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Smith, Adam (1723–1790)

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Abstract

Smith's conception of 'economic man' was primarily a product of his moral philosophy. While defending the motive of self-interest against Hutcheson's claim that it could never be virtuous, he emphasized that self-interested actions take place within a social setting and that humanity is generally motivated by a desire for approbation. Far from an advocate of laissez-faire, Smith envisaged a broad, open-ended agenda of government to rectify market failure, including education to offset the atomizing effects of urbanization. His prowess arguably rests on his sophisticated grasp of the economic process as opposed to any outstanding analytical or conceptual competence.

Keywords

analogy; barriers to entry; Burke, E.; Cannan, E.; capital accumulation; Carmichael, G.; circular flow; circulating capital; city and economic development; civic humanism; civil society; division of labour; economic freedom; economic man; equilibrium; exchange economy; exchange value versus use value; Ferguson, A.; fixed capital; human capital; Hume, D.; Hutcheson, F.; impartial spectator; invisible hand; Justice; Kames, Lord; labour theory of value; Mandeville, B.; market failure; mercantilism; Mill, J.S.; Millar, J.; money; monopoly; natural price; net advantages; Poor Law, old; Physiocracy; price determination; productive and unproductive labour; profit; property; public works; Pufendorf, S. von; Quesnay, F.; quit-rent system; *rate* of exchange; rate of profit; Robertson, W.; rules of behaviour; self-interest; slavery; Smith, A.; special interests; specie-flow mechanism; stages theory of history; stationary state; Steuart, Sir J.; Stewart, D.; structural unemployment; subsistence wage; system of natural liberty; *Tableau économique* ; tax farming; Turgot, A.R.J.; use value versus exchange value; value; wages fund

Article

Biographical

Adam Smith was born in Kirkcaldy, on the east coast of Scotland, and baptized on 5 June 1723. He was the son of Adam Smith, Clerk to the Court Martial and Comptroller of Customs in the town (who died before his son was born) and of Margaret Douglas of Strathendry.

Smith attended the High School of Kirkcaldy, and then proceeded to Glasgow University. He first matriculated in 1737, at the not uncommon age of 14. At this time the university, or more strictly the college, was small. It housed only 12 professors who had in effect replaced the less specialized system of regents by 1727. Of the professoriate, Smith was most influenced by the ‘never-to-be-forgotten’ Francis Hutcheson (Corr., letter 274, dated 16 November 1787). Hutcheson had succeeded Gershom Carmichael, the distinguished editor of Pufendorf’s *De Officio Hominis et Civis* as Professor of Moral Philosophy.

Smith left Glasgow in 1740 as a Snell Exhibitioner at Balliol College to begin a stay of six years. The atmosphere of the college at this time was Jacobite and ‘anti-Scotch’. Smith was also to complain: ‘In the university of Oxford, the greater part of the publick professors have, for these many years, given up altogether even the pretence of teaching’ (WN, V.i.f.8). But there were benefits, most notably ease of access to excellent libraries, which in turn enabled Smith to acquire an extensive knowledge of English and French literature, which was to prove invaluable, not least in terms of his knowledge of the sciences.

Smith left Oxford in 1746 and returned to Kirkcaldy without a fixed plan. But in 1748 he was invited to give a series of public lectures in Edinburgh, with the support of three men – the Lord Advocate, Henry Home; Lord Kames; and a childhood friend, James Oswald of Dunnikier.

The lectures, which are thought to have been *primarily* (not exclusively) concerned with rhetoric and belles lettres, brought Smith £100 a year (Corr. letter 25, dated 8 June 1758). They also seem to have been wide-ranging.

Smith’s reputation as a lecturer brought its reward. In 1751 he was elected to the Chair of Logic in Glasgow University, again with the support of Lord Kames. According to John Millar, Smith’s most distinguished pupil, he devoted the bulk of his time to the delivery of a system of rhetoric and belles lettres, which was based on the conviction that the best way of:

explaining and illustrating the various powers of the human 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. (Stewart, I. 16)

Smith continued to teach the main part of his lecture course on logic after he had been translated to the Chair of Moral Philosophy in 1752. A set of lecture notes, discovered by J.M. Lothian in 1958, relate to the session 1762/3. The notes correspond closely to Millar’s description of the course given more than a decade earlier, in that they are concerned with such problems as the development of

language, style and the organization of forms of discourse which include the oratorical, narrative and didactical (scientific). Smith was primarily concerned with the study of human nature and with the analysis of the means and forms of communication. He no doubt continued to lecture on these subjects to students of moral philosophy because he rightly believed them to be important (see J.M. Lothian, 1963: W.S. Howell, 1975).

Smith's lectures on language were published in expanded form as *Considerations Concerning the First Formation of Language*, in the *Philological Miscellany* for 1761. They were reprinted in the third edition of the *Theory of Moral Sentiments* in 1767.

Smith's teaching from the Chair of Moral Philosophy fell into four parts and in effect set the scene for the major published works which were to follow. Again on the authority of John Millar, it is known that Smith lectured on natural theology, ethics, jurisprudence and 'expediency' or economics, *in that order*. The lectures on natural theology (a sensitive subject at the time) have not yet been found. But Millar made it clear that the lectures on ethics form the basis for the *Theory of Moral Sentiments* and that the subjects covered in the last part of the course were to be further developed in the *Wealth of Nations* (Stewart, I. 20). As to the third part, on jurisprudence, Millar noted that:

Upon this subject he followed the plan that seems to be suggested by Montesquieu; endeavouring to trace the gradual progress of jurisprudence, both public and private, from the rudest to the most refined ages, and to point out the effects of those arts which contribute to subsistence, and to the accumulation of property, in producing correspondent improvements or alterations in law and government. (Stewart, I. 19)

Illustration and confirmation of this claim proved impossible until 1896 when Edwin Cannan published an edition of the *Lectures on Jurisprudence*. The notes edited by Cannan are dated 1766, although they were taken in the session 1763/4. This was Smith's last session in Glasgow, so that these lectures, where 'public' (broadly constitutional law) precedes 'private' jurisprudence (concerning man's rights as a citizen), may reflect a preferred order. A second set of notes, this time relating to the previous session, were also found by J.M. Lothian as recently as 1958 and are here styled LJA.

Academically, the major event for Smith was the publication of the *Theory of Moral Sentiments* in 1759. The book was well received by both the public and Smith's friends. In a delightful letter Hume reminded Smith of the futility of fame and public approbation, and having encouraged him to be a philosopher in practice as well as profession, continued:

Supposing therefore, that you have duly prepared yourself for the worst by these Reflections; I proceed to tell you the Melancholy News, that your Book has been most unfortunate: For the Public seem disposed to applaud It extremely. (Corr, letter 31, dated

12 April 1759)

The book was to establish Smith's reputation. There was a second revised edition in 1761 and further editions in 1767, 1774, 1781 and 1790.

Charles Townshend was among those to whom Hume had sent a copy of Smith's treatise. Townshend had married the widowed Countess of Dalkeith in 1755 and was sufficiently impressed by Smith's work as to arrange for his appointment as tutor to her son, the young Duke of Buccleuch. The position brought financial security (£300 sterling p.a. for the rest of his life), and Smith duly accepted, formally resigning his chair early in 1764.

Smith and his party left almost immediately for France to begin a sojourn of some two years. At the outset, the visit was unsuccessful, causing Smith to write to Hume, with some humour, that 'I have begun to write a book in order to pass away the time. You may believe I have very little to do' (Corr., letter 82, date 5 July 1764, Toulouse).

But matters improved with Smith's increasing familiarity with the language and the success of a series of short tours. In 1765 Smith, the Duke, and the Duke's younger brother Hew Scott, reached Geneva, giving Smith an opportunity to meet Voltaire, whom he greatly admired as 'the most universal genius perhaps which France has ever produced' (Letter, 17). The party arrived in Paris in mid-February 1766, where Smith's fame, together with the efforts of David Hume, secured him a ready entrée to the leading *salons* and, in turn, introductions to *philosophes* such as d'Alembert, Holbach and Helvetius.

During this period Smith met François Quesnay, the founder, with the Marquis de Mirabeau, of the Physiocratic School of economics (Meek, 1962). By the time Smith met Quesnay, the latter's model of the economic system as embodied in the *Tableau économique* (1757, trans. in Meek, 1962) had already been through a number of editions. Quesnay was then working on the *Analyse* (trans. in Meek, 1962), while it is also known that A.R.J. Turgot was currently engaged on his *Reflections on the Formation and Distribution of Riches* (trans. in Meek, 1973).

Smith, who had already developed an interest in political economy, had arrived in Paris at the very point in time that the French School had reached the zenith of its influence and output. The contents of Smith's library amply confirm his interest in this work (Mizuta, 2000).

Smith's stay in Paris had been enjoyable both socially and in academic terms. But it was marred by the developing quarrel between Hume and Rousseau and sadly terminated by the death of Hew Scott. Smith returned to London on 1 November 1766.

Smith spent the winter in London, where he was consulted by Townshend and engaged in corrections for the third edition of the *Theory of Moral Sentiments*. By the spring of 1767 (the year in which Sir James Steuart published his *Principles of Political Oeconomy*) Smith was back in Kirkcaldy to begin a study of some six years. It was during this period that he struggled with the *Wealth of Nations*. Correspondence of the time amply confirms the mental strain involved. But by 1773 Smith

was ready to return to London, leaving his friends, notably David Hume, under the impression that completion was imminent. As matters turned out, it took Smith almost three more years to finish his book; a delay which may have been due to part to his increasing concern with the American War of Independence and with the wider issue of the relationship between the colonies and the ‘mother country’ (WN, IV. vii).

An Inquiry into the Nature and Causes of the Wealth of Nations was published by Strahan and Cadell on 9 March 1776, and elicited once more a warm response from Hume:

Dear Mr. Smith: I am much pleas'd with your Performance, and the Perusal of it has taken me from a State of great Anxiety. It was a Work of so much Expectation, by yourself, by your Friends, and by the Public, that I trembled for its Appearance; but am now much relieved. Not but 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. (Corr., letter 150, dated 1 April 1776)

In fact, the book sold well, with subsequent editions in 1778, 1784, 1786 and 1789.

The year 1776 was marred for Smith by the death of David Hume, after a long illness, and by his concern over the future of the latter's *Dialogues Concerning Natural Religion*. This work, together with Hume's account of ‘My Own Life’ had been left in the care of William Strahan, to whom Smith wrote expressing the hope that the *Dialogue* should remain unpublished, although Hume himself had determined otherwise.

But Smith proposed to ‘add to his life a very well authenticated account’ of Hume's formidable courage during his last illness (Corr., letter 172, dated 5 September 1776). The letter was published in 1777, and as Smith wrote later to Andreas Holt, ‘brought upon me ten times abuse than the very violent attack I had made upon the whole commercial system of Great Britain’ (Corr., letter 208, dated October 1780).

In 1778 Smith was appointed Commissioner of Customs, due in part to the efforts of the Duke of Buccleuch. The office brought an income of £600, in addition to the pension of £300 which the Duke refused to discontinue (Corr., letter 208). Smith settled in Edinburgh, where he was joined by his mother and a cousin, Janet Douglas.

During 1778 Alexander Wedderburn sought Smith's advice on the future conduct of affairs in America. Smith's ‘Thoughts on the State of the Contest with America’ were written in the aftermath of the battle of Saratoga. The Memorandum was first published by G.H. Guttridge in the *American Historical Review* (vol. 38, 1932/3).

In this document, Smith rehearsed a number of arguments which he had already stated in WN (IV.vii.c). He advocated the extension of British taxes to Ireland and to America, provided that representatives from both countries were admitted to Parliament at Westminster in conformity with

accepted constitutional practice. Smith noted that ‘Without a union with Great Britain, the inhabitants of Ireland are not likely for many ages to consider themselves as one people’ (WN, V.iii.89). With respect to America, he observed that her progress had been so rapid that ‘in the course of little more than a century, perhaps, the produce of American might exceed that of British taxation. The seat of the empire would then naturally remove itself to that part of the empire which contributed most to the general defence and support of the whole’ (WN, IV.vii.c.79).

But Smith also repeated a point already made in WN; namely, that the opportunity for union had been lost, and proceeded to review the bleak options, now all too familiar, which were actually open to the British government. Military victory was increasingly unlikely (WN, V.i.s.27) and military government, even in the event of victory, unworkable (Corr., letter 383). Voluntary withdrawal from the conflict was a rational but politically impracticable course, given the probable impact on domestic and world opinion (Corr., letter 383). The most likely outcome, in Smith's view, was the loss of the thirteen united colonies and the successful retention of Canada – the worst possible solution since it was also the most expensive in terms of defence (Corr., letter 385).

Smith worked hard as a Commissioner, and to an extent which, as he admitted, affected his literary pursuits (Corr., letter 208). But in this period he completed the third edition of WN (1784), incorporating major developments which were separately published as ‘Additions and Corrections’. The third edition also features an index and a long concluding chapter to Book IV entitled ‘Conclusion of the Mercantile System’.

After 1784 Smith must have devoted most of his attention to the revision of TMS. The sixth edition of 1790 features an entirely new Part VI which includes a further elaboration of the role of conscience, and the most complete statement which Smith offered as to the complex *social* psychology which lies behind man's broadly economic aspirations.

In addition to the essay on the ‘Imitative Arts’, which is mentioned in his letter to Andreas Holt (Corr., letter 208), Smith observed that ‘I have likewise two other great works upon the anvil; the one is a sort of Philosophical History of all the different branches of Literature, of Philosophy, Poetry and Eloquence; the other is a sort of theory and History of Law and Government’ (Corr., letter 248, dated 1 November 1785, addressed to the duc de la Rochefoucauld).

Smith's literary ambitions also feature in the Advertisement to the 1790 editions of TMS, where he drew attention to the concluding sentences of the first edition of 1759. In these passages Smith makes it clear that TMS and WN are parts of a single plan which he hoped to complete with a published account of ‘the general principles of law and government, and of the different revolutions which they had undergone in the different ages and periods of society’. Smith's ‘present occupations’ and ‘very advanced age’ prevented him from completing this great work, although the approach is illustrated by LJA and LJB, and by those passages in WN which can now be recognized as being derived from them (most notably WN, III and V.i.a.b).

Smith died on 17 July 1790, having first instructed his executors, Joseph Hutton and James Block, to burn his papers, excepting those which were published in *Essays on Philosophical Subjects* (1795).

In what follows, Smith's system will be expounded in terms of the order of argument which he is known to have employed as a lecturer; namely, ethics, jurisprudence and economics. But it will be convenient to begin with his treatment and knowledge of the literature of science.

The literature of science

It should be recalled that each separate component of Smith's system represents scientific work in the style of Newton, contributing to a greater whole which was conceived in the same image. Smith's scientific aspirations were real, as was his consciousness of the methodological tensions which may arise in the course of such work.

Smith's interest in mathematics dates from his time as a student in Glasgow (Stewart, I. 7). He also appears to have maintained a general interest in the natural and biological sciences, facts which are attested by his purchases for the University Library (Scott, 1937, p. 182) and for his own collection (Mizuta, 2000). Smith's 'Letter to the Authors of the *Edinburgh Review*' (1756), where he warned against any undue preoccupation with Scottish literature, affords evidence of wide reading in the physical sciences, and also contains references to contemporary work in the French *Encyclopédie* as well as to the productions of Buffon, Daubenton and Reaumur. D.D. Raphael has argued that the Letter owes much to Hume (TMS, pp. 10, 11).

The essay on astronomy, which dates from the same period (it is known to have been written before 1758 and may well date from the Oxford period) indicates that Smith was familiar with classical as well as with more modern sources, such as Galileo, Kepler and Tycho Brahe, a salutary reminder that an 18th-century philosopher could work close to the frontiers of knowledge in a number of fields.

But Smith was also interested in science as a form of communication, arguing in the LRBL that the way in which this type of discourse is organized should reflect its purpose as well as a judgement as to the psychological characteristics of the audience to be addressed.

In a lecture delivered on 24 January 1763 Smith noted that didactic or scientific writing could have one of two aims: either to 'lay down a proposition and prove this, by the different arguments that lead to that conclusion' or to deliver a system in any science. In the latter case Smith advocated what he called the Newtonian method, whereby we 'lay down certain principles known or proved in the beginning, from whence we account for the several phenomena, connecting all together by the same Chain' (LRBL, ii. 133). Two points are to be noted. First, Smith makes it clear that Descartes rather than Newton was the first to use this method of exposition, even although the former was now perceived to be the author of 'one of the most entertaining Romances that have ever been wrote' (LRBL, ii. 134; see Letter 5). Secondly, his reference to the pleasure to be derived from the

‘Newtonian method’ (LRBL, ii. 134) draws attention to the problem of scientific motivation, a theme which was to be developed in the ‘Astronomy’, where Smith considered those principles ‘which lead and direct philosophical enquiry’.

The ‘Astronomy’ takes as given certain results which had already been established in the lectures on language and in the *Considerations*; namely, that men have a capacity for acts of ‘arrangement or classing, or comparison, and of abstraction’ (LRBL, ii. 207; cf. Corr., letter 69, dated 7 February 1763).

But the essay on astronomy approaches the matter in hand in a different way by arguing that a mind thus equipped derives a certain pleasure from the contemplation of relation, similarity or order – or as Hume would have put it, from a certain association of ideas. Smith struck a more original note in arguing that when the mind confronts a new phenomenon which does not fit into an already established classification, or where we confront an unexpected association of ideas, we feel the sentiment of surprise, and then that of wonder (Astronomy, II. 9). This is typically followed by an attempt at explanation with a view to returning the ‘imagination’ to a state of tranquillity (Astronomy, II. 6).

Looked at in this way, the task of explanation is related to a perceived need, which can only be met if the account offered is coherent and conducted in terms which are capable of account for observed appearances in terms of ‘familiar’ principles. It was Smith's contention that the philosopher or scientist would react in the same way as the casual observer, and that nature as a whole ‘seems to abound with events which appear solitary and incoherent’, thus disturbing ‘the easy movement of the imagination (Astronomy, II. 12). But he also observed that philosophers pursue scientific study ‘for its own sake, as an original pleasure or good in itself’ (Astronomy, III. 3).

The bulk of the essay is concerned to illustrate the extent to which the four great systems of thought which he identified were actually able to ‘soothe the imagination’, these being the systems of Concentric and Eccentric Spheres, together with the theories of Copernicus and Newton. But Smith added a further dimension to the argument by seeking to expose the dynamics of the process, arguing that each thought-system was subject to a process of modification as new observations were made. Smith suggested that each system was subjected to a process of development which eventually resulted in unacceptable degrees of complexity, thus paving the way for the generation of an alternative explanation of the same phenomena, but one which was better suited to meet the needs of the imagination by offering a simpler account (Astronomy, IV. 18, 28). In Smith's eyes, the work of Sir Isaac Newton thus marked the apparent culmination of a long historical process (Astronomy, IV. 76).

The argument as a whole also contains some radical conclusions. There is nothing in the analysis which suggests that the Newtonian (or Smithian) system embodies some final truth. At the same time, Smith seems to have given emphasis to what is now known as the problem of ‘subjectivity’ in science

in arguing that scientific thought often represents a reaction to a perceived psychological need. He also likened the pleasure to be derived from great productions of the scientific intellect to that acquired when listening to a ‘well composed concerto of instrumental music’ (Imitative Arts, II. 30). Elsewhere he referred to a propensity, natural to all men, ‘to account for all appearances from as few principles as possible’ (TMS, VII.ii.2.14) and commented further on the ease with which the ‘learned given up the evidence of their senses to preserve the coherence of the ideas of their imagination’ (Astronomy, IV. 35). Smith also emphasized the role of the prejudices of sense and education in discussing the reception of new ideas (Astronomy, IV. 35).

He drew attention to the importance of analogy in suggesting that philosophers often attempt to explain the unusual by reference to knowledge gained in unrelated fields, noting that in some cases the analogy chosen could become not just a source of ‘ingenious similitude’ but the great hinge upon which everything turned’ (Astronomy, II. 12).

Smith made extensive use of mechanistic analogies, sometimes derived from Newton, seeing in the universe ‘a great machine’ wherein we may observe ‘means adjusted with the nicest artifice to the ends which they are intended to produce’ (TMS, II.ii.3.5). In the same way he noted that ‘Human society, when we contemplate it in a certain abstract and philosophical light, appears like a great, an immense machine’ (TMS, VII.ii.1.2), a position which leads quite naturally to a distinction between efficient and final causes (TMS, II.ii.3.5), which is not inconsistent with the form of Deism associated with Newton himself. It is also striking that so sympathetic a thinker as Smith should have extended the mechanistic analogy to systems of thought.

Systems in many respects resemble machines. A machine is a little system created to perform, as well as to connect together, in reality, those different movements and effects which the artist has occasion for. A system is an imaginary machine invented to connect together in the fancy those different movements and effects which are already in reality performed. (Astronomy, IV. 19)

Each part of Smith's contribution is in effect an ‘imaginary’ machine which conforms closely to his own stated rules for the organization of scientific discourse. All disclose Smith's perception of the ‘beauty of a systematical arrangement of different observations connected by a few common principles’ (WN, V.i.f.25). The whole reveals much as to Smith's drives as a thinker, and throws an important light on his own marked (subjective) preference for system, coherence and order.

The Theory of Moral Sentiments

The *Theory of Moral Sentiments* shows clear evidence of a model, and of a form of argument which is in part designed to explain how so self-regarding a creature as man succeeds in erecting barriers

against his own passions.

In Part VII of TMS, Smith reviewed different approaches to the questions confronting the philosopher in this field, basically as a means of differentiating his own contribution from them.

In Smith's view there were two main questions to be answered: 'First, wherein does virtue consist', and secondly, 'by what means does it come to pass, that the mind prefers one tenour of conduct to another'? (TMS, VII.i.2). In dealing with the first question, Smith described all classical and modern theories in terms of the emphasis given to the qualities of propriety, prudence and benevolence. In each case, he argued that the identification of a particular quality was appropriate, but rejected what he took to be undue emphasis on any one. He criticized those who found virtue in propriety, on the ground that this approach emphasized the importance of self-command at the expense of 'softer' virtues, such as sensibility. He rejected others who found virtue in prudence because of the emphasis given to qualities which are useful, thus echoing his criticism of David Hume in TMS, Part IV. In a similar way, while he admired benevolence, Smith argued that proponents of this approach (notably Francis Hutcheson) had neglected virtues such as prudence.

Smith's criticism of Hutcheson's teaching is remarkable for the emphasis which he gave to self-interest and his denial of Hutcheson's proposition that self-love 'was a principle which could never be virtuous in any degree or in any direction' (TMS, VII.ii.3.12). Smith also rejected the argument of Mandeville, whose fallacy it was 'to represent every passion as wholly vicious, which is so in any degree' (TMS, VII.ii.4.12). Smith contended that 'The conditions of human nature were peculiarly hard, if these affections, which, by the very nature of our being, ought frequently to influence our conduct, could upon no occasion appear virtuous, or deserve esteem and commendation from anybody' (TMS, VII.ii.3.18).

A further distinctive element in Smith's approach emerges in his treatment of the second question. He accepted Hutcheson's argument that the perception of right and wrong rests not upon reason but 'immediate sense and feeling' (TMS, VII.iii.2.9). But Smith rejected Hutcheson's emphasis on a special sense, the moral sense, which was treated as being analogous to 'external' senses, such as sight or touch. But in so doing Smith in effect elaborated on the argument of his teacher, who had already presented moral judgements as being disinterested and as based upon sympathy or fellow-feeling. Smith also enlarged on the role of the *spectator*, which had been a feature of the work done by Hutcheson and Hume.

Smith argued that the spectator may form a judgement with respect to the activities of another person by visualizing how he would have behaved or felt in similar circumstances. It is this capacity for acts of imaginative sympathy which permits the spectator to form a judgement as to the propriety or impropriety of the conduct observed, and as to the 'suitableness or unsuitableness, the proportion or disproportion which the affection seems to bear to the cause or object which excites it' (TMS, I.i.3.6).

Since we can ‘enter into’ the feelings of another person only to a limited degree, Smith was able to identify the ‘amiable’ virtue of sensibility with the quality of imagination, and that of self-command with a capacity to control expressions or feeling to such an extent as to permit the spectator to comprehend, and thus to ‘sympathize’, with them.

The argument was extended to take account of those actions which have consequences for other people, in suggesting that in such cases the spectator may seek to form a judgement as to the propriety of the *action* taken and of the *reaction* to it. The sense of *merit* is a compounded sentiment, made up of two distinct emotions; a direct sympathy with the sentiments of the agent, and an indirect sympathy with the gratitude of those who receive the benefit of his actions’ (TMS, II.i.5.2). Conversely, a sense of *demerit* is compounded of ‘antipathy to the affections and motives of the agent’ and ‘an indirect sympathy with the resentment of the sufferer’ (TMS, II.i.5.4).

Smith further contended that ‘Nature, when she formed man for society, endowed him with an original desire to please, and an original aversion to offend his brethren’ (TMS, III.2.6).

But this general disposition is not of itself sufficient to ensure an adequate degree of control. The first problem which Smith confronted is that of *information*, a problem which arises from the fact that the actual spectator of the conduct of another person is unlikely to be familiar with his *motives*.

Smith solved this problem by arguing that we tend to judge our own conduct by trying to visualize the reaction of an imagined or ‘ideal spectator’ to it, that is, by seeking to visualize the reaction of a spectator, who is necessarily fully informed, with regard to our own motives. Smith gave more and more attention to the role of the ideal spectator in successive editions as an important source of control; that is, to the voice of ‘reason, principle, conscience... the great judge and arbiter of our conduct’ (TMS, III.3.4). Looked at in this way, the argument depends on man's desire not merely for praise, but praiseworthiness (TMS, III.2.32).

The second problem arises from the fact that Smith, following Hume, presents man as an active, self-regarding being, whose legitimate pursuit of the objects of ambition, notably wealth, can on some occasions have hurtful consequences for others. The difficulty here is that of *partiality* of view, even where we have the information which is needed to arrive at accurate judgements. When we are about to act, ‘the eagerness of passion will seldom allow us to consider what we are doing with the candour of an indifferent person’, while after we have acted, we often ‘turn away our view from those circumstances which might render ... judgement unfavourable’ (TMS, III.4.3–4). The solution to this particular problem is found in man's capacity for generalization on the basis of particular experience:

It is thus that the general rules of morality are formed. They are ultimately founded upon experience of what, in particular instances, our moral faculties, our natural sense of merit and propriety, approve, or disapprove of. ... The general rule ... is formed, by finding from experience, that all actions of a certain kind, or circumstanced in a certain manner, are approved or disapproved of. (TMS, III.4.8)

It is these rules that provide the yardstick against which man can judge his actions in all circumstances; rules which command respect by virtue of the desire to be praiseworthy and which are further supported by the fear of God (TMS, III.5.12).

Smith thus offered an explanation of the way in which men were fitted for society, arguing in effect that they typically erect a series of barriers to the exercise of their own (self-regarding) passions, which culminate in the emergence of generally accepted rules of behaviour.

The rules themselves vary in character. Those which relate to justice ‘may be compared to the rules of grammar, the rules of the other virtues, to the rules which critics lay down for the attainment of what is sublime and elegant in composition. The one, are precise, accurate and indispensable. The other, are loose, vague, and indeterminate’ (TMS, III.6.11).

But Smith was in no doubt that the rules of justice were indispensable. Justice ‘is the main pillar that upholds the whole edifice’ (TMS, II.ii.3.4). Smith added that the final precondition of social order was a system of positive law, embodying current conceptions of the rules of justice and administered by some system of magistracy:

As the violation of justice is what men will never admit to from one another, the public magistrate is under the necessity of employing the power of the commonwealth to enforce the practice of this virtue. Without his precaution, civil society would become a scene of bloodshed and disorder, every man revenging himself at his own hand whenever he fancied he was injured. (TMS, VII.iv.36)

Smith's ethical argument forms an integral part of his treatment of jurisprudence precisely because it is concerned to show how particular rules of behaviour emerge. In LJ the focus is narrower than in TMS, but it is still the spectator that is of critical importance whether Smith is discussing accepted standards of punishment or of law. Attention has also been drawn to the role of the magistrate in this connection (Bagolini, 1975) and of the Legislator (Haakonssen, 1981).

Smith's emphasis in TMS is interesting. He chose to concentrate on the means by which the mind forms judgements as to what is fit and proper to be done or to be avoided as distinct from trying to formulate specific rules of behaviour. He had recognized that while the processes of judgement might claim universal validity, specific judgements must be related to experience.

No one living in the age of Montesquieu could fail to be aware of variations in standards of accepted behaviour in different societies at the same point in time, and in the same societies over time. The point at issue seems to have been grasped by Edmund Burke in writing to Smith: ‘A theory like yours founded on the Nature of man, which is always the same, will last, when those that are founded upon his opinions, which are always changing, will and must be forgotten’ (Corr., letter 38, dated 10 September 1759).

But Smith did not deny that common elements could be found on the basis of experience.

Although he did not complete his intended account of ‘general principles’ (TMS, VII.iv.37), Smith did provide an argument which related the discussion of private and public jurisprudence to four broad types of socio-economic *environment*, the stages of hunting, pasture, farming and commerce. The importance of the argument in the present context is that it was designed in part to explain the origin of government, thus solving a problem which was only noted in TMS. At the same time the historical dimension throws light on the causes of change in accepted rules of behaviour. As part of the same exercise, Smith supplied a successful account of the emergence of the state of commerce, the stage with which he, as an economist, was primarily concerned.

Emergence of the exchange economy

As we have seen in the last section, Smith's analysis of general rules of behaviour suggests that such rules are the result of man's capacity to form judgements as to what is fit and proper to be done or to be avoided. One implication of this argument is that men, at all times and places, form judgements by using the same mental processes. On the other hand it is clear that judgements formed on particular occasions will be related to experience and to the environment which happens to prevail. This in turn, means that accepted patterns of behaviour may vary between different societies at any point in time, but also that they may vary within a particular society over time. There is a comparative aspect, but also a concern with *change*. The point was caught by Dugald Stewart, Professor of Moral Philosophy in Edinburgh, and an acute commentator on Smith, when he noted that:

When in such a period of society as that in which we live, we compare our intellectual acquirements, our opinions, manners and institutions with those which prevail among rude tribes, it cannot fail to occur to us as an interesting question, by what gradual steps the transition has been made from the first simple efforts of uncultivated nature, to a state of things so wonderfully artificial and complicated. (Stewart, II. 45)

Stewart appreciated that the problem of change applied to the sciences and the arts but also to the treatment of the ‘astonishing fabric of ... political union’ – our main concern at this point.

While Smith's interest in the history of civil society is illustrated very clearly in WN, there can be little doubt that his reputation was enhanced by the discovery of LJ. But at the same time, we should recall that interest in this area of study was widespread notably in Italy and France. The point is neatly caught by Voltaire, whom Smith greatly admired, when he observed that:

My principal object is to know, as far as I can, the manners of peoples, and to study the human mind. I shall regard the order of succession of kings and chronology as my guides, but not as the objects of my work. (Quoted in Black, 1926, p. 4)

In Scotland, the theme was pursued by David Hume in his *History of England*, but also by Adam Ferguson (*History of Civil Society*, 1767), John Millar, William Robertson and Lord Kames, to name but a few (see Berry, 1997, chs 5 and 6).

At the same time there was a growing interest among both Scottish and French writers in the link between economic organizations (modes of subsistence) and patterns of behaviour in the fields of sociology and politics. The link that was established between the form of economic and the social and political structure was so explicit as to permit William Robertson, Historiographer Royal and Principal of Edinburgh University, to state the main propositions with economy and accuracy. First, Robertson noted that:

In every enquiry concerning the operations of men when united together in society, the first object of attention should be their mode of subsistence. According as that varies, their laws and policy must be different.

Secondly, Robertson drew attention to the relationship between property and power, noting for example that ‘Upon discovering in what state property was at any particular period, we may determine with precision what was the degree of power possessed by the king or the nobility at that juncture’, that is, by the government (Skinner, 1996, p. 99).

Smith managed to isolate four distinct modes of subsistence to which there corresponded different types of social and political structures, together with different patterns of ‘manners’, to use Hume’s phrase. The thesis was common among Smith’s Scottish contemporaries. The different modes of subsistence are represented by the stages of ‘hunting, pasturage, farming and commerce’ (LJB, p. 149). The most detailed treatment of the first two stages will be found in WN, Book V, where Smith considers the historical provision of defence and justice. The third and fourth stages are examined in WN, Book III.

Smith’s historical sweep was wide ranging, starting as his discourse did from the record of early classical Greece before proceeding to the *Decline and Fall of the Roman Empire* in the West, and thus to the emergence of the modern state. It should be noted that while the perspective adopted in the third Book is European in its emphasis, the focus gradually narrows to the consideration of British and indeed English experience.

Early history

When the German and Scythian nations over-ran the western provinces of the Roman empire, the confusions which followed so great a revolution lasted for several centuries. The rapine and violence which the barbarians exercised against the antient inhabitants, interrupted the commerce between the towns and the country. The towns were deserted,

and the country was left uncultivated, and the western provinces of Europe, which had enjoyed a considerable degree of opulence under the Roman empire, sunk into the lowest state of poverty and barbarism (WN, III.ii.1).

At the same time, however, Smith argued that the domination of the barbarian nations had generated not only a desert but also an environment from which a particular form of European civilization was ultimately to emerge.

Smith's explanation of this general trend begins with the fact that the primitive tribes which overran the empire had already attained a relatively sophisticated form of the pasturage economy, with some idea of agriculture and of property in land. He argued that they would naturally use existing instructions in their new situation and that in particular their first act would be a division of the conquered territories.

The chiefs and principal leaders of those nations, acquired or usurped to themselves the greater part of the lands ... A great part of them was uncultivated; but no part of them, whether cultivated or uncultivated, was left without a proprietor. All of them were engrossed, and the greater part by a few great proprietors. (WN, III.ii.1)

In this way we move in effect from a developed version of one economic stage to a primitive version of another; from the state of pasture to that of 'agriculture'. Under the circumstances outlined, property in land became the source of power and distinction, with each estate assuming the form of a separate principality. As a result of this situation, Smith argued, a gradual change took place in the laws governing property, featuring the introduction of primogeniture and entails, designed to protect estates against division and to preserve a 'certain lineal succession'. The basic point emphasized was the 'The security of a landed estate ... the protection which its owner could afford to those who dwelt on it, depended upon its greatness. To divide it was to ruin it, and to expose every part of it to be oppressed and swallowed up by the incursions of its neighbours' (WN, III.ii.3).

Such institutions as these quite obviously reflect a change in the mode of subsistence and in the form of property, thus presenting some important contrasts with the previous state of pasture. On the other hand, the great proprietor has still nothing on which to expend his surpluses other than the maintenance of dependants – and at the same time has a positive incentive to do so since they contribute to his military power and security. While Smith carefully distinguished between *retainers* and *cultivators* in this context, he took pains to emphasize that the latter group were in every respect as dependent on the proprietor as the first, and added that 'Even such of them as were not in a state of villanage, were tenants at will, who paid a rent in no respect equivalent to the subsistence which the land afforded them' (WN, III.iv.6).

In short, the period was marked by clear relations of power and dependence – but above all by

disorder and conflict, and it was from this source that the first important changes in the outlines of the system were to come. As Smith put it by way of summary:

In those disorderly times, every great landlord was a sort of petty prince. His tenants were his subjects. He was their judge, and in some respects their legislator in peace, and their leader in war. He made war according to his own discretion, frequently against his neighbours, and sometimes against his sovereign. (WN, III.ii.3)

It was this state of conflict, Smith suggests, which gave the proprietors some incentive to alter the pattern of landholding, in two quite different ways. First, Smith argued that the heavy demands which were inevitably made on their immediate tenants (as distinct from villains) for military service would inevitably change the quit-rent system in terms of which land was normally held. Smith argued in effect that the great lords would naturally begin to grant leases for a term of years, and then in a form which gave security to the tenant's family and ultimately to his posterity. In this way, land came to be held in a *feudal* relationship, which was being designed to give both parties a benefit: the lord, in terms of the supply of military service, and the tenant, security in the use of land. Smith also noted certain consequential developments which reflected the basic purpose of the arrangement, in describing what he called the feudal *casualties*.

Secondly, Smith argued that the need for protection which had altered the relationship between the great lord and his tenants would also lead to patterns of alliance between members of the former group and, therefore, to arrangements which gave some guarantee of mutual service and support. It was for these reasons, Smith argued, that the lesser landowners gradually entered into *feudal* arrangements with those greater lords who could ensure their survival (thus enhancing their ability to do so), just as the great lords would be led to make similar arrangements amongst themselves and with the king. These changes took place about the ninth, tenth and eleventh centuries, and by imposing some shackles on the free enterprise of the proprietors contributed thereby to the emergence of a more orderly form of government.

However, while Smith did describe the *feudal* as a higher form of the agrarian economy than the *allodial*, he also took some pains to emphasize the limited possibilities for economic growth which it presented; limitations which were themselves the reflection of the political institutions now prevailing. He argued that the quit-rent system, so far as it survived, gave no incentive to industry, and that the institution of slavery ensured that it was in the interest of the ordinary individual to 'eat as much, and to labour as little as possible' (WN, III.ii.9). In the same way he also cited the disincentive effects of the arbitrary services and feudal taxes which were imposed. But, undoubtedly, Smith placed most emphasis on the continuing problem of political instability:

The authority of government still continued to be, as before, too weak in the head and

too strong in the inferior members, and the excessive strength of the inferior members was the cause of the weakness of the head. After the institution of feudal subordination, the king was as incapable of restraining the violence of the great lords as before. They still continued to make war according to their own discretion, almost continually upon one another, and very frequently upon the king; and the open country still continued to be a scene of violence, rapine, and disorder. (WN, III.iv.9)

Once again, a state of instability was to produce some change in the outlines of the social system, and once again the motive behind this change was *political* rather than *economic* – but now with the kings rather than the great lords as the main actors in the drama.

The exchange economy

The kind of economy which Smith described as appropriate to the agrarian state in its developed form is fundamentally a simple one. It consisted of a division between town and country, that is, between those who produce food and those who make the manufactured goods without which no large country could subsist – the critical point being, however, that such an economy was not wholly based on exchange. The cities which Smith described were small, and composed of those merchants, tradesmen and mechanics who were not bound to a particular place and who might find it in their (economic) interest to congregate together. Smith had in fact relatively little to say about the historical origins of such groupings, but he did emphasize that the inhabitants of the towns were in the same servile condition as the inhabitants of the country, and that the wealth which they did manage under such unfavourable conditions would be subject to the arbitrary exactions of both the king and those lords in whose territories they might happen to reside (WN, III.iii.2).

But evidently some developments must have been possible, for Smith examined the role of cities from the period in time when three distinctive features of royal policy with regard to them were already in evidence. First, Smith noted that cities had often been allowed to farm the taxes to which they were subject, the inhabitants thus becoming ‘jointly and severally answerable’ for the whole sum due (WN, III.iii.3). Second, he noted that in some cases these taxes, instead of being farmed for a given number of years, had been ‘let in fee’, that is ‘forever, reserving a rent certain never afterwards to be augmented’ (WN, III.iii.4). Third, Smith observed that the cities:

were generally at the same time erected into a commonality or corporation, with the privilege of having magistrates and a town-council of their own, of making bye-laws for their own government, of building walls for their own defence, and of reducing all their inhabitants under a sort of military discipline, by obliging them to watch and ward ...
(WN, III.iii.6)

It was as a result of following these policies that some kings has achieved the apparently remarkable result of freezing the very revenues which were most likely to increase over time, and at the same time effectively curtailing their own power by erecting ‘a sort of independent republicks in the heart of their own dominions’ (WN, III.iii.7).

Smith advanced two main reasons to explain the apparent paradox. First, he argued that by encouraging the cities the king made it possible for a group of his subjects to defend themselves again the power of the great lords, when he personally was frequently unable to do so, and, secondly, that by imposing a limit on taxation ‘he took away from those whom he wished to have for his friends, and, if one may so do, for his allies, all ground of jealousy and suspicion that he was ever afterwards to oppress them, either by raising the farm rent of their town, or by granting it to some other’ (WN, III.iii.8).

The encouragement given to the cities represented in effect a tactical alliance which was beneficial to both parties. In speaking of the burghers, Smith remarked that ‘Mutual interest ... disposed them to support the king, and the king to support them against the lords. They were the enemies of his enemies, and it was his interest to render them as secure and independent of those enemies as he could’ (WN, III.iii.8).

Smith also noted that this development was directly related to the weakness of kings, so that it was likely to be more significant in some countries than in others, and that in general the policy had been successful where employed. He also remarked that the granting of powers of self-government to the inhabitants of the cities had set in motion forces which were ultimately to weaken the authority of the kings through creating an environment within which the forces of economic development could, for the first time, be effectively released. In Smith's own words:

Order and good government, and along with them the liberty and security of individuals, were, in this manner, established in cities at a time when the occupiers of land ... were exposed to every sort of violence. But men in this defenceless state naturally content themselves with their necessary subsistence; because to acquire more might only tempt the injustice of their oppressors. On the contrary, when they are secure of enjoying the fruits of their industry, they naturally exert it to better their condition, and to acquire not only the necessaries, but the conveniencies and elegancies of life. (WN, III.iii.12)

The stimulus to economic growth and to further social change was thus seen to emanate from the cities; institutions which had themselves been developed and protected in an attempt to solve a political problem. From this point, Smith's attention shifted to the analysis of the process of economic growth in the manufacturing and trading sectors, before going on to examine its impact on the agrarian sector.

Smith clearly recognized that growth was limited by the size of the market and, since the agrarian sector was relatively backward, that the main stimulus to economic growth would have to come from foreign trade. He concluded that cities such as Venice, Genoa and Pisa, all of which enjoyed ready access to the sea, had provided the models for the process. In general Smith laid most emphasis on three sources of encouragement to the development of trade and manufactures. First, he argued that in many cases agrarian surpluses could be acquired by the merchants and used in exchange for foreign manufacturers, and suggested as a matter of fact that the early trade of Europe had largely consisted in the exchange 'of their own rude, for the manufactured products of more civilized nations'. Secondly, he suggested that over time the merchants would naturally seek to introduce similar manufactures at home (with a view to saving carriage). Such manufactures, it was suggested, would require the use of foreign *materials*, thus inducing an important change in the general pattern of trade. Thirdly, he argued that some manufactures would develop 'naturally', that is through the gradual refinement of the 'coarse and rude' products which were normally produced at home and which were, therefore, based on domestic materials. Smith suggested that such developments were normally found in those cities which were 'not indeed at a very great, but at a considerable distance from the sea coast, and sometimes even from all water carriage' (WN, III.iii.20). He suggested that manufacturers might well develop in areas to which artisans had been attracted by the cheapness of subsistence, thus allowing trade to develop within the locality:

The manufacturers first supply the neighbourhood, and afterwards, as their work improves and refines, more distant markets. For though neither the rude produce, nor even the coarse manufacture, could, without the greatest difficulty, support the expence of a considerable land carriage, the refined and improved manufacture easily may. In a small bulk it frequently contains the price of a great quantity for rude produce. (WN, III.iii.20).

Smith cited the silk manufacture at Lyons and Spitalfields as examples of the first category of manufactures; those of Leeds, Halifax, Sheffield, Birmingham and Wolverhampton as examples of the second, the natural 'offspring of agriculture' (WN, III.iii.19, 20). He also added that manufacturers of the latter kind were generally posterior to those 'which were the offspring of foreign commerce' and that the process of development just outlined made it perfectly possible for the city within which economic development took place to grow up to a great wealth and splendour, while not only the country in its neighbourhood, but all those to which it traded, were in poverty and wretchedness' (WN, III.iii.13).

In the next stage of analysis, however, it was argued that the situation as outlined was unlikely to continue; that the development of manufacturers and trade within the cities was bound to impinge on the agrarian sector and, ultimately, to destroy the service relationships which still subsisted within it.

Essentially, this process may be seen to stem from the fact that the development of trade and

manufacturers had given the proprietors a means of expending their wealth, other than in the maintenance of dependants. The development of commerce and manufacturers:

gradually furnished the great proprietors with something for which they could exchange the whole surplus produce of their lands, and which they could consume themselves without sharing it either with tenants or retainers. All for ourselves, and nothing for other people, seems, in every age of the world, to have been the vile maxim of the masters of mankind. (WN, III.iv.10)

This situation generated two results. First, since the proprietor's objective was now to increase his command over the means of exchange, it would be in his interest to reduce the number of retainers:

till they were at last dismissed altogether. The same cause gradually led them to dismiss the unnecessary part of their tenants. Farms were enlarged, and the occupiers of land, notwithstanding the complaints of depopulation, reduced to the number necessary for cultivating it, according to the imperfect state of cultivation and improvement in those times. (WN, III.iv.13)

Secondly, since the purpose was now to maximize the disposable surplus, it would be in the proprietor's interest to change the forms of leasehold in order to encourage output and increase his returns. In this way, Smith traced the gradual change from the use of slave labour on the land, to the origin of the 'metayer' system where the tenant had limited property rights, until the whole process finally resulted in the appearance of farmers properly so called 'who cultivated the land with their own stock, paying a rent certain to the landlord' (WN, III.ii.14). Smith added that the same process would, over time, tend to lead to an improvement in the conditions of leases, until the tenants could be 'secured in their possession, for such a term of years as might give them time to recover with profit whatever they should lay out in the further improvement of land. The expensive vanity of the landlord made him willing to accept of this condition ...' (WN, III.iv.13).

As a result of these two general trends, the great proprietors gradually lost their powers, both judicial and military, until a situation was reached where 'they became as insignificant as any substantial burgher or tradesman in a city. A regular government was established in the country as well as in the city, nobody having sufficient power to disturb its operations in the one, any more than in the other' (WN, III.iv.15).

Smith thus associated the decline in the feudal powers of the great proprietors with three general trends, all of which followed on the introduction of commerce and manufactures: the dissipation of their fortunes, the dismissal of their retainers, and the substitution of a cash relationship for the service relationships which had previously existed between the owner of land and those who cultivated it. He noted elsewhere that 'the gradual improvements of arts, manufactures, and

commerce, the same causes which had destroyed the power of the great barons, destroyed in the same manner, through the greater part of Europe, the whole temporal power of the clergy' (WN, V.i.g.25).

As a result, an economic system was generated where the disincentives to 'industry' had been removed from the agrarian sector, and where both sectors were, for the first time, fully interdependent at the domestic level.

Smith argued in effect that the *quantitative* development of manufactures based on the cities had eventually produced an important *qualitative* change in creating the institutions of the exchange economy, that is, of the fourth economic stage. It is in this situation that the drive to better our condition, allied to the insatiable wants of man (referred to in the *Theory of Moral Sentiments*), provided the maximum possible stimulus to economic growth, and ensured that the gains accruing to town and country were eventually both mutual and reciprocal. As Smith put it:

The great commerce of every civilized society, is that carried on between the inhabitants of the town and those of the country. It consists in the exchange of rude for manufactured produce, either immediately, or by the intervention of money, or of some sort of paper which represents money ... The gains of both are mutual and reciprocal, and the division of labour is in this, as in all other cases, advantageous to all the different persons employed in the various occupations into which it is subdivided. (WN, III.i.1)

Such an economic and social structure effectively eliminated the direct dependence of the previous period, in that each productive service now commands a price. While the farmer, tradesman or merchant must depend upon his customers, yet 'Though in some measure obliged to them all ... he is not absolutely dependent upon any one of them' (WN, III.iv.12). It will be noted that the whole process of historical change involved in the transition from the feudal to the commercial state depended on the activities of individuals who were unconscious of the ultimate end towards which such activities contributed. Or, as Smith put it in reviewing the actions of the proprietors and merchants during the latter stage of the historical process which we have outlined:

A revolution of the greatest importance to the public happiness, was in this manner brought about by two different orders of people, who had not the least intention to serve the public. To gratify the most childish vanity was the sole motive of the great proprietors. The merchants and artificers, much less ridiculous, acted merely from a view to their own interest, and in pursuit of their own pedlar principle of turning a penny wherever a penny was to be got. Neither of them had either knowledge or foresight of that great revolution which the folly of the one, and the industry of the other, was gradually bringing about. (WN, III.iv.17)

Finally it should be noted that while Smith regarded the processes of history as inherently complex,

he did nonetheless associate these processes with certain economic, social and constitutional trends. The growth of 'luxury and commerce' is represented as the inevitable outcome of normal human drives, and associated with the appearance of new sources of wealth. These new forms of wealth allied to the high degree of personal liberty appropriate to the new patterns of dependence also brought with them a new social and political order – a form of 'constitution' which was often cited as an explanation for, and in defence of, the English Revolution Settlement. In this way Whig principles could be put on a sound historical basis; a point which is neatly illustrated by John Ramsay of Ochtertyre's comment on Lord Kames's abandonment of his early Jacobite leanings. Ramsay expressed no surprise that Kames should have finally concluded that the Revolution was 'absolutely necessary' after 'studying history and conversing with first rate people' – no doubt including Smith. Rather similar sentiments were expressed by John Millar when he remarked that 'When we examine historically the extent of the tory, and of the whig principle, it seems evident, that from the progress of arts and commerce, the former has been continually diminishing, and the latter gaining ground in the same proportion' (quoted in Skinner, 1996, p. 91). There is little doubt that Smith shared such opinions, or that he rejoiced in a situation where the personal liberty of the subject had been confirmed at the expense of the absolutist pretensions of kings and the power of the old feudal aristocracy.

The latter theme had been elaborated in Hume's essay 'Of Refinement in the Arts'. Where 'luxury nourishes commerce and industry' Hume wrote, 'the peasants, by a proper cultivation of the land, become rich and independent; while the tradesmen and merchants acquire a share of the property, and draw authority and consideration to that middling rank of men, who are the best and firmest basis of public liberty' (1985, p. 277). Hume suggested that this development had brought about major constitutional changes, at least in England. The 'lower house is the support of our popular government; and all the world acknowledges, that it owed its chief influence and consideration to the increase of commerce, which threw such a balance of property into the hands of the commons. How inconsistent then is it to blame so violently a refinement in the arts, and to represent it as the bane of liberty and public spirit!' (1985, p. 278).

Hume's perception of the interconnection between economic growth and liberty moved Adam Smith to remark of 'the most illustrious philosopher and historian of the present age' (WN, V.i.g.3) that: 'Mr Hume is the only writer who, so far as I know, has hitherto taken notice of it' (WN, III.iv.4). This interesting but extraordinary statement was never corrected, perhaps as a tribute to Hume's originality.

The model

Smith's account of the origin of the exchange economy suggests that such an economic structure had to be regarded as a model with history. But he also recognized that this particular institutional

structure must be associated with a particular set of ‘customs and manners’, to use Hume's phrase. The link here is with the analyses of the TMS and man's desire for approbation. It is a remarkable fact that the judgements offered with regard to the psychology of the ‘economic man’ are to be found in the TMS rather than in the WN.

For Smith, ‘Power and riches appear ... then to be, what they are, enormous and oporose machines contrived to produce a few trifling conveniences to the body, consisting of springs the most nice and delicate’ (TMS, IV.i.8). But Smith continued to emphasize that the pursuit of wealth is related not only to the desire to acquire the means of purchasing ‘utilities’ but also to the need for status.

From whence, then, arises that emulation which runs through all the different ranks of men, and 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 ... are all the advantages which we can propose to derive from it. (TMS, I.iii.2.1)

Smith also suggested that in the modern economy, men tend to admire not only those who have the capacity to enjoy the trappings of wealth, but also the qualities which contribute to that end.

Smith recognized that the pursuit of wealth and ‘place’ was a basic human drive which would involve sacrifices which are likely to be supported by the approval of the spectator. The ‘habits of economy, industry, discretion, attention and application of thought, are generally supposed to be cultivated from self-interested motives, and at the same time are apprehended to be very praiseworthy qualities, which deserve the esteem and approbation of everybody’ (TMS, IV.2.8). Smith developed this theme in a passage which was added to the TMS in 1790:

In the steadiness of his industry and frugality, in his steadily sacrificing the ease and enjoyment of the present moment for the probable expectation of the still greater ease and enjoyment of a more distant but more lasting period of time the prudent man is always both supported and rewarded by the entire approbation of the impartial spectator. (TMS, VI.1.11)

The most polished accounts of the emergence of the exchange economy and of the psychology of the ‘economic man’ are to be found, respectively, in the third book of WN and in Part VI of TMS which was added in 1790. Yet both areas of analysis are old and their substance would have been communicated to Smith's students and understood by them to be what they might be seen to be: a preface to the treatment of political economy.

It is a subtle argument taken as a whole. Nicholas Phillipson had argued that Smith's ethical theory ‘is redundant outside the context of a commercial society with a complex division of labour’ (1983, pp. 179, 182). John Pocock concluded that:

A crucial step in the emergence of Scottish social theory, is, of course, that elusive phenomenon, the advent of the four stages scheme of history. The progression from hunter to farmer, to merchant offered not only an account of increasing plenty, but a series of stages of increasing division of labour, bringing about in their turn an increasingly complex organisation of both society and personality. (1983, p. 242)

Early economic analysis

Hutcheson and the *Lectures*

The early analyses of questions relating to political economy are to be found primarily in two documents: the lectures delivered in 1762–63 and the text discovered by Cannan (1896, LJB). Cannan's discovery is the most significant in respect of both date and content. This version is the most complete and provides an invaluable record of Smith's teaching in this branch of his project in the last year of his professorship (1763–64).

The Cannan version yielded two important results.

First, Cannan was able to confirm Smith's debts to Francis Hutcheson. Hutcheson's economic analysis was not presented by him as a separate discourse, but rather woven into the broader fabric of his lectures on jurisprudence. Perhaps it was for this reason that historians of economic thought had rather neglected him. But the situation was transformed as a result of Cannan's work as he first noted that the *order* of Smith's lectures on 'expediency' followed that suggested by Hutcheson, albeit, significantly, in the form of a single discourse. The importance of the connection was noted by Cannan (1896, xxv–xxvi; 1904, xxxvi–xli).

Renewed interest in Hutcheson's *economic* analysis revealed that it had its own history. It is evident that he admired the work of his immediate predecessor in the Chair of Moral Philosophy, Gerschom Carmichael (1672–1729), and especially his translation of, and commentary on, the works of Pufendorf. In Hutcheson's address to the 'students of Universities', the *Introduction to Moral Philosophy* (1742) is described thus:

The learned will at once discern how much of this compend is taken from the writings of others, from Cicero and Aristotle, and to name no other moderns, from Pufendorf's smaller work, *De Officio Hominis et Civis Juxta Legem Naturalem* which that worthy and ingenious man the late Professor Gerschom Carmichael of Glasgow, by far the best commentator on that book, has so supplied and corrected that the notes are of much more value than the text. (Taylor, 1965, p. 25)

It is to W.L. Taylor that we are indebted for the reminder that Carmichael and Pufendorf may have shaped Hutcheson's economic *ideas*, thus indirectly influencing Smith. Taylor concluded that:

The interesting point for the development of economic thought in all this is the very close parallelism between Pufendorf's *De Officio* and Hutcheson's *Introduction to Moral Philosophy*. Each man covered almost exactly the same field ... The inescapable conclusion is that Francis Hutcheson to over almost in whole, from Carmichael, the economic ideas of Pufendorf. (1965, pp. 28–9)

Undoubtedly, both men followed a particular *order* of argument. Starting with the division of labour they sought to explain the manner in which disposable surpluses could be maximized, before going on to emphasize the importance of security of property and freedom of choice. This analysis led naturally to the problem of value and hence to the analysis of the role of money. What is distinctive about the analysis is the attention given to value *in exchange* where both writers emphasized the role of utility and disutility: perceived utility attaching to the commodities to be acquired, and perceived disutility embodied in the labour necessary to create the goods to be exchanged. The distinction between utility anticipated and realized is profoundly striking (Skinner, 1996, ch. 5). This tradition was continued by Smith both in LJ and WN, but with a change of emphasis towards the *measurement* of value – thus explaining Terence Hutchison's point that Smith retained *some* of his heritage (1988, p. 199; ch. 11).

Cannan's account revealed that in his lectures, Smith was concerned with a system featuring the activities of agriculture, manufacture and commerce (LJB, p. 210) where these activities are characterized by a division of labour (by sector and process) with the process of exchange facilitated by the use of money. The most polished area of analysis, as in the case of the WN, is that of price theory where Smith deployed his distinctions between 'market' and 'natural' price in a way which illuminated the processes by virtue of which 'equilibrium' positions tended to be attained. Examples such as these refer to particular ('partial') cases, but Smith may be said to have added further dimension to the argument by showing an understanding of the fact that the economic system can be seen under a more general aspect (Skinner, 1996, pp. 124–6).

This much is evident in his objection to particular regulations of 'police' (policy) on the ground that they distorted the use of resources by breaking what he called the 'natural balance of industry' while interfering with the 'natural connexion of all trades in the stock' (LJB, pp. 233–4). He concluded: 'Upon the whole, therefore, it is by far the best police to leave things to their natural course' (LJB, p. 235).

Smith's understanding of the interdependence of economic phenomena was quite as sophisticated as that of his master. Yet at the same time, it must be noted that his lecture notes do not confirm a clear distinction between factors of production (land, labour, capital) nor between those categories of return which correspond to them (rent, wages, profit). Nor is there any evidence of a macroeconomic model of the system as a whole: a model which Smith first met during his visit to Paris.

Paris, 1700. the Physiocrats

There was a great deal in Physiocratic writing that was to prove unattractive to some, most obviously, perhaps, the doctrine of legal despotism and a political philosophy which envisaged a constitutional monarch modelled upon the Emperor of China.

The attitudes of the disciplines to the teaching of the master, Quesnay, were also a source of aggravation, moving Hume to write to Morellet on the subject of his *Dictionnaire du Commerce*.

I see that, in your prospectus, you care not to disoblige your economists ... But I hope that in your work you will thunder them, and crush them, and pound them, and reduce them to dust and ashes! They are, indeed, the set of men the most chimerical and most arrogant that now exist. I wonder what could engaged our friend, M Turgot, to herd among them. (Hume, Corr, ii.205)

Ironically, Turgot himself was as deeply opposed to authority and received doctrine as Hume had been.

Hume's reaction also found an echo in France. Murray Rothbard has reminded us of an amusing passage in the works of Simon Nicolas Linguet (1736–1794), ridiculing the idea that the Physiocrats were not ‘a cult or sect’:

Not a sect? You have a rallying cry, banners, a march, a trumpeter (Dupont), a uniform for your books, and a sign like freemasons. Not a sect? One cannot touch one of you but all rush to his aid. You laud and glorify each other, and attack and intimidate your opponents in unmeasured terms. (Rothbard, 1995, p. 377)

Smith himself objected to the fact that Quesnay's disciples followed ‘implicitly, and without any sensible variation’ the doctrine of the master such as there was ‘upon this account little variety in the greater part of their works’ (WN, IV.ix.38).

But Smith did recognize that the system:

with all its imperfections, is, perhaps the nearest approximation to the truth that has yet been published upon the subject of political economy, and is upon that account well worth the consideration of every man who wishes to examine with attention the principles of that very important science. (IV.ix.38)

Quesnay's purpose was both practical and theoretical. As R.L. Meek has indicated, Quesnay announced his purpose in a letter to Mirabeau which accompanied the first edition of the *Tableau*.

I have tried to construct a fundamental *Tableau* of the economic order for the purpose

of displaying expenditure and products in a way which is easy to grasp, and for the purpose of forming a clear opinion about the organisation which the government can bring about. (Meek, 1962, p. 108)

The statement is important in that it confirms the importance of government action in the context of a relatively underdeveloped economy which needed urgent support for the agrarian sector, a reform of the mercantile policies associated with Colbert, and in particular changes in the financial sector and in respect of fiscal policy. But Quesnay's statement also announced a clear understanding of the point that governments can act only on the basis of a knowledge of economic laws. Or, as Meek put it, with pardonable exaggeration:

With the physiocrats, for the first time in the history of economic thought, we find a firm appreciation of the fact that areas of decision open to policy makers in the economic sphere have certain limits, and that a theoretical model of the economy is necessary to define these limits. (1962, p. 370).

The model in question seeks to explore the interrelationships between output, the generation of income, expenditure and consumption – or in Quesnay's words, a 'general system of expenditure, work, gain and consumption' (Meek, 1962, p. 374) which would expose the point that 'the whole magic of a well ordered society is that each man works for others, while believing that he is working for himself' (Meek, 1962, p. 70). Again, as Meek put it:

In this circle of economic activity, production and consumption appeared as mutually interdependent variables, whose action and interaction in any economic *period*, proceeding according to certain socially determined laws, laid, the basis for a reputation of the process in the next economic period. (Meek, 1962, p. 19)

The model has a deliberately *abstract* quality but also a number of deficiencies. There is no clear analysis of the division of labour, as Smith understood the term, and no analysis of the problem of price determination and the allocation of resources. There is no formal allowance made for profit *at this point* and nor is there a division between capitalists and wage labour – to name but a few issues of importance.

But despite these criticisms, what Smith would have found in the 'Oeconomical Table' was a *model* of the economic process which represents the working of a macroeconomic process as one which involves a series of withdrawals of commodities (consumption and investment goods) from the market, which is matched in turn by a process of continuous replacement, by virtue of production *in the same time period*, all in the *context of a capital-using system*. Smith could hardly fail to be struck by this model, or by the transformation effected by Turgot, who, in effect, made good the bulk of the

analytical deficiencies in Quesnay's account (Meek, 1973).

That Smith benefited from his examination of the French system taken as a whole was quickly noted by Cannan. In referring to the theories of distribution and to the macro-economic dimension, Cannan noted that:

When we find that there is no trace of these theories in the *Lectures*, and that in the meantime Adam Smith had been to France ... it is difficult to understand, why we should be asked, without any evidence, to refrain from believing that he came under physiocratic influence after and not before or during his Glasgow period. (1904, p. xxxi)

Economic analysis

A model of conceptualized reality

The concept of an economy involving a flow of goods and services, and the appreciation of the importance of inter-sectoral dependencies, were familiar in the 18th century. Such themes are dominant features of the work done, for example, by Sir James Steuart and David Hume. But what is distinctive about Smith's work, at least as compared to his *Scottish* contemporaries, is the emphasis given to the importance of *three distinct factors* of production (land, labour, capital) and to the three categories of return (rent, wages, profit) which correspond to them. What is distinctive to the modern eye is the way in which Smith deployed these concepts in providing an account of the flow of goods and services between the sectors involved and between the different socio-economic groups (proprietors of land, capitalists, and wage-labour). The approach is also of interest in that Smith, *following the lead of the French economists*, worked in terms of period analysis – the year was typically chosen, so that the working of the economy is examined within a significant time dimension as well as over a series of time periods. Both versions of the argument emphasize the importance of capital, fixed and circulating.

Smith can be seen to have addressed a series of problems which begin with an analysis of the division of labour, before proceeding to the discussion of value, price and allocation, and thence to the issue of distribution in any one time period and over time.

The analysis offered in the first book enabled Smith to proceed, in WN, Book II, to the discussion of both macro-statics and macro-dynamics, in the context of a model where all magnitudes are dated. What Smith had produced was a model of conceptualized reality which was essentially descriptive, and which was further illustrated by reference into an *analytical* system which, if on occasion subject to ambiguity, was none the less so organized as to meet the requirements of the Newtonian ideal. The intellectual system was intended to be *comprehensive*.

Value

Although Smith's model, in its post-Physiocratic form, has several distinct elements, the feature on which he continued to place more emphasis was the *division of labour*. In terms of the content of the model outlined in previous chapters, a division of labour is of course implied in the existence of distinct *sectors* or types of productive activity. But Smith also emphasizes the fact that there was specialization by types of employment, and even within each employment. To illustrate the basic point, Smith chose the celebrated example of the pin; a very 'trifling manufacture' which none the less required some 18 processes for its completion.

In Smith's hands, the argument was important for two main reasons. First, he was at some pains to point out that the division of labour (by process) helped to explain the relatively high productivity of labour in modern times; a phenomenon which he ascribed to:

- 1. The increase in 'dexterity' which inevitably results from making a single, relatively simple operation 'the sole employment of the labourer'.
- 2. The saving of time which would otherwise be lost in 'passing from one species of work to another'.
- 3. The associated use of machines which 'facilitate and abridge labour, and enable one man to do the work of many' (WN, I.i.5).

He further observed that the existence of specialization (by employment) necessarily involves a high degree of interdependence, in that each separate *manufacture* tends to rely on the output of other industries for different goods and services. It thus follows that the individual customer who purchases a single commodity must at the same time acquire, in effect, the separate outputs of a 'great variety of labour'. Smith added:

If we examine ... all of these things, and consider what a variety of labour is employed about each of them, we shall be very sensible that without the assistance and co-operation of many thousands, the very meanest person in a civilised country could not be provided, even according to, what we very falsely imagine, the easy and simple manner in which he is commonly accommodated. (WN, I.ii.11)

However, the aspect of this discussion which is most immediately relevant is the light which it throws on the necessity of exchange. As Smith observed, once the division of labour is established, our own labour can supply us with only a very small part of our wants. He thus noted that even in the barter economy the individual can best satisfy the whole range of his needs by exchanging the surplus part of his own production, receiving in return the products of others. Where the division of labour is thoroughly established, it is to be expected that each individual is in a sense dependent on his fellows, and that 'Every man thus lives by exchanging, or becomes in some measure a merchant' (I.iv.1).

This observation brought Smith directly to the problem of value where he returned to an area

which, interestingly, had become more a feature of Hutcheson's lectures than of his own. Here it is noteworthy that he employed the analytical (as distinct from the historical) device of the barter economy. However, despite the attempt to be 'perspicuous', these passages remain somewhat difficult largely because Smith uses a single term in handling two distinct but related problems.

The word VALUE, it is to be observed, has two different meanings, and sometimes expresses the utility of some particular object, and sometimes the power of purchasing other goods which the possession of that object conveys. (WN, I.iv.13).

The first problem concerns the forces which determine the *rate* at which one good, or units of one good, may be exchanged for another; the second is concerned basically with the means by which we can measure the value of the total *stock* of goods created by an individual, and which is used in exchange for others. We may take these issues in turn.

As regards the *rate* of exchange, Smith isolated two relevant factors: the usefulness of the good *to be acquired*, and the 'cost' incurred in creating the commodity *to be given up*. The first of the relevant relationships is obviously that which exists between 'usefulness' and value. The elements of Smith's argument become apparent in his handling of the famous paradox, namely that:

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 scarce purchase anything. A diamond, on the contrary, has scarce any value in use; but a great quantity of other goods may frequently be had in exchange for it. (WN, I.iv.13)

The solution to this paradox can be stated in two stages, where the first involves an explanation as to why two such goods have *some* value, and the second an explanation as to why the two goods have *different* values.

Smith's handling of the first part of the problem is based on his recognition of the fact that both goods are considered to be 'useful' although noting that the 'utilities' of each are qualitatively different. In the former case (water) we place a value on the good because we can use it in a practical way, while in the latter (diamonds) we place a value on the good because it appeals to our 'senses', an appeal which, as Smith observed, constitutes a ground 'of preference', or 'source of pleasure'. He concluded:

The demand for the precious stones arises altogether from their beauty. They are of no use, but ornaments. (WN, I.xi.c.32)

The utilities of the two goods thus emerge as being qualitatively different, although the significant

point is seen to be that *both* have *some* value precisely because they represent sources of satisfaction to the individual.

Smith was then left with the second part of the initial problem, namely the explanation as to why the two goods have *different* values. Here again, the answer provided, while simple, is clear, embodying the argument that merit (value) is a function of scarcity. As Smith put it: ‘the merit of an object which is in any degree useful or beautiful, is greatly enhanced by its scarcity’ (WN, I.xi.c.31). Even more specifically he remarked:

Cheapness is in fact the same thing with plenty. It is only on account of the plenty of water that it is so cheap as to be got for the lifting, and on account of the scarcity of diamonds (for their real use seems not yet to be discovered) that they are so dear. (LJB, pp. 105–6)

Smith introduced the second major element in the problem by observing that the *rate* at which the individual will exchange one good for another must be affected not only by the utility of the good to be acquired, but also by the ‘toil and trouble’ involved in creating the good exchanged. In this connection he recognized that in acquiring the means of exchange (goods in the barter case), the individual must undergo the ‘fatigues’ of labour and thus ‘lay down’ a ‘portion of his ease, his liberty, and his happiness’ (WN, I.v.7).

In dealing with the *rate* of exchange, Smith may be seen to have placed most emphasis on the supply side of the problem, and explicitly argued that in the case of the barter economy ‘the proportion between the quantities of labour necessary for acquiring different objects seems to be the only circumstance which can afford any rule for exchanging them for one another’ (WN, I.vi.1). Thus he suggested that if it takes twice the labour to kill a beaver as it does to kill a deer then ‘one beaver should naturally exchange for ... two deer’; an argument which may owe something to Hutcheson's emphasis on labour embodied. Smith left the analysis in this form although it will be apparent that the rate of exchange which he specified could only obtain where the perceived ratios of the utilities and disutilities are acceptable to the respective hunters. These are of course subjective judgements whose presence helps to confirm Cannan's opinion that the ‘germ’ of the WN is to be found in Hutcheson's treatment of value.

This is one way of looking at the problem of exchange value, which clearly shows a parallel with Hutcheson, but Smith seems to have treated it, not as an end in itself, but as a means of elucidating those factors which govern the value of *the whole stock of goods* which the individual creates, and which he proposes to use in exchange. It is of course the presence of this argument in the WN which helps to confirm Taylor's judgement to the effect that the treatment of value was dominated by a concern with the *measurement* of welfare. Looking at the problem *in this way*, Smith went on to argue that:

The value of any commodity ... to the person who possesses it, and who means not to use or consume it himself, but to exchange it for other commodities, is equal to the quantity of labour which it enables him to purchase or command. Labour, therefore, is the real measure of the exchangeable value of all commodities. (WN, I.v.1)

Smith's meaning becomes clear when he remarks that the value of a *stock* of goods must always be in proportion to 'the quantity ... of other men's labour, *or what is the same thing, of the produce* of other men's labour, which it enables him to purchase or command. The exchangeable value of every thing must always be precisely equal to the extent of this power' (WN, I.v.3). In other words, Smith is here arguing that the real value of the goods which the workman has to dispose of (in effect his income) must be measured by the quantity of goods (expressed in terms of labour units) which he can command, and which he receives once the whole volume of (separate) exchanges has taken place.

As Smith observed, a clear difference between the barter and modern economies is to be found in the fact that, while in the former, goods are exchanged for goods, in the latter, goods are exchanged for a sum of money, which may then be expended in purchasing other goods. Under such circumstances the individual, as Smith saw, very naturally estimates the value of his receipts (received in return for undergoing the 'fatigues' of labour) in terms of money, rather than in terms of the quantity of goods he can acquire by virtue of his expenditure. However, Smith was at some pains to insist that the real measure of welfare (that is, our ability to satisfy our wants) was to be found in 'the money's worth' rather than the money, where the former is determined by the quantity of products (labour 'commanded') which either individuals or groups can purchase. On this basis, Smith went on to distinguish between the *nominal* and the *real* value of income, pointing out that if the three original sources of (monetary) revenue in modern times are wages, rent and profit, then the real value of each must ultimately be measured 'by the quantity of labour which they can, each of them, purchase or command' (WN, I.vi.9).

Price

Smith regarded rent, wages and profit as the types of return payable to the three 'great constituent orders' of society, and as the price paid for the use of the factors of production. The revenues which accrue to individuals and groups in society, and which permit them to purchase commodities, thus appear to be costs incurred by those who create commodities. These points were made quite explicitly by Smith when he remarked:

As the price or exchangeable value of every particular commodity, taken separately, resolves itself into some one or other or all of those three parts; so that of all the commodities which compose the whole annual produce of the labour of every country,

taken complexly, must resolve itself into the same three parts, and be parcelled out among different inhabitants of the country, either as the wages of their labour, the profits of their stock, or the rent of their land. (WN, I.vi.17)

This argument obviously raises the problem of price and its determinants.

To begin with, Smith assumed the existence of given ‘ordinary or average’ rates of wages, profit and rent; rates which may be said to prevail within any given society or neighbourhood, during any given time period. This assumption is of considerable importance, for two main reasons. First, it indicates that in dealing with the problem of price, Smith was working in terms of a given (stable) level of aggregate demand for them. Secondly, the assumption of given rates of return is important in that these rates determine the supply price of commodities.

With these two points forming Smith's major premises, he proceeded to examine the determinants of price, and to produce a discussion which seems to involve two distinct, but related, problems. First, Smith set out to explain the forces which determine the prices of *particular* commodities. Secondly, he would appear to have used the above analysis as a means of explaining the phenomenon of *general* interdependence, and thus those forces which determine the manner in which a given stock of factors of production is allocated between different uses or employments.

In dealing with the first aspect of the problem, Smith implicitly examines the case of a single commodity manufactured by a number of sellers, opening the analysis by establishing a distinction between ‘natural’ and ‘market’ price. *Natural price* is now defined as that amount which is ‘neither more nor less than what is sufficient to pay the rent of the land, the wages of labour, and the profits of the stock ... according to their natural rates’ (WN, I.vii.4). In other words, where natural price prevails, the seller is just able to cover his costs of production, including a margin for ‘ordinary or average’ profit. By contrast, *market price* is defined as that price which may prevail at any given point in time, being regulated ‘by the proportion between the quantity which is actually brought to market, and the demand of those who are willing to pay the natural price of the commodity’, the ‘effectual demanders’ (WN I.vii.8). These two ‘prices’ are inter-related, the essential point being that while in the short run the market and natural prices may diverge, in the long run they will tend to coincide. If for example, the quantity offered by the sellers was less than that which the consumers were willing to take at a particular (natural) price, the consequence would be a competition among *consumers* to procure some of a limited stock. The price would then rise above the natural price, and the rewards to factors (notably wages and profit in the short run) would diverge from the natural rates, leading to an influx of resources, and an expansion in the supply of the commodity, thus *tending* towards a return to a position of equilibrium. In making the latter point, Smith took note of the fact that in some cases demand could be postponed to another time period, while in others (for example, perishable necessities) it could not.

In the second case, where supply exceeds demand, market prices will sink and with them rates of

factor payment until factors leave the employment and the supply of commodities is thus reduced. Here again the competition between *suppliers* to rid themselves of excess stock will be affected by the nature of the commodity (durable or perishable). It will be noted that Smith makes allowance for interrelated adjustments in commodity and factor prices, that he makes due allowance for competition *between and among* buyers and sellers, while noting the distinction between durable and perishable goods.

Smith also observed that the result attained, namely that commodities in the long run are sold at their cost of production, can only hold good where there is perfect liberty (as distinct from perfect competition). The cost of production solution is, in short, only to be expected where free competition prevails.

The first stage of the discussion established that in the case of any one commodity, equilibrium will tend to be attained where the good is sold at its natural price, and where each of the relevant factors is paid for at its natural rate. Under these circumstances, equilibrium obtains precisely because there can be no tendency for resources to increase or decrease in this particular type of employment.

Now it is evident that if this process, and this result, holds good for all commodities taken separately, it must also apply to all commodities ‘taken complexly’, at least where a competitive situation prevails. That is, where the conditions which form the assumptions of the competitive case are satisfied *over the whole economy*, a position of equilibrium will tend to be attained where each different type of good is sold at its natural price, and where each factor in each employment is paid at its natural rate. The economy can then be said to be in a position of ‘balance’, since where the above conditions are satisfied there can be no tendency to move resources within or between employments. Where the necessary conditions are not satisfied (for example, as a result of changes in tastes) they will naturally tend to be re-established as a result of simultaneous adjustments in the factor *and* commodity markets. It will be observed that departure from, and re-attainment of, a position of equilibrium depends upon the essentially self-interested actions and reactions of consumers and producers. Smith's treatment of price and allocation thus provides one of the best examples of his emphasis on ‘interdependence’ and one of the most dramatic applications of his *analogy* of the Invisible Hand.

While Smith certainly conceived of ‘balance’ in terms of a situation where there was no tendency for resources to move between employments, he also recognized that a position of ‘balance’ need not involve an equality between monetary rates of return. The point follows directly from Smith's recognition of the fact that employments differ qualitatively and that such differences may serve to explain why, even in a position of ‘balance’, different money rates prevail. As Smith put it, ‘certain circumstances in the employments themselves ... either really, or at least in the imaginations of men, make up for a small pecuniary gain in some, and counter-balance a great one in others’ (WN, I.x.a.2). Thus, for example, he noted that money wage rates would tend to vary between different types of

employment according to the difficulty of learning the trade, the constancy of employment, and the degree of trust involved. In the same way he observed that both wages and profit would vary with the agreeableness of the work, the cost of training, and the probability of success in particular fields. In short, he was suggesting that money rates of return would tend to equality within employments of similar types, so that over the whole economy the relevant 'balance' would be one involving net advantages.

Before passing to the next stage of the argument it may be useful to make two points both of which refer to the TMS while at the same time bearing upon the present discussions of the allocative mechanism. The treatment of the doctrine of net advantages is connected to the argument advanced in TMS to the effect that men are motivated by the desire to be approved of. In the present context the arguments suggest that where a profession is widely admired, public approbation may become part of the reward. On the other hand, Smith's analysis suggests that men may only be induced to enter and to remain in particular professions if public disapprobation is compensated by an appropriate monetary reward (the trades of the butcher and the inn-keeper are described as 'odious').

Distribution

As we have seen, Smith's analysis of price and its determinants was built upon the assumption of given rates of factor payment of the kind that could prevail in a given time period – say one year. Briefly stated, the argument has three features: Smith attempts to explain *why* a particular form of return is paid to a particular factor of production (labour, capital and land); the nature of those forces which determine the rates of factor payment which prevail at a particular point in time, and finally, those forces which explain trends in factor payment over long periods of time.

Wages: Smith observed that payment for the factor labour is paid for by those classes which require the services involved. The process of wage determination in a *given time period* will then depend on the relative bargaining position of two groups (labour and entrepreneurs) in a situation where the legal advantages typically lay with the 'masters'. Where labour is scarce to compared with the demand for it, wage rates will tend to be relatively high; relatively low in the opposite case. Smith was thus able to argue that wage rates would be relatively high or low depending on the size of the working population and on the size of the capital stock destined for the employment of the factor (the wages fund). Wage rates may also be relatively high or low depending on the current definition of the subsistence wage, where the latter is defined as a level sufficient to sustain a constant level of population (I.viii.15). The argument leads on to the issue of *long-term adjustment*; Smith's position being that where the wage rate is below the subsistence level, population must contract, and where sustained above this level over a period of time, population must expand – the more typical case in the circumstances of, for example, Great Britain and the North American colonies.

In the context of the relatively short run it follows that wage rates may be equal to, above or below

the subsistence rate and that the rates paid are related to the size of the working population and the size of the wages fund.

Profit: Smith did not consider that this form of return was payable for the work of ‘inspection and direction’ but rather as the reward accruing to those entrepreneurs who risked their capital in combining this factor with others, such as labour and land. The emphasis upon risk is to be noted.

At least as a broad generalization Smith felt able to argue that at *a given point* in time, the rate of profit prevailing would be determined by the capital stock available, taken in conjunction with the volume of business to be transacted by it. But Smith made an important qualification to this statement in arguing that even where the quantity of stock (capital) remains the same, the rate of profit will be related to the prevailing wage rate.

In the long run, however, Smith suggested that the rate of profit would tend to fall, thus establishing a proposition which was to have enduring vitality. Over time, Smith contended that the rate of profit would tend to decline, partly in consequence of an increase in the capital stock, and partly as a result of the increasing difficulty of finding ‘a profitable method of employing any new capital’. He continued:

When the stocks of many rich merchants are turned into the same trade, their mutual competition naturally tends to lower its profit, and when there is a like increase of stock in all the different trades carried on in the same society, the same competition must produce the same effect in them all. (I.xi.2)

It then follows that the ‘diminution of profit is the natural effect of prosperity’ (I.x.10).

Rent: is formally defined as the ‘price paid for the use of land’ (I.xi.a.1). Looked at this way, Smith made a point which is reminiscent of the French economists, in arguing that rent constitutes a surplus in the sense that it accrues to the owner of land independently of any effort made by him (I.xi.8) and that rent payments are generally the highest that can ‘be got in the actual circumstances of the land’ (I.xi. a.1). The reference to actual circumstances is important since Smith recognized that rent would vary both with the fertility and the situation of the land.

The analysis serves to suggest that at *any point in time*, or during any annual period, rent payments will be related to the stock of land actually in use where the latter is in turn related to the level of population. The argument also indicates that rent payments will be related not only to the fertility of the land and its situation, but also to the prevailing rates of profit and wages – another reminder of the interdependence of the different rates of return (I.xi.a.8). In the long run, Smith suggested that rent payments in the aggregate would tend to increase owing to the increased use of the available stock of land (I.xi.2). He added that the real value of the landlord's receipts would also increase over time since all ‘those improvements in the productive powers of labour, which tend directly to reduce the real price of manufactures, tend indirectly to raise the real rent of land’ (I.xi.4).

The argument just reviewed thus has a short- and long-run dimension. Smith was concerned with long-run trends in rates of return which, as in the short-run case, are interrelated. Thus Smith suggests that profits will decline as the size of the capital stock increases, that high rates of accumulation of capital will generate high market wage rates, leading to an increase in the level of population and in land use. But so far no explanation has been offered as to the source of the crucial increase in capital; a gap which was to be filled in the analyses of Book II.

Macroeconomics (I)

Smith's analysis of the 'circular flow' may be seen as a direct development of certain results already stated in connection with the theory of price. To begin with, it will be recalled that costs of production are incurred by those who create commodities, thus providing individuals with the means of exchange. It therefore follows that if the price of each good in a position of equilibrium comprehends payments made for rent, wages and profit, according to their natural rates, then 'it must be so with regard to all the commodities which compose the whole annual produce of the land and labour of every country, taken complexly' (WN, II.ii.2). On this basis, Smith concluded that 'The whole price or exchangeable value of that annual produce, must resolve itself into the same three parts, and be parcelled out among the different inhabitants' (WN, II.ii.2). If we ignore the problem of distribution (that is of a given level of income between rent, wages and profit), the result which Smith was endeavouring to establish may be stated to involve a relationship between aggregate output and aggregate income. In his own words, 'The gross revenue of all the inhabitants of a great country, comprehends the whole annual produce of their land and labour' (WN, II.ii.5).

It will be evident that a particular level of income, created by a particular level of aggregate output, represents that power to purchase goods which is available to all the members of 'a great society'. Smith then went on to observe that this level of purchasing power would be divided into two funds, consumption and saving. In fact, Smith offered no *formal* explanation of the forces which would determine the actual distribution of aggregate income or purchasing power between these two uses, at any particular point in time. He did, however, suggest that proprietors and labourers would tend to devote a high proportion of their income to consumption, the latter by virtue of the size of their receipts in relation to their basic needs, and the former by virtue of the habits of 'expence' associated with that class. The problem of balancing future against present enjoyments thus appeared to be mainly relevant for the entrepreneurial groups; groups whose functions and objectives dispose them to frugality, at least while actively engaged in the pursuit of fortune.

But Smith did clarify the problems here considered from the standpoint of expenditure. For example, he noted that the proportion of annual income for consumption, taking all groups 'complexly', would be used to purchase commodities which were either perishable or durable in character. He also noted that this type of expenditure could involve the purchase of services; services

of kind which do not directly contribute to the annual output of commodities in physical terms and which thus cannot be said to contribute to the level of income associated with it. Smith formally described such labour as ‘unproductive’, but did not deny that such services were useful. With regard to *savings* Smith identified two sources and two uses. For example, he identified the agrarian, trading, and manufacturing interests as groups wherein ‘the owners themselves employ their own capitals’ (WN, II.iv.5), as distinct from the monied interest who may lend either for the purpose of consumption or of production.

Smith went on to argue that the undertaker or entrepreneur, engaged in agriculture, manufacture or trade could employ their own or borrowed resources for productive purposes, and divided their capitals into two categories both of which are reminiscent of Physiocratic teaching. *Fixed capital* was defined as that portion of savings used to purchase ‘useful machines’ or to improve, for example, the productive powers of land, the characteristic feature being that goods are created, and profits ultimately acquired, by using and retaining possession of the investment goods involved. *Circulating capital* was defined as that portion of savings used to purchase investment goods other than ‘fixed implements’, such as labour power or raw materials, the characteristic feature being that goods are produced through temporarily ‘parting with’ the funds so used. Smith made three points in the context of this discussion:

- 1. ‘Every fixed capital is both originally derived from, and requires to be continually supported by, a circulating capital’ (WN, II.i.24);
- 2. ‘No fixed capital can yield any revenue but by means of a circulating capital (WN, II.i.25), while in addition
- 3. ‘different occupations require very different proportions between the fixed and circulating capitals employed in them’ (WN, II.i.6).

Macroeconomics (II)

While these points are important of themselves, they were to gain further significance when Smith moved to the next stage of his argument: the development of his version of the ‘circular flow’ where, again following the Physiocratic lead, he examined the functioning of the system in a given time period (such as a year). Taking the economic system as a whole, Smith suggested that the total stock of society could be divided into three categories:

There is, first, that part of the total stock which is reserved for immediate consumption, and which is held by *all* consumers (capitalists, labour and proprietors) reflecting purchases made in previous time periods. The characteristic feature of this part of the total stock is that it affords no revenue to its possessors since it consists in ‘the stock of foods, clothes, household furniture, etc. which have been purchased by their proper consumers, but which are not yet entirely consumed’ (WN, II.i.12).

Secondly, there is that part of the total stock which may be described as ‘fixed capital’ and which will be distributed between the various groups in society. This part of the stock, Smith suggested, is composed of the ‘useful machines’ purchased in preceding periods but currently held by the undertakers engaged in manufacture; the quantity of useful buildings and of ‘improved land’ in the possession of the ‘capitalist’ farmers and the proprietors, together with the ‘acquired and useful abilities’ of all the inhabitants (WN, II.i.13–17); that is, human capital.

Thirdly, there is that part of the total stock which may be described as ‘circulating capital’ and which again has several components, these being:

- 1. The quantity of money necessary to carry on the process of circulation. In this connection Smith observed that ‘The sole use of money is to circulate consumable goods. By means of it, provisions, materials, and finished work, are bought and sold, and distributed to their proper consumers. The quantity of money, therefore, which can be annually employed in any country must be determined by the value of the consumable goods annually circulated within it’ (WN, II.iii.23).
- 2. The stock of provisions and other agricultural products which are available for sale during the current period, but which are still in the hands of either the farmers or merchants.
- 3. The stock of raw materials and work in progress, which is held by merchants, undertakers, or those capitalists engaged in the agricultural sector (including mining, and so on).
- 4. The stock of manufactured goods (consumption and investment goods) created during the previous period, but which remain in the hands of undertakers and merchants at the beginning of the period examined (WN, II.i.19–22).

The logic of the process can be best represented by artificially separating the activities involved much in the manner of the Physiocratic model with which Smith was familiar. Let us suppose that at the beginning of the time period in question, the major capitalist groups possess the total net receipts earned from the sale of products in the previous period, and that the undertakers engaged in agriculture open by transmitting the total rent due to the proprietors of land, for the current use of that factor. The income thus provided will enable the proprietors to make the necessary purchases of consumption (and investment) goods in the current period, thus contributing to reduce the stocks of such goods with which the undertakers and merchants began the period. Secondly, let us assume that the undertakers engaged in both sectors, together with the merchant groups, transmit to wage labour the content of the wages fund, thus providing this socio-economic class with an income which can be used in the current period. It is worth noting in this connection that the capitalist groups transmit a fund to wage labour which formed a part of their *savings*, providing by this means an income which is available for current *consumption*. Thirdly, the undertakers engaged in agriculture and manufactures will make purchases of consumption and investment goods from each other, through the medium of

retail and wholesale merchants, thus generating a series of expenditures linking the two major sectors. Finally, the process of circulation may be seen to be completed by the purchases made by individual undertakers within their own sectors. Once again these purchases will include consumption and investment goods, thus contributing still further to reduce the stocks of commodities which were available for sale when the period under examination began, and which formed part of the circulating capital of the society in question.

Given these points, we can represent the working of the system in terms of a series of flows whereby money income, accruing in the form of rent, wages and profit, is exchanged for commodities in such a way as to involve a series of withdrawals from the ‘circulating’ capital of society. As Smith pointed out, the consumption goods withdrawn from the existing stock may be entirely used up within the current period, used to *increase* the stock ‘reserved for immediate consumption’, or to *replace* the more durable goods, for example, furniture or clothes, which had reached the end of their lives in the course of the same period. Similarly, the undertakers, as a result of their purchases, may *add* to their stocks of raw materials and/or their fixed capital, or *replace* the machines which had finally worn out in the current period, together with the materials used up as a result of current productive activity. Looked at in this way, the ‘circular flow’ could be seen to involve purchases which take goods *from* the circulating capital of *society*, which is in turn matched by a continuous process of *replacement* by virtue of current production of materials and finished goods – where both types of production require the use of the fixed and circulating capitals of *individual* entrepreneurs. It is an essential part of Smith's argument that all available resources will normally be used:

In all countries where there is tolerable security, every man of common understanding will endeavour to employ whatever stock he can command in procuring either present enjoyment or future profit. If it is employed in procuring present enjoyment, it is a stock reserved for immediate consumption. If it is employed in procuring future profit, it must procure this profit either by staying with him, or by going from him. In the one case it is a fixed, in the other it is a circulating capital. A man must be perfectly crazy who, where there is tolerable security, does not employ all the stock which he commands, whether it be his own or borrowed of other people, in some one or other of those three ways. (WN, II.i.30)

Smith elaborated on this argument in drawing attention to the point that the differing ways in which the *entrepreneurial* classes employ their capitals were interdependent. The point is reminiscent of Turgot:

A capital may be employed in four different ways: either, first, in procuring the rude produce annually required for the use and consumption of the society; or, secondly, in

manufacturing and preparing that rude produce for immediate use and consumption; or, thirdly, in transporting either the rude produce from the places where they abound to those where they are wanted; or, lastly, in dividing particular portions of either into such small parcels as suit the occasional demands of those who want them. (WN, II.v.1).

Macroeconomics (III). the sources of growth

In choosing to examine the working of the economy during a given time period such as a year, Smith gave his model a broadly short-run character although it is obviously one which included a time dimension. At the same time Smith did not seek to formulate *equilibrium* conditions (as Quesnay had done) for the model, at least in the sense that he did not try to develop an argument which used specified assumptions of a quantitative kind as a means of showing the conditions which must be satisfied before the following time period could open under conditions identical to those prevailing in the period actually examined.

Nor in dealing with the 'flow' did Smith suggest that the level of output attained during any given period would be exactly sufficient to replace the goods used up during its course. On the contrary, he argued that output levels attained in any year would be likely to exceed previous levels: an important reminder that Smith's predominant concern was with economic growth. In this connection, Smith noted that the 'annual produce of the land and labour of any nation can be increased in its value by no other means, but by increasing either the number of its productive labourers, or the productive power of those labourers who had before been employed' (WN, II.iii.32). Smith also observed that both the above sources of increased output required an 'additional capital' devoted either to increasing the size of the wages fund or to the purchase of 'machines and instruments which facilitate and abridge labour'; an additional capital which can only be acquired through net savings.

By what a frugal man annually saves, he not only affords maintenance to an additional number of productive hands, for that or the ensuing year, but like the founder of a public workhouse, he establishes as it were a perpetual fund for the maintenance of an equal number in all times to come. (WN, II.iii.19)

It will be observed that net savings attained during the course of a single annual period will lead to higher output and income, where the latter becomes available during the course of the period examined. The argument can be extended from this point, in that higher levels of output and income attained in any one year make it possible to reach still higher levels of savings and investment in subsequent years, thus generating further increases in output and income. Once started, the process of capital accumulation and thus economic growth may be seen as self-generating, indicating that Smith's flow is to be regarded as spiral rather than as a circle of given dimensions. This indeed is the

burden of Smith's argument in Book II; a fact which helps to explain some of its recurrent themes.

First, Smith frequently argued that net savings will always be possible during each annual period:

Whatever a person saves from his revenue he adds to his capital, and either employs it himself in maintaining an additional number of productive hands, or enables some other person to do so, by lending it to him for an interest, that is, for a share of the profits. As the capital of an individual can be increased only by what he saves from his annual revenue or his annual gains, so the capital of a society, which is the same with that of all the individuals who compose it, can be increased only in the same manner. (WN, II.ii.15)

Secondly, Smith emphasized that:

Parsimony, by increasing the fund which is destined for the maintenance of productive hands, tends to increase the number of those whose labour added to the value of the subject upon which it is bestowed. It tends therefore to increase the exchangeable value of the land and labour of the country. It puts into motion an additional quantity of industry, which given an added value to the annual produce. (WN, II, iii.18)

Smith's basic theme is that economic growth depends upon the accumulation of capital, and he went on from this point to draw attention to those factors which affect its *rate*.

In this connection he noted a number of issues:

- 1. The incidence of commercial failure since ‘every injudicious project in agriculture, mines, fisheries, trade or manufactures, tends to diminish the funds destined for the maintenance of productive labour’ (II.iii.26).
- 2. The cost of factors needed to maintain productive assets in a state of normal efficiency (II.ii.7).
- 3. The area of investment to which a specific injection of capital was applied – it being Smith's contention, for example, that agriculture would support a great quantity of productive labour even than manufactures (see. for example, WN, II.v).
- 4. The extent to which resources are devoted to the purchase of productive as distinct from unproductive labour. Productive labour for Smith involves the creation of commodities or ‘fixed subjects or vendible commodities’ which may be either investment or consumption goods and which contribute directly to the generation of income. Other forms of labour are described as unproductive although Smith did not deny that such services are useful. For example, he pointed out that the services of artists have a value to those who wish to pay for them. In the same way the services provided by governments are essential to the well-being of society. Yet all such services are by definition unproductive:

The sovereign ... with all the officers both of justice and war who serve under him, the whole army and navy, are unproductive labourers. They are the servants of the public, and are maintained by a part of the annual produce of the industry of other people.

(II.iii.2)

It therefore follows that the *rate of growth* will be affected especially by the size of the government sector. Smith concluded:

According ... a smaller or great proportion ... is in any one year employed in maintaining unproductive hands, the more in the one case and the less in the other will remain for productive, and next years produce will be greater or smaller accordingly.

(II.iii.3)

Policy

Smith's analytical apparatus, allied to his judgement with respect to the probable trends of the economy, led him to advance the claims of economic liberty; claims which had already featured in LJ and which date back to his days in Edinburgh (Stewart, IV.25). The argument is repeated in WN, where Smith called upon the sovereign to discharge himself from a duty:

in the attempting to perform which he must always be exposed to innumerable delusions, 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 interests of the society. (WN, IV.ix.51)

The statement is familiar, yet conceals a point of great significance; namely, that while the institutions of the exchange economy are consistent with the emergence of personal freedom (for example, under the law), they are not of themselves sufficient to establish what Smith described as the 'system of natural liberty' (WN, IV.ix.51). In fact, one of the most important functions of government is that of *identifying* and *removing* impediments to the effective working of the economy. Smith drew attention, for example, to the adverse effects of the statute of apprenticeship, and of corporate privileges. Regulations of this kind were criticized on the ground that they were both impolitic and unjust: unjust in that controls over qualification for entry to a trade were a violation 'of this most sacred property which every man has in his own labour' (WN, I.x.c.12) and impolitic in that such regulations are not of themselves sufficient to guarantee competence. But Smith particularly emphasized that the regulations in question would adversely affect the working of the market mechanism. The 'statute of apprenticeship obstructs the free circulation of labour from one employment to another, even in the same place. The exclusive privileges of corporations obstruct it from one place to another, even in the

same employment' (WN, I.x.c.42). He also commented on the problems presented by the Poor Laws and the Laws of Settlement (WN, IV.ii.42), which further restricted the free movement of labour from one geographical location to another.

Smith objected to positions of privilege, such as monopoly power, which he regarded as creations of the civil law. The institution was again represented as impolitic and unjust: unjust in that a monopoly position is one of privilege and advantage, and therefore 'contrary to that justice and equality of treatment which the sovereign owes to all the different orders of his subjects', impolitic in that the prices at which goods so controlled are sold are 'upon even occasion the highest that can be got' (WN, I.vii.27). He added that monopoly is 'a great enemy to good management' (WN, I.xi.b.5) and that the institution had the additional defect of restricting the flow of capital to the trades affected as a result of the legal barriers to entry which were involved.

It is useful to distinguish Smith's objection to monopoly from his criticism of one expression of it; namely, the mercantile system of regulation which he described as the 'modern system' of policy, best understood 'in our own country and in our own times' (WN, IV.2). Smith asserted that mercantile policy aimed to secure a positive balance of trade through the control of exports and imports, a policy whose 'logic' was best expressed in terms of the Regulating Acts of Trade and Navigation, which currently determined the pattern of trade between Great Britain and her colonies and which were designed to create in effect a self-sufficient Atlantic Economic Community.

Smith objected to current policies of the type described on the ground that they artificially restricted the market and thus damaged opportunities for economic growth. It was Smith's contention that such policies were liable to that general objection which may be made to all the different expedients of the mercantile system, 'the objection of forcing some part of the industry of the country into a channel less advantageous than that in which it would run of its own accord' (WN, IV.v.a.24). In WN Smith placed more emphasis on interference with the allocative mechanism than he had done in LJ, where greater attention had been given to the inconsistency which was involved in seeking a positive balance of trade, an argument which relied heavily on Hume's analysis of the specie flow.

While it is difficult to judge the extent to which the claim for economic liberty explains the contemporary reception of WN, it may have been a major factor, at least in Britain (Schumpeter, 1954, p. 185). There can be no doubt that later generations found Smith's argument (and rhetoric) attractive. The celebrations to mark the 50th anniversary of the book showed a wide and continuing acceptance of the doctrines of free trade. In 1876, at a dinner held by the Political Economy Club to mark the centenary of WN, one speaker identified free trade as the most important consequence of the work done by 'this simple Glasgow professor', and predicted that

there will be what may be called a large negative development of Political Economy tending to produce an important beneficial effect; and that is, such a development of Political Economy as will reduce the functions of government within a smaller and

smaller compass. (Black, 1976, p. 51)

This view still commands wide contemporary support.

There can be no argument with Jacob Viner's contention that 'Smith in general believed that there was, to say the least, a strong presumption against government activity' (Viner, 1928, p. 14). But as Viner also reminded his auditors during the course of the Chicago conference which celebrated the 150th anniversary of the publication of WN, 'Adam Smith was not a doctrinaire advocate of laissez-faire. He saw a wide and elastic range of activity for government' (1928, pp. 153–4). A number of examples, all identified by Viner in a classic article, may briefly be reviewed here.

First, Smith was prepared to justify specific policies to meet particular needs as these arose; the principle of intervention ad hoc. He defended the use of stamps on plate and linen as the most effectual guarantee of quality (WN, I.x.c.13), the compulsory regulation of mortgages (WN, V.ii.h.17), the legal enforcement of contracts (WN, I.ix.16) and government control of the coinage. In addition, he supported the granting of temporary monopolies to mercantile groups, to the inventors of new machines and, not surprisingly, to the authors of new books (WN, V.i.e.30). He further advised governments that where they were faced with taxes imposed by their competitors, retaliation could be in order, especially if such action had the effect of ensuring the 'repeal of the high duties or prohibitions complained of. The recovery of a great foreign market will generally more than compensate the transitory inconveniency of paying dearer during a short time for some sorts of goods' (WN, IV.ii.39).

Secondly, Smith advocated the use of taxation, not as a means of raising revenue but as a source of social reform, and as a means of compensating for what would now be described as a defective telescopic faculty. In the name of the public interest, Smith supported taxes on the retail sale of liquor in order to discourage the multiplication of alehouses (WN, V.ii.g.4) and differential rates on ale and spirits in order to reduce the sale of the latter (WN, V.ii.k.50). He advocated taxes on those proprietors of land who demanded rents in kind, and on those leases which prescribed a certain form of cultivation. In the same way, Smith argued that the practice of selling a future, for the sake of present, revenue should be discouraged on the ground that it reduced the working capital of the tenant and at the same time transferred a capital sum to those who would use it for the purposes of consumption (WN, V.ii.c. 12) rather than investment which would directly support productive labour.

Smith was well aware, to take a third example, that the modern version of the 'circular flow' depended on paper money and on credit; in effect, a system of 'dual circulation' involving a complex of transactions linking producers and merchants, and dealers and consumers (WN, II.ii.88). It is in this context that he advocated control over the rate of interest, to be set in such a way as to ensure that 'sober people are universally preferred, as borrowers, to prodigals and projectors' (WN, II.iv.15). He was also willing to regulate the small note issue in the interests of a stable banking system. To those who objected to such a proposal Smith replied that the interests of the community required it, and

concluded that ‘the obligation of building party walls, in order to prevent the communication of fire, is a violation of natural liberty, exactly of the same kind [as] the regulations of the banking trade which are here proposed’ (WN, II.ii.94). Although Smith's monetary analysis is not regarded as amongst the strongest of his contributions, it should be remembered that as a witness of the collapse of the Ayr Bank, he was acutely aware of the problems generated by a sophisticated credit structure, and that it was in this context that he articulated a very general principle; namely, that ‘those exertions of the natural liberty of a few individuals, which might endanger the security of the whole society, are, and ought to be, restrained by the laws of all governments; of the most free, as well as of the most despotical’ (WN, II.ii.94).

Fourthly, emphasis should be given to Smith's contention that a major responsibility of government must be the provision of certain public works and institutions for facilitating the commerce of the society which were ‘of such a nature, that the profit could never repay the expense to any individual or small number of individuals, and which it, therefore, cannot be expected that any individual or small number of individuals should erect or maintain’ (WN, V.i.c.1). The examples of public works which he provided include roads, bridges, canals and harbours – all thoroughly in keeping with the conditions of the time and with Smith's emphasis on the importance of transport as a contribution to the effective operation of the market and to the process of economic growth. But although the list is short by modern standards, the discussion is of interest for two main reasons.

First, Smith contended that public works or services should only be provided where market forces have failed to do so; secondly, he insisted that attention should be given to the requirements of efficiency and equity.

As Nathan Rosenberg (1960) has pointed out in an important article, Smith did not argue that governments should *directly* provide relevant services; rather, they should establish institutional arrangements so structured as to engage the motives and interests of those concerned. Smith tirelessly emphasized the point that in every trade and profession ‘the exertion of the greater part of those who exercise it, is always in proportion to the necessity they are under of making that exertion’ (WN, V.i.f.4); teachers, judges, professors, civil servants and administrators alike.

With regard to equity, Smith argued that public works, such as highways, bridges and canals should be paid for by those who use them and in proportion to the wear and tear occasioned – an expression of the general principle that the beneficiary should pay. He also defended direct payment on the ground of efficiency since only by this means would it be possible to ensure that necessary services would be provided where there was an identifiable need (WN, V.i.d.6).

Yet Smith recognized that it would not always be possible to fund or to maintain public services without recourse to general taxation. In this case he argued that ‘local or provincial expenses of which the benefit is local or provincial’ ought to be no burden on general taxation since ‘It is unjust that the whole society should contribute towards an expense of which the benefit is confined to a part of

society' (WN, V.i.i.3). However, he did agree that a general contribution would be appropriate in cases where public works benefit the whole society and cannot be maintained by the contribution 'of such particular members of the society as are most immediately benefited by them' (WN, V.i.i.6).

But here again, the main features of the system of liberty are relevant in that they affect the way in which taxation should be imposed. Smith pointed out on welfare grounds that taxes should be levied in accordance with the canons of equality, certainty, convenience and economy (WN, V.ii.b), and insisted that they should not be raised in ways which infringed the liberty of the subject – for example, through the odious visits and examinations of the tax-gatherer. Similarly, he argued that taxes ought not to interfere with the allocative mechanism (as, for example, taxes on necessities or particular employments) or constitute important disincentives to the individual effort on which the effective operation of the whole system depended (for example, taxes on profits or on the produce of land).

Ethics and history

The policy views which have just been considered are closely related to Smith's economic analysis. Others are only to be fully appreciated when seen against the background of his work on ethics and jurisprudence.

It will be recalled that for Smith moral judgement depends on a capacity for acts of imaginative sympathy, and that such acts can only take place within the context of some social group (TMS, III.i.3). However, Smith also observed that the mechanism of the impartial spectator might well break down in the context of the modern economy, due in part to the size of the manufacturing units and of the cities which housed them.

Smith observed that in the actual circumstances of modern society, the poor man could find himself in a situation where the 'mirror' of society (TMS, III.i.3) was ineffective. The 'man of rank and fortune is by his station the distinguished member of a great society, who attend to every part of his conduct, and who thereby oblige him to attend to every part of it himself'. But the 'man of low condition', while 'his conduct may be attended to' so long as he is a member of a country village, 'as soon as he comes into a great city, he is sunk, in obscurity and darkness. His conduct is observed and attended to by nobody, and he is therefore very likely to neglect it himself, and to abandon himself to every sort of low profligacy and vice' (WN, V.i.g.12).

In the modern context, Smith suggests that the individual thus placed would naturally seek some kind of compensation, often finding it not merely in religion but in religious sects; that is, small social groups within which he can acquire 'a degree of consideration which he never had before' (WN, V.i.g.12). Smith noted that the morals of such sects were often disagreeably 'rigorous and unsocial', recommending two policies to offset this.

The first of these is learning, on the ground that science is 'the great antidote to the poison of

enthusiasm and superstition'. Smith suggested that government should institute 'some sort of probation, even in the higher and more difficult sciences, to be undergone by every person before he was permitted to exercise any liberal profession, or before he could be received as a candidate for any honourable office of trust or profit' (WN, V.i.g.14). The second remedy was through the encouragement given to those who might expose or dissipate the folly of sectarian bitterness by encouraging an interest in painting, music, dancing, drama – and satire (WN, V.i.g.15).

If the problems of solitude and isolation consequent on the growth of cities explain Smith's first group of points, a related trend in the shape of the division of labour helps to account for the second. In the earlier part of the argument, Smith had emphasized the gain to society at large which arose from improved productivity. But he noted later that this important source of economic benefit could also involve social costs:

In the process of the division of labour, the employment of the far greater part of those who live by labour, that is, of the great body of the people, comes to be confined to a few very simple operations; frequently to one or two. But the understandings of the greater part of men are necessarily formed by their ordinary employments. The man whose life is spent in performing a few simple operations, of which the effects too are, perhaps, always the same, or very nearly the same, has no occasion to exert his understanding, or to exercise his invention in finding out expedients for removing difficulties which never occur. (WN, V.i.f.50)

Smith went on to point out that despite a dramatic increase in the level of *real income*, the modern worker could be relatively worse off than the poor savage, since in such primitive societies the varied occupations of all men – economic, political and military – preserve their minds from that 'drowsy stupidity, which, in a civilized society, seems to benumb the understanding of almost all the inferior ranks of people' (WN, V.i.f.51). It is the fact the 'labouring poor, that is the great body of the people' will fall into the state outlined that makes it necessary for government to intervene.

Smith's justification for intervention is, as before, market failure, in that the labouring poor, unlike those of rank and fortune, lack the leisure, means or (by virtue of their occupation) the inclination to provide education for their children (WN, V.i.f.53). In view of the nature of the problem, Smith's programme seems rather limited, based as it is on the premise that 'the common people cannot, in any civilized society, be so well instructed as people of some rank and fortune' (WN, V.i.f.54). However, he did argue that they could all be taught 'the most essential parts of education ... to read, write, and account' together with the 'elementary parts of geometry and mechanics' (WN, V.i.f.54, 55). Smith added:

The publick can *impose* upon almost the whole body of the people the necessity of

acquiring those most essential parts of education, by obliging every man to undergo an examination or probation in them before he can obtain the freedom in any corporation, or be allowed to set up any trade either in a village or town corporate. (WN, V.i.f.57; italics supplied)

Distinct from the above, although connected with it, is Smith's concern with the decline of martial spirit, which is the consequence of the nature of the fourth, or commercial, stage. He concluded that:

Even though the martial spirit of the people were of no use towards the defence of society, yet to prevent that sort of mental mutilation, deformity and wretchedness, which cowardice necessarily involves in it, from spreading themselves through the great body of the people would still deserve the most serious attention of government. (WN, V.i.f.60)

Smith went on to liken the control of cowardice to the prevention of 'a leprosy or any other loathsome and offensive disease' – thus moving Jacob Viner to add public health to Smith's already lengthy list of governmental functions (Viner, 1928, p. 150). Such concerns have enabled Winch (1978) to find in Smith evidence of the *language* of an older, classical, concern with the problem of citizenship. Others (for example, see contributions in Hont and Ignatieff, 1983) have located Smith more firmly in the tradition of civic humanism.

The historical dimension of Smith's work also affects the treatment of policy, noting as he did that in every society subject to a process of transition, 'Laws frequently continue in force long after the circumstances, which first gave occasion to them, and which could also render them reasonable, are no more' (WN, III.ii.4). In such cases Smith suggested that arrangements which were once appropriate but are now no longer so should be removed, citing as examples the laws of succession and entail; laws which had been appropriate in the feudal period but which now had the effect of liming the sale and improvement of land. The continuous scrutiny of the relevance of particular laws is an important function of the 'legislator' (Haakonssen, 1981).

In a similar way, the treatment of justice and defence, both central services to be organized by the government, are clearly related to the discussion of the stages of history, an important part of the argument in the latter case being that a gradual change in the economic and social structure had necessitated the formal provision of an army (WN, V.i.a.b).

But perhaps the most striking and interesting features emerge when it is recalled that for Smith the fourth economic stage could be seen to be associated with a particular form of social and political structure which determines the outline of government and the context within which it must function. It may be recalled in this connection that Smith associated the fourth economic stage with the elimination of the relation of direct dependence which had been a characteristic of the feudal agrarian period. Politically, the significant and associated development appeared to be the diffusion of power

consequent on the emergence of new forms of wealth which, *at least in the peculiar circumstances of England*, had been reflected in the increased significance of the House of Commons.

Smith recognized that in this context government was a complex instrument, that the pursuit of office was itself a ‘dazzling object of ambition’ – a competitive game with as its object the attainment of ‘the great prizes which sometimes come from the wheel of the great state lottery of British politics’ (WN, IV.vii.c.75).

Yet for Smith the most important point was that the same economic forces which had served to elevate the House of Commons to a superior degree of influence had also served to make it an important focal point for sectional interests – a development which could seriously affect the legislation which was passed and thus affect that extensive view of the common good which ought ideally to direct the activities of Parliament.

It is recognized in the *Wealth of Nations* that the landed, moneyed, manufacturing and mercantile groups all constitute special interests which could impinge on the working of government. Smith referred frequently to their ‘clamorous importunity’, and went so far as to suggest that the power possessed by employers generally could seriously disadvantage other classes in the society’ (WN, I.x.c.61; cf. I. viii.12,13).

Smith insisted that any legislative proposals emanating from this class:

ought always to be listened to with great precaution, and ought never to be adopted till after having been long and carefully examined, not only with the most scrupulous, but with the most suspicious attention. 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, upon many occasions, both deceived and oppressed it. (WN, I.xi.p.10)

He was also aware of the dangers of manipulation arising from deployment of the civil list (LJA, iv.175–6).

It is equally interesting to note how often Smith referred to the constraints presented by the ‘confirmed habits and prejudices’ of the people, and to the necessity of adjusting legislation to what ‘the interests, prejudices, and temper of the times would admit of’ (WN, IV.v.b.40, 53, and V.i.g; cf. TNS, VI.ii.2.16). Such passages add further meaning to the discussion of education. An educated people, Smith argued, would be more likely to see through the interested complaints of faction and sedition. He added a warning and a promise in remarking that:

In free countries, where the safety of government depends very much on the favourable judgment which the people may form of its conduct, it must surely be of the highest importance that they should not be disposed to judge rashly or capriciously

concerning it. (WN, V.i.f.61)

Aftermath

J.S. Mill, the archetypal classical economist, of a later period, is known to have remarked that ‘The *Wealth of Nations* is in many parts obsolete and in all, imperfect’. Writing in 1926, Edwin Cannan observed:

Very little of Adam Smith's scheme of economics has been left standing by subsequent enquirers. No one now holds his theory of value, his account of capital is seen to be hopeless confused, and his theory of distribution is explained as an ill-assorted union between his own theory of prices and the Physiocrat fanciful Economic Table. (1926, p. 123)

In view of authoritative judgements such as these, it is perhaps appropriate to ask what elements in his story should command the attention of the modern historian or economist. A number of points might be suggested.

First, there is the issue of *scope*. As we have seen, Smith's approach to the study of political economy was through the examination of history and ethics. The historical analysis is important in that he set out to explain the origins of the commercial stage. The ethical analysis is important to the economist because it is here that Smith identifies the human values which are appropriate to the modern situation. It is here that we confront the emphasis on the desire for status (which is essentially Veblenesque) and the qualities of mind which are necessary to attain this end: industry, frugality, prudence.

But the TMS also reminds us that the pursuit of economic ends takes place with a social context, and the men maximize their chances of success by respecting the rights of others. In Smith's sense of the term, ‘prudence’ is essentially rational self-love. In a favourite passage from the TMS (II.ii.2.1) Smith noted, with regard to the competitive individual, that:

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

Smith's emphasis upon the fact that self-interested actions take place within a social setting and that men are motivated (generally) by a desire to be approved of by their fellows, raises some interesting questions of continuing relevance. For example, in an argument which bears upon the analysis of the TMS, Smith noted in effect that the rational individual may be constrained in respect of economic

activity or choices by the reaction of the spectator of his conduct – a much more complex case than that which more modern approaches may suggest. Smith made much of the point in his discussion of Mandeville's 'licentious system' which supported the view that private vices were public benefits, in suggesting that the gratification of desire should be consistent with observance of the rules of property – as defined by the spectator, that is, by an external agency. In an interesting variant on this theme, Etzioni has noted that we need to recognize 'at least two irreducible sources of valuation or utility: pleasure and morality' (1988, 21–4; cf. Oakley, 1994).

Secondly, there is a series of issues which arise from Smith's interest in political economy as a system. The idea of a single all-embracing conceptual system, whose parts should be mutually consistent, is not easily attainable in an age where the division of labour has increased the quantity of science through specialization. Smith was aware of the division of labour in different areas of sciences, and of the fact that specialization often led to systems of thought which were inconsistent with each other (Astronomy, IV, 35, 52, 67). But the division of labour within a *branch* of science, for example, economics, has led to a situation where sub-branches of a single subject may be inconsistent with one another.

To take a third point, it may be noted that one of the most significant features of Smith's vision of the economic process lies in the fact that it has a significant time dimension. For example, in dealing with the problem of value in exchange, Smith made due allowance for the fact that the process involves judgements with regard to the utility of the commodities to be acquired, and the disutility involved in creating the goods to be exchanged. In the manner of his predecessors (Hutcheson, Carmichael and Pufendorf), Smith was aware of the distinction between utility (and disutility) anticipated and realized, and, therefore, of the process of adjustment which would inevitable take place through time,

Smith's theory of price, which allows for a wide range of changes in taste, is also distinctive in that it allows for competition among and between buyers and sellers, while presenting the allocative mechanism as one which involves simultaneous and interrelated adjustments in both factor and commodity markets.

As befits a writer who was concerned to address the problems of change, and adjustments to change, Smith's position was also distinctive in that he was not directly concerned with the phenomenon of *equilibrium*. For Smith, the 'nature' (supply) price was, as it were:

The central price, to which the prices of all commodities are continually gravitating ... whatever may be the obstacles which hinder them from settling in this centre of response and continuance, they are constantly tending towards it. (WN, I.viii.15)

But perhaps the most intriguing feature of the *macro* model is to be found in the way in which it was linked to the analytics of Book I and in the way in which it was specified. As noted earlier, Smith

argued that incomes were generated as a result of productive activity, thus making it possible for commodities to be withdrawn from the 'circulating' capital of society. As he pointed out, the consumption goods withdrawn from the existing stock may be used up in the present period, or added to the stock reserved for immediate consumption; or used to replace more durable goods which had reached the end of their lives in the current period. In a similar manner, entrepreneurs and merchants may also add to their stocks of materials, or to their holding of fixed capital, while replacing the plant which had reached the end of its operational life. It is equally obvious that entrepreneurs and merchants may add to, or reduce their *inventories* in ways which will reflect the changed patterns of demand for consumption and investment goods, and their past and current levels of production. Variation in the level of inventories has profound implications for the conventional theory of the allocative mechanism.

Smith's emphasis upon the point that different 'goods' have different life-cycles also means that the pattern of purchase and replacement may vary continuously as the economy moves through different time periods, and in ways which reflect the various age profiles of particular products as well as the pattern of demand for them. If Smith's model of the circular flow is to be seen as a spiral, rather than a circle, it soon becomes evident that this spiral is likely to expand (and possibly *contract*) through time at variable rates. This point does not seem to have attracted much attention.

It is perhaps this total vision of the complex working of the economy that led Mark Blaug to comment on Smith's distinctive and sophisticated grasp of the economic *process* and to distinguish this from his contribution to particular *areas* of economic analysis.

Blaug noted that:

In appraising Adam Smith, or any other economist, we ought always to remember that brilliance in handling purely economic concepts is a very different thing from a firm grasp of the essential logic of economic relationships. Superior technique does not imply superior insight and vice-versa. Judged by standards of analytical competence, Smith is not the greatest of eighteenth century economists. But for an acute insight into the nature of the economic process, it would be difficult to find Smith's equal. (1985, p. 57)

Joseph Schumpeter, not always a warm critic of 'A. Smith', yet regarded WN as 'the peak success of (the) period:

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. (1954, p. 185)

Writing from a different, but related, point of view, A.L. Macfie noted that 'the Scottish method was more concerned with giving a broad, well balanced picture seen from different points of view than

with logical rigour' (1967, 22–3).

It has been argued above that Smith's approach to the study of political economy has some distinctive features which deserve the attention of the modern student of the discipline, but which do not seem to loom large in modern teaching. But nor can it be said that the classical system which was to follow Smith did any better.

Richard Teichgraber's research (1987) revealed that there 'is no evidence to show that many people exploited his arguments with great care before the first two decades of the nineteenth century'. He concluded:

It would seem at the time of his death that Smith was widely known and admired as the author of the *Wealth of Nations*. Yet it should be noted that only a handful of his contemporaries had come to see his book as uniquely influential. (1987, p. 363)

But, as we have seen, there were commentators who understood Smith's analytical purpose, notably Thomas Pownall and Smith's biographer, Dugald Stewart. The latter indeed became an important channel of communication between Smith and a later generation of students – many of whom were to contribute to debates published by the *Edinburgh Review* in the early part of the new century (Winch, 1994, p. 91). Amongst the contributors we can number J.R. McCulloch (1789–1864), editor of the *Scotsman*, disciple of Ricardo and a writer who contributed nearly 80 articles to the *Review* between 1818 and 1837.

However, Black made a different point in his 'Historical Perspective' in observing that for Smith's early successors the *Wealth* was 'not so much a classical monument to be inspected, but as a structure to be examined and improved where necessary (1976, p. 44). It was thought that there were ambiguities in respect of Smith's treatment of value, interest, rent, population theory and the theory of economic growth. These ambiguities were reduced by the work of T.R. Malthus (1766–1834) whose *Essay on the Principle of Population* was first published in 1798; by the French economist, J.B. Say (1826–1896), *Traite d'economie politique* (1803) and especially by David Ricardo (1772–1823), *Principles* (1817). In this context we can name a number of writers who developed the short-run and dynamic themes associated with Say and Ricardo, such as James Mill (1773–1836), *Elements of Political Economy* (1821) and, of course, his son John Stuart Mill (1806–1873) whose *Principles* brought to close this early version of the classical system.

Among Say's contributions we must number a version of the classical short-run macroeconomic system which accepted the view that the supply of commodities generates income and purchasing power, and also the Smithian assumption that the only use of money was to circulate commodities while also accepting Smith's assumption that an act of savings would normally be matched by a decision to invest. In the relatively short run, the tendency of the economy was to full employment; a situation sustained by self-regulating mechanisms such as Smith's theory of price and allocation; a

theory which was not seriously questioned. In Ricardo's case the emphasis was upon a generalized statement of Smith's labour embodied theory of value, a revised theory of rent, and a theory of growth which under the assumptions of constant technique and a closed economy, suggested that the normal progression of an economy was from an advancing state to a stationary state where no further growth was possible. Both models are formal, operating under specified assumptions. They are also essentially mathematical in character even if they clearly do owe much to Smith.

But there are important differences, arising not least from the fact that Smith's own approach was not narrowly 'mathematical' (Macfie, 1967, pp. 22–3), as compared, for example, with Ricardo (Baumol, 1962).

There was another difficulty arising from the fact that there was a tendency to assume that the basis of the subject of political economy dated from 1776, the year in which the *Wealth of Nations* first appeared. Donald Winch quotes an important passage from J.-B. Say, Smith's committed, but by no means uncritical, disciple. Say wrote that:

Whenever the inquiry into the *Wealth of Nations* is perused with the attention it so well merits, it will be perceived that until the epoch of its publication, the science of political economy did not exist. (Quoted in Winch, 1994, p. 103)

Terence Hutchison has argued that the 'losses and exclusions which ensued after 1776, with the subsequent transformation of the subject and the rise to dominance of the English classical orthodoxy were immense' (1988, p. 370). One such loss was the Physiocratic concept of the circular flow, to which Smith owed so much. Other losses occurred as a result of ignoring the contributions of Smith's close friend, David Hume, and the work of the latter's friend, Sir James Steuart (1713–1780), *Principles* (1767). The use of the historical method as applied to economic analysis and policy was one such loss and so too was the concern with structural unemployment, and the model of 'primitive' (pre-capitalist) accumulation. In addition the classical orthodoxy showed little interest in the problems presented by differential rates of growth in the context of international trade – hardly surprising in view of the fact that Smith largely ignored the problems identified by his two Scottish predecessors.

Ironically, Smith's own work did not always benefit from the work of those who 'inspected' the edifice. Here attention may be drawn to Smith's version of the 'circular flow' with its complex focus on period analysis and on the fact that all commodities have different life-cycles. Nor was much attention given to the *Smithian* use of time.

Ironically, the new orthodoxy also made it possible to think of political economy as a discipline which was quite separate from ethics and jurisprudence, thus obscuring Smith's true purpose. In referring to the way in which Smith organized his system of social science (ethics, jurisprudence, economics) Hutchison observed in a telling passage, that Smith was led as it by an Invisible Hand to promote an end which was no part of his original intention, that of 'establishing political economy as

a separate, autonomous disciple' (1988, p. 355). A.L. Macfie made a related point in observing that 'it is a paradox of history that the analytics of Book I, in which Smith took his own line, should have eclipsed the philosophical and historical methods in which he so revelled, and which showed his Scots character' (1967, p. 21).

See Also

- British classical economics

Selected works

Editions and abbreviations. An excellent edition of the *Lectures of Jurisprudence* was brought out by Edwin Cannan in 1896 (Oxford: Clarendon Press). Cannan also prepared a valuable edition of the *Wealth of Nations* in 1904 (London: Methuen). J.M. Lothian edited the *Lectures on Rhetoric* in 1963 (Edinburgh: Nelson).

Subsequent references are to the Glasgow edition of the *Works and Correspondence of Adam Smith* (Oxford, Clarendon Press, 1976–83) and follow the usages of that edition. The edition consists of:

- I *The Theory of Moral Sentiments* (TMS), ed. D.D. Raphael and A.L. Macfie, 1976.
- II *An Inquiry into the Nature and Causes of the Wealth of Nations* (WN), ed. R.H. Campbell, A.S. Skinner and W.B. Todd, 1976.
- III *Essays on Philosophical Subjects* (EPS), ed. D.D. Raphael and A.S. Skinner, 1980.
This volume includes:
 - (i) 'The History of the Ancient Logics and Metaphysics' (Ancient Logics).
 - (ii) 'The History of the Ancient Physics' (Ancient Physics).
 - (iii) 'The History of Astronomy' (Astronomy).
 - (iv) 'Of the affinity between Certain English and Italian Verses' (English and Italian Verses).
 - (v) 'Of the External Senses' (External Senses).
 - (vi) 'Of the Nature of the Imitation which takes place in what are called the Imitative Arts' (Imitative Arts).
 - (vii) 'Of the Affinity between Music, Dancing and Poetry'. Items (i) to (vii), above, were prepared by W.P.D. Wightman.
 - (viii) 'Of the Affinity between Certain English and Italian Verses'.
 - (ix) Contributions to the *Edinburgh Review* (1755–6):
 - (a) Review of Johnson's Dictionary.
 - (b) A Letter to the authors of the *Edinburgh Review* (Letter).
 - (x) Preface to William Hamilton's Poems on general Occasions. Items (viii) to (x), above, were prepared by J.C. Bryce.

- (xi) Dugald Stewart, 'Account of the Life and Writings of Adam Smith LL.D' (Stewart), ed. I.S. Ross.
- IV *Lectures on Rhetoric and Belles Lettres* (LRBL), ed. J.C. Bryce; general editor, A.S. Skinner, 1983.
This volume includes:
'Considerations concerning the First Formation of Languages' (Considerations).
- V *Lectures on Jurisprudence* (LJ), ed. R.L. Meek, P.G. Stein and D.D. Raphael, 1978.
This volume includes:
 - (i) Student notes for the session 1762–3 (LJA).
 - (ii) Student notes for the session 1763–4 but dated 1766 (LJB).
 - (iii) The 'Early Draft' of the *Wealth of Nations* (ED).
 - (iv) Two Fragments on the Division of Labour, (FA and (FB).
- VI *Correspondence of Adam Smith* (Corr.), ed. E.C. Mossner and I.S. Ross, 1977.
This volume includes:
 - (i) 'A Letter from Governor Pownall to Adam Smith (1776)'.
 - (ii) 'Smith's thoughts on the State of the Contest with America, February 1778', ed. D. Stevens.
 - (iii) Jeremy Bentham's 'Letters' to Adam Smith (1787, 1790).

Associated volume

Essays on Adam Smith (EAS), ed. A.S. Skinner and T. Wilson. Oxford: Clarendon Press, 1975.

References to Corr. give letter number and date. References to LJ and LRBL give volume and page number from the MS. All other references provide section, chapter and paragraph number in order to facilitate the use of different editions. For example, Astronomy, II. 4='History of Astronomy, section II, para. 4. Stewart, I.12=Dugald Stewart, 'Account', section I, para. 12. TMS, I.i.5.5=TMS, Part I, section I, chapter 5, para. 5. WN, V.i.f.26=WN, Book V, chapter I, section 6, para. 26.

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