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**Schumpeter's Assessment of Adam Smith and *The Wealth of Nations*:
Why He Got It Wrong**

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Abstract

In his *History of Economic Analysis*, Joseph Schumpeter (Schumpeter 1954a) dismissed Adam Smith's *Nature and Causes of the Wealth of Nations* (Smith 1976) in a blunt and *ad hominem* manner. We argue that Schumpeter's assessment resulted from his failure to appreciate the rhetorical structure of Smith's masterpiece, a failure largely due to Schumpeter not having access to student notes of Smith's lectures on rhetoric that surfaced only after Schumpeter's death.

“His very limitation made for success. Had he been more brilliant, he would not have been taken so seriously. Had he dug more deeply, had he unearthed more recondite truth, had he used more difficult and ingenious methods, he would not have been understood. But he had no such ambitions; in fact he disliked whatever went beyond plain common sense. He never moved above the heads of even the dullest readers. He led them on gently, encouraging them by trivialities and homely observations, making them feel comfortable all along.” (Schumpeter 1954a, 185)

Joseph Alois Schumpeter (1883 – 1950) is generally considered one of the most influential economists of the 20th century¹. Born in what is now the Czech Republic, and what was then Austria-Hungary, he got his university education in Vienna. After a checkered career with many trials and tribulations in politics, business, finance, and academia (including a seven-year stint as professor at the University of Bonn), and compounded by turmoil in his personal life (see Swedberg’s introduction to Schumpeter (2003 [1954], p. xii), he left Germany for good in 1932 and spent the balance of his academic career at Harvard University. The years there also had their challenges (see Swedberg’s introduction to Schumpeter (2003 [1954], pp. xiii - xiv) but they did allow Schumpeter to be reasonably productive, as evidenced by Schumpeter (1954a) and Schumpeter (2003[1954])

. As a first approximation, his tremendous influence is evident in his scholar google citations. Schumpeter (1954a), as of the writing of this article, has attracted almost 9,000; Schumpeter (2003[1954]) – on the laws of motion of Capitalism, Socialism, and Democracy, a book that introduced the world to the concept of creative destruction through entrepreneurship – has amassed in excess of 35,000.

Schumpeter’s assessment of Smith, and his work, was ambivalent. While he spoke highly of parts of Smith’s oeuvre such as “Principles which lead and direct Philosophical Enquiries; illustrated by the History of Astronomy” (Smith 1980), he dismissed other parts such as Smith’s *The Wealth of Nations* (Smith 1976; from here on *WN*). In fact, Schumpeter was so taken aback by what he considered Smith’s pitiful performance in *WN* that he questioned Smith’s intellectual mettle as we can see from the opening four sentences of the quote that opens this manuscript as well as the opening quotes in the following section.

¹ See Swedberg’s introduction to Schumpeter (2003 [1954], or the creditable Wikipedia entry.

We argue that Schumpeter's harsh assessment of both *WN* and Smith resulted from his failure to appreciate the rhetorical structure of *WN* and, ultimately, his ignorance² of Smith's rhetorical strategies, as expounded in *Lectures on Rhetoric and Belles Lettres* (Smith 1983; from here on *LRBL*)³. Elsewhere, we argued that Smith understood each of his writings to be a strategic enterprise (Collings & Ortmann 1997; Ortmann & Walraevens 2015) and that the structure of *WN* in particular reflected the need to persuade a hostile audience (Ortmann & Meardon 1995; Ortmann & Walraevens 2015).⁴ In our view, the observation that Smith "never moved above the heads of even the dullest readers" and that he "led them on gently, . . . , making them feel comfortable all along" reflects a lack of understanding of a deliberate rhetorical device suggested in *LRBL* for the kind of audience that he anticipated for *WN*. Schumpeter's ill-founded inference that "[Smith] disliked whatever went beyond plain common sense" is in our reading (see also Ortmann & Walraevens 2015, 2016) unfounded.

Contrary to Schumpeter's claim that Smith "disliked whatever went beyond plain common sense," Smith considered the choice of a particular style as contextual. While Smith advocated "perspicuity of stile" (Smith 1983, Lecture 2) as a guiding principle and was indeed skeptical of too many figures of speech, ornaments, and tropes (Smith 1983, pp. 25 – 26), for the particular audience and purpose of *WN*, Smith chose the style that Schumpeter so harshly

² The word "ignorance" has a number of meanings such as "the state of being unlearned." The meaning we attach here is "the state of being unaware or uninformed" (www.m-w.com).

³ Schumpeter's negative assessment of the *Wealth of Nations* is due not to a wholesale neglect of matters of presentation and style since, as he wrote, he was more concerned about "how he (Smith) argued" than about "what he argued". (Schumpeter 1954 a, p.36) It is precisely the issue of how Smith argued, and why he did so, that we differ from Schumpeter here.

⁴ The importance of rhetoric for understanding Smith's work has been increasingly acknowledged over the last couple of decades; see for example, and in chronological order, Bevilacqua 1968, Howell 1975, Bryce 1976, Endres 1991, Bazerman 1993, Brown 1994, Fleischacker 2004, McKenna 2005, Salber Philips 2006, Peaucelle 2012, Herzog 2013.

criticized, and its rhetorical structure, quite intentionally. For other audiences and purposes, Smith chose styles and mode of persuasion that won him even the admiration of Schumpeter.

The remainder of this manuscript is organized as follows: In section 1 we survey Schumpeter's assessment of Adam Smith and his work, especially *WN*. In section 2 we summarize the relevant ideas from *LRBL*. In section 3 we summarize what we know about the intended audience and purpose of *WN*. In section 4 we briefly summarize why Schumpeter got his assessment of *WN* and Smith wrong.

1. Schumpeter's assessment of Adam Smith and his work

"A. Smith's political principles and recipes – his guarded advocacy of free trade and the rest – are but the cloak of a great analytic achievement." (Schumpeter 1954a, 39)

"The fact is that *The Wealth of Nations* does not contain a single analytic idea, principle, or method that was entirely new in 1776." (Schumpeter 1954a, 184)

"The pearl of the collection is the first essay on the 'Principles which lead and direct Philosophical Enquiries; illustrated by the History of Astronomy.' Nobody, I venture to say can have an adequate idea of Smith's intellectual stature who does not know these essays. I also venture to say that, were it not for the undeniable fact, nobody would credit the author of *The Wealth of Nations* with the power to write them." (Schumpeter 1954a, 182)

"His mental stature was up to mastering the unwieldy material that flowed from many sources and to subjecting it, with a strong hand, to the rule of a small number of coherent principles." (Schumpeter 1954a, 185)

Schumpeter had come to his assessment of Smith's contributions early in his career.

To wit:

"Had he dug more deeply, he would not have been understood. His masterly presentation has been praised justifiably and yet this is not altogether a compliment. Nobody dreams of praising or blaming the style of Newton or Darwin. They stand above such merits or defects, while Smith does not. . . . Today we can be under no illusions about Smith's intellectual dimensions since

we can clearly enough distinguish between pedestal and monument.” (Schumpeter 1954b, 65)

The preceding quotation is from roughly four pages of reflection on Smith’s method in Schumpeter’s *Economic Doctrine and Method* (originally published in 1912 as *Epochen der Dogmen-und Methodengeschichte*). Smith is characterized as “a man of systematic work and balanced presentation, not of great new ideas, but a man who above all carefully investigates the given data, criticizes them coolly and sensibly, and co-ordinates the judgement arrived at with others which have already been established. Thus this man with a crystal-clear mind created his magnificent life-work from existing material and by treading on familiar paths.” (Schumpeter 1954b (1912), 65) Smith as a systematic assimilator, talented synthesizer, and masterly presenter who played it safe is the blueprint of the sketch provided in Schumpeter (1954a).⁵

Schumpeter’s assessment in *Economic Doctrine and Methods* was based on his reading of the Cannan-edition of *WN*, the biographies by Stewart, Leser, and Rae (“altogether the most thorough work”), and secondary literature by several German authors of the 19th century such as Roscher, Dühring, and Hasbach, as well as articles on Adam Smith in *Handwörterbuch der Staatswissenschaften* and *Palgrave’s Dictionary* (Schumpeter 1954b, 64, footnote 2).

⁵ By way of qualifying this statement, we note that one can find in Schumpeter (2003[1954]) occasional praise of Smith’s *Wealth of Nations*, and more precisely of some parts of it, as in the following passages:

“But though the *Wealth of Nations* contained no really novel ideas and though it cannot rank with Newton’s *Principia* or Darwin’s *Origin* as an intellectual achievement, it is a great performance all the same and fully deserved its success.” (Schumpeter 1954a, p.180) Talking about book IV of the *Wealth of Nations*, he writes: “we have a masterpiece before us, a masterpiece not only of pleading but also of analysis.” (ibid, p.181) And according to him, the “third Book did not attract the attention it seems to merit. In its somewhat dry and uninspired wisdom, it might have made an excellent starting point of a historical sociology of economic life that was never written.” (ibid, p.181) Notwithstanding these very occasional positive assessments, Schumpeter makes on balance clear to the reader that Smith’s performance was for the most part pedestrian and that of someone whose life experience was seriously deficient (see, for example, Schumpeter’s cutting remarks about Smith’s relation to women and what they are supposed to tell us about his insights into human nature; Schumpeter, 1954a, p. 177)

Schumpeter's assessment in *History of Economic Analysis* was based on his earlier assessment, namely the Cannan-edition of *WN*,⁶ and assorted other references such as Marx's *Theorien über den Mehrwert* (Schumpeter 1954a, 183, footnote 15).

None of the English-language references in *Economic Doctrine and Method* pay significant attention to issues of rhetoric.⁷ Cannan who drew heavily on Stewart (1980) and Rae (1895) did not address them at all. In fact, in his editor's introduction to *Lectures on Justice, Police, Revenue and Arms* (Smith 1896, xi-xxxiv) Cannan made it very clear that knowing the LRBL would be nice but ultimately inconsequential.⁸ Stewart drew heavily on Millar's account of Smith's lectures while a professor at Glasgow. He mentioned that Smith read on rhetoric and belles lettres, and quoted Millar as suggesting that according to Smith "the best method to explain and illustrate the various powers of mind, the most useful part of metaphysics arises from an examination of the several ways of communicating our thoughts by speech, and from an attention to the principles of those literary compositions which contribute to persuasion or entertainment." (274) Stewart (e.g., 1980, 275-6, 191-2, 319-20, 323) also mentions repeatedly that Smith's presentation typically followed Smith's own maxim of "perspicuity of style" (Smith 1983, Lecture 2), both in delivering lectures and in writing. Nowhere, however, did Stewart do

⁶"To Professor Cannan we owe by far the best of the many editions of the *Wealth of Nations* (1904; republished many times, 6th ed. 1950) which contains a most valuable introduction ... " (Schumpeter 1954a, 183).

⁷It's unlikely that any of the German references did, as those authors' access to Smith's work was filtered through the available English-language publications including accounts like those of Stewart. Hasbach (1890) who Schumpeter drew heavily on (see, for example, the footnotes on pages 4, 26, 64 of Schumpeter 1954b) and who himself also drew on Stewart, pointed out that Smith employed both deductive and inductive method (1890, pp. 136-140). However, there is not even an allusion to the importance of Smith's rhetorical strategies.

⁸"From a purely biographical point of view it would doubtless be extremely interesting to have before us the text or a full report of Adam Smith's lectures of rhetoric, belles lettres and natural theology. But these are not of historical importance. However excellent any of them may have been, they had not the opportunity of exercising a very wide influence in their own time, and it is of course idle to expect that anything first printed a century and a half after it was written will ever have much influence on human thought or action." (Smith 1896, xiv)

justice to Smith's very explicit conception of listener-speaker or reader-writer interaction as a strategic enterprise. (To be discussed in more detail in section 2 below.) Rae, drawing heavily on the words of Stewart and Millar, came to a very similar conclusion. He discussed to what extent Blair's *Lectures on Rhetoric and Belles-Lettres* drew on Smith's (Rae 1895, 32-34). However, like others (e.g., the authors of the *Palgrave's Dictionary* and *Handwörterbuch der Staatswissenschaften* entries) he failed to discuss the persuasive dimension of rhetoric.

2. *Smith on Rhetoric*

“[Newtonian method] [Didactick method] As there are two methods of proceeding in didactical discourses, so there are two in Deliberative eloquence which are no less different, and are adapted to very conterary circumstances. The 1st may be called the Socratick method, ... In this method we keep as far from the main point to be proved as possible, bringing on the audience by slow and imperceptible degrees to the thing to be proved, and by gaining their consent to some things whose tendency they can't discover, we force them at last either to deny what they had before agreed to, or to grant the Validity of the Conclusion. This is the smoothest and most engaging manner. The other is a harsh and unmannerly one where we affirm the thing we are to prove, boldly at the Beginning, ... this we may call the Aristotelian method ... These 2 methods are adapted to the two conterary cases in which an orator may be circumstanced with regard to his audience, they may either have a favourable or unfavourable opinion of that which he is to prove” (Smith 1983, 146/7).

Schumpeter did not pay, quite consciously, much attention to Smith's biography (Schumpeter 1954a, p.176), probably thinking it was of no consequence for understanding his analytical principles and works. Had he done, it could have not escaped his attention how important rhetoric was for Smith throughout his life. Smith taught private lectures on rhetoric and belles lettres in Edinburgh from 1748 to 1751 at a very early stage of his career, i.e. before his first professorial appointment (Phillipson 2010, chapter 5). When, in January 1751, he was appointed professor of Logic and Metaphysics at the University of Glasgow, his teaching continued to include large portions of his lectures on rhetoric (Stewart, *EPS*, p. 274; see also

Phillipson 2010, chapter 6). Even though he was appointed to the more prestigious chair of Moral Philosophy within a year, Smith went on teaching rhetoric in private classes as a complement to his courses in moral philosophy (Ross 2010, p.128; see also Phillipson 2010, p. 127). In a letter to La Rochefoucauld, Smith even expressed his intention to publish a book in which rhetoric would have a major place (*Corr.* 248, p. 287).

The notes to his lectures on rhetoric are among those manuscripts that Smith had burned shortly before his death (Stewart 1980, 274; Rae 1895, 32). In the late summer of 1958, however, John M. Lothian discovered two volumes of student “Notes of Dr. Smith’s Rhetorick Lectures” which were subsequently published as *LRBL* (Smith 1983). While these notes are likely “to have lost the air of originality and the distinctive character which they received from (Smith)” (Stewart 1980, 274), a convincing case has been made that the manuscript is “a continuous collaboration between two students intent on making the notes as full and accurate a record of Smith’s words as their combined resources can produce.” (Bryce 1983, 4) Indeed, the *LRBL* document a remarkable success in that endeavor. The great pains that these two students took (Bryce 1983, 3 - 5) -- including several revisions of the basic text -- suggest that the notes are a fair representation of the original content, if not necessarily the original flair, of Smith’s “Rhetorick Lectures.”

There are many remarkable aspects of these lectures (Ortmann 2000; see also Pack 1991, chapter 6). Of particular note here is the emphasis that Smith gave to “perspicuity,” reflecting a radical departure from a tradition that put a premium on tropes, figures of speech, etc. and to the importance, for the “orator”, of putting herself in the shoes of the audience: “[w]hen the sentiment of the speaker is expressed in a neat, clear, plain and clever manner, and the passion of

affection he is possessed of and intends, *by sympathy*, to communicate to his hearer, is plainly and cleverly hit off, then and then only the expression has all the force and beauty that language can give it.” (Smith 1983, 25; see also pages 26 and 96) This, as Smith made very clear, did not mean that tropes and figures of speech should never be used; rather that their use ought to be a function of their communicative effectiveness. It did mean – as we shall argue below - that for the rhetoric enterprise which we conceptualize the *WN* to be, Smith had incentive to cleverly employ a neat, clear, and plain language that could take in “by sympathy” even dull readers.

Communicative effectiveness, Smith (1983, 96) argued furthermore, was always contextual and depended on subject matter, circumstances, character and manner of both speaker (writer) and listener (reader), as well as the rapport they had.⁹ If the crowd to be addressed was likely to be unfavourably inclined, then using the “Aristotelian method” of boldly affirming the thing to be proved at the beginning, was a rhetorical strategy that was likely to end in failure. A more promising strategy was the “Socratick method” of keeping as far from the main point to be proved as possible, bringing on the audience slowly and imperceptibly to the thing to be proved - leading it on gently -- , and putting it into a position where it could not easily refuse the validity of a proposition without incurring cognitive dissonance. It was this strategy that Smith recommended highly for rhetorical interaction with a crowd that was unfavourably inclined.

3. *Purpose and audience of WN*

Rima describes the circumstances that gave birth to the *WN* lucidly,¹⁰

⁹ Rae reported that Smith would sometimes select one of his students, as an unsuspecting gauge of the extent to which he managed to captivate the class. “I had him constantly under my eye. If he leant forward to listen all was right, and I knew that I had the ear of my class; but if he leant back in an attitude of listlessness I felt at once that all was wrong, and that I must change either the subject or the style of my address.” (1895, 57).

¹⁰See also Evensky (1989) and Book IV of WN for a more detailed account.

"Like most great works, *The Wealth of Nations* is the product of the man and the times. With respect to the times, it may be observed that during the last quarter of the eighteenth century the English business scene was already dominated by the capitalist enterpriser who hired wage labor and frequently did business using the corporate form of organization. Agriculture was still the most important industry, and the rural classes were still well off; but the technical strides being made, particularly in the textile and metalworking industries, were soon to call forth the Industrial Revolution. England had passed through its most extreme period of protectionism, and its foreign trade was making great forward progress as the huge trading companies of bygone decades gradually lost their privileges. Nevertheless, the restraints were still numerous and onerous, especially with the colonies, and the psychological moment to revolt had now come. *The Wealth of Nations* is, first and foremost, an attack against the principles and practices of mercantilism." (1972, 62)

In other words, Smith strikes at the foundation of the mercantilist system and its propensity to regulate the economy in favor of vested interests; a point forcefully made by a number of authors (e.g., Evensky 1989 and Pack 1991; see also Fleischacker 2004 and Ortmann & Walraevens 2015). Evensky suggests that Smith's arrival in London in 1773 provided him with a "new awareness of mercantilism. ... With this awareness came a growing frustration that the incentives in commerce lead merchants to behavior that is inconsistent with the social welfare." (p. 135) He argues that Smith's "new awareness" explains why it took him about three years (instead of the anticipated few months) to finish *WN*. While we believe that there is something to that story, in Ortmann & Walraevens (2015)– drawing on a number of additional and more recent sources including the outstanding Phillipson (2010; see also 2013), and echoing a theme in Ortmann & Meardon (1995), we refine this argument.¹¹

Specifically, drawing on a number of sources including Fleischacker (2002, 2004) and Phillipson (2010), we argue that the *WN* was a very American and political book – in fact for some of Smith's supporters too political a book – and that the sequencing of the *WN*'s Books, suggests a contextually sensitive and strategically-written book, with a special emphasis on the

¹¹ The following paragraphs paraphrase the conclusion of Ortmann & Walraevens (2015); for the detailed argument please see that manuscript.

overlooked Book V. It is here where Smith addresses the incentive-compatible organization¹² of joint-stock, educational, and ecclesiastical organizations (Ortmann 1999) as well as the ways of addressing externalities and dealing with the provision of various public goods (Ortmann & Walraevens 2015)..

Smith was motivated and alarmed by the “enormous debt of Great Britain” (*WN*, V.iii.61, p.932) resulting from recent wars for acquiring new and defending its (old) colonies and, above all, for preserving the mercantile interests associated with them, especially in North America. Smith saw the crisis of the British Empire as a crisis of the mercantilist system. While most readers of the *WN* focused on Book III and IV’s presentation of the dire economic consequences of the mercantilist system, Book V is crucial to understanding the political consequences of that system: the ruin of the State and the downfall of the Empire.

Proposing an optimal system of taxation based on “fiscal justice” by identifying “unjust”, “oppressive” and “inconvenient” taxes, defining “proper” subjects of taxation (*WN*, V.iii.58, p.928) and public expenditure, “more equal” taxes, and “distributing the weight of it more equally upon the whole” therefore became a fundamental issue for preserving the integrity, opulence and sovereignty of the British Empire (*WN*, V.iii.67, p.933). Hence Smith’s project for a new British Empire based on a union with American colonies. In return for the payment of taxes and in proportion to the amount paid, the colonies would be granted a number of seats in the British Parliament. The monopoly of the colonial trade would also be abolished.

Smith realized that the constitutional reforms he called for were unlikely to go through. The merchants, who benefitted from the monopoly of the colonial trade, owned the greatest share

¹² Incentive-compatibility is a term frequently used by (organizational) economists; it captures institutional or organizational arrangements for situations is asymmetric information (e.g., regarding the effort of workers) that are such as to entice the worker to provide her or his best effort, given the arrangement.

of public debt, and were the principal advisors to legislators on these issues, would immediately oppose them. These elements make the *WN* a very American and political book. The sequencing of the *WN* is a rhetorical answer to the hostile audience Smith knew he would face in writing a book criticizing the powerful merchant class¹³. Smith used the Socratic method of presentation, which is best suited to a hostile and prejudiced readership, to make his case against this class. In doing so, his own theoretical insights on rhetoric proved essential. The reader discovers slowly the unsavory truth of the mercantilist system (book IV), whose principles had been applied across Europe (book III) and whose most serious threat is revealed in the final paragraph of the *WN*: it will “probably ruin all the great nations of Europe”.

It is well documented that Smith’s anticipation of a hostile audience was well calibrated (see Fleischacker 2004); it did not take much, especially for someone as astutely attuned to the pervasive power of self-interest as Smith, to anticipate that -- his stellar reputation as moral philosopher notwithstanding -- important parts of his audience would have an unfavorable opinion of “the very violent attack” (Smith 1987, Corr. 208) he was about to make upon the whole commercial system of Great Britain. Smith therefore mustered whatever troops he could enlist. Chief among them was his experience in selling arguments to a hostile audience.¹⁴ Specifically, Smith resorted to the Socratic method that he had previously suggested for circumstances such as this: he initially kept away from the main point to be proved – that the

¹³ In our view, Schumpeter was thus wrong in writing that Smith owed his success to his ability of surfing on the wave of popular ideas of his time (Schumpeter 1954 a, p.180).

¹⁴ It is worthwhile noting that Smith had not only theoretical insights about successful rhetorical strategies; as Rosen explains, "In Smith's day, University of Glasgow professors were paid a fixed annual retainer financed out of university endowment, and seniority eventually gave entitlement to a university house, part of which could be rented to students to supplement income. The greater part of income arose out of fees paid directly to teachers by students." (Rosen 1987, 562) Smith, was an avid supporter of such incentive compatible mechanisms (Ortmann 1999) and for good reason: his lectures were well attended and during his years at Glasgow College, Smith received more than half of his salary from fees (Rae 1895, 48 - 49).

system of commerce of the Scotland of Smith's time was dysfunctional, and in any case, by far inferior to a system that would not be riddled by mercantile regulations (Smith 1976, 450-451). Instead, Smith outlined in Books I through III the optimality of a rigorously developed system of political economy (whose descendants still reign supreme in today's principles textbooks), assuming away problems of public good provisions or externalities and, for the most part, asymmetric information.¹⁵ In Books I through III, Smith showed implicitly the damage done by an economic system catering to vested interests, but he refrained from identifying the opponent. He did so in Book IV, "Of Systems of Political Economy," where he attacks the mercantile system in his own country and time frontally and relentlessly.¹⁶ The reader, if she or he bought into the arguments mustered in Books I-III, could only grant the validity of the conclusion that the system of commerce of the Great Britain of Smith's time was dysfunctional.

In our view (see also Ortmann & Walraevens 2015), Smith meant Book V to be the central book of WN. There Smith introduced public good provision problems, externalities, and other incentive alignment problems and argued persuasively for incentive-compatible solutions, anticipating modern theories of the firm, reputational enforcement, and public finance (Ortmann and Meardon 1995; Ortmann 1997; Ortmann 1999; see also West 1990, chapters 5, 7, 8, and

¹⁵ Pack (1991, chapters 1,2, and 6) makes a similar point.

¹⁶ Smith's criticism of mercantilism in Book IV grew more aggressive with time. In the third edition of *WN* appear a number of new passages relating the legislative influence of mercantile interests to "extortion," (*WN*_607-609) and explaining how such influence functions at the expense of the poor. For example:

"It is the industry which is carried on for the benefit of the rich and powerful, that is principally encouraged by our mercantile system. That which is carried on for the benefit of the poor and the indigent, is too often, either neglected, or oppressed." (*WN* 609)

9).¹⁷ It is interesting to note that in his *History of Economic Analysis*, Schumpeter paid scant attention to Book V (and, for that matter, Book IV) although he did notice that “the fifth and longest [book] – taking 28.6 percent of total space – is a nearly self-contained treatise on Public Finance” (Schumpeter 1954a, 186). While comparably gentle in his assessment of Book V¹⁸, and while indeed quantifying the attention that Smith dedicated to Books IV and V – “The fourth and fifth Books account for nearly 57 percent of the total space” (Schumpeter 1954a, 186 n17) – , these two books clearly did not capture Schumpeter’s fancy or led him to ponder why Smith would structure the WN the way he did. For that matter, it did not lead him to ponder whether the plain common sense on display in the WN, and Smith leading his readers on gently, making them feel comfortable all along, was part of a deliberate rhetorical strategy meant to draw his readers in.

Smith's early theories on rhetoric played a role in structuring WN in that the most memorable part for the reader would be discovering the harm of the mercantilist system. Though Book V, "Of the Revenue of the sovereign or Commonwealth," is at the end of WN, Smith's proof of the inadequacies of mercantilism ends with Book IV. The legitimate role of government

¹⁷ Spencer Pack (1991) writes, “It is not clear which came first for Smith: economic theory or public policy. Yet Smith, great political economist that he was, begins his story by prefacing his policy pronouncements with economic theory.” (11) Leading up to this statement, Pack proffers an interesting discussion of whether Smith’s theory and economic analyses begot Smith’s public policy statements, or vice versa. If one accepts our sense-making exercise here, then clearly the latter applies, not necessarily because Smith was a great political economist but because he was an outstanding rhetorician. We note that Pack (1991, especially chapter 6) agrees with us about the attention that Smith paid to rhetorical issues and the fact that Smith was an outstanding rhetorician.

¹⁸ “The length of the book is due to the masses of material it contains: its treatment of public expenditure, revenue, and debts is *primarily* historical. The theory is inadequate, and does not reach much below the surface. But what if there is of it is admirably worked in with the reports on general developments as well as individual facts. Further facts have been amassed and theoretical technique has been improved but nobody has to this day succeeded in welding the two – plus a little sociology – together as did A. Smith.” (Schumpeter 1954a, 186)

set out in Book V came to be viewed as an afterthought.¹⁹ We believe that such a view distorts *WN*, and in particular the importance of Book V, whose important contribution is the first serious discussion of industrial organization and incentive-compatible state intervention (e.g., Ortmann 1999).

4. *Why Schumpeter got it wrong*

The existence of *LRBL* was first reported in 1961 (Smith 1983, p. 1) more than a decade after Schumpeter's death in 1950, and more than a decade after Schumpeter worked on what later became *History of Economic Analysis* (Schumpeter 1954a), not to mention *Economic Doctrine and Method* (Schumpeter 1954b (1912)). In short, it was Schumpeter's bad luck that he did not have the opportunity to read *LRBL*. We propose that Schumpeter's assessment of Adam Smith and *WN* would have been different had he had access to Smith's "Rhetorick Lectures." Knowing the lectures might have allowed Schumpeter to understand why Smith structured the *WN* the way he did, why Smith never moved above the heads of even the dullest readers, why he led them on gently, making them feel comfortable all along. We argue that, had he understood the rhetorical structure of *WN*, Schumpeter would have had a different opinion of the importance of Book V and Smith as analytical innovator.²⁰ In

¹⁹ As it happens, even today Books I-III are the most widely read and quoted of Smith's work; the other two books are neglected by comparison (e.g., Schumpeter 1954a). If our argument about the central role of Book V of *WN* is correct (Ortmann & Walraevens 2015), it also means that Smith was successful in his criticism of mercantilism, but unsuccessful in directing the reader to what he considered the heart of *WN* - his blueprint of how incentive-compatible state intervention could, and should, look like.

²⁰ There can, of course, be no guarantee since ours is an exercise in counter-factual conjectural history. That said, we saw earlier that Schumpeter experienced a sense of wonder and surprise that the author of *The Wealth of Nations* was the same person who could write a "pearl" such as "Principles which lead and direct Philosophical Enquiries; illustrated by the History of Astronomy." (Smith 1980) We therefore believe that it is very likely that Schumpeter would have come to a very different assessment of *WN* and its author had *LRBL* been available to him.

Book V, Smith indeed dug deep and provided a blue-print for incentive-compatible state intervention that foreshadows much of the modern I.O. literature (Ortmann and Meardon 1995; Ortmann 1997; Ortmann 1999; Ortmann 2000; Ortmann & Walraevens 2015) .

Conclusion

There is, and has been for a long time, agreement that *WN* is not the most challenging of books ever written. In the decades following its publication it was often “ridiculed for its simplicity.” (Rae 1895, 290) Schumpeter, as we have seen, not only took exception to Smith’s style of presentation. He also brushed aside Smith’s analytical contributions, and even questioned his intellectual mettle. Schumpeter’s dismissive assessment reverberates in the work of other scholars such as Rashid (1998).

We have argued that Schumpeter assessment of both *WN* and its author resulted from his failure to appreciate the rhetorical structure of Smith’s masterpiece and, ultimately, his ignorance of Smith’s rhetorical strategies which in certain situations called for leading readers on gently. In *WN* Smith did not go beyond plain common sense because he didn’t have ambitions. Rather, it was his ambition to persuade an audience that he had good reason to believe was hostile to his ideas.

It is curious that Schumpeter whose assessment of Smith and his work was rather ambivalent -- he compliments Smith in a variety of contexts -- did not ask *why* the author of works such as “Principles which lead and direct Philosophical Enquiries; illustrated by the History of Astronomy” (Smith 1980) would structure and write *WN* the way he did. It may well be that Schumpeter – with Cannan – believed that ultimately the rhetorical structure of Smith’s tractate, or rhetorical strategies for that matter, did not matter.

The morale of our story goes beyond an explanation of the cause of Schumpeter's questionable assessment of Adam Smith and *WN*. Nobody, we venture to say (see also Ortmann & Walraevens 2015, 2016), can have an adequate idea of Smith's intellectual mettle and analytic contributions, who does not take into account his rhetorical strategies.

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