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John E. Elliott

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Adam Smith's Conceptualization of Power, Markets, and Politics

John E. Elliott
University of Southern California
elliottusc@aol.com

Abstract This paper argues that Adam Smith is a/the “founding father figure” of modern social/political economy as well as economics. Smith wrote extensively and insightfully on the subject of *power*, and thereby class and stratification in society. This paper explicates four main types of power relations in Smith's analysis, notably drawing on the *Wealth of Nations*: wealth power, monopoly power, employer power, and political power. Smith's focus on power helps to differentiate his broader vision and rich discourse from that of many contemporary neoclassical writers and sharpens our appreciation for his contributions to social and political economy.

Keywords: wealth power, monopoly power, employer power, political power, invisible hand

INTRODUCTION

This paper examines and explicates Adam Smith's views on the subject of power in economy and society, notably in *An Inquiry into the Nature and Causes of the Wealth of Nations* (hereinafter, *Wealth*; Smith 1976 [1776]). The following exposition will focus, in turn, on wealth power, monopoly power, employer power, and political power. Although this taxonomy is a useful expository device, it should be kept in mind that, as a practical matter, the categories often overlap in Smith's argument, and power in one arena can be used to extend power in another. For example, a wealthy employer, by definition, exercises *both* wealth power and employer power. Monopoly may be a means to acquire greater wealth, wealth may foster political power, political power may reinforce wealth and establish or sustain monopoly; and so on. The final section concludes, by distinguishing between Smith's broader social/political economy and a power-free economics focused on a perfectly competitive vision of market exchange processes.

ADAM SMITH ON WEALTH POWER

“Wealth”, Smith observes in *Wealth* (paraphrasing Thomas Hobbes), “is power”. It may obtain, but “does not necessarily acquire or succeed to any political power, either civil or military.” Wealth’s possession, however, “immediately and directly conveys”:

The power of purchasing; a certain command over all the labour, or over all the produce of labour which is then in the market. [One’s] fortune is greater or less, precisely in proportion to the extent of this power; or to the quantity either of other men’s labour, or, what is the same thing, of the produce of other men’s labour, which it enables [one] to purchase or command.

(Smith 1976a: 35)

Smith could hardly have been clearer. Whatever the consequences for political power, the possession of wealth generates purchasing power, that is, power over the goods or labor of others. The extent of such power varies “precisely” with the size of one’s “fortune” (or wealth, in today’s language). As a corollary, inequality in the distribution of wealth is a major source of social power and causes inequality in the distribution of income and in control over labor.

In an early draft of *Wealth*, Smith summarizes the inegalitarian character of wealth, power, income, and labor as follows:

In a Civilized Society the poor provide both for themselves and for the enormous luxury of their superiors. The rent, which goes to support the vanity of the slothful Landlord, is all earned by the industry of the peasant. The monied man indulges himself in every sort of ignoble and sordid sensuality, at the expense of the merchant and the tradesman, to whom he lends out his stock at interest. All the indolent and frivolous retainers upon a Court, are, in the same manner, fed and clothed and lodged by the labor of those who pay the taxes which support them . . . with regard to the produce of a great society there is never any such thing as a fair and equal division. In a society of an hundred thousand families, there will perhaps be one hundred who don’t labor at all, and yet, either by violence or by the orderly oppression of law, employ a greater part of the labor of the society than any ten thousand in it. The decision of what remains after this enormous defalcation, is by no means made in proportion to the labor of each individual. On the contrary those who labor most get least.

(reprinted in Scott 1937: 326–328)

Smith presents his basic analysis of wealth power in chapter 6 of Book I of *Wealth*. He imagines (one surmises more as a hypothetical mental experiment than a definitive historical observation) an “early and rude state of society which precedes both the accumulation of stock and the appropriation of land . . .” (Smith 1976a: 53). In such a society, ownership of land and capital, and hence wealth power based on ownership, is nonexistent. Consequently, “the whole produce of labour belongs to the labourer” (Smith 1976a: 54), and workers do not share

income with capitalists or landlords. Differential incomes may still exist because of the severity of labor, or its “dexterity and ingenuity”. These inequalities, however, are likely to be small and only mildly affected by differential power of different individuals. First, the talents characterizing diverse occupations “can seldom be acquired but in consequence of long application and the superior value of their produce may frequently be no more than a reasonable compensation for the time and labour which must be spent in acquiring them.” Second, Smith tells his readers early in *Wealth* that the “difference of natural talents in different men is, in reality, much less than we are aware of.” “The difference between the most dissimilar characters, between a philosopher and a common street porter, for example, seems to arise not so much from nature as from habit, custom and education” (Smith 1976a: 19–20, 53). Consequently, a social order in which the worker “has neither landlord nor master to share with him” is likely to be highly egalitarian and free from substantial income differences based on differential wealth power. Presuming, as seems plausible, a high degree of labor mobility and free entry, monopoly power is also likely to be small. Lacking a separate class of capital-owners, laborers would typically be self-employed or communally employed, thereby minimizing employer power. And supposing, as Smith does, only modest differences in natural talents, an economy of similarly employed laborers (“a nation of hunters, for example”) would presumably share political powers and duties in a relatively equal fashion (Smith 1976a: 53, 72).

Smith sharply differentiates an “early and rude state of society,” with its minimalist inequalities of wealth, power, and income, with the highly inequalitarian, class-structured British economy and society of the late eighteenth century. The first way to acquire, control, and command produce or labor (or to do so to an extent substantially greater than others) is to acquire or hold physical capital. “As soon as stock has accumulated in the hands of particular persons,” Smith states, “some of them will naturally employ it in setting to work industrious people, whom they will supply with materials and subsistence, . . . to make a profit by the sale of their work or by what their labour adds to the value of the materials.” In the commodity exchange process, Smith opines, “something must be given for the profits of the undertaker of the work who hazards his stock in this adventure.” The capitalist “could have no interest to employ” workers “unless he expected from the sale of their work something more than what was sufficient to replace his stock to him; and he could have no interest to employ a great stock rather than a small one, unless his profits were to bear some proportion to the extent of his stock” (Smith 1976a: 54). In short, the greater the wealth, the greater the power; the greater the power, other things equal, the higher the profits.

Profits, Smith adds, are not simply “a different name for the wages of a particular sort of labour, the labour of inspection and direction.” They are “altogether

different, are regulated by quite different principles, and bear no proportion to the quantity, the hardship, or the ingenuity of this supposed labour of inspection and direction. They are regulated altogether by the value of the stock employed, and are greater or smaller in proportion to the extent of this stock." Often, especially in large firms, this kind of labor is delegated to hired managers. In this event, managerial wages reflect the "value of the labour of inspection and direction" but "never bear any regular proportion to the capital" under managerial oversight; the "owner of the capital, though he is discharged of almost all labour, still expects that his profit should bear a regular proportion to his capital." In these circumstances, the "whole produce of labour does not always belong to the labourer. He must in most cases share it with the owner of the stock which employs him" (Smith 1976a: 54–55). "I don't *do* anything," says the antihero of the motion picture "Wall Street." "I *own*."

The second way to obtain income through wealth power is through ownership of land. "As soon as the land of any country has all become private property," states Smith, "the landlords, like all other men, love to reap where they have never sowed, and so demand a rent even for its natural produce." The agricultural laborer must "pay for the licence" of gathering or growing agricultural produce and must "give up to the landlord a portion of what his labour either collects or produces" in the form of rent on land (Smith 1976a: 56).

It is often thought that land rent is merely a "reasonable profit or interest for the stock laid out by the landlord" for the improvement of land. This may be true, but only partly so. First, the landlord "demands a rent even for unimproved land." Second, the exaction of rent varies positively with tenants' demands for land and inversely with the scarcity of land. Thus, land rent is "not at all proportioned to what the landlord may have laid out upon the improvement of land, or to what he can afford to take; but to what the farmer can afford to give." If the exchange value of agricultural produce is only just sufficient to pay normal, competitive wages and replacement of capital stock "together with its ordinary profits," the commodity "can afford no rent to the landlord." If the "ordinary price is more than this, the surplus part of it will naturally go to the rent of land." (Smith 1976a: 61–62). Hence, rent is a surplus and a deduction from the produce of labor, shared with the landlord and rooted in the landlord's ownership of land.

In between the highly egalitarian "early and rude state of society" and the highly inegalitarian British economy and society of the late eighteenth century are societies with varying degrees of intensity of wealth power and associated inequalities in the distribution of income. In the American colonies, for example, land was abundant, inexpensive, and widely distributed among small farm proprietors, while labor was scarce and highly paid. "Every colonist", he observes:

Gets more land than he can possibly cultivate. He has no rent, and scarcely any taxes to pay. No landlord shares with him in its produce, and the share of the sovereign is commonly but a trifle. He has every motive to render as great as possible a produce which is thus to be almost entirely his own. But his land is commonly so extensive, that with all his own industry, and with all the industry of other people whom he can get to employ, he can seldom make it produce the tenth part of what it is capable of producing. He is eager, therefore, to collect labourers from all quarters, and to reward them with the most liberal wages, but those liberal wages, joined to the plenty and cheapness of land, soon make those labourers leave him, in order to become landlords themselves, and to reward, with equal liberality, other labourers, who soon leave them for the same reason that they left their master.

(Smith 1976b: 76)

In “new colonies”, Smith continues, the “interest of the two superior orders” (landlords and capitalists) “obliges them to treat the inferior one”, that is, workers, with “more generosity and humanity; at least when the inferior one is not in a state of slavery.” Land “of the greatest natural fertility” can be obtained “for a trifle”. The “increase of revenue which the proprietor, who is always the undertaker, expects from their improvement constitutes his profits, which under these circumstances, is commonly very great.” But profits cannot be obtained without employing workers, for example, to clear and cultivate the land. The “disproportion” between abundant land and scarce labor makes it difficult for proprietors to attract workers away from their own proprietary activity. The [capitalist] proprietor, therefore, does not “dispute about wages, but is willing to employ labour at any price.” The “cheapness and plenty of good land encourage[s] improvement, and enable[s] the proprietor to pay those high wages.” In these circumstances, wages constitute “almost the whole price of the land; and though they are high, considered as the price of labour, they are low, considered as the price of what is so very valuable” (Smith 1976b: 76–77).

Thus, in the social order which emerges out of these economic conditions rent and the price of land are very low, businesses are organized by proprietors who typically work in their own businesses rather than absentee owners, profits and wages are both high, and wages (including the implicit wages of proprietors) constitute the large majority of the exchange value of the output. “In other countries,” by contrast (for example, in Western Europe), where land is scarce and expensive, the ownership of land and capital is highly concentrated, and wage laborers “make up the far greater part of every great political society,” “rent and profit eat up wages, and the two superior orders of people oppress the inferior one” (Smith 1976a: 1, 88; 1976b: 76).

SMITH ON MONOPOLY POWER

Monopoly power is a *leitmotif*, which runs throughout *Wealth*. On the one hand, under a regime of “perfect liberty” or “free competition” (Smith 1976a: 69, 70), market prices, wages, and profits tend to approximate their “natural” levels, resources are allocated efficiently, income inequalities are minimized, labor markets tend toward full employment, capital is accumulated vigorously, and the economy grows robustly. Under these (freely competitive) circumstances, according to Smith, private self-interest, notably in the pursuit of profit and acquisition of wealth, is not necessarily anti-social. Indeed, self-interest often fosters the social good. In his discussion of foreign trade, for example, Smith states that individuals employ their capital and direct their industry so that “its produce may be of the greatest possible value.” But in maximizing his own income, he also renders the “annual revenue of the society as great as he can.” Thus, the individual is “led by an invisible hand to promote an end which was no part of his intention.” And “by pursuing his own interest he frequently promotes that of the society more effectually than when he really intends to promote it” (Smith 1976a: 477–478).

On the other hand, when monopoly substitutes for or replaces “free competition,” Smith argues, private self-interest often conflicts with the social good. Smith makes painstakingly clear that, in practice, monopoly and monoploid behavior is widespread in both economic conduct and public policy. Consequently, things are not left “at perfect liberty,” free competition does not actually prevail in practice, and substantial inequalities, considerably larger than compensating differences (for example, differences in wages to compensate for differences in the time and expense of education), emanate from the exercise of monopoly power.

Smith gives several examples of monopoly. First, although under free competition, the market price of a commodity gravitates toward its natural level and thus, over the long run, is the “lowest which can be taken,” yet “sometimes particular accidents, sometimes natural causes, and sometimes particular regulations of police, may, in many commodities, keep up the market price, for a long time together, a good deal above the natural price.” For example, when market demand increases, and market price rises significantly above the natural price, “those who employ their stock in supplying that market are generally careful to conceal this change.” Similarly, new, less costly production techniques are capable of being kept secret for long periods, especially in manufacturing (Smith 1976a: 67, 69).

“A monopoly granted either to an individual or a trading company has the same effect as a secret in trade or manufactures. The monopolists, by keeping the market under-stocked, by never fully employing the effectual demand, sell their

commodities much above the natural price,” and raise their wages or profits “greatly above their natural rate.” Thus, monopoly price is “upon every occasion the highest which can be got” (Smith 1976a: 69).

“Natural causes” may also “hinder the effectual demand from ever being fully supplied,” and “may continue to operate for ever.” Some crops, for instance, may “require such a singularity of soil and situation,” that all the land in a country may be insufficient to meet the total demand. “The whole quantity brought to market, therefore, may be disposed of to those who are willing to give more than what is sufficient to pay the rent of the land which has produced them,” together with the wages and the profits associated therewith, “according to their natural rates.” For “whole centuries,” such commodities may continue “to be sold at this high price” and land rent “is generally paid above its natural rate.” Putting it more generally, Smith later states that the “rent of land,” considered “as the price paid for the use of the land, is naturally a monopoly price” (Smith 1976a: 68, 162). It is governed by the interaction of a given supply of land and the tenants’ (and ultimately consumers’) demands for the use of land.

Second, Smith sharply contrasts the interests of merchants and manufacturers and those of the “public” or consumers:

The interest of the dealers. . . in any particular branch of trade or manufactures, is always in some respects different from, and even opposite to, that of the public. To widen the market and to narrow the competition, is always the interest of the dealers. To widen the market may frequently be agreeable enough to the interest of the public; but to narrow the competition must always be against it, and can serve only to enable the dealers, by raising their profits above what they naturally would be, to levy, for their own benefit, an absurd tax upon the rest of their fellow-citizens. (Smith 1976a: 278)

The interests of merchants and manufacturers Smith avers, are promoted by collusion. “People of the same trade seldom meet together,” Smith observes in an often quoted passage, “even for merriment and diversion, but the conversation ends in a conspiracy against the public or some contrivance to raise prices” (Smith 1976a: 144).

In short, private self-interest is not necessarily inconsistent with the public good. In some instances, as in the earlier cited example of foreign trade, private benefit and public well-being coalesce spontaneously. In others, the potentially detrimental effects of the self-interest, of, notably, merchants and manufacturers, are countervailed by the salutary impact of free competition. Under conditions of monopoly and collusion, however, competition is narrowed, and self-interested behavior by dealers and manufacturers conflicts with the public interest.

Third, according to Smith, government policy fosters departures from a regime of “perfect liberty” and thereby generates substantial inequalities. Specifically,

the “policy of Europe” causes interventions with free competition in three major ways: “First, by restraining the competition in some employments to a smaller number than would otherwise be disposed to enter into them; secondly, by increasing it in others beyond what it naturally would be; and, thirdly, by obstructing the free circulation of labour and stock . . .” The “exclusive privileges of corporations” are the “principal means” of accomplishing the first policy. The institution of long, and typically “altogether unnecessary,” apprenticeships is another. Under “perfect liberty,” free entry tends to reduce prices, and consequently wages and profits. “[A]ll corporations, and the greater part of corporation laws, have been established” to prevent this (Smith 1976a: 132–133, 136–138). This is a “manifest encroachment upon the just liberty both of the workman and of those who might be disposed to employ him.” It hinders the worker “from working at what he thinks proper” and hinders employers “from employing whom they think proper.” It substitutes judgements of lawmakers for those of informed and interested citizens and thereby is “as impertinent as it is oppressive” (Smith 1976a: 136). Similarly, as Smith elaborates in great detail in his discussion of *mercantilism* in Book IV, “high duties on foreign manufactures and upon all goods imported by alien merchants, all tend to the same purpose.” Restraints on foreign trade, like corporation laws in general, “enable the inhabitants of towns to raise their prices, without fearing to be under-sold by the free competition of their own countrymen” (Smith 1976a: 142).

Smith’s second example of government intervention into free competition is the opposite of the first. By “increasing the competition in some employments beyond what it naturally would be,” government policy causes another inequality. Public education of clergymen, “men of letters,” and teachers render wages in such occupations lower than what they otherwise would be (for example, in such professions as law or medicine, where education is borne primarily by private expense). This inequality, however, is “rather advantageous than hurtful to the public,” by providing inexpensive literary education (Smith 1976a: 145, 150).

Smith’s final example is the obstruction of the “free circulation of labour and stock both from employment to employment and from place to place” which causes a “very inconvenient inequality” in wages and profits. Beyond long apprenticeships and exclusive privileges of corporations, Smith illustrates this example by reference to England’s poor laws, which provide that a poor man is not “allowed to exercise his industry in any parish but that to which he belongs,” that is, that “every parish should be bound to provide for its own poor.” The result is a “very unequal price of labour,” even “in places at no great distance from one another” (Smith 1976a: 150–151, 157).

In between monopoly and free competition under a regime of perfect liberty, Smith recognizes, lie the intermediate circumstances which characterize the real

world. Among Smith's numerous examples, we may note his departures from advocacy of perfectly free trade. First, by means of government regulations, "a particular manufacture may sometimes be acquired sooner than it could have been otherwise, and after a certain time may be made at home as cheap or cheaper than in the foreign country." Second, when a particular industry is necessary for the country's defense, it "will generally be advantageous to lay some burden upon foreign, for the encouragement of domestic industry." For instance, because defense is "of much more importance than opulence, the act of navigation" "very properly endeavors to give a monopoly of domestic shipping" to British shippers and seamen. Third, it may be sensible to depart from a system of free imports when foreign countries restrain (by high tariffs or prohibitions) imports from one's country. Such "retaliations" may be "good policy" when they will probably elicit repeal of restraints on imports by other countries. Fourth, it is prudent to restore free trade, after a period of interruption, "only by slow gradations and with a good deal of reserve and circumspection." Rapid and comprehensive removal of tariff duties and other forms of trade protection might "deprive all at once many thousands of our people of their ordinary employment and means of subsistence," with "considerable" resulting "disorder." Public prejudices and private interests would "irresistibly oppose it." Thus, to suppose that free trade "should ever be entirely restored in Great Britain" is "absurd" and a "utopia" (Smith 1976b: 479–493).

SMITH ON EMPLOYER POWER

In "all arts and manufactures," the "greater part of the workmen stand in need of a master to advance them the materials of their work, and their wages and maintenance till it be completed. He shares in the produce of their labor, or in the value which it adds to the materials upon which it is bestowed; and in this share consists his profits" (Smith 1976a: 73–74). Thus, even in the late eighteenth century, Smith believed it was correct to say that "in every great political society," "servants, laborers and workmen of all kinds make up the far greater part" of the population. Occasionally, Smith states, "a single independent workman has stock sufficient both to purchase the materials of his work [and, tacitly, the associated tools, machinery, and buildings] and to maintain himself till it be completed. He is both master and workman, and enjoys the whole produce of his own labor. . . It includes what are usually two distinct revenues, belonging to two distinct persons, the profits of stock, and the wages of labor." Such instances, however, are infrequent. Smith ventures the empirical judgment that:

in every part of Europe, twenty workmen serve under a master for one that is independent; and the wages of labor are every where understood to be, what they

usually are, when the laborer is one person and the owner of the stock which employs him another.

(Smith 1976a: 74, 88)

Thus Smith presupposes not merely what he called a “commercial society”, characterized by widespread commodification and market exchange, but what might today be called a capitalist commercial society. Such a society is characterized by a division into: (1) a large number of relatively poor workers who, lacking ownership of the physical means of production, but free to accept employment from one employer rather than another, are “in need of a master”, that is, are impelled to sell their capacity to labor to *some* capitalist owner; and (2) a very small number of owners of physical capital who, because of their (much) larger concentrations of wealth, are “masters” over workers, that is, exercise a substantially greater power as employers than workers do as employees.

Other classes in society also exercise power over laborers, for example, landlords and moneylenders. But the powers of owners of physical capital in a commercial society are more extensive than other property owners. Owners of land and money are similar to owners of physical capital in their potentials to exploit wealth power, discussed in an earlier section. But “masters” go beyond the exercise of wealth power to extract income and thereby to share the workers’ output with them. They also use their powers as employers, and thereby enhance profits, both absolutely and relative to wages.

First, employers are in charge (either directly or through hired managers) of labor and production. “The owner of the stock which employs a great number of labourers, necessarily endeavors, for his own advantage, to make such a proper division and distribution of employment, that they may be enabled to produce the greatest quantity of work possible.” In addition to judicious, profit-maximizing divisions of labor, the employer “endeavors to supply them [workers] with the best machinery which either he or they can think of.” As greater divisions of labor and use of machines spread, throughout business and society at large, there are “many commodities” which, “in consequence of these improvements, come to be produced by so much less labour than before, that the increase of its price is more than compensated by the diminution of its quantity” (Smith 1976a: 96–97).

In selecting profit-maximizing divisions of labor and use of machinery, employers may yield, indirectly, benefits for workers and society as well as themselves. Notably, business actions which increase productivity (and thereby profit) may also generate higher wages. In the opening pages of *Wealth*, Smith praises the division of labor, especially in “manufactures,” for causing the “greatest improvement in the productive powers of labor, and the greater part of the skill, dexterity, and judgment with which it is any where directed, or applied.” Combined with capital accumulation, this increases the demand for labor and,

thereby, wages. The “liberal reward of labor,” in turn, “increases the industry of the common people.” A “plentiful subsistence increases the bodily strength of the laborer,” while the “comfortable hope of bettering his condition” and spending his old age “perhaps in ease and plenty,” entices his maximum strength and exertion. Where “wages are high, accordingly, we shall always find the workmen more active, diligent, and expeditious, than where they are low” (Smith 1976a: 7, 91).

Self-interested decisions by “masters” concerning division of labor is not an unmixed blessing, however, for workers or society as a whole; and the greater the decision-making power of employers relative to laborers, the higher the social costs relative to benefits of the imposition of greater divisions of labor. In some instances, Smith claims, the “state of the society necessarily” puts most individuals in situations wherein they “naturally” develop, without governmental “attention,” nearly all the virtues and talents which “that state requires, or perhaps can admit of” (Smith 1976b: 302).

In many cases, however, the “state of the society” does not situate the majority of working persons in well-rounded divisions of labor which afford opportunities for cultivation and development of “all” the diverse talents and virtues needed in society. In such instances, some governmental “attention,” notably through education, is “necessary in order to prevent the almost entire corruption and degeneracy of the great body of the people.” As the division of labor progresses, the employment of the “far greater part” of those who work for a living “comes to be confined to a few very simple operations.” Consequently, the typical laborer has no opportunity to “exert his understanding or to exercise his invention. . .” He “naturally” becomes “stupid and ignorant,” incapable of “rational conversation,” conceiving “any generous, noble, or tender sentiment,” or “any just judgment concerning many even of the ordinary duties of private life.” He becomes “altogether incapable of judging. . .the great and extensive interests of his country.” In the absence of “very particular pains” to avoid it, he is “equally incapable of defending his country in war.” The “uniformity” and “stationary” character of his working life “corrupts the courage of his mind” and “even the activity of his body.” In short, the laborer’s:

Dexterity at his own particular trade seems. . .to be acquired at the expense of his intellectual, social, and martial virtues. But in every improved and civilized society this is the state into which the laboring poor, that is, the great body of the people, must necessarily fall, unless government takes some pains to prevent it.

(Smith 1976b: 302–303)

A second example of differential power between workers and masters is that they contest (to use a contemporary expression) with each other the terms of employment. “The workmen desire to get as much, the masters to give as little as possible. The former are disposed to combine in order to raise, the latter in order to lower

the wages of labor. It is not, however, difficult to foresee which of the two parties must, under all ordinary occasions, have the advantage in disputes, and force the other into a compliance with their terms." The masters, even under competitive labor markets, are "fewer in number" than the workers, and hence "can combine much more easily." Legislation (notably the Combination Acts) "authorizes or at least does not prohibit" combinations of employers "while it prohibits those of the workmen." Moreover, masters, because of their greater wealth, "can hold out much longer" in disputes with workers. Consequently, in "the long-run the workman may be as necessary to his master as his master is to him, but the necessity is not so immediate." In short, masters "are always and every where in a sort of tacit collusion" to keep wages steady or even to lower them. Workers frequently form "contrary defensive combinations" to raise wages. Such workers' combinations are the acts of "desperate" men, who act with "folly and extravagance" and who "must either starve, or frighten their masters into an immediate compliance with their demands." The workmen "very seldom derive any advantage from the violence of these tumultuous combinations, which, partly from the interposition of the civil magistrate, partly from the superior steadiness of the masters, partly from the necessity which the greater part of the workmen are under of submitting for the sake of present subsistence, generally end in nothing, but the punishment and ruin of the ringleaders" (Smith 1976a: 74–76).

SMITH ON POLITICAL POWER

The Liberal State: Preventing Rulers from Becoming Tyrants

Government in general, and monarchy in particular, is expensive. This is especially so in an "opulent and improved society," where "all the different orders of people" more or less constantly expand their consumption. And the "dignity" of the "sovereign," notably a monarch, carries the expectation of being "raised above his subjects" in terms of living standards. In general, government revenues and expenditures vary positively with economic development. Moreover, those who govern society exercise great political (and military) power. And such power is more concentrated and centralized in a modern, commercial society, in contrast to feudal government, where differential political power, although substantial and often oppressive, was much more localized and decentralized (Smith 1976b: 338).

To minimize both governmental extravagance and repressive political power, Smith, in effect, proposes several kinds of countervailing power. First, he states (somewhat inconsistently) that "all systems either of preference or restraint, therefore, being thus completely taken away, the obvious and simple system of natural liberty establishes itself of its own accord." On the one hand, each

individual, within the “laws of justice,” is “left perfectly free to pursue his own interest his own way,” and to enter into competition with any other business. On the other hand, the sovereign is “completely discharged from a duty” wherein he must invariably “be exposed to innumerable delusions,” and for the effective conduct 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” (Smith 1976b: 208).

In a “system of natural liberty,” Smith continues, a ruler has “*only*” three duties. These are very important, but “plain and intelligible to common understanding”: (1) “protecting the society from the violence and invasion of other independent societies”; (2) “protecting, as far as possible, every member of the society from the injustice or oppression of every other member [that is] establishing an exact administration of justice”; (3) erecting and maintaining certain public works and certain public institutions, which it can never be for the interest of any individual, or small number of individuals, to erect and maintain; because the profit could never repay the expense to any individual or small number of individuals, though it may frequently do much more than repay it to a great society” (Smith 1976b: 208–209).

Three things should be noted in passing. First, the private component of the “obvious and simple system of natural liberty” does not invariably come into being automatically and spontaneously, as demonstrated by the instance of alienating divisions of labor cited earlier. As a corollary, the sovereign’s duties may need to be broader and more extensive than an “obvious and simple” interpretation might imply. Second, even if we suppose, as Smith suggests, that the emergence as well as the operation of a competitive market system of economy is spontaneous, presumably because it is rooted in a “certain propensity of human nature,” namely, the propensity to “truck, barter, and exchange”, this process, as Smith observes early in *Wealth*, is “very slow and gradual” (Smith 1976a: 17). Third, Smith proposes to limit government not by size, but by function. Some governments (for example, Mexico prior to its 1911 Revolution) are small, but repressive. Others (for example, the United States during World War II) could be limited more or less to Smith’s three major duties, but be very large.

Smith’s second proposed means to limit government expense and potential repression is to establish, as in Great Britain, a “happy mixture of all the different forms of government”—that is, monarchy, aristocracy, democracy, with an associated division of political power among king, landed nobility, and Commons—“properly restrained and a perfect security to liberty and property” (Smith [1766], in Meek 1977: 71–72).

In the transition from feudalism to commercial society, the power of the king rose relative to that of the nobles. Expanding luxury must “sink the authority of

the nobility, whose estates are small in proportion to that of the king; and as this continues unaffected, his power must become absolute” (Smith [1766], in Meek 1977: 43). This initial stage of royal absolutism was actually accompanied by an expansion (at least, relatively) of personal and civil liberties. First, the wealth and power of the landed aristocracy fell. The “nobility,” Smith states, “are the greatest opposers and oppressors of liberty that one can imagine. They hurt the liberty of the people even more than an absolute monarch” (Smith [1762–1763] in Meek 1977, Vol. IV: 81–82). Second, absolute monarchies, such as France, “were capable of achieving a large measure of liberty, defined as security under the law, simply by strict and impartial administration of justice” (Winch 1978: 95).

Although a diminution in the political power of the landed nobility (relative to the monarchy and mercantile-manufacturing classes) and the associated supersession of feudal institutions of personal dependency by commercial, market relations, according to Smith, had salutary effects on liberty, the countervailing of monarchical power by large landowners figured significantly in Great Britain’s “happy mixture”. For example, Smith observes that the standing army might “without doubt be turned against the nation, if the King had attained great influence with it.” But liberty is secured in part because many top ranking army officers “have also large estates of their own, and are members of parliament.” They thereby have “influence and power altogether independent of the King. It would never be in their interest to join with the King in any design to enslave the nation, as no consideration he could bestow on them would be able to turn their interest to his side” (Smith [1766], in Meek 1977: 88).

Monarchical power, in its turn, is (or becomes) limited by the institution(s) of elected, representative government. Elizabeth I “had sold royal demesne lands instead of raising taxes thereby obliging her Stuart successors to have recourse to parliament to finance their extravagance. This had enabled the Commons to whittle away the royal prerogative,” control government spending and the public debt (Winch 1978: 62), and extend civil and political liberties.

In his (lengthy) discussion of mercantilism, in *Wealth*, Smith provides an interesting passage in which he compares the salutary consequences of representative government in both Great Britain and its American colonies, with his greater praise reserved for the latter. He begins by stating that although Great Britain’s trade policies toward its colonies have been “dictated by the same mercantile spirit as that of other nations,” they have generally been “less illiberal and oppressive than that of any of them.” (Smith 1976b: 97). In matters other than foreign trade:

The liberty of the English colonists to manage their own affairs their own way is complete. It is in every respect equal to that of their fellow-citizens at home, and is secured in the same manner, by an assembly of the representatives of the people,

who claim the sole right of imposing taxes for the support of the colony government. The authority of the assembly over-awes the executive power, and neither the meanest or most obnoxious colonist, as long as he obeys the law, has any thing to fear from the resentment, either of the governor, or of any other civil or military officer in the province.

(Smith 1976b: 97–98)

Neither the American assemblies nor the British House of Commons is “always a very equal representation to the people,” but the colonial assemblies “approach more nearly to that character” and “are perhaps in general more influenced by the inclinations of their constituents.”¹ Moreover, the “councils,” the analogue in colonial legislatures to the British House of Lords, are, as in American society at large, “not composed of an hereditary nobility.” Indeed, in several colonies, council members serve as elected “representatives of the people.” In addition, prior to the American Revolution, colonial assemblies “had not only the legislative, but a part of the executive power.” In two colonies, the assemblies elected the governor. In others, they “appointed the revenue officers who collected the taxes imposed by those respective assemblies, to whom those officers were immediately responsible.” In short, institutions of representative government fostered liberty and minimized political oppression in both the colonies and the mother country, but there was greater equality in the colonies than at home. “Their manners are more republican, and their governments, those of three of the provinces of New England in particular, have hitherto been more republican too” (Smith 1976b: 98).

“When executive and judicial powers are united”, Smith argues in identification of a third institutional factor which constrains illiberal exercise of governmental power, individual rights may be violated and justice is frequently “sacrificed. . . to politics.” To secure individual rights, “the judicial should be separated from the executive power [and] rendered as much as possible independent of that power.” For example, “judges should not be liable to be removed” from office by executive caprice, and regular payment of the salaries of

1 Adam Smith, like many of his late eighteenth-century contemporaries, believed that interests of particular classes, or sections of society (or Empire), although un- or under- represented in parliament, might still be equitably treated by governmental authority through “virtual representation.” For example, the “islands of Guernsey and Jersey, without any means of resisting the authority of parliament, are more lightly taxed than any part of Great Britain.” Similarly, in practice, parliament “has never hitherto demanded” from the American colonies in taxation anything even approximating a “just proportion” to taxes collected “at home.” If, for instance, the colonials’ contribution to government revenue were to take the form of a tax on land, “parliament could not tax them without taxing at the same time its own constituents, and the colonies might in this case be considered as virtually represented in parliament” (Smith 1976b: 135).

members of the judiciary “should not depend on the good-will or even . . . the good economy of [executive] power” (Smith 1976b: 244).

In discussing national defense, Smith identifies a fourth element in the protection of individual rights, namely, a “well-regulated standing army.” Because such an army, based on its greater skill, specialization, and readiness for combat, is naturally “superior to any militia,” it is essential for the defense and perpetuation of any “civilized nation.” “Men of republican principles have been jealous of a standing army as dangerous to liberty. It certainly is so,” Smith wrote, when the interests of the military commander and his main officers are not “necessarily connected” with the “constitution of the state.” The standing armies of Caesar and Cromwell are historical examples of the, at times, slippery slope from republic to military dictatorship.

But when the sovereign “is himself the general and the principal nobility and gentry” are the army’s “chief officers,” and the military is “under the command of those who have the greatest interest in the support of the civil authority, because they have themselves the greatest share of that authority, a standing army can never be dangerous to liberty.” Indeed, it may “in some cases be favorable to liberty.” When a government is insecure, every minor popular discontent can potentially explode into a “great revolution,” and the government’s “whole authority” must be used to “suppress and punish every murmur and complaint.” When, by contrast, the sovereign feels secure and supported, not only by the “natural aristocracy of the country,” but by a well-regulated standing army, even the “rudest,” most “groundless,” or “licentious remonstrances can give little disturbance.” The sovereign can safely disregard or pardon them. Indeed, Smith concludes, it is “only” in countries where the security of the ruler is protected by a well-regulated standing army that “that degree of liberty which approaches licentiousness” can be tolerated and where, therefore, “public safety does not require that the sovereign should be trusted with any discretionary power, for suppressing even the impertinent wantonness of this licentious liberty” (Smith 1976b: 229–230).

A fifth means to countervail government repression and to foster liberty is the cultivation, for example, through military exercises and education, of the broader “intellectual, social, and martial virtues,” indeed, of the many diverse talents and virtues which the “state requires or can admit of.” Although economic progress and its accompanying divisions of labor enhance productivity, “dexterity at [a] particular trade,” as noted earlier, corrupts and degenerates the “great body of the people,” that is, the “laboring poor,” by causing their diverse talents, virtues, and judgments to atrophy. But an excessively divided people is likely to be or become an inept citizenry, lacking the character to participate in moral and political life and incapable of exercising wise judgments not only concerning “many even of

the ordinary duties of private life,” but the “great and extensive interests of [one’s] country,” notably, “defending [the] country in war” and safeguarding its liberties, values, and institutions in peace (Smith 1976b: 302–303).

Two examples will suffice here. First, “unless government takes proper pains to support it,” military exercises will decay, and, with it, the “martial spirit” of the populace. But “the security of every society must always depend, more or less, upon the martial spirit of the great body of the people.” History and logic argue against exclusive reliance on citizens’ militias for the defense and security of a nation in “present times.” Where each citizen has the “spirit of a soldier,” however, “a smaller standing army would be requisite.” The sustenance of martial spirit, moreover, would “necessarily diminish very much the dangers to liberty” from a standing army by aiding and strengthening the army’s defense against foreign invasion and by obstructing it if it “should ever be directed against the constitution of the state.” Even if a society’s martial spirit made no contribution to its defense, its absence causes “mental mutilation, deformity, and wretchedness,” and its presence fosters essential elements of human character (Smith 1976b: 307–308).

Second, a man who lacks the “proper use of [his] intellectual faculties” is especially contemptible, “mutilated and deformed in a still more essential part of the character of human nature.” To foster the education, and thereby the intellectual faculties of the “common people,” like that of its martial spirit, requires the most “serious attention of the government.” An educated public, moreover, is less liable to “delusions of enthusiasm and superstition.” Educated and intelligent people, besides, are “always more decent and orderly,” “more respectable,” and more likely to respect their “lawful superiors,” and are “less apt to be misled into any wanton or unnecessary opposition to the measures of government” (Smith 1976b: 304, 308–309).

A political system which embodies the preceding protections of individual liberties and countervailance of governmental powers might be characterized as (approximating) a liberal state, as contrasted to what Smith called the “absolute” monarchical powers of France, Spain, and Portugal. It is, however, only an approximation. First, some arenas of contestation in British society are, according to Smith, less “liberal” than others. We have already noted, for instance, that Smith recognizes that freedom of association of workers is restricted by laws prohibiting labor unions. Even a liberal state, secondly, is not democratically liberal, that is, representative government for Smith does not embody the principle of universal adult suffrage, or political equality among citizens.

A sixth, and final, countervailing power against repressive political authority, Smith claimed, was economic progress itself. “Commerce and manufactures”, he states, “gradually introduced order and good government”, and thereby the

“liberty and security of individuals” who, under the former feudal society, had lived in a “continual state of war with their neighbors, and of servile dependency upon their superiors.” Following David Hume, Smith identified this as “by far the most important of [the] effects” of modern commercial society (Smith 1976a: 43).

In a pre-commercial society, Smith observes, the great landed proprietor, having nothing upon which to expend most of the economic surpluses (produce minus cultivators’ sustenance) yielded from his great estate, devotes most of it to “rustic hospitality.” The resulting military and political power of the great landed proprietors was thus founded on their direct personal authority. The feudal overlords “necessarily became the judges in peace, and the leaders in war” of all the laborers, tenants, and retainers on their estates because, in effect, they had instant armies to throw against any internal law-breaker or external opponent. Thus, authority and “jurisdictions all necessarily flowed from the state of property and manners.” Economic and political power were coalescent and localized. Under these circumstances, the king was “little more than the greatest proprietor in his dominions.” Central political authority was too weak to impose “order and good government” or to restrain the “violence of the great lords” (Smith 1976b: 435–437).

But what “all the violence of the feudal institutions could never have effected, the silent and insensible operation of foreign commerce and manufactures gradually brought about:” a “great revolution” in property, politics, and socio-economic relations and thereby a large augmentation in “public happiness”. Smith illustrates this transformation from feudal to modern times by a charming story. Smith’s tale features “two different orders of people”, each in pursuit of their own interest and neither with the “knowledge or foresight” of the revolution gradually unfolding as a consequence of their actions. On the one hand, the great feudal lords were characterized by “childish vanity”. As commerce and manufacturing expanded, they discovered things for which they could exchange the entire “surplus produce of their lands”, namely, individual consumer luxury goods (“trinkets and baubles”). On the other hand, merchants and manufacturers were characterized by “industry” and the “pedlar principle” of “turning a penny wherever a penny was to be got.” The interaction of the two, through market exchange, resulted in: extraction of greater surpluses by feudal lords (facilitated by long-term leases for tenants), extension of market economy, dismissal of retainers, and growing independence of tenants. With economic independence came release from military service to the great lords. Gradually, having sold their birth-rights, not like the biblical Esau, for a “mess of pottage”, but, for example, for diamond buckles, the “great proprietors” became “no longer capable of interrupting the regular execution of justice, or of disturbing the peace of the country.” Eventually, the feudal lords became as insignificant as “any substantial

burgher or tradesman,” “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 than in the other” (Smith 1976b: 437–440). Thus, according to Smith, the spread of market economy brought greater personal security, a decline in the authority of the feudal overlords (and growth in that of monarchs), and extension of individual liberty.

The Impact of Private Power on Public Action

Our discussion of Smith’s views on political power thus far has focused on the power of the state and the sovereign, and protection of the citizenry against the rapacity and repression of its rulers. But Smith probed much deeper than this, to root political power in the underlying structure and processes of civil society. Two main examples from *Wealth* will illustrate this proposition.

First, Smith argues that the expenses and activities of the sovereign undertaken to protect each citizen against the “injustice or oppression” of others varies positively with the wealth of society and the inequality of its property system. The “acquisition of valuable and extensive property, therefore, necessarily requires the establishment of civil government,” and as property (and its inequality) grows, the duties of government in protecting property become more sophisticated and extensive (Smith 1976b: 231–232).

Pathological exceptions aside, crimes against persons yield “no benefit” in the sense of “real or permanent advantage” to perpetrators. The “only passions” which motivate such crimes are “envy, malice, or resentment.” The “greater part of men” are only infrequently under the grip of such passions, and the “very worst sort of men are so only occasionally.” Consequently, injuries against persons, are, for most people, “commonly restrained by prudential considerations,” and people may “live together in society with some tolerable degree of security, though there is no civil magistrate to protect them from the injustice of those passions” (Smith 1976b: 231–232).

The passions, which elicit invasions against property, however, are made of much steadier and “more universal” stuff. These include “avarice and ambition” by the rich and “the hatred of labor and the love of present ease and enjoyment” by the poor. These motives prompt injuries to property because, when such injuries are successful, they do yield “real or permanent advantage” to the perpetrator. “Wherever there is great property,” observes Smith, “there is great inequality.” The very rich are few, and their affluence “excites the indignation of the poor, who are often both driven by want, and prompted by envy, to invade [the] possessions” of the rich. Thus, Smith observes in his *Lectures on Jurisprudence*, in 1762–1763 (1977: 208–209), “laws and government are in every case a combination of the

rich to oppress the poor and preserve their property.” Indeed, it “is only under the shelter of the civil magistrate” that property owners “can sleep a single night in security” (Smith 1976b: 231–232). They are surrounded by “unknown enemies” who, though never specifically “provoked” by the rich, can never be appeased by them, and “from whose injustice [they] can be protected only by the powerful arm of the civil magistrate continually held up to chastise it” (Smith 1976b: 232).

Therefore, “civil government supposes a certain subordination” or structure of classes or “orders” based on such qualities as personal qualifications, age, fortune, and birth. The “lower orders” (the workers, the poor) are prompted to injure the persons and, especially, the property of the rich; the rich (employers, landowners, bankers) are inclined to “oppress” the poor. “The rich, in particular, are necessarily interested to support that order of things, which can alone secure them in the possession of their own advantages.” Up and down the chain of social subordination, mutual protection pacts are struck. “Men of inferior wealth combine to defend those of superior wealth in the possession of their property, in order that men of superior wealth may combine to defend them in the possession of theirs.” (Smith 1976b: 236). Thus, Smith states that “till there be property there can be no government, the very end of which is to secure wealth and to defend the rich against the poor” (cited in Smith 1976b: 236). In short, “civil government, so far as it is instituted for the security of property, is in reality instituted for the defense of the rich against the poor, or of those who have some property against those who have none at all” (Smith 1976b: 236).

A second major example from Smith’s *Wealth* concerning the impact of wealth power, monopoly power, and employer power, on political power is that of how private power influences public action and policy. The “sole end and purpose of production,” says Smith, in concluding his discussion of the “mercantile system,” is consumption, and “the interest of the producer ought to be attended to, only so far as it may be necessary for promoting that of the consumer.” Indeed, he adds, this maxim is so “perfectly self-evident, that, it would be absurd to attempt to prove it.” But in the mercantile system, generally prevalent throughout Europe, the reverse occurs: The consumer’s interest “is almost constantly sacrificed to that of the producer;” and production rather than consumption seems to be the “ultimate end and object of all industry and commerce” (Smith 1976b: 179–180).

For example, export bounties are “altogether for the benefit of the producer.” The home-consumer must pay both the “tax which is necessary for paying the bounty” and the “still greater tax which necessarily arises from the enhancement of the price of the commodity in the home market.” The most “extravagant” component of the mercantile system by Great Britain is its policies toward its colonies in the Western Hemisphere. A “great empire has been established for the sole purpose of raising up a nation of customers. . . obliged to buy from the shops,

all the goods with which these could supply them. For the sake of that little enhancement of price which this monopoly might afford our producers, the home-consumers have been burdened with the whole expense of maintaining and defending that empire” (Smith 1976b: 180).

Who have been the “contrivers” of the mercantile system? “Not the consumers, we may believe, whose interest has been entirely neglected; but the producers whose interest has been so carefully attended to;” notably, “our merchants and manufacturers have been by far the principal architects” (Smith 1976b: 180).² How have they been able to do this? Firstly, they “commonly employ the largest capitals,” and “by their wealth draw to themselves the greatest public consideration.” Secondly, they are engaged throughout their lives in “plans and projects” and “have frequently more acuteness of understanding than the greater part of country gentlemen.” But their judgments are more reliable regarding their particular interests than those of society at large. Thus, their “superiority over the country gentlemen” comes not so much from their “knowledge of the public interest, than in their having a better knowledge of their own interest than he has of his.” They thereby “have frequently imposed upon his generosity, and persuade him to give up both his own interest and that of the public,” convinced that their (that is, the mercantile-manufacturing) interest, “and not his, was the interest of the public.” But, as noted earlier, the business interest to “narrow the competition,” with resulting increases in prices and profits, is “always” against the public interest. Therefore, the:

Proposal of any new law or regulation of commerce which comes from this order, 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 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.

(Smith 1976a: 277–278)

Countervailing Private Power

In closing this section, it should be noted that Adam Smith identifies forces which work in countervailance against private, as well as public, power. One, of course, is free competition. Insofar as competition prevails, it constrains monopoly

² Great Britain’s pro-monopoly policy toward the colonies, for example, “found[s] a great empire for the sole purpose of raising up a people of customers, [and] may at first sight appear a project fit only for a nation of shopkeepers. It is, however, a project altogether unfit for a nation of shopkeepers, but extremely fit for a nation whose government is influenced by shopkeepers” (Smith 1976b: 129).

power. Competition among employers also reduces employer and wealth power to some extent. Under some circumstances (e.g. scarce labor and large amounts of abundant land, as in the American colonies), it enhances trends toward greater liberty and representative government.

Another significant source of countervailance against private economic and political power is public law and policy. Insofar as “encroachment on just liberty” and resulting “inconvenient inequality” is caused by anti-competitive public policies, as in mercantilist restraints on free trade, then Smith’s policy advice is to cease and desist engaging in such policies (Smith 1976a: 136, 150). *Some* amount of inequality, for Smith, is morally and socially justified. His paramount example is capital accumulation, which increases “industry, the number of productive hands,” and the output and wealth of “all [of society’s] inhabitants.” But capital is expanded by investment, based on “parsimony,” and rooted in inequality of wealth and income (Smith 1976a: 158). In this instance, economic growth and accumulation rest on inequality, but constitute a “primary engine for achieving distributive equity for the laboring poor” (Young 1997: 153).

Insofar as inequality is based on (unjustified) differential power or serious departures from “perfect liberty,” then such inequalities may become excessive, unjust, and illiberal, and may not be subject to remedy by government simply turning the economy over to market processes and private decisions. Moreover, although Smith “nowhere systematizes his thinking on distributive justice” (Young 1997: 155), his general commentary, especially concerning the well being of the laboring poor, is at least moderately egalitarian. First, workers comprise “the far greater part of every great political society.” “No society,” he states, “can surely be flourishing and happy” if the preponderant majority of its members are “poor and miserable.” Second, it is “but equity” that “they who feed, clothe, and lodge the whole body of the people, should have such a share of the produce of their own labour as to be themselves tolerably well fed, clothed, and lodged” (Smith 1976a: 88). What Smith appears to be propounding, then, is something approximating an “optimal degree of inequality” (Young 1997: 129), based in part at least on law and public policy.³

Two examples may suffice: public spending and taxation. We have already observed that Smith believed that the labouring poor, or “great body of the people,” will necessarily fall into “corruption and degeneracy” because of the narrowness of the division of labor, unless government, through education, takes

3 It may be noted that in his discussion of inequality, Smith simplifies the argument by substituting an essentially two-class model of “rich” versus “poor” for his more typical, three-class typology of workers, capitalists, and landowners.

special pains to prevent it. The education of the “common people,” Smith states, perhaps requires more public “attention” than that of “people of some rank and fortune.” Wealthy families have the ability, leisure, and incentive to provide for their childrens’ education; common people lack all three. But literacy and other essential elements of education can be provided at small public expense to those “who are to be bred to the lowest occupations,” at an early age, and incentives can be provided, for example, by awards and “small premiums” and by public imposition of an “examination or probation,” before being permitted to establish a particular trade (Smith 1976b: 303–306). Moreover, although education yields direct benefits for common people (for example, through the acquisition of greater skills and thereby higher incomes), Smith believed that it also generated indirect benefits – social, political, and military, as well as economic – for society as a whole and its wealthier members in particular, as we have had opportunity to observe in earlier discussion of his views on the division of labor.

Smith’s stance on taxation is also moderately egalitarian. In general, he opines that the “subjects of every state ought to contribute towards the support of the government, as nearly as possible, in proportion to their respective abilities; that is, in proportion to the revenue which they respectively enjoy under the protection of the state. . . in the observation or neglect of this maxim consists what is called the equality or inequality of taxation” (Smith 1976b: 350). In principle, a proportional tax system treats taxpayers equally. At least relative to a regressive system, governmental powers here counterbalance or countervail to some degree the highly unequal wealth and political power of the rich relative to the poor, at the same time that it supports the underlying social order of class structure of the society.

SUMMARY

To sum up, although fascinated by the “invisible hand” of competitive, free market exchange, Adam Smith, especially in his more practical or empirical moments, developed and presented his arguments contextually, that is, in the context of his views on power, property, and politics. We have examined, in earlier sections of this article, four (interdependent) aspects of power in Smith’s argumentarium, namely, pertaining to wealth, monopoly, employer-employee relationships, and politics.

These elements of power are summarized in Table 1. For each form of power, by scanning downward vertically the reader may identify in summary form Smith’s leading ideas about the dimensions of power in each of five cases, namely instances, characterised in turn by: (1) maximal liberty and equality (as in an “early and rude state of society”); (2) a regime of substantial liberty and equality

Table 1: Adam Smith's typology of power and politico economic systems

	<i>Wealth power</i>	<i>Monopoly power</i>	<i>Employer power</i>	<i>Political power</i>
Most Libertarian/ Egalitarian	Early/Rude State of Society	Perfect Liberty/ Free Competition	Dominant proprietary Sector	Anarchy/ Equality
Substantial Liberty/Equality	Modern Commercial Society, w dominant independent proprietors	Robust Liberty, Substantial Equality. (Some) Exceptions to Free competition	Large proprietary, weak strong labor, weak capitalist sectors	Liberal & (moderately) Democratic; Countervailing powers
"Perfect Liberty," Significant Inequalities	Modern Commercial Society w dominant Capitalist sector	No or few departures from free competition	Small proprietary, weak labor, powerful capitalist sectors	Mixed government, Countervailing Powers
More Authoritarian Inegalitarian	Modern Commercial Society, w large inequalities in land and capital	Moderate Liberty, Substantial inequality; Major exceptions to free competition; Monoploid	Small proprietary, weak labor, large Kist sectors	Liberal or Absolute Monarchy
Most Authoritarian & Inegalitarian	Large inequalities of land, capital; Pre- modern Society	Perfect Monopoly	Slave/Feudal	Authoritarian, but local

(for example, the American colonies); (3) a (theoretical) system of “perfect [economic] liberty”, with few or no departures from free competition combined with a regime of “mixed government” blending the best elements of democracy, aristocracy, and monarchy, but exhibiting significant inequalities in wealth and employer and political power; (4) a “more” authoritarian and inegalitarian society (as in late eighteenth-century England); (5) a system of political economy exhibiting the greatest degree of inequality, servility, and repressive authority (a feudal or slave society). By reading the table horizontally, one may obtain a synoptic view of Smith’s argument about each form of power in any (of five) modes of social organization.

CONCLUSIONS: ADAM SMITH AND CRITIQUE OF CONTEMPORARY ECONOMICS

Smith’s commentary on (types of) power is interesting both in its own right and as an (implicit) critique of present-day dominant thinking in economics, at least in cruder, textual presentations. The tacit critique is twofold: extrinsic and intrinsic. The extrinsic or external criticism is based on the fact (or assertion) that, in standard models of market relationships, the assumption of perfect competition envisions an economic world in which each individual provides such a small proportion of the total supply of or demand for outputs and inputs that it exerts no appreciable impact on or power over any other individual competitor, aggregate demand or supply, or the broader social or political environment. Hence, power is conceived as external to or beyond the scope of economy as thus defined, a proper topic, perhaps, for politics or sociology, but not economics. By contrast, Smith’s argumentarium incorporates, indeed features, causes and consequences of the pursuit and exercise of social power by individuals, organizations, classes, and governments. Thus, the scope of Smith’s social or political economy is broader than twentieth century orthodoxy in economics, and expressly includes within its corpus the “visible hand” of power and politics as well as the “invisible hand” of market exchange relationships.

Adam Smith’s economic thinking, however, was characterized by a second difference from contemporary thought, and hence another implicit critique of the latter. From a Smithian perspective, neoclassical economics (or at least the version thereof which has dominated the economics discipline in the last 50 years or so) contains a logical or internal flaw. Market exchange and power, Smith believed, are interdependent, not separate, topics. On the one hand, the “obvious and simple system of natural liberty establishes itself of its own accord.” On the other, “every man, *as long as he does not violate the laws of justice*, is left perfectly free to pursue his own interest his own way. . .” (Smith 1976b: 208; emphasis

added). Smith may well not have had the last word on connecting linkages between power and market exchange. But, clearly, he believed that market relationships are *both* spontaneous and contextual, that is, that they presuppose a just social order, including therein systems of public law and policy which foster fair dealing in market exchange.

Similarly, for Smith, power is not separated from market exchange, but instead is an integral component of it. Specifically, monopoly power and monopoly exchange coalesce because monopolists exercise power through control over quantities and prices in the exchange process. Wealth power and employer powers are means or bases for competition and thereby for market processes. Political power may adjudicate contending perspectives and interests in the provisioning of public goods and interactions between public and private sectors of the economy.

As Wintrobe aptly observes, “power helps markets to function.” Adam Smith’s analysis was broader and richer than the neoclassical theories, which followed a century later. But “even within the realm of pure neoclassical economic theory, in the absence of a perfectly and costlessly functioning legal system, one cannot rule out” differential power and its impact on economic relationships. “The notion that markets spontaneously solve these [economic] problems by themselves, so widely believed and propagated, is simply logically incorrect” (Wintrobe 1998: 33n). That Smith understood the relationships between power and market processes to be interdependent, not separate, seems clear from the preceding discussion of Smith’s views on power in its various forms.

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