptions of right and wrong derive from nature rather than from some hedonic calculus.<sup>12</sup>

The morality of an action depends on its "propriety", or the sense of rightness that is attached to it. And this in turn is grounded in a community so that individuals can have no meaningful conception of morality outside their natural society. In his well-known image, a society is a "mirror" in which we look for the sources of right and wrong and for the propriety of our actions in it. Although individuals have an intuitive sense of right and wrong, their immediate judgements are likely to be partial and corrupted by self-interest. Unless initial judgements have been sanitised by a corrective social process they can have little objective value. He claims that: "self-deceit, this fatal weakness of mankind, is the source of half the disorders of human life".<sup>13</sup>

### **The Source of Morality**

Through a complex process involving the notions of sympathy and the "impartial spectator" a consensus about morality can be discerned in a community. Sympathy, or fellow-feeling, is the capacity in us for imagining ourselves in another's position and experiencing his experiences. It is not to be confused with simple benevolence, actual generosity towards the plights of others, but is rather a device which explains how we are to understand that plight. Sympathy is accompanied by certain natural feelings. The natural resentment that is provoked by acts of injustice, and the approval by others for particularly virtuous acts, are examples of the phenomena that Smith regards as definitive of the moral attitude.

However, the approval of our fellow men is not the decisive element in moral appraisal. Beyond the notion of communal approbation is the idea of the "impartial spectator" as a kind of final court of appeal on all moral issues. He is not a real person, in fact he is logically distinct from actual spectators, but rather an abstraction defined by his non-partisan involvement in particular issues. It is perhaps in his use of this concept that Smith's ethics is at its least naturalistic, for the spectator is an entity whose judgements can plausibly be said to resemble abstract and universal notions of right and wrong.

There are other indications in Smith's ethics that he is not prepared to accept the judgement of the community as being decisive but that it is subordinate to other considerations. In his *Lectures on Jurisprudence* he speaks of natural rights being "evident to reason"<sup>14</sup> and, in *The Wealth of Nations*, he condemns apprenticeship laws not merely on utilitarian grounds (as distorting the price signals of the market) but also because they constitute "a manifest encroachment upon the just liberty both of the workman, and of those who might be disposed to employ him"<sup>15</sup>. However, the suggestions here are too vague to sum up to a fully-fledged defence of free market capitalism derived from universal ethical principles. One suspects that Smith would have liked to have done this but was disabled by his anti-rationalism. His ethics overall remain inductive and relativist but *a priori* and universalist at the edges.

Apart from utilitarian considerations, capitalism seems to be characterised by the natural fact that people are constantly engaged in the struggle to better themselves; and their actions in this regard will meet with the approval of others (and the spectator) as long as they do not involve a breach of a rule of justice. Of course, the approval of others may not always be a consequence of an exercise of unadulterated self-interest in the conventional capitalistic sense; indeed the desire to be well-thought of may well promote other-regarding virtues. However, what is reasonably dear is that Smith's naturalistic ethics constitute a kind of Newtonian system in which each part is connected to the whole through a complex chain of reasoning. From our first perceptions of right and wrong, which are bound to be tainted by a potentially harmful self-love, we go through a process in which they are checked against the less self-interested standards of our fellow citizens, culminating ultimately in the opinion of the (hypothetical) impartial spectator. In a process of what may be called 'moral equilibration' there is clearly an analogy here with the self-correcting mechanism of the market and that of ethics.

### **Natural Liberty**

A crucially important concept in the ethics of capitalism is "natural liberty". This is simply the freedom of each individual to pursue his own ends within the context of more or less naturalistic moral rules. An interference with that liberty excites feelings of resentment, an attitude which would be approved of by a spectator. It is not therefore a "right" that has been breached (in fact Smith thinks that rights are created or discovered through the process of exchange — notably via contract law) but a socially acceptable opportunity which has been denied. But again, a liberty is not a mere permission granted by a sovereign. Smith was opposed to the sovereignty, or Command, theory of law and argued that the common law not only protected natural liberty more effectively than statute and he was anyway convinced on utilitarian grounds that the artifice of government could not improve upon natural processes either in morality or economics.

Capitalism is admitted by Smith to be a morally sparse doctrine, and in many parts of his analysis he writes in a decidedly Mandevillian spirit. The non-obligatory virtues of benevolence and charity really have no place in it and egoism seems to be the only impulse capable of sustaining a productive system. As he put it in a quotation that still bears repeating: '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'.<sup>16</sup> This is, however, more than an assertion of the utility-enhancing qualities of egoism: it is a position which flows naturally out of his moral system. For the virtue of benevolence can only prosper in family and other relationships involving people who are close to each other: the further away from each other, the less compelling are the demands of benevolence and the less decisive is the message of sympathy. It would be absurd to take disapproving attitudes and strike vengeful postures at the lack of benevolence of people remote from us. In market relationships, since we are often dealing with strangers, we can expect only self-interest to motivate people to produce a generally beneficial outcome. Again, if each person acts self-interestedly in such relationships he will un-intentionally generate a socially beneficial outcome since the satisfaction of his own desires depends upon his capacity to satisfy the desires of others. The only moral virtue that is relevant, therefore, to commercial society is justice, for without the expectation that agreements will be honoured, property respected and individual integrity respected there cannot be that security on which the system

depends.<sup>17</sup> It is for this reason that the rules of justice are the only moral precepts which can be enforced. Such is the resentment experienced at the breach of a contract or the violation of a property right that our moral sentiments sanction the use of force for appropriate punishment and restitution.

## Concepts of Justice

It is, however, a negative or commutative sense of justice that is at work here. Justice is about giving each person his due and providing rules for the facilitation of agreements and promises: "Mere justice is, upon most occasions but a negative virtue, and only hinders us from hurting our neighbour".<sup>18</sup> Smith says little about social justice, the concept that validates a redistribution of wealth away from its natural owners. It is a concept that has come to dominate twentieth century moral and political philosophy and even writers favourably disposed to the market have been reluctant to concede the legitimacy of the justice of any outcome, however unequal, of an exchange process merely because no rule has been breached.

Smith's moral epistemology strongly implies that governmental acts of social justice are morally questionable, precisely because they would excite feelings of resentment from those deprived of their property, in order that the ethically desirable and socially just state can be realised. But would that resentment be approved of by a spectator? It is not exactly clear that it would, since Smith himself comments on the fact that law and government were instituted to protect private property, the unequal distribution of which caused resentment among the poor. However, since Smith only fleetingly referred to a natural law/natural rights defence of negative justice relies too much on a combination of utility, popular sentiment and the uncertain pronouncement of the spectator. The redistributive arguments that might emanate from these sources would be more compelling if they were directed at the initial distribution of property titles, about which Smith says little, than if they were aimed at the earnings to the factors of production as a result of a market process.

Smith thought that the rules of negative justice were all that were needed to make a commercial society work. They are like the rules of grammar, they enable us to communicate but the resulting speech may not be particularly inspiring. It is undoubtedly the case that Smith had a vision of a better society than one in which people merely traded one value for another, observed the negative rules of justice and pursued purely self-regarding interests. He would no doubt have regarded some of the activities in such a society as a merely vainglorious and frivolous. However, he was always a realist about human nature. Benevolence was only possible in very small, face-to-face relationships and, although he was not writing in a society as open and rule-governed as those in modern capitalism, his experience was of a growing commercial order in which communal and sentimental ties were gradually but perceptibly loosening. Those who try to dissociate Smith from the broad tradition of liberal capitalism would do well to ponder over what he had to say about justice, for his is a decidedly individualistic concept.

Smith was also aware of the fact that even though the rules of justice may have been scrupulously followed in any particular transaction, a person may have behaved in a way dishonourable enough to provoke feelings of disapprobation. Justice is only one aspect of morality. Business behaviour especially is vulnerable to the complaint that the achievement of profit may come about as a result of a kind of action which, although it is not technically unjust, is reprehensible. The concealment of vital

information in a business transaction is a way in which, perhaps, 'unjustified' profits can be earned. In purchasing cheaply a painting from a vendor am I obliged to reveal the fact that I know that it is a Rembrandt? If the person is a stranger with whom I am dealing at arm's length then, on Smithian principles of justice, I assume that no unfairness is involved. However, I would imagine that the impartial spectator (and "conscience") would declare my action immoral if not unjust. Or would he? But even if he did, there is little that can be done about it, since only the rules of justice can be enforced: general moral standards have to become accepted in less formal ways.

## **Modern Business Ethics**

The contemporary interest in business ethics has arisen out of the dissatisfaction that is felt at the kind of activity that would be permitted by a purely negative view of justice: moralists claim that businessmen have obligations to the community that go beyond obedience to just laws. Its practitioners would claim that the demands of morality are simply not all met by the self-correcting processes of the market system and those of the moral order. The latter are especially fragile in the face of the desire for immediate gratification: sentiments of disapproval from one's fellow citizens in anonymous societies are likely to be less effective than in intimate ones. The controversy over the practice of trading an undisclosed information in the stock market ("insider dealing") is a perfect example of the type of problem business deals with. Nobody is harmed (normally) by the practice, so it is not in breach of Smith's principles of justice.<sup>19</sup> Also it has certain utilitarian advantages that derive from the rapid circulation of information that it encourages. Yet in certain circumstances it would be unlikely to meet with the approval of the impartial spectator.

I suspect that Smith himself would disapprove of certain controversial business practices, though he would not share the zeal that some business ethicists have for the use of the law to enforce codes of commercial conduct. What is different about our times is that, compared to the eighteenth century, markets are more open and international and the shield of the anonymity of exchange relationship can insulate individuals from moral criticism, or at least provide an excuse for dubious conduct.

Smith's own attitude towards businessmen was a little ambiguous. Although he had a great admiration for the market system he was often critical of merchants as a class. They were always likely to collude to fix prices and hold up the normally benign forces of competition. In a well-known critical observation, he said that "people of the same trade seldom meet together, even for merriment and diversion, but the conversation ends in a conspiracy against the public, or in some contrivance to raise prices".<sup>20</sup> Of course, he thought that workers were just as likely to form anti-social coalitions but they drew some sympathy from him because in his day the law made it impossible for them to collude effectively: this made the struggle unequal.

Smith did however admire the virtues of merchants. Honesty, reliability and frugality are features of businessmen which are essential to the market system, and they were manifestly not displayed by aristocrats or soldiers. It was Smith's belief that the particular moral qualities that individuals displayed were largely a product of their occupations and could not be created artificially by law or government. They owed little to the intrinsic qualities of the persons themselves. It therefore followed for Smith that a greater penetration of society by business attitudes would on the whole lead to a rise in moral standards.

Furthermore, Smith thought that the rise of commerce led to greater individual independence. In non-commercial societies individuals were very much the prisoners of more or less rigid social structures and dependent upon a network of social obligations for their well-being. Also, commerce led not only to wealth creation but also peace and, despite his oft-quoted lament on the decline of the martial spirit, his preference for trade was obvious. His fear that commercial societies would have difficulty in defending themselves was to be expected given that the society was moving rapidly from an intimate, communal order to a more fluid form of organisation. Whether his general fear about the military weakness of commercial society was justified or not is another matter.

## **The Division of Labour**

There is one area where Smith's doubts about the ethics of capitalism have caused great interest. In *The Wealth of Nations* he noted that the remorseless pressure of the division of labour had a morally adverse effect on the citizens. Performing repetitive tasks in factories deprived individuals of any real opportunity for personal responsibility: workers were likely to become stupid, inactive and incapable of anything more than obeying routine commands.<sup>21</sup> Worse, they may become so morally stunted and alienated from the system of natural liberty that its integrity could be threatened. They may be incapable of following even the minimalist moral rules that a commercial society requires. It was for this reason that Smith recommended a system of compulsory (and partly state-financed) education, precisely because the market did not generate those standards of civility on which its survival depended.

There are some things about market society that even Adam Smith did not sufficiently appreciate. One is its remarkable fluidity: the fact that individuals can rise and fall in unpredictable ways. The divisions between rich and poor become less a matter of resentment if the positions people occupy are not fixed more or less indefinitely. But Smith argued that the system of property created inequality, which in turn produced envy and undermined the cohesion of market society.<sup>22</sup> How persuasive is Smith's argument today?

Of course, there are inequalities in all societies, especially socialist ones, but the "natural liberty" exercised in a market order makes possible rapid transformations of the social and economic structure of the community. As a classical economist, accustomed to dealing with the behaviour of more or less immutable aggregates — landlords, capitalists and labourers — he under-estimated or failed to anticipate, the fact of the dissolution of these fixed orders and their replacement by anonymous individuals who could be any one of these agents (or indeed all three).

It is clear then that Smith had reservations about the rise of capitalism and its associated ethics. However, this should be set alongside his anti-statism and veneration for property and the market system. His scepticism about capitalism's capacity to sustain itself indefinitely was simply a particular inference from his general fatalistic thesis that a "fatal dissolution" awaits every society. He might very well be surprised by the vibrancy and vitality of capitalism, if not by the fact that the moral questions about its nature that he posed are still being asked at the time it appears to be moving into a new and even more vigorous era.

*This essay was written while the author was visiting Scholar at the Social Philosophy and Policy Center, Bowling Green State University, Ohio.*



## NOTES

1. See Donald Winch, *Adam Smith's Politics: An Essay in Historiographic Revision*, Cambridge, Cambridge University Press, 1978.
2. *Adam Smith, An Enquiry into the Nature and Causes of the Wealth of Nations*, R. Campbell and A. S. Skinner (eds), Oxford, Clarendon Press (first published, 1776), vol. II, p.741.
3. *The Wealth of Nations*, pp.786–87.
4. See W. Letwin, "Was Smith a Liberal?", in *Traditions of Liberalism*, K Haakonssen (ed). St. Leonards, Sydney, Centre for Independent Studies, 1988, pp.65–104.
5. *The Theory of Moral Sentiments*, D. D. Raphael and A. L. Macfie (eds), Oxford, Clarendon Press, 1976, First published 1759.
6. *op. cit.*
7. *The Fable of the Bees*, F. B. Kaye (ed), London, Oxford University Press, 1924.
8. *Theory of Moral Sentiments*, p.308.
9. *Wealth of Nations*, p.25.
10. *Theory of Moral Sentiments*, p.263.
11. *Wealth of Nations*, p.456.
12. For an excellent discussion, see T. D. Campbell, *Adam Smith's Science of Morals*, London, Allen and Unwin, 1971.
13. *Theory of Moral Sentiments*, pp.158–59.
14. *Lectures on Jurisprudence*, R. L. Meek, D. D. Raphael and P. C. Stein (eds), Oxford, Clarendon press, 1978.
15. *Wealth of Nations*, p.138.
16. *Wealth of Nations*, p.27.
17. *Theory of Moral Sentiments*, p.86.
18. *Theory of Moral Sentiments*, p.82
19. For a modern discussion, from a classical liberal perspective, see H. Manne, *Insider Trading and the Stock Market*, New York, Free Press, 1966.
20. *Wealth of Nations*, p.145.
21. *Wealth of Nations*, p.788.
22. *Wealth of Nations*, p.479.

## 10. ADAM SMITH AND THE CULTURAL CONTRADICTIONS OF CAPITALISM By Jeremy Shearmur

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### Some Critics of Capitalism

Capitalism has been criticized on many different grounds. During much of the nineteenth and twentieth centuries it had to face the accusation that it created wealth for some only through the impoverishment of others.<sup>1</sup> And for much of the same period the genuine imperfections of actual forms of capitalist organization were contrasted with various socialist dreams of how things might be run. In these, everyone could enjoy a high level of material satisfaction and at the same time live lives that were deeper and richer to boot.

During the Twentieth Century, and despite the arguments of economists such as Mises and Hayek to the effect that one could not have prosperity without markets, and the inadequacy of the responses to them,<sup>2</sup> these dreams were projected onto a succession of unlovely actualities. Thus the Soviet Union — or perhaps its future — Cuba, and China were all recipients in their turn of the attentions of those who were convinced that there was some alternative. Now that the truth is out, and modern non-market societies are revealed as tyrannies in which elites presided over grinding poverty, inefficiency and ecological devastation, socialists have largely returned to the agenda of J.S. Mill's Political Economy. They are hard at work investigating the possibilities of combining worker co-operation, taxes on gifts and unproductive resources, and a host of other minor worthy-sounding tinkering and regulations with what is intended to be basically a market economy.<sup>3</sup> This, one suspects, will keep them busy for a further sixty-odd years, after which they may take to heart the lessons of public choice theory and the limitations that it suggests concerning our ability to get governments to behave as benevolent despots.

The momentary quiet on the socialist front, however, lets us hear again another kind of criticism of capitalism; one which has a longer pedigree than socialism, but which also contributed something to it. This criticism stretches back, in part, to the days of classical Greek philosophy, and to snobbish aristocrats' disparaging remarks about trade and those who engage in it. It relates, further, to classical Roman patricians' grumbles about the corrupting effects of wealth on virtue, and to Polybius's worries about the stability of political regimes. From there — as Professor Pocock has argued<sup>4</sup> — there developed a distinctive strand of political discourse which ran from Machiavelli through Harrington up through the Eighteenth Century. It had its characteristic vocabulary and concerns: wealth and virtue; independence; corruption; and worries about whether citizens who prospered would still undertake their military and civic duties, and in general behave as they needed to in order both to develop their own characters and ensure the stability of the kind of political regime under which they were living.

Concerns about such matters were a major preoccupation of some of the Founding Fathers in the United States. And the notion that commercialization and luxury have a bad effect on moral fibre is a familiar refrain among conservatives today. But it seems to me that conservatives have misidentified the problem, and that as a result their solution — a desperate attempt to hold the ring for virtue and the family — is

off the mark. What they have missed perhaps becomes most clear by the middle of the Eighteenth Century, with Montesquieu. He is perhaps best known for his misunderstanding of the English constitution — which bequeathed to the United States that terrible mess the separation of powers, of which the current budget deficit is the latest but surely not the last manifestation. More important was his re-interpretation of the notion of virtue as what is required, in terms of the behaviour of its citizens, in order that a particular political regime should flourish. Virtue is thus to be understood in functional rather than moral terms: different “virtues” are required by different kinds of regime.

This leads to the interesting problem: does the society in question naturally lead its citizens to behave in ways that will have these characteristics, where these ways of behaving may – or may not – involve what we might call moral virtue. It is this problem that I will pursue in Adam Smith, to whose work we will shortly turn; although I will not neglect moral virtue, either.

These critics do not deny that capitalism creates wealth. Their claim, rather, is that it does so at a cost: not only does it lead to a destruction of morality, but capitalism is also seen as inherently self-destructive. Its creativity rests upon a moral heritage from an earlier period; one which it consumes but which it cannot replenish. What is more, what it consumes are the very conditions of its own stability: it cannot reproduce in its citizens the kind of behaviour needed to ensure its own survival. The pious capitalist, driven by a morality inherited from a previous age, creates wealth; but his descendants receive this wealth — and that of an entire society created by such people — as an unearned inheritance. They enjoy it, creating as they do so characters — their own — which are no longer able to sustain the kind of behaviour needed for the society in which they live to flourish, or even to survive.

### **Adam Smith and the Disadvantages of Commercial Society**

In the last few years, much ink has been spilled over the interpretation of Adam Smith's work. Less prominent now is the Adam Smith who for so long figured in accounts offered by economists: the twentieth century neoclassical economist who had incomprehensibly got some things wrong both about the theory of value and as to where government should intervene, but whose ideas only stood in need to some technical reformulation in terms of modern economics to make them right as rain. In its place, there has been a long-running dispute between, on the one hand, those who follow Pocock and read Smith's work through civic humanist spectacles and, on the other, those who argue that his work is to be interpreted in terms of a natural law tradition in which the key names are Grotius and Pufendorf.<sup>5</sup>

In my view, there is something to be said for both approaches, at least in the sense of their supplying an intellectual context in relation to which we should understand Smith's work. However, while Smith was concerned with problems that relate to both of these traditions, there is much that is distinctive to his work.

Istvan Hont and Michael Ignatieff have argued that while Smith expressed concern for the loss of the well-rounded citizen of civic humanism in a commercial society in which wealth was produced through the division of labour, Smith clearly thought that commercial society was much to be preferred to what had gone before.<sup>6</sup> It generated not only wealth, but also independence and this was not reserved just for those who had land, but extended to all.<sup>7</sup> What is more, Smith gave his own striking

reading of civic humanist concerns about the corrupting influence of wealth, re-interpreting them in terms of his own theory of the generation of wealth through the division of labour and his theory of moral sentiments. Rather than generalized pieties; Smith offered us specific analysis.

The corrupting influence of wealth was re-interpreted by Smith as a theory of the debilitating consequences of the division of labour in commercial society. Individuals participating in precisely the division of labour that he had described in his paean to productivity, his account of the pin factory, had their bodies crippled and their imagination cramped through leaving the variety of work experienced by a country labourer for the minutiae of their tasks in the workshop. There, their endless operations and their imagination were concentrated on such tasks as the manufacture of the head of a pin. Beyond that, Smith analyzed the military vulnerability of such societies to less developed societies in structural terms. He gave a striking sketch of the way in which, with the development of the arts and commerce, leading citizens became interested in these occupations, found them lucrative, and preferred the enjoyment of the luxury that they brought with them to military service. As a result, "it falls to the meanest to defend the state".<sup>8</sup>

Now in fact, Smith offers us this diagnosis in two separate places in his writings. On the first occasion, it occurs in the course of Smith's discussion of public jurisprudence. It is there followed by an account of the fall of the Roman Republic and Empire. Essentially, Smith argues that Roman citizens found it more attractive to hire mercenaries — and eventually, barbarians — to fight for them, rather than to give up their more profitable and interesting occupations. But the result was that the Roman Empire found itself at the mercy of these barbarians, as an unintended consequence of these citizens behaving (unreflectively) in a manner that came naturally to them.

On the second occasion when Smith offers what is essentially the same analysis, he concludes:<sup>9</sup> "This is our present situation in Britain." On this occasion, however, Smith goes on to suggest ways round the problems to which these matters led in Rome, urging that leading citizens should participate as officers in a militia. Smith's suggestion is of interest just because, by offering this analysis and making these recommendations, Smith seems to be suggesting that those whom he addresses may be led to act in ways other than they might be prompted to do by unreflective self-interest, through his offering them an account of the undesirable consequences that would follow from such unreflective conduct. To this theme we will return.

As far as morality was concerned, in *The Theory of Moral Sentiments* Smith gave an account of the way in which we come to recognize our actions as having moral characteristics by discovering these in the mirror of other people's reactions to us — just as his friend David Hume had suggested that we might discover that we have bad breath. According to Smith, we are attuned to the judgements of others, generalize and improve upon them and finally internalize them as our conscience, and modify our conduct accordingly. What is striking in his account is his picture of morality as an inter-subjective product — and of the way in which our moral character thus depends on the judgements of others. In this respect, it seems to me that Smith's views are quite different from views which are based upon self-interest, and from the post-Grotian natural law tradition's concern for survival. They are closer to Hutcheson's views; but they point beyond them to an intersubjective, quasi-cognitivist approach to ethics which seems to me suggestive of both Popper and Habermas. This, however, is not an issue that I can pursue here.<sup>10</sup>

Smith reinterprets the civic humanist's concern with the breakdown of morality through an account of the way in which the situation of an ordinary person differs when he is in a village and when he leaves that village for one of the growing cities of a commercial society. In Smith's account, morality depends upon the monitoring of one's conduct by other people. And as Smith puts it, in a village an ordinary person has "a character to lose";<sup>11</sup> if he goes wrong, chances are that someone may see him, recognize him, and tell everyone what he has been up to. But if he goes off to one of the cities that become of growing importance in commercial society, then no-one knows much about him, or cares much what he does. Accordingly, Smith fears that in this setting such people may fall into degeneracy and vice; not least as they may be financially better off than they were back home in the village.

So far, then, we have encountered Smith's concern for the effect on character, physique and military prowess of the division of labour; the former of which was a starting-point for part of Marx's analysis of alienation.<sup>12</sup> In addition, we have an account of the loss of moral character associated with a move by ordinary people to the anonymity of a city; an analysis of anomie. But there is also, in Smith, a suggestion that there are problems concerning the stability of commercial society, as well. To appreciate this, we need to look briefly at Smith's account of the legitimacy of government.

### **Smith on Political Legitimacy**

In recent years, there have been attempts to understand government in terms which draw their inspiration from Thomas Hobbes and David Hume. Those who undertake such activities, however, would often see themselves as Adam Smith's children, in the sense that they bring to this task ideas drawn from economic theory. In my view, they would do better if they were to pay attention to what Smith himself says about morality, and on the topic of political legitimacy or why we obey the magistrate.<sup>13</sup>

In his *Lectures on Jurisprudence*, Smith considers that there are two rationales for government; utility, which he identifies with the Whigs; and authority, which he identifies with the Tories. Smith's discussion is brief. However, Smith's theory of ranks in his *Theory of Moral Sentiments* offers his own explanation of the latter idea. Smith's account is suggestive; what is more, it is not based upon self-interest. While in the *Lectures on Jurisprudence* Smith writes that "superior wealth... contributes to confer authority", he explains at once that: "This proceeds not from any dependence that the poor have upon the rich, for in general the poor are independent, and support themselves by their labour, yet though they expect no benefit from the rich, they have a strong propensity to pay them respect".<sup>14</sup> Rather, this authority depends, in Smith's account, upon another human concern: our reaction to those who seem in a particularly fortunate social position. Now the economist, faced with such a description of what Smith is writing about, would typically be extremely unhappy, and would set about trying to offer an analysis of whatever is said in terms that go back to individuals' self-interest. But there seems to me no reason why we should believe that good explanations must be couched in such terms.

First, there are good *prima facie* reasons for thinking that we are not exclusively self-interested. Our day-to-day lives are replete with moral conduct the phenomenology of which simply does not have a self-interested character. And while this obviously does not settle the issue, our personal experience of our own moral lives certainly constitutes material which requires explanation if a purely

self-interested account of our behaviour is to be accepted as correct.<sup>15</sup> Further, there seem good biological reasons for supposing that there are strong payoffs — in terms of the survival of our genes — to our having significant instinctive responses to altruism directed towards those with whom we are likely to be closely related.<sup>16</sup>

But why should economists (and those whom they have influenced) presume that we are self-interested? It seems to me that it is largely the result of a misunderstanding of the status of the principles of their own science. When we are dealing with large numbers of people acting in commercial settings (or more specifically, dealing with people on a relatively anonymous basis), there is a rationale for treating them as if they are profit maximizing. The consumer in a supermarket is a paradigm case here. People may be employed precisely to engage in such behaviour; for example, if they are working on the Stock Exchange. And, as Smith suggested, people may need to have recourse to self-interested behaviour for the sake of self-defence.<sup>17</sup> But all this does not require that we attribute self-interested motivation to people's more ordinary conduct.

Alternatively, it is sometimes suggested that all human behaviour should be understood in terms of subjective maximization. This may range over whatever it is that we are interested in, rather than just pecuniary gain or even self-interest in a narrow sense. It is often also suggested that subjective maximization provides the underpinnings for neo-classical economics. However, it is quite another matter as to whether economists can actually explain much upon such a basis. One interesting way of passing the time is to spot where it is that an economist who makes a big deal of offering such a rationalization of his work passes from it to the simplified model of human motivation on the basis of which he is going to do his real explanatory work — it is a bit like trying to spot how a conjurer does his tricks.

There is more to this second point. Within a subjective maximization approach, the content of human motivation is a wild card. But the fact that we may legitimately treat all human concerns in this way for some purposes should not allow us casually to assume a non-cognitivism which makes no distinction between matters of brute fact about our tastes, and views, ideas and preferences which individuals hold open to validation through inter-subjective argument. If this distinction is ignored, the economist is able to score cheap points, as the pursuit of moral or cognitive concerns can be represented all too easily as the pursuit of bare preferences by what — when treated as such — look like illegitimate means.

This criticism, if it is correct, does not in any way undermine economic theory, or even some of the more interesting ventures in economic imperialism such as public choice theory.<sup>18</sup> But it does suggest that there is no reason why we should not accept that people may act on the basis of inter-subjectively appraisable theories and judgements as well as on the basis of simple preferences. And we should also be ready to accept suggestions that people are motivated, psychologically, other than on the basis of self-interest, as in Smith's theory of ranks.

Smith there pictures us as projecting onto people in a fortunate social position our own picture of an ideal life, and then being influenced by the resulting partial exemplification of our own fantasies. We are disposed to act so as to assist these people in the fulfillment of their wishes — even in situations where we will not get anything in return — and are influenced by their views and opinions.

Smith pictured this mechanism as operating in respect of the people who held positions of rank in his own society, such that their views and concerns became impressed upon ordinary people. But — and here is the problem — while in Smith's society there was a connection between the people in respect of whom his mechanism would operate and the kind of views that the rest of us would need to have in order that a commercial society would function, there are reasons to suppose that these things may become uncoupled.

In our own society, it would seem to me that Smith's mechanism is at work. But the objects onto whom many of us project our fantasies are pop stars, sports heroes, film stars, get-rich-quick self-promoting businessmen, get-rich-quick self-promoting television evangelists, and so on. (One might also note that the influence exercised over some on the Left by the Soviet Union, Cuba and China might be understood as the result of the operation of — appropriately — a collectivist version of much the same mechanism.)

It is not, I should stress, that I am simply expressing distaste for these people and for the ways in which they influence others. The question, rather, is whether these figures, through the operation of Smith's mechanism, contribute to the legitimacy of a society like that which Smith favoured: whether they lead people to respect private property and other people's rights. Conservatives in Britain might point to the Royal Family as still exercising an influence of the kind that Smith had in mind. But while many things could be worse than those with which the Royal Family is associated,<sup>19</sup> their favoured causes and occupations do not have the consequence with which I am here concerned: the legitimization of the principles of commercial society.

Now it is not, I believe, ahistorical to raise this issue in relation to Smith's work. For in his last revision of *The Theory of Moral Sentiments* a few years before his death, Smith inserted into his text a new chapter in which he expressed his concern about just such issues. While reaffirming that the “disposition to admire, and almost to worship, the rich and the powerful” was “necessary both to establish and to maintain the distinction of ranks and the order of society”,<sup>20</sup> he expressed concern that the rich “man of fashion” may exert a terrible influence on the poor.

Smith's Solutions, and their assessment Smith's work thus suggests that there is indeed something to the idea that the operations of commercial society may have demoralizing and destabilizing consequences. Let us now look at Smith's responses to these problems, and at their adequacy.

On the problem of the undesirable effects of the division of labour, Smith's response was to suggest governmental intervention. The form that this took was characteristically Smithian: he thought that the problems concerning people's mentality would be overcome if they had some education. And if they would not acquire this naturally — i.e. as prompted by the incentives of their situation — he wished the state to create such incentives for them, through the requirement of a measure of education, especially as an entry condition for certain trades and professions.<sup>21</sup>

It might be said: but what of the physical side of the intense division of labour? Here an answer was offered by his compatriots Lauderdale and Dugald Stewart and later by Hegel: that the problem of humans being turned into little more than machines admitted of resolution through the mechanization of the tasks in question.<sup>22</sup> One must not exaggerate the power of this response, as we are dealing with a continuing

process in which jobs which at any one point are skilled may later become matters of routine and subsequently mechanized.<sup>23</sup> But it can be added that, in a world in which such changes become a commonplace, people's own situations provide them with an incentive to acquire an education, and on a continuing basis, so that they may enjoy the returns to human capital to which it leads. This means that we are less likely than Smith seemed to think to need the state to intervene to supply people with incentives to acquire an education.<sup>24</sup> As to the person who at any one time is to be found doing dull, repetitive work, at least it can be said that he is choosing it in preference to other occupations; some of which — as in the case of Smith's country labourer — may be more interesting but a lot less well remunerated.<sup>25</sup>

Second, what of the problem of anomie; of the loss of morality in the anonymity of a large city. Smith there suggests that a partial solution is available without the intervention of the state: that those who feel the lack of a strict morality may supply it — and as much monitoring as they may wish — for themselves through the formation of religious sects. However, this poses two problems, in its turn. First, there may be those who do not naturally join such groups, who positively relish the fact that in a city no-one is snooping on them, and that — short of aggression against others — they can do pretty much what they want. Second, what of those who join groups the characteristics of which have bad consequences for the wider society? Smith, it might be noted, seemed worried by the character of religious sects<sup>26</sup> on the latter score, suggesting that their over-strictness in morals was a proper concern for the state, and that it might be modified, again by imposed educational requirements. These, he thought, would affect those of higher status in these sects; and through the operation of the mechanisms of his theory of ranks, their conduct would in turn affect that of more ordinary members.

But this still leaves us with two problems: first, those who do not join such groups at all; and second those who join groups which are genuinely antisocial in their character.<sup>27</sup> Further, the reader of Smith's work who is caught up with its wider libertarian spirit might well be concerned about the fact that Smith is having recourse to the state at all in the face of such problems.

In my view, it is not necessary that we here follow Smith's lead. For the very anonymity of life in a city may itself prompt a solution to these problems. After all, those who will be interacting with our anonymous individuals will have a strong need to be able to tell whether or not they can trust them. And those individuals, themselves, will have a strong incentive to find some manner in which they can reassure people that they are, indeed, trustworthy and sober. Such a role has been played, historically, by the membership of religious groups, or through informal associations based upon kinship or some tie to an original location from which people moved to a city or to another country. But there would seem no reason why such services could not be provided upon a basis that does not hark back to some earlier social formation. To a degree this already happens in the anonymous and mobile society of the United States, where a credit card (and its associated credit rating) provides such a guarantee concerning one aspect of a person's life. There seems to me no reason to suppose that similar devices could not play a role in respect of other facets of people's lives. So-called "smart cards" could presumably encode all kinds of relevant information, which would be made available when interacting with a person for the first time.

The threat of bad reports on their record with the issuing company or society would give people a strong incentive not to blot their copybook. The possession of such a



card would serve as a check on the features of a person's behaviour that are relevant to other people. This would mean that the person who does not join one of Smith's sects would have a strong incentive to find some other way in which his conduct could be guaranteed to other people. And the person who overcame his anomie through joining some other kind of group — say, a chapter of Hell's Angels<sup>28</sup> — would discover that it was important to him to acquire, and quickly, an alternative affiliation that would guarantee his conduct as reputable.

Smith's personal distaste for the “disagreeably rigorous morals” of the sect, it seems to me, is not in itself a matter for public concern. Smith — and others who feel as he does — would have to express their preferences through private acts of discrimination. Indeed this — together with the need to keep up our “morality rating” — may be all too effective. Rather than market-based societies leading to immorality and unconventional behaviour, I suspect that the end-result of mechanisms such as those to which I have here referred would be an over-moralized society, in which there is not as much room for individual eccentricity as I, certainly, would find attractive. But I will not here attempt to rework Mill's *On Liberty* which in its concern with this issue seems to me still very much to the point.

### **The Theory of Ranks in Modern Commercial Society**

We are left, I believe, with a problem unresolved. It is the problem posed by the way in which the conduct that is fostered in ordinary people by the operation of Smith's theory of ranks may be dysfunctional to the operation of commercial society. The person who is influential may be the man of fashion, the self-promoter, or worse, such that his influence, rather than legitimating, serves to destabilize commercial society. In addition, dispositions which are perfectly adequate to govern people's behaviour on a one-on-one basis may not necessarily generate the behaviour needed to sustain the institutions of a commercial society.

In my view, there is a possible solution for such problems, which does not require that we have recourse to coercion by the state. It does, though, require a measure of theoretical reflection upon our situation, and that action be taken upon that, rather than upon the incentives provided to people by their situations if they react to them unreflectively. The reflection that is required is that presented in the present essay!

Now supposing that this essay is read and its essential correctness — if such it be — understood. Am I suggesting — after the fashion of Hegel — that our achieving theoretical self-consciousness will in itself solve our problem? My answer is, no. For what is needed is action; action on the part of the very people whom Smith pinpointed — the wealthy and powerful; more specifically, those who have been successful, and by regular means, in industry, in commerce, and in all fields of achievement within commercial society. What in my view is required is that they take the (to them) unnatural move of stepping into the limelight and telling the rest of us what their jobs involve on a day-to-day basis, and why in that context they value the things that they do.

Today, much is heard of the moral responsibility of businessmen and, more generally, of those who are creative and successful. This may amount to pleas that they involve themselves in genuinely charitable activity, which is fine. But it all too often turns into a way in which these people are pressured into supporting causes which work against the institutions of the market-based society upon the operation

of which they have relied for their success. In my view, such people have a moral responsibility to those institutions. The way in which such a responsibility is best discharged would, in my view, be for them to overcome their natural modesty and concern for their own privacy, and be willing to make themselves — and their success — visible, and to explain clearly what their day-to-day tasks consist of, and their appreciation for the institutions on which they depend in the creative activities of their day-to-day lives.

Such activities would display them as creators and as role-models; as people involved in creative problem-solving, and as people to be emulated. It is a chastening thought that almost no-one in our society, not least those involved in education, has the faintest idea what such people actually do on a day-to-day basis, or how the key institutions of our society actually work. If the successful performed such a role, it would also present them as objects upon which Smith's theory of ranks could operate. They would take their place alongside — and, I believe, outshine — the motley collection of hucksters, self-promoters, and media “stars” who are currently held up for our emulation, and whose lives serve as objects upon which we project our dreams, and by whom we are, then, influenced, and whose influence serves to undermine our compliance with the institutions of commercial society. If the leading figures of our society were willing to put themselves on display and to dazzle us with their achievements, and to impress us with their practical knowledge of the workings of the institutions of commercial society,<sup>29</sup> a respect for these would, I believe, be communicated to the members of our society, along the lines that Smith suggested.

But it might be said, if all this is correct, am I not asking too much? Is it not enough for businessmen to be businessmen, the creative to be creative? My answer is: no. For without putting themselves in the limelight and articulating their day-to-day concerns, it will not be possible for the mechanism of Smith's theory of ranks to do its work in a modern context. These people must follow the lead of the wealthy people whom Smith himself urged, against their natural inclinations, to take their place in the senior ranks of the militia. For it is only if they behave in this way that the rest of us will be influenced by their concerns — and thus led by the mechanisms of Smith's theory of ranks to uphold the institutions of commercial society.

This paper takes further themes explored in my *Adam Smith's Second Thoughts*, Adam Smith Club, London, 1983, and at greater length in my “Morality and Social Identity in a Commercial Society” forthcoming in *Reason Papers*. I have benefited in writing this paper from discussion of their unpublished work with Istvan Hont, David Levy and Susan Feigenbaum.

## NOTES

1. On which compare F.A. Hayek (ed.) *Capitalism and the Historians*, Chicago, 1954, and R.M. Hartwell and others, *The Long Debate on Poverty*, London, 1974.
2. Compare, for a survey of this debate, Don Lavoie, *Rivalry and Competition*, Cambridge, 1983.
3. See, for example, Julian Le Grand and Saul Estrin (eds) *Market Socialism*, Oxford, 1989 and Jon Elster and Karl Ove Moene (eds) *Alternatives to Capitalism*, Cambridge, 1989; see also Anthony de Jasay, *Market Socialism: A Scrutiny*, London, 1990.
4. See, for example, J.G.A. Pocock, *The Machiavellian Moment*, Princeton, 1975.
5. It should be noted that their views are hardly natural law in the sense in which this is related to a teleological metaphysics. For an interesting account see Knud Haakonssen, "Natural Law and Moral Realism: The Scottish Synthesis", in M.A. Stewart (ed.) *Studies in the Philosophy of the Scottish Enlightenment*, Oxford, 1990.
6. See I. Hont and M. Ignatieff, "Needs and Justice in *The Wealth of Nations*", in Hont and Ignatieff (eds) *Wealth and virtue*, Cambridge, 1983.
7. See J. Moore and M. Silverthorne, "Gershom Carmichael and the Natural Jurisprudence Tradition in Eighteenth Century Scotland", in Hont and Ignatieff (eds) *Wealth and Virtue*.
8. See Adam Smith, *Lectures on Justice*, ed. Cannan, p. 261; compare also pp.32–4; see, for fuller discussion, my (unpublished) "Adam Smith and the Materialist Theory of History".
9. See Adam Smith, *Lectures on Justice*, p. 261.
10. See on this my "From Brother Sense to Brother Man" delivered at the AAPSS panel on Adam Smith's *Theory of Moral Sentiments* at the American Philosophical Association, Eastern Division, New York, December 1987. Compare also Haakonssen's "Natural Law and Moral Realism" and James Moore, "The Two Systems of Francis Hutcheson", in Stewart (ed.) *Studies in the Philosophy of the Scottish Enlightenment*, and on Habermas and Popper, my "Juerger Habermas: A Critical Approach", *Critical Review*, 2, Number 1, Winter 1988, pp. 39–50 and my "Epistemological Limits of the State", *Political Studies*, 38, 1990. pp. 116–25.
11. See Adam Smith, *Wealth of Nations*, Glasgow edition, volume 2, part 5, section 1, p. 795.
12. Compare Marx's lengthy quotation from Smith on this topic in *Capital*, volume 1, Part IV, chapter 14, section 5.
13. See Adam Smith, *Lectures on Jurisprudence*, Glasgow edition, p. 401.
14. *Ibid.*
15. Compare, on the kind of "fact-correcting" explanation that would be required, Karl Popper, "The Aim of Science", *Objective Knowledge*, Oxford, 1972.
16. Compare Richard Dawkins, *The Selfish Gene*, London, 1974.
17. See Adam Smith, *Wealth of Nations*, Book 1, chapter xi, part 1: "... good management... can never be universally established but in consequence of that free and universal competition which forces everybody to have recourse to it for the sake of self defence".
18. Indeed, such a distinction is in my view needed if we are to appreciate the full force of public choice analysis. For if it is not made, rent-seeking becomes simply another form of self-interested human behaviour, on a par with all others. If, on the other hand, the distinction suggested in my text is borne in mind, then rent-seeking can properly be judged an exploitative abuse of the public realm by those who predate on other citizens, rather than honestly trading or arguing with them.
19. With the possible exception of the British Commonwealth.

20. See Adam Smith, *The Theory of Moral Sentiments*, Part I, section 3, chapter 3, Glasgow edition, pp. 61–6. My attention was drawn to this material and its significance in this context by George Davie. See also his review of the Glasgow edition of *The Theory of Moral Sentiments* in *British Society for Eighteenth Century Studies: Newsletter*, 12, June 1977, pp. 28–30. See also my *Adam Smith's Second Thoughts* for fuller discussion of this theme.
21. See *Wealth of Nations*, volume 2, pp. 781 and 785–6, but also later in my text for the suggestion that government intervention may not be necessary.
22. See Istvan Hont, “The ‘rich country — poor country’ debate in Scottish classical political economy”, in Hont and Ignatieff (eds) *Wealth and Virtue*, p. 312 and also G.W.F. Hegel, *Philosophy of Right*, paragraph 198; compare also the suggestions that Marx eventually offers in *Capital*, volume 3.
23. The dynamic character of this process is among the reasons why I think that Margaret Radin is incorrect in suggesting that regulation is an appropriate response to this problem. Compare her “Justice and the Market Domain”, in J. Chapman and R. Pennock (eds) *Markets and Justice*, New York, 1989.
24. Compare on this my “Investing in Human Capital”, forthcoming in *Economic Affairs*.
25. Although it pertains to the period after Smith was writing, it is worth recalling that those who — say — moved to growing cities like Manchester typically did so in order to better themselves. Compare, on this issue, *The Long Debate on Poverty*.
26. See *Wealth of Nations*, volume 2, pp. 795–6.
27. On Enlightenment concerns about sectarianism as a threat to social order, see J.G.A. Pocock's fascinating “Conservative Enlightenment and Democratic Revolutions”, *Government and Opposition*, 24, number 1, 1989, pp. 81–105.
28. An objection that David Gordon offered me to an earlier formulation of some of these ideas.
29. I should mention explicitly that the concern, in my text, is with the practical and relatively atheoretical knowledge that these people possess of the institutions of their society. Legitimation of a theoretical kind is, I believe, best pursued through critical debate in the academy and in private ideas-related institutions.