

12 Adam Smith's Economics

I. A PRACTICAL AND POPULAR MANNER

Adam Smith's writings on economic subjects – to adapt the title that his closest friends gave to his posthumously published *Essays on Philosophical Subjects* – are diverse, discursive, and interspersed with almost everything else that he wrote. Economic life, for Smith, was intricately interconnected with the rest of life, or with the life of politics, sentiment, and imagination. Economic thought was interconnected with the rest of thought, or with legal, philosophical, and moral reflection. In the speculative thought of philosophers, as in the plans and projects of merchants, the economic and the political were virtually impossible to distinguish.

"I have begun to write a book in order to pass away the time," Smith wrote to David Hume from Toulouse, in 1764. He devoted some 12 years of his life to the composition of *The Wealth of Nations*, which was eventually published in 1776 ("finish your Work before Autumn; go to London; print it," Hume had written sternly in 1772) (Corr., pp. 102, 166). But *The Wealth of Nations* is not concerned only with wealth, and Smith's other writings and lectures were concerned in part with wealth, as well as with the emotional or moral lives of individuals (*The Theory of Moral Sentiments*), or with legal institutions (the lectures on jurisprudence).¹ In *The Wealth of Nations*, individuals seek amusement, attention, and conversation; they think about fear and oppression; they reflect on ontology; and they are interested

¹ On Smith's jurisprudence and *The Wealth of Nations*, see Knud Haakonssen, *The Science of a Legislator: The Natural Jurisprudence of David Hume and Adam Smith* (Cambridge, 1981), especially chapter 6.

in equity. In *The Theory of Moral Sentiments*, they desire trinkets and tweezer cases, they have theories about wealth and poverty, and they reflect on the commerce with China and on the precariousness of life. Smith says almost nothing about self-love in *The Wealth of Nations*; it is a principal theme of *The Theory of Moral Sentiments*. “[I]t is chiefly from this regard to the sentiments of mankind, that we pursue riches and avoid poverty,” Smith wrote in *The Theory of Moral Sentiments* (I.iii.2.1), of the desire to be attended to, and taken notice of.

In this chapter, we will follow Smith’s own “plan” or ordering of subjects, as outlined in the introduction to *The Wealth of Nations*. However, we will be concerned with *The Theory of Moral Sentiments* and the lectures on jurisprudence, as well as with *The Wealth of Nations*. We will look first at Smith’s writings on the principles of human nature, on labour, and on “skill, dexterity, and judgment” (WN, Intro. 6), which are the principal subjects of Book One of *The Wealth of Nations*. We will look next at his descriptions of merchants and capital, the subject of Book Two. We then turn to Smith’s views of the history of economic development and economic policy (of the progress of opulence), which is the subject of Book Three. The next section will be concerned with Smith’s account of “theories of political œconomy” (ibid, 8), and especially of the “commercial system” or the system of international trade, which is the principal subject of Book Four. The following section, like Book Five of *The Wealth of Nations*, will be concerned with the revenues, expenditures, and designs of governments. In the concluding section, we will return to the great principles of which Smith is supposed to be in some sense the founding father. Each principle has some basis in Smith’s thought, as will be seen; each is also a departure, in important respects, from Smith’s system.

II. THE PRINCIPLES OF HUMAN NATURE

The Wealth of Nations begins with an extended description of the “universal opulence” which is characteristic of “civilized and thriving nations.” This opulence extends to the lowest ranks of the people. It is the consequence, above all, of the productiveness of labour – of the “skill, dexterity, and judgement” with which labour is used – and its consequence, in turn, is a prodigious improvement

in the conditions of even the poorest labourers. The day labourer in England has a woollen coat, a linen shirt, shoes, a bed, knives and forks, earthenware or pewter plates, bread and beer, and glass windows. The tools he uses, and his clothes and furniture, are brought, often, from distant parts of the country, and even from the remotest corners of the world. He is connected, in the details of his daily life, to a multitude of other workers and dependent upon the "assistance and co-operation of many thousands" (WN, Intro. 3-4; I.i.10, 11).

This idyll of universal comfort is ubiquitous in Smith's writings on economic subjects. The wages of the meanest labourer, he observes in *The Theory of Moral Sentiments*, are sufficient to buy conveniencies or superfluities, as well as necessities, and to "give something even to vanity and distinction" (TMS, I.iii.2.1). "[A] common day labourer in Britain or in Holland," he says in the "Early Draft" of *The Wealth of Nations*, is superior in luxury to "many an Indian prince." The civilized societies of modern times are characterised by a highly unequal distribution of wealth. However, "in the midst of so much oppressive inequality," even the poor are prosperous. Even the lowest and most despised members of civilised societies are possessed of "superior affluence and abundance." This is a circumstance, Smith says, which is not "so easily understood," and which is at the heart of his economic thought (Early Draft, 1, 5, 6, 4).

The division of labour, which is for Smith the principal source of universal opulence, is not in itself an uplifting spectacle. "I have seen several boys" who have never had any trade other than making nails, and who can make more than 2,300 nails per day, Smith says at the outset of *The Wealth of Nations*. It confines the views of men, he says in his lectures on jurisprudence, to bestow one's entire attention "on the 17th part of a pin or the 80th part of a button." One of the effects of the division of labour is indeed an epidemic of "gross ignorance and stupidity" in civilised societies. The country labourer is in Smith's description a person of judgment, understanding, and discretion. The mechanic, or the man whose "whole life is spent in performing a few simple operations," is by contrast at risk of psychological mutilation; of becoming incapable of "conversation," "sentiment," "judgement," and "courage." But these risks can be countered, in Smith's view, by an extensive system of education. It is possible, in a civilized and opulent society, that

“almost the whole body of the people” should be instructed in reading, writing, counting, and even in the more “sublime” principles of science.²

The causes of opulence are to be found in the universal principles of the human mind. The source of the division of labour is thus the universal disposition to “truck, barter and exchange,” which is a consequence of the faculties of reason and speech. In his lectures on jurisprudence, Smith describes exchange as a sort of oratory. “It is clearly the natural inclination everyone has to persuade,” he says, which is “the principle in the human mind on which this disposition of trucking is founded”: “the offering of a shilling, which to us appears to have so plain and simple a meaning, is in reality offering an argument to persuade one to do so and so as it is for his interest. . . . And in this manner every one is practising oratory on others through the whole of his life.”³

This universal disposition or inclination is common to “the most dissimilar characters” (to “a philosopher and a common street porter, for example”) (WN, I.ii.4). However, it is only in the circumstances of civilized societies that the general propensity to discursiveness gives rise to the division of labour, and thereby to universal opulence. One such circumstance is the existence and extent of markets. There is no point, that is to say, in producing hundreds of thousands of nails in a remote Highland village, with only expensive means of transport. In a seaside town, by contrast, one’s market is as wide as the world. Smith generally uses the word “market” in a fairly concrete sense. A market is a collection of physical structures (a “fixed market”) in which commodities are bought and sold. It is by extension the collection of locations, often widely dispersed, in which particular commodities are sold. London and Calcutta, Smith writes in *The Wealth of Nations*, carry on a considerable commerce with each other; they encourage each other’s industry “by mutually affording a market” (WN, I.iii.3).

The other condition for the rise and flourishing of the division of labour is the use of money. It would not be convenient to transport muslins and spices by land from Calcutta to London, and it would be even less convenient to exchange muslins for oxen and spices for

² WN, I.i.6, I.x.c.23–4, V.i.f.50, 54–5; LJ(B), 329.

³ WN, I.ii.1–2; LJ(A), vi.56.

sheep. Money, as a result, is the universal instrument of commerce. It makes possible the mutual exchange of services which is characteristic of commercial societies, and in which almost everyone is a customer, a merchant, or both at the same time. The improvement of communications – the reduction in the cost of transporting goods by land and sea, and the reduction in the cost of information – is a condition of the extension of markets. Money, too, is an instrument of communication. Smith indeed compares money, in one of his most elaborate figures of speech (a violent metaphor, he says), to an immense highway which circulates all the produce of a country. An efficient banking system is a “sort of waggon-way through the air.” Gold and silver constitute a solid ground on which commerce and industry can be transported from one location to another; commerce can with the help of banking institutions soar even higher, “suspended upon the Daedalian wings of paper money” (WN, II.ii.86; cf. LJ[A], vi.129, LJ[B], 245).

Labour, Smith writes, is the “real measure of the exchangeable value of all commodities” (WN, I.v.1). However, to estimate the value of goods in terms of labour would be almost as cumbersome as exchanging oxen and muslins. Value is usually therefore estimated in terms of money or in terms of its nominal price. This nominal price is in turn a market price, which may be larger or smaller than the natural price of the commodity in question, or the price to which market prices tend in the absence of extraordinary circumstances (the “center of repose and continuance”).

These distinctions, Smith explains to his readers, can easily be thought of as “obscure,” and even “tedious.” However, they correspond to the ordinary life of the vast international society which Smith imagined or observed. If a merchant has imported a lot of expensive oranges, it becomes extremely important to him to “get immediately rid of the commodity,” even at an unnaturally low price. If there is a public mourning, the price of black cloth rises, the price of coloured silk falls, and the wages of journeymen tailors rise.⁴ Like the “man of humanity in Europe” in *The Theory of Moral Sentiments*, who is also a “man of speculation,” Smith is intrigued by the details of trade and taste. On the news of a great earthquake in China, the man of speculation would be likely to

⁴ WN, I.iv.18, I.vii.10–17, I.x.b.45–6.

express his sorrow, to reflect on the precariousness of life, and then to “enter into many reasonings concerning the effects which this disaster might produce upon the commerce of Europe, and the trade and business of the world in general” (TMS, III.3.4).

Smith identifies two universal dispositions or principles – the disposition to exchange goods or oratory, and the “desire of bettering our condition,” which is “universal, continual, and uninterrupted” – as the sources of opulence. The trucking disposition is the source of the division of labour, and the disposition to self-improvement is the source of saving and investment (WN, II.iii.28–36). Both are common to all individuals, the rich and the poor, the Dutch and the Chinese, the sovereign, the philosopher and the porter. However, they are dispositions which can easily be discouraged or obstructed. The human constitution, in economic as in moral life, and in *The Wealth of Nations* as in *The Theory of Moral Sentiments*, is a theatre of conflicting and competing principles. The desire to better one’s condition is counter-posed to the tendency to indolence. The desire to save is counter-posed to the passion for present enjoyment. The desire to exchange is counter-posed to the tendency to be servile and fawning. The passion for gain is counter-posed to sober reason and experience, and international trade is a source of golden dreams and strange delusions. The proprietor is afflicted by “anxiety” about the elegance of his dress, and the mason is plunged into “anxious and desponding moments” (WN, I.x.b.12, III.ii.7).

The progress of opulence can also be affected by political, legal, and religious institutions. Smith is resolute in his presumption of the natural equality of all individuals. The slaves of colonial planters, like the people of England or France, are more intelligent and more virtuous to the extent that they are considered “with more regard.” They have notable virtues, including the virtue of self-command. (“There is not a negro from the coast of Africa who does not, in this respect, possess a degree of magnanimity which the soul of his sordid master is too often scarce capable of conceiving.”) There is no monopoly of intelligence in the civilized or commercial societies of Europe; “in manufacturing art and industry, China and Indostan, though inferior, seem not to be much inferior to any

part of Europe."⁵ However, the effect of bad institutions is nonetheless such as to obstruct public opulence, and even to obstruct the dispositions on which opulence is founded.

China is thus in Smith's description a society which is rich and populous, but in which the "poverty of the lower ranks of people" is worse than in the "most beggarly nations in Europe." The situation of Bengal and the other "ruined countries" of India is even more miserable, under the tyranny of the "mercantile company which oppresses and domineers in the East Indies." There is superstition; there is insecurity, especially in respect of the property of the poor and of the "owners of small capitals" in China; there are very high rates of interest, sometimes as high as 40%, 50%, or 60% in rural Bengal. In Poland, which is one of the poorest countries in Europe, the feudal system still persists. In Spain and Portugal, it has been replaced by an "irregular and partial administration of justice," so uncertain that it inhibits the spirit of the "industrious part of the nation."⁶

The industrious disposition is easily discouraged even in the most commercial societies. One of Smith's most sustained diatribes, in *The Wealth of Nations*, is thus against the "corporation spirit" in respect to apprenticeship regulations and the English law of settlements. These regulations obstruct the free circulation of labour, the free competition of different manufacturers, the "sacred and inviolable" property which every man has in his own labour, and the "natural liberty and justice" whereby individuals can live where they want. It induces indolence, inattention, and jealousy of strangers (WN, I.x.c.). Giving bounties for one commodity and discouraging another, Smith says of the corporation spirit in his lectures on jurisprudence, "diminishes the concurrence of opulence and hurts the natural state of commerce" (LJ[B], 307).

One of Smith's other diatribes is concerned with the corn trade and the corn laws. The principal cause of famines was the denial to many people of adequate access to food, and the proximate causes of this can be one of many things: the interruption of communications between different regions, or a war, or the policies of an oppressive

⁵ WN, i.xi.g.28, IV.vii.b.54; TMS, V.2.9.

⁶ WN, I.viii.24-6, I.xi.n.1, I.ix.13-15, II.v.22, IV.vii.c.53.

or injudicious government. The Bengal drought of 1770, for example, was made far more dreadful by the policies of the East India Company. But regulations restricting the free commerce in corn can also contribute to scarcity and misery, even in commercial societies. Their effect is to obstruct the distribution of grain and the cultivation of land, to reduce the freedom and the security of industry, and to encumber the operations of even the universal principle of self-improvement. It is to discourage "people of character and fortune" from even entering the business of selling corn, and to abandon it to "wretched hucksters" (WN, IV.v.b.8).

"The liberal reward of labour" is for Smith the characteristic condition of commercial and civilized societies. "To complain of it is to lament over the necessary effect and cause of the greatest publick prosperity," he says in *The Wealth of Nations*, and it is "abundantly plain" that an "improvement in the circumstances of the lower ranks of the people" is of advantage "to the society." Such an improvement was a matter of justice: "No society can surely be flourishing and happy, of which the far greater part of the members are poor and miserable. It is but equity, besides, that they who feed, cloath and lodge the whole body of the people, should have such a share of the produce of their own labour as to be themselves tolerably well fed, cloathed and lodged." It was also a matter of prudence, in that it tends to make people more industrious: "The wages of labour are the encouragement of industry, which, like every other human quality, improves in proportion to the encouragement it receives."⁷

The real recompense of labour had increased substantially in England in the course of the eighteenth century, in Smith's observation. "We are more industrious than our forefathers," he says, and the "industrious poor" can afford an "agreeable and wholesome variety of food." (He mentions potatoes, turnips, carrots, and cabbages, as well as milk, cheese, butter, and oil; butcher's meat, he says, is not required for a "nourishing" and "invigorating" diet.)⁸ The choices of the poor are concerned, in these circumstances, with their social position. They are depicted as prudent, reflective,

⁷ WN, I.viii.27, 42, 36, 44.

⁸ WN, I.viii.34–5, II.iii.12, V.iii.k.15.

civic beings, subject in particular to the emotion of shame. They understand leather shoes to be necessities in England: "the poorest creditable person of either sex would be ashamed to appear in public without them." In Scotland, shoes are necessities for men of the lowest order, "but not to the same order of women, who may, without any discredit, walk about bare-footed"; "in France, they are necessities neither to men nor to women." The poor are concerned, too, with the future of their children and with their own future lives. The labourer is encouraged by the "comfortable hope of bettering his condition" – of changing his position in society – and of "ending his days perhaps in ease and plenty."⁹

III. MERCHANTS AND MANUFACTURERS

The second main theme in Smith's economic writings is capital or stock. There are three "great, original and constituent orders of every civilized society," Smith writes, who live respectively by the rent of land, by the wages of labour, and by the profits of stock (WN, I.xi.p.7). Each order has its own idiosyncratic way of life, its own interests, and its own way of thinking. Landlords are in Smith's description a somewhat foolish class of individuals. Their interests are closely connected to the general interest of the society. However, they are often ignorant of these interests. They are indolent because they can live comfortably without making plans or projects. They are often incapable, even, of "application of mind." There are agreeable landlords, mostly small proprietors, who improve their land and enjoy the tranquillity of mind which is characteristic of a country life. Great proprietors are much less admirable. In feudal times, as in eighteenth-century Poland, they surrounded themselves with dependents and retainers. In early commercial societies, they bartered their authority for "trinkets and baubles" ("diamond buckles, perhaps, or for something as frivolous and useless"). Their abiding shortcoming, which they share with the "richer clergy," is vanity, of the most childish and the most extravagant kind.¹⁰ The "oeconomy of greatness"

⁹ WN, V.ii.k.3; cf. I.viii.43–4.

¹⁰ WN, I.xi.p.8, III.i.3, I.xi.n.1, III.iv.15, 10, V.i.g.25.

Smith says in *The Theory of Moral Sentiments*, is for the “proud and unfeeling landlord” a matter of “baubles and trinkets” (TMS, IV.I.10).

The second order, people who live by wages, are similar to the landlords in that their interests are closely connected to the interests of the society in which they live. They are similar, too, in that they are often incapable of understanding these larger interests. They are ignorant, not because they are indolent and excessively secure, but because they have “no time to receive the necessary information” and insufficient education with the help of which they can make judgments. They sometimes enter into (clamorous) combinations to increase or maintain wages, which are almost always crushed by the combined power of the masters or employers, the civil magistrate, and the parliament (“whenever the legislature attempts to regulate the differences between masters and their workmen, its counsellors are always the masters”). Their clamour is sometimes animated and supported by their employers to promote their own interests.¹¹ However, in their private lives, the people who live by wages are in general prudent and industrious. They are often “active, diligent, and expeditious,” especially when wages are high. They are more diligent in England than in Scotland. They have a tendency to “over-work themselves,” especially when they are paid piece rates. They tend to “strict frugality and parsimonious attention” in their expenditure, especially in comparison to the “disorders which generally prevail in the oeconomy of the rich” (WN, I.viii.40–4).

It is the third order, people who live by profit, who intrigue Smith the most. They are the heroes of *The Wealth of Nations* – of the epic of increasing opulence which is at the heart of Smith’s economic thought – and they are at the same time its “sneaking” hypocrites. They are intelligent, and they have an acute knowledge of their own interests. The richest of them, the merchants and master manufacturers, are “during their whole lives . . . engaged in plans and projects.” They often make pronouncements about the public interest. But their interests are not identical with, and are often opposed to, the interest of the society. They are an “order of men, whose interest is never exactly the same with that of the

¹¹ WN, I.xi.p. 9, I.viii.13, I.x.c.61.

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."¹²

The disposition of merchants and traders is generally to be bold. Their lives are tumultuous. They commit their fortunes, often, "not only to the winds and the waves, but to the more uncertain elements of human folly and injustice." They have "golden dreams" of the great profits to be gained in "vast and extensive projects," in banking, mining, or wartime procurement. Yet, men of business are also likely to be careful and orderly. The mercantile business induces habits of "order, oeconomy, and attention." Holland was in Smith's description "by far the richest country in Europe," and the way of thinking of the commercial order was in large part a Dutch model. "It is there unfashionable not to be a man of business," Smith wrote of Holland, or to "engage in some sort of trade." The "mercantile manners" of Amsterdam are "attentive and parsimonious," in part because the profits on stock are low. Nations which "like Holland and Hamburgh, are composed chiefly of merchants, artificers and manufacturers," have a tendency to "narrowness, meanness, and a selfish disposition." However, this common character, like the orderliness of merchants, is induced by circumstances. The credit of the trader depends on the way in which he is judged by other people; on "their opinion of his fortune, probity, and prudence."¹³

The "influence of commerce on the manners of a people," Smith said in his lectures on jurisprudence, is such that they turn to "probity and punctuality," as to the most fashionable of virtues. The Dutch are more reliable than the English, for example. Yet, in Smith's view "this is not at all to be imputed to national character, as some pretend." It is rather a consequence of self-interest, in the particular circumstances of a mercantile society. "A dealer is afraid of losing his character, and is scrupulous in observing every engagement," and when he makes a large number of contracts every day, he "does not expect to gain so much by any one contract as by probity and punctuality in the whole." There is no natural reason, that is to say, "why an Englishman or a Scotchman should not

¹² WN, I xi.p.10; cf. IV.iii.c.8-9.

¹³ WN, I.ix.20, I.x.b.20, II.ii.69, II.v.35, III.i.3, III.iv.3, IV.ix.13.

be as punctual in performing agreements as a Dutchman" (LJ[B], 326–8).

Smith's account of capital and profit, like his account of labour, begins with an extended description of the subdivisions characteristic of commercial societies, "the Division of Stock." The accumulation of stock is for Smith anterior to the division of labour. It is only if a weaver, for example, has stored up an adequate stock of goods that he can devote himself entirely to his own peculiar business. He needs to have access to a supply of the things he consumes and of the materials he uses. In a more advanced stage of the division of labour, yet more stock is needed, as the operations of workmen become even simpler (or more specialized), and "a variety of new machines come to be invented for facilitating and abridging these operations." The progress of opulence is a consequence of the increase in the productive powers of labour, and the improvement in productiveness is in turn a consequence of the increase in capital, "silently and gradually accumulated by the private frugality and good conduct of individuals."¹⁴

The principle or disposition which induces individuals to accumulate is the desire of bettering their condition. This is a universal yearning, which is related to a restlessness of spirit; there is never an instant in which the individual is "perfectly and completely satisfied with his situation." The object of all these aspirations, in the most profound sense, is to be looked at, respected, and sympathised with. The desire to be respected, Smith writes in *The Theory of Moral Sentiments*, is "perhaps, the strongest of all our desires." It is the purpose of "all the toil and bustle of this world," and the principal reason that "we pursue riches and avoid poverty."¹⁵ However, the means to this elusive end is to be found, in general, in augmenting one's fortune. "It is the means the most vulgar and the most obvious," and the most obvious means to fortune is to be found, in turn, in savings and accumulation (WN, II.iii.28).

There are two main uses of the stock accumulated by individuals, of which Smith has very different opinions. One part is used as capital and is expected to yield a revenue or profit. The other part is used for consumption. Smith appears to be extraordinarily sceptical

¹⁴ WN, II.intro.3, II.iii.36.

¹⁵ TMS, I.iii.2.1, VI.i.3.

about the joys of consumption. Individuals sometimes imagine the "pleasures of wealth and greatness" as beautiful and noble; at other times, or when they are in low spirits, they see "power and riches" as contemptible and even threatening conditions. It is a delusion, especially for individuals who are not born to riches, to imagine that they can find respect, or even satisfaction, by the consumption of goods and services. To use one's stock to buy consumer goods is a particularly futile exercise. Smith returns often to a distinctly splenetic enumeration of what he describes as "trinkets of frivolous utility." These include tweezer cases, toothpicks, ear pickers, and machines for cutting one's nails (in *The Theory of Moral Sentiments*); watch cases, snuff boxes, jewels, baubles, gewgaws, and diamond buckles (in *The Wealth of Nations*); and, in the lectures on jurisprudence, the productions of "architects, masons, carpenters, tailors, upholsterers, jewellers, cooks, and other ministers of luxury."¹⁶

Capital is the stock which is used for profit. Money is one of the constituents of capital, but only "a small part, and always the most unprofitable." It is the "great wheel of circulation, the great instrument of commerce," which is continually, at least in secure and commercial societies, being lent by one person to another, or running after goods. There are additional kinds of circulating capital, such as stocks of raw materials, which are also held for only short periods of time. The other constituent is fixed capital, which consists of machines, buildings, improvements in land (such as clearing and draining), and the "acquired and useful abilities of all the inhabitants or members of the society," or the "capital fixed and realised, as it were, in [the] person" of the individuals.¹⁷

The different branches of trade use these different kinds of capital in different ways. Agriculture, mining, manufacturing, wholesale trade and transportation, and retail trade have different needs and different relationships to the society. Fixed capital – the furnaces and forges of a great iron work, for example, or the "capital which the undertaker of a mine employs in sinking his shafts, in erecting engines for drawing out the water, in making roads and waggon-ways" or the machines used in "the new works at Sheffield,

¹⁶ TMS, IV.i.8–9; WN, I.xi.h.5, II.iii.38, III.iv.10; LJ(A), i.117.

¹⁷ WN, II.i.17, II.ii.23, IV.i.16–18.

Manchester, or Birmingham" – is most important to mining and manufacturing industries.¹⁸ The capital of a merchant, in contrast, is composed entirely of circulating capital.

Capital used in agriculture and in retail trade is fixed in a particular place, in a particular society; it "must always reside within that society." Capital used in manufacturing is more restless; wool is sent from Spain to Britain, for example, and finished cloth is sent back to Spain. The capital of the wholesale merchant – whether in home trade, foreign trade, or carrying trade – is the most restless of all. It "seems to have no fixed or necessary residence anywhere, but may wander about from place to place, according as it can either buy cheap or sell dear." The merchant is "not necessarily the citizen of any particular country." Mercantile capital is thereby a "very precarious and uncertain possession" for the country, if not for the merchant; "it is in a great measure indifferent to him from what place he carries on his trade; and a very trifling disgust will make him remove his capital, and together with it all the industry which it supports, from one country to another."¹⁹

The different kinds of capital are associated with different ways of thinking. Smith is warm in his praise of the country gentleman. This figure is not particularly acute. He is a little timid, but he is generous and tranquil. He is free of the wretched spirit of monopoly which induces other men of property to combine and to conspire. The small proprietor is of all the owners of capital the most likely to improve his stock in a lasting and useful way. The owner of retail capital, too, is a generally agreeable character. The prejudices of political writers "against shopkeepers and tradesmen, are altogether without foundation"; the "little grocer" in a small seaport town is a tolerable judge of fifty or sixty different kinds of goods and provides a service to the poor (by dividing commodities into small parcels).²⁰

The owner of industrial capital – the "undertaker" of large mining or manufacturing works – is also a diligent figure, although one in whom Smith takes rather little interest. He is not particularly industrious; indeed, he is "discharged of almost all labour," the

¹⁸ WN, II.i.6–9, II.ii.64; LJ(A), vi.54.

¹⁹ WN, II.i.7, II.ii.64, II.v.13–16, III.iv.24.

²⁰ WN, II.v.7, I.x.b.36.

work of "inspection and direction" having been handed over to a "principal clerk," and the improvement of production – the invention of new and ingenious machines – being the work either of the individuals who use the machines, or of the specialised makers of machines and instruments.²¹

The owners of smaller manufactures play a more substantial and a more insidious role. The word "manufacturer," in *The Wealth of Nations*, refers both to workmen ("manufacturers and artificers") and to employers ("master manufacturers"). Smith is admiring, in general, of the skill and dexterity of the workmen. His dislike of the output of artificing (the trinkets and postchaises and operose machines) is countered by a liking for the productive skills of the artificer (the "living instrument" of trade). However, the masters, or the owners of manufactures, are more foolish figures. They complain about the bad effects of high wages and attempt to make their employees overwork. They like their servants to be "humble and dependent." They are subject to the emotion of jealousy (in relation to strangers in their towns, manufacturers in other countries, and imports of painted calicoes). They seek monopolistic protection against foreigners, farmers, consumers, and their own workmen. In their political pronouncements, they are an adjunct of the merchants. Their characteristic discourse is to "clamour."²²

It is the merchant, or the owner of mercantile capital, in whom Smith is most interested, and by whom he is most disturbed. The wholesale merchant, the restless, wandering man of capital, is the central figure of Smith's economic writings. *The Wealth of Nations* is in substantial part a work about seas and oceans. The progress of opulence is borne by water, as well as by impartial legal institutions. Seaports are places of conversation, risk, and adventure. Oceans are the source of commerce – of the inventiveness which makes "the trackless and barren ocean a new fund of subsistence, and the great high road of communication to the different nations of the earth" – and the source of civilization. They are a metaphor of prosperity; Smith describes one of the schemes of the East India Company as amounting to no more than "a drop of water in the

²¹ On country gentlemen, see WN, I.xi.p.8, III.ii.20, III.iv.3, IV.ii.21; on shopkeepers and undertakers, I.i.8–9, I.vi.6, II.v.7.

²² WN, I.viii.48, I.ix.24, I.x.c.25, IV.viii.17, 44, IV.ix.31–3.

vast ocean of Indian commerce." The whole globe of the earth is for Smith a scene of inlets, rivers, and oceans; the misfortune of the continent of Africa, he says, is that it has nothing like the "gulphs of Arabia, Persia, India, Bengal, and Siam, in Asia."²³

Merchants are the masters of these vast extents, but they are as changeable as the oceans. "The speculative merchant exercises no one regular, established, or well-known branch of business. He is a corn merchant this year, and a wine merchant the next, and a sugar, tobacco, or tea merchant the year after," Smith writes. They are also complex and indecisive in their sentiments. They are bold, and they are at the same time in search of security and reassurance. They are indifferent citizens, and they at the same time seek political advantage from every government. They have an intelligent knowledge of their own interests, and they seek to promote these interests by the pursuit of monopolies. They are excited by risk, and they dread competition. They conspire with other merchants, and they also conspire against them. In one side of their lives, they wait endlessly, like Antonio in the *Merchant of Venice*, for news of their ships, or of fashions in Lyons or Sicily. In another side of their lives, they write disingenuous pamphlets about the balance of trade, or about the bribing and intimidation of officials. Their discourse, like that of the master manufacturers, is one of "clamour and sophistry."²⁴

IV. INSTITUTIONS AND THE PROGRESS OF OPULENCE

The third of Smith's concerns, which is at the heart of all his writings on economic subjects, is with the course of economic progress or of economic history. It is an epic of what Dugald Stewart, Smith's biographer, described in 1793 as the "natural progress of the mind."²⁵ The mind, or the spirit, is depicted as becoming emancipated from obstructions of various sorts, and as being disturbed, again, by new obstructions. The subject of Books Three and Four of *The Wealth of Nations*, Smith says, is the "interests, prejudices, laws and customs" of Europe since the decline of the

²³ WN, I.iii.8, V.i.e.26; TMS, IV.1.10.

²⁴ WN, I.x.b.38, I.x.c.25.

²⁵ Dugald Stewart, *Account of the Life and Writings of Adam Smith, LL.D* (1793), in EPS, 271.

Roman Empire, which he will "endeavour to explain as fully and distinctly" as he can. It is the history of "human institutions" and of the "injustice of human laws," as they disturb the "natural course of things."²⁶

The principal drama in Smith's account of the progress of opulence consists in the victory of the individual spirit, over the oppression of legal institutions. Institutions, as described in *The Wealth of Nations*, are largely deplorable. They impede the public opulence of China; they lead to the degradation of the value of silver in Spain and Portugal; they are discouraging and depressing, under the prejudiced administration of Colbert in France; and in England, they include such arrangements as duties on the import of corn and bounties on exports, promoted by "our country gentlemen" in a misguided imitation of the "conduct of our manufacturers."²⁷

One discouraging set of legal institutions in early modern Europe – "barbarous institutions," Smith calls them – are the laws of inheritance. Primogeniture and entails, in particular, were fit only to "support the pride of family distinctions." They were contrary to the other interests of families, serving to enrich only one child, by making beggars of all the rest. Their consequence was to obstruct the improvement of land, either by landlords or by their dependent tenants and retainers. These effects were made far worse by what Smith described as "all the violence of the feudal institutions." The leases of tenant farmers were precarious and their security limited. They were obliged to provide arbitrary and irregular services to their landlords and to the state, a form of "servitude" and "oppression" which still persisted in France and Germany.²⁸

Even the inhabitants of medieval towns were of "servile, or very nearly of servile condition." They lived in something close to villanage. They had only limited freedom to travel and inherit, to buy and sell. However, their condition was better than that of the inhabitants of the countryside, and it was in the towns of western Europe that the drama of "liberty and independency" began to unfold. The burghers were adept, in Smith's description, in establishing free jurisdictions, between the competing oppression of sovereigns and

²⁶ WN, I.x.c.26, III.i.3–4.

²⁷ WN, I.ix.15, IV.v.a.18, 23, IV.ix.3.

²⁸ WN, III.ii.4–6, III.ii.14–17, III.iv.9–10.

feudal lords. They became more secure, gradually, in respect of their property (their “stock”) and of their personal liberty. They became more industrious as they became more confident that they would be able to enjoy the “fruits of their industry.” In the unfortunate countries where individuals are “continually afraid of the violence of their superiors” – during the “violence of the feudal government” in Europe, much as in modern Turkey or India, Smith wrote – it is common to conceal one’s stock, or to bury it in the ground. In countries where there is “tolerable security,” individuals (or everyone who is not “perfectly crazy”) will use their stock to improve their present circumstances and their future condition.²⁹

“Order and good government, and along with them the liberty and security of individuals” were thus established in the cities of Europe. The commercial progress of the cities in turn helped to introduce liberty and security, even into the countryside. The essential transformation, in this process, was in the freedom and impartiality of judicial institutions. “Commerce and manufactures can seldom flourish long in any state which does not enjoy a regular administration of justice . . . in which there is not a certain degree of confidence in the justice of government.” The commercial advantage of England consisted above all in the “equal and impartial administration of justice which renders the rights of the meanest British subject respectable to the greatest.” Colonial monopolies, bounties on corn, the value of gold and silver in Poland, public debt, buried treasure, the history of early modern cities in Europe – Smith returns on the most disparate occasions in *The Wealth of Nations* to the judicial institutions which he considered to be the most important source of commerce and civilization.³⁰

The progress of opulence can be seen, in these terms, as a virtuous circle, in which legal and political improvement leads to economic improvement, and economic improvement in turn leads to further improvement in political and legal institutions. “Commerce and manufactures gradually introduced order and good government, and with them, the liberty and security of individuals,” into the “servile dependency” of the European countryside; “this, though it has been the least observed, is by far the most important of all their effects” (WN, III.iv.4).

²⁹ WN, III.iii.1, 3, 12, II.i.30–1.

³⁰ WN, III.iii.12, IV.vii.c.54, V.iii.7.

The distinction between the economic, the legal, and the political is indeed elusive in Smith's account of the history of commerce. It is not one which Smith put forward in any resolute sense. To be obstructed from crossing a bridge when one was carrying one's goods to market was an infringement of one's personal freedom, and not of a special and lesser condition, one's "economic freedom." To be able to seek redress in the courts, against the "violence" of one's landlord, or against the "violation" of the terms of one's lease, was an encouragement to commerce and industry, and it was also a form of personal freedom.

Even the freedom of the mind or the disposition, and the freedom of social relationships, are intimately connected with the progress of opulence. They are causes and effects of political freedom. Independence, together with security, is the condition to which civilized societies tend. Tenants become independent in relation to landlords, as a consequence of the regular administration of justice. Tradesmen become independent in relation to the rich because they depend on no single customer for their entire revenue. Only the country gentleman, or the North American planter, is truly "independent of all the world." (The planter in North America feels that even the artificer "is the servant of his customers.") However, to be independent is to be free to choose one's relationships, one's disposition, and one's trade. It is to be able to form what Smith described as the "reasonable hopes, imagination or expectation" that one can hold onto one's property without having to depend on one's master. It is to be like the tradesmen, the ministers of luxury, who are employed by a great proprietor, but who "do not think themselves in any way indebted to him." The money they receive is "equivalent" to the time and labour they provide, and a "tradesman to retain your custom may perhaps vote for you in an election, but you need not expect that he will attend you to battle."³¹

V. SYSTEMS OF POLITICAL ECONOMY

The fourth great theme of Smith's political economy is political economy itself, or the plans and theories by which the policy of Europe is directed. These theories are the outcome, in general, of the "private interests and prejudices of particular orders of men."

³¹ WN, III.i.5, III.iv.12-14; LJ(A), i.118, 144-5.

However, they have been elaborated into vast systems of the “general welfare of the society.” They have in turn had a considerable influence on the opinions and the conduct of sovereigns (WN, Intro.8). The “love of system,” Smith suggested in *The Theory of Moral Sentiments*, is a universal condition, and one which can help explain the preferences of individuals (and even of sovereigns) for different public institutions, from premiums in the linen industry to political disquisitions on commerce (TMS, IV.i.111). The merchants of commercial societies, with their predilections for plans and projects, have a taste for systems of thought. Their sophistry is also such that they have been highly successful in persuading other people – legislators, princes, the endlessly imposed on country gentlemen – that their own private interests are identical with “the general interest of the whole” (WN, I.x.c.25).

There are three vast systems of political economy with which Smith is concerned. One is the “commercial, or mercantile system.” The second is the agricultural system. The third, which is Smith’s own, and which he describes only by indirection, is the “obvious and simple system of natural liberty,” or the “liberal plan of equality, liberty and justice.”³² Of these, the system of commerce is Smith’s principal concern. “It is the modern system, and is best understood in our own country and in our own times,” he says; his explanation of it takes up a quarter of *The Wealth of Nations*. In a letter to his Danish correspondent Andreas Holt, Smith compares the abuse and “squibs” he had received in response to “my Book” with those in response to a “single, and as, I thought a very harmless Sheet of paper, which I happened to write concerning the death of our late friend Mr Hume.” This famous description is indeed a metonymy, in which the part comes to stand for the whole; *The Wealth of Nations* is the “very violent attack I had made upon the whole commercial system of Great Britain” (Corr., p. 251).

Book IV of *The Wealth of Nations*, like large sections of Smith’s lectures on jurisprudence, is a sequence of strong criticisms of different tenets of the commercial system. One such popular notion, promoted by the sophistry of merchants, is that wealth consists of money, or of gold and silver. Gold is in general, for Smith, associated with illusion and self-deception. The projectors of speculative

³² WN, IV.i, ix [headings], IV.ix.3, 51.

banks have "golden dreams" of profit; Sir Walter Raleigh had "strange delusions" about the golden city of Eldorado; Britain's Atlantic empire, Smith writes in the peroration of *The Wealth of Nations*, is a "golden dream" of politicians, "not an empire, but the project of an empire; not a gold mine, but the project of a gold mine." To accumulate gold in order to increase the wealth of the country would be no less absurd than to try to "increase the good cheer of private families" by obliging them to accumulate ever more "kitchen utensils," "to the incredible augmentation of the pots and pans of the country."³³

The doctrine of the balance of trade is for Smith even more absurd. It is the "most insignificant object of modern policy." To watch over the balance of a country's exports and imports was at least as foolish, for the government, as to watch over the export of gold and silver; "from one fruitless care it was turned away to another care much more intricate, much more embarrassing, and just equally fruitless." However, the doctrine is enshrined in theories of political economy, which are in turn promoted by the "interested sophistry of merchants and manufacturers." Its effect is to exacerbate national prejudice and animosity. The balance of trade has very little to do with national advantage, and it is in any case, Smith says, extraordinarily difficult to determine.³⁴

Smith was in general unconvinced by the "books" and "registers" in which commerce was supposed to be measured. He refers in his description of the work of independent labourers to the "public registers of which the records are sometimes published with so much parade, and from which our merchants and manufacturers would often vainly pretend to announce the prosperity or declension of the greatest empires" (WN, I.viii.51). However, he was particularly sceptical of the statistics of foreign trade. The "custom-house books" and the "course of exchange" provide only a "very uncertain criterion" of trade. It is in the interest of merchant importers, in a system of import duties and bounties on exports, to declare very little. It is in the interest of merchant exporters to declare a great deal, sometimes out of vanity and sometimes to gain bounties. The custom-house books are therefore likely to show

³³ WN, II.ii.69, IV.i.16–19, IV.vii.a.19–20, V.iii.92.

³⁴ WN, IV.i.10, IV.iii.c.10, IV.vi.13.

a balance of exports over imports, "to the unspeakable comfort of those politicians who measure the national prosperity by what they call the balance of trade." It is quite usual, meanwhile, in the complex seaborne commerce which Smith found so intriguing, that a merchant in England might pay for goods bought in Riga with "bills upon Holland." Nothing, in these circumstances, could be more unreasonable than to seek, by regulation, to establish an "exact equilibrium" of trade. Smith uses the word "equilibrium" only once in the entire *Wealth of Nations*; it is in the course of an explanation (one of many) that nothing "can be more absurd than this whole doctrine of the balance of trade."³⁵

The obsession with gold and silver, in the commercial system, leads to an obsession with the balance of trade, and the obsession with the balance of trade leads in turn to an even more insidious obsession, with policies to discourage imports and encourage exports. Smith devotes an extended section of *The Wealth of Nations* to the restraints, duties, and prohibitions on imports, and the bounties, drawbacks, and premiums on exports, which had multiplied in British law since the reign of Charles II. It is in part an enumeration of petty restrictions, especially in relation to the seafaring and ocean-going society with which he was so concerned; double duties on saltfish, whale fins, whale bone, oil, and blubber; prohibitions on wrought silks, French cambrics, and painted calicoes; and bounties on the herring buss fishery, white herring fisheries, whale fisheries, and on "British-made sail-cloth."³⁶ However, it is also a sustained denunciation of the mentality of "merchants and manufacturers." In Dugald Stewart's description, it is "expressed in a tone of indignation, which he seldom assumes in his political writings."³⁷

Merchants and manufacturers are associated, in *The Wealth of Nations*, with the "wretched spirit of monopoly" and with the "exclusive corporation spirit." Their voice is one of "clamorous complaint." The effect of their "interested sophistry" is to

³⁵ WN, I.viii.51, IV.iii.a.4-7, IV.iii.c.2, V.ii.k.29.

³⁶ WN, IV.ii.21, IV.iv-v.a.

³⁷ Stewart, *Account*, p. 316; this is a comment on Smith's remarks about the jealousy of commerce, in his consideration of restraints on imports and encouragements to exports.

confound common sense. The policies they support are inspired by "mean rapacity," by the "monopolizing spirit," and by "impertinent jealousy." The master manufacturers have increased in political power in England to the point where, "like an overgrown standing army, they have become formidable to the government, and upon many occasions intimidate the legislature." The member of Parliament who attempts to oppose them is subjected to the "most infamous abuse and detraction," arising from the "insolent outrage of furious and disappointed monopolists." The "sneaking arts of underling tradesmen" are expressed with "all the passionate confidence of interested falsehood." They are especially sinister to the extent that they influence relationships between countries and between peoples; "mercantile jealousy is excited, and both inflames, and is itself inflamed, by the violence of national animosity."³⁸

Smith is even more indignant when he turns to colonial and imperial relations. The regulation of colonies and of exclusive mercantile companies is for Smith an integral part of the commercial or mercantile system. Gold, the balance of trade, the restriction of imports and the subsidy of exports, the establishment of colonies – one commercial illusion leads to the next, in a succession of ever more oppressive policies. "A great empire has been established for the sole purpose of raising up a nation of customers," Smith said of Britain's American and West Indian colonies, in his concluding diatribe against "this whole mercantile system" and its "contrivers," the merchants and manufacturers. Colonies and empires were in general, for Smith, a monument to unreason. The motives for their establishment, in modern times, were "avidity," "folly and injustice," and the "sacred thirst of gold." They brought injury to the "harmless natives" of the colonised countries.³⁹ They encouraged the slave trade, as a consequence of which, Smith said in his description of African virtues, a cruel fortune "subjected those nations of heroes to the refuse of the jails of Europe" (TMS, V.2.9).

The British were less "illiberal and oppressive" as colonialists than the Spanish or the Portuguese. There was indeed an ordering

³⁸ WN, IV.ii.21, 31, 43, IV.iii.c.8, 13.

³⁹ WN, IV.vii.a.6, 17–20, IV.vii.b.6, 52–4, 59, IV.viii.53.

of tyranny, in which the government of Britain was less "arbitrary and violent" than that of France, which was in turn less arbitrary than that of Spain and Portugal. But the slaves in the French colonies were slightly more protected, and more gently treated, than in the British colonies.⁴⁰ The British, like the Dutch, were also peculiarly implicated in a system of exclusive companies for foreign trade, which Smith found both contemptible and characteristically mercantile. Some fifty-five such companies had been established in Europe since 1600, Smith wrote, citing the Abbé Morellet's polemics against the French East India Company. There was a Gothenburg East India Company, a Turkey Company, and a Royal African Company. Such companies were "nuisances in every respect." It was in India and the East Indies, and under governments inspired by the republican or democratical societies of Holland and England, that the "arts of oppression" had become most "perfectly destructive."⁴¹

There is something idiosyncratically disagreeable, Smith argues, in the circumstances whereby companies come to be "the sovereigns of the countries which they have conquered." They have the power of sovereigns. They are possessed by "the spirit of war and conquest." However, they continue to think of themselves as merchants, and they "regard the character of the sovereign as but an appendix to that of the merchant." The trading spirit makes them bad sovereigns, and the "spirit of sovereignty seems to have rendered them equally bad traders." The Dutch in the East Indian islands burn cloves and destroy trees, and use all the "oppressive genius of an exclusive company" to deprive the native population. The English in Bengal have exactly the same tendency. The members of the administration trade on their own account, and the superior servants of the company oppress the inferior servants. They are indifferent to the "happiness or misery of their subjects." The interest of the proprietors is to acquire a share in "the appointment of the plunderers of India." They are engaged in "the pleasure of wasting, or the profit of embezzling." Their successes are largely unintended. The East India Company's government in Bengal on

⁴⁰ WN, IV.vii.b.52, 63.

⁴¹ WN, IV.vii.c.101, 108, V.i.e.31.

one occasion, in a "momentary fit of good conduct," accumulated large reserves in the treasury of Calcutta; soon afterward "all was wasted and destroyed."⁴²

India is described as an innocent and industrious land, inhabited by the "mild and gentle people" of Indostan. Its "home market" is "very great," and Bengal, in particular, has been "remarkable for the exportation of a great variety of manufactures." The territories acquired by the East India Company are "represented as more fertile, more extensive; and, in proportion to their extent, much richer and more populous than Great Britain." The sovereigns of Bengal, "while under the Mahometan government," had been extremely attentive to roads, and canals, and to procuring the "most extensive market which their own dominions could afford." The "country trade of the East Indies" extends all the way from Indostan to China and Japan. Smith's view, as so often, is the view from the sea; Batavia is the "principal mart" of a great "frequented road," from Tonkin and Malacca to Cochin and Celebes, in which much of the trade "is carried on by the native Indians." However, the effect of the European mercantile system, in these societies, has been to bring destruction and misery. The population of the Dutch Moluccas has fallen sharply. In Bengal, the oppression and domineering of the mercantile company has led to "want, famine and mortality." During the drought of 1770, the policies of the company contributed to turn a "dearth into a famine"; in what had once been a fertile country, "three or four hundred thousand people die of hunger in one year."⁴³

The commercial or mercantile system was of truly worldwide consequence. Smith had a lucid conception of the world as a unity – of the course of prosperity in "the whole globe of the earth, of which the wealth, population, and improvement may be either gradually increasing or gradually decaying" – and the modern system of Europe impinged on all countries. The opposing "agricultural systems" were in contrast of much more limited consequence. Systems of this sort had been implemented by the sovereigns of China, of ancient Egypt, and of Indostan under its "Gentoo government."

⁴² WN, IV.vii.c.101–5, V.i.e.26, V.ii.a.7.

⁴³ WN, I.iii.26, IV.v.b.6, IV.vii.c.100–1, IV.ix.45, V.i.e.2, V.ii.d.5, V.iii.91.

However, their effect was subversive, in that they ended up by discouraging “their own favourite species of industry.” The agricultural system of the French economists of the eighteenth century also tended to overvalue agriculture, just as the mercantile system of Colbert, to which it was a response, had tended to overvalue commerce. The French economists’ scheme was a “liberal and generous system,” in the sense that it proposed the “most perfect freedom of trade” to foreign manufacturers. It was indeed “the nearest approximation to the truth” that had yet been published on the science of political economy. (This was a less than resounding endorsement, in view of Smith’s scepticism about the systems in question.) However, it was formulaic, in that it prescribed an implausibly exact regimen of “perfect liberty.” It was purely speculative and thereby not worth refuting at any great length; it had not yet done any harm, and probably never would.⁴⁴

Smith says even less in his account of systems of political economy about his own liberal system. The word “liberal,” for Smith, had little to do with political positions. The liberal was the generous, or the ample: Smith speaks repeatedly of “the liberal reward of labour.” To belong to the *species liberalis*, he said in the lectures on jurisprudence, is to have the behaviour and appearance of a gentleman, and in particular, to be free to involve oneself in public affairs (LJ[A], iv.70). The “liberal plan” of equality, liberty, and justice was by extension a system of generosity, in which individuals were allowed to pursue their own interests, in their own ways. However, Smith, in fact, says rather little about its implementation, except to insist on the importance of circumspection. A future, more judicious legislature would thus take care to establish no new monopolies, and to extend no further those already established. It would repeal the exclusive privileges of corporation, the statute of apprenticeship, and the laws of settlement. It might even attempt to repeal established restrictions on imports. Yet, humanity – the “more gentle public spirit” that consists of sympathy with the “inconveniencies and distresses” of others – would be likely to require “that the freedom of trade should be restored only by slow gradations, and with a good deal of reserve and circumspection.” The sovereign, in the liberal system, or the system

⁴⁴ WN, IV.viii.c.16, IV.ix.24, 38, 42, 49.

of being unsystematic, would be "completely discharged" from the duty of "superintending the industry of private people." However, he would not be discharged from the duties of humanity, including the duty of proceeding, slowly and gradually, to the destruction of the established privileges of the commercial system.⁴⁵

One of the most important elements, in Smith's depiction of the commercial or mercantile system, is the progress of laws and regulations. The lectures on jurisprudence are concerned in part with commerce, and *The Wealth of Nations* is concerned in large part with jurisprudence. Smith is fascinated by the administration of English justice; by the statutes and parish deeds which govern the settlements of the poor; by the celebrated compendium of English legal practice, Burn's *Justice of the Peace*; by the relationship between the "public law" of the country and the bylaws of particular corporations. He refers on nine separate occasions, in describing the commercial system, to statutes of the reign of Charles II; he describes the position in English law of copper and gun metal, glue and hares' wool, herrings and gum senega and gum arabic, boxes, barrels, casks, cases, chests, and other packages. These are matters which may well, as Jean-Baptiste Say surmised, be of interest only to the English. However, commercial law is also, in Smith's description, a matter of life and death, of blood and injustice. The laws governing the export of sheep are "all written in blood." They are contrary to the "national humanity." The laws governing the freedom of movement of artificers are contrary to the "boasted liberty of the subject." The commercial system is "futile," in Smith's opinion, and it impoverishes the countries in which it is imposed, or by which it is governed. It is also, and above all, a violation of justice.⁴⁶

The other great element, in Smith's depiction of the commercial system, is the mentality of commercial life. All human existence, as has been seen, is for Smith a scene of conflicting and competing desires. However, the inner life of merchants is particularly tumultuous. They are pulled between the ordinary desire to better one's condition and the extreme desires of "avidity" and "avarice." They are sometimes long-sighted in their plans and projects, and

⁴⁵ TMS, VI.ii.2.15, WN, IV.ii.40, 42, IV.ix.3, 51.

⁴⁶ WN, IV.viii.17, 19, 47.

sometimes not at all long-sighted; "avarice and injustice are always short-sighted."⁴⁷ They are excited by the risks of long-distance trade, and they also yearn for the security of having their capital always within their sight. They seek the "good" security of information about the commodities in which they trade, or the individuals with whom they deal, or the laws by which they are governed. But they also seek the "bad" security of exclusive privileges, or of the power to influence regulations and laws. They know their own interests. But they pursue these interests by both political and commercial means.

Smith's single, fleeting use in *The Wealth of Nations* of the phrase "an invisible hand" comes in the course of his discussion of the restrictions on imports imposed by the commercial system, and it epitomises the conflicts of the commercial mind. In the midst of a discussion of monopoly, prohibition, and the clamorous impurity of partial interests, Smith introduces an oddly ingenuous merchant who determines that his own interests are better served by investing in domestic rather than in foreign industry, and who is thereby "led by an invisible hand to promote an end which is no part of his intention" (IV.ii.9).

Almost all the other merchants in Book IV of *The Wealth of Nations* are engaged, at least some of the time, in pursuing their own interests by seeking to influence government officials. Smith on one occasion refers to the "futile interests of merchants or manufacturers," and he certainly believes that the pursuit of these interests by political means is futile from the point of view of the society as a whole. However, he is also insistent on the capacity of all individuals, and of mercantile men in particular, to understand their own interests. In their arguments to Parliament about the benefits of foreign trade, the merchants "knew perfectly in what manner it enriched themselves. It was their business to know it." They derived the "greatest advantage" from monopoly. The commercial system, Smith concludes, "really and in the end encourages that species of industry which it means to promote."⁴⁸ The difficulty is that individuals are both knowledgeable and deluded; this is the conflict implicit in the image of the invisible hand. On the one

⁴⁷ WN, III.ii.16, IV.vii.a.19.

⁴⁸ WN, IV.i.10, IV.viii.47, IV.ix.49.

hand, they should be left to pursue their own interests as they themselves perceive them. On the other hand, they are likely to pursue these interests by political importunity. The "commercial system" is the characteristic objective of commercial societies, and it is at the same time subversive of commerce itself.

VI. THE SOVEREIGN OR COMMONWEALTH

Smith's final concern is with the activities of the sovereign, and with how they should be paid for. He was not in general an admirer of sovereigns and princes. They share the predilections of other great lords, in his description: vanity, gaudy finery, insignificant pageantry, frivolous passions, and costly trinkets. They are "unproductive labourers." They have power over the currency, and in their "avarice and injustice" they have everywhere debased it. They are "always, and without any exception, the greatest spendthrifts in the society." They even have some of the disagreeable propensities of merchants. They engage in mercantile projects, in which they are usually unsuccessful. They impose their own plans or systems; "of all political speculators, sovereign princes are by far the most dangerous," Smith wrote in the last additions he made to *The Theory of Moral Sentiments*.⁴⁹

The "sovereign or commonwealth," who is the principal subject of Book V of *The Wealth of Nations*, is a more imposing and a more disembodied figure. The system of natural liberty assigns only three duties to this figure. The first is to protect the society from violence and invasion. The second is to protect "every member of the society from the injustice or oppression of every other member of it," which is equivalent to establishing an "exact administration of justice." The third is to be responsible for the public works and public institutions which are of substantial benefit to the society, but which are not of sufficient private benefit that rich individuals, or groups of individuals, will undertake them in their own interest (WN, IV.ix.51).

The sovereign is distinct, in this disembodied sense, from the person of the individual sovereign and may also be described as the "state or commonwealth." Smith thus says encouragingly,

⁴⁹ WN, I.iv.10, I.v.11, II.iii.2, 36, IV.i.30, V.ii.a.4–6, V.iii.2; TMS, VI.ii.2.18.

of the people of Great Britain, that "our state is not perfect, and might be mended; but it is as good or better than that of most of our neighbours."⁵⁰ However, in general he is unwilling to conceive of the state as abstract or disembodied. He returns, repeatedly, to the sentiments and the ways of thinking of the individuals of whom the state is constituted. The sovereign is attended by "all the officers both of justice and war who serve under him, the whole army and navy." The laws of settlement (the English Poor Laws) are implemented by parish officers, churchwardens, overseers of the poor, and justices of the peace. Taxes are collected by custom house officers, tax gatherers, officers of the excise, and officers who lurk outside one's house, counting one's windows.⁵¹

Smith is generous, in general, with respect to these armies of the inadvertently unproductive. While uniformly sceptical of the pretensions of individuals, in particular the powerful and the sanctimonious, he is convinced that their shortcomings often are a consequence of the circumstances in which they live. The Scots would be more punctilious if they were more occupied in making contracts. The "hardness of character" associated with officers of the excise is likely to have been created by the duties of their office. Even the officers of the East India Company are not individually odious: "it is the system of government, the situation in which they are placed, that I mean to censure; not the character of those who have acted in it."⁵²

The first legitimate duty of the sovereign, to protect the society against invasion, is extremely expensive in civilized societies. It is "out of all proportion greater than the necessary expence of civil government." This is in part because of the effects of the division of labour on the "art of war," in part because of the new circumstances of countries which live under a "degree of liberty which approaches to licentiousness." The sovereigns of such countries require standing armies even in times of peace, such that even "the rudest, the most groundless, and the most licentious remonstrances can give little disturbance."⁵³ However, war has also become more expensive as a consequence of the mercantile or commercial system

⁵⁰ WN, IV.intro.1, V.ii.k.66.

⁵¹ WN, I.x.c.46-9, II.iii.2, V.ii.e.17, V.ii.k.62-7.

⁵² WN, IV.vii.c.107, V.ii.k.65.

⁵³ WN, IV.vii.b.20, V.i.a.41.

itself. The chapter in *The Wealth of Nations* on the duty of defense describes only ancient or far-flung conflicts, involving Scythia and Tartary, Hasdrubal and Scipio, the Russian Empire and the Swiss militia. But elsewhere Smith shows his awareness of writing at a time of widespread and virtually global war. The "late war" (the Seven Years War, in Europe, India, and America) had ended in 1763; the "present disturbances," or the "war in America," were raging in 1776.⁵⁴ These modern or civilized wars, as Smith suggests on several different occasions, have commercial causes and commercial effects.

"The whole expence of the late war," Smith writes, was incurred in support of the monopoly of colonial trade. Most of the expence took place in "distant countries; in Germany, Portugal, America, in the ports of the Mediterranean, in the East and West Indies." It was "altogether a colony quarrel," and its entire expence ought to be considered as a cost of the colonies and, therefore, of the mercantile system. It was a bounty to monopoly. The wars of the seventeenth and eighteenth centuries (the two Dutch wars, the war in Ireland, the "four expensive French wars") were for Smith the clearest illustration of the "profusion of government." They were also examples of the frivolity of British governments, who over more than a century, "amused the people with the imagination that they possessed a great empire on the west side of the Atlantic." This was not security but childishness. The people in the capital are not in danger of violence, but "enjoy, at their ease, the amusement of reading in the newspapers the exploits of their own fleets and armies. . . . They are commonly dissatisfied with the return of peace, which puts an end to their amusement, and to a thousand visionary hopes of conquest and national glory."⁵⁵

The expence of justice is for Smith a very different and more solemn responsibility. The origins of justice were at the heart of Smith's interests, in *The Theory of Moral Sentiments*, in his lectures on jurisprudence, and in *The Wealth of Nations*. Justice is the "main pillar that upholds the whole edifice . . . , the great, the immense fabric of human society," he says in *The Theory of Moral*

⁵⁴ See Donald Winch, *Adam Smith's Politics: An Essay in Historiographic Revision* (Cambridge, 1978), chapter 7.

⁵⁵ WN, II.iii.35, IV.i.26, IV.vii.c.64, V.iii.37, 92.

Sentiments. It is a virtue which is represented more or less imperfectly in the legal institutions of different societies. The “natural sentiments of justice” change over time and become more civilized. Legal institutions are the record of these sentiments. However, institutions are sometimes, because of “the constitution of the state, that is, the interest of the government,” or because of the “unfortunate constitution of [the] courts,” less civilized than the sentiments of individuals.⁵⁶

The institutions of justice are intimately connected with disputes over property or over economic relationships. They are also concerned with disputes over love, honour, and verbal injuries. Laws and government are in every case “a combination of the rich to oppress the poor,” and to preserve the inequality with which goods are distributed; the civil government, which is instituted for the protection of property, is “in reality instituted for the defence of the rich against the poor.”⁵⁷ The effect of these institutions, at least in societies with a reasonably impartial administration of justice, and with the “boasted liberty of the subject,” is to protect the property of all, including the poor. This is for Smith the single most important condition, as has been seen, for the progress of opulence. However, the justification of justice – and of the expense of justice – is not only, or principally, a matter of expediency with respect to opulence or prosperity. Without justice, “civil society would become a scene of bloodshed and disorder.” (This is one of Smith’s extremely infrequent uses of the familiar eighteenth-century phrase “civil society.”)⁵⁸ Justice is also an end in itself, or an essential constituent of the human spirit. It is part of the inner lives of all individuals. There is a “sense of justice”; “we feel ourselves to be in a peculiar manner tied, bound, and obliged to the observation of justice.”⁵⁹

⁵⁶ TMS, III.ii.3.4, VII.iv.36.

⁵⁷ LJ(A), vi.22–3; WN, V.i.b.12.

⁵⁸ TMS, VII.iv.36. The phrase occurs on one other occasion in *The Theory of Moral Sentiments*, when Smith is commenting on the tendency to think of the violently resentful as people who should, like wild beasts, be hunted out of civil society (I.ii.4.3); both uses are from the original 1759 edition. The single use in the entire *Wealth of Nations* is in the course of a discussion of disputes between sixteenth-century reformed churches over the distribution of ecclesiastical benefices, a subject of some interest “to the peace and welfare of civil society”; WN, V.i.g.33.

⁵⁹ TMS, II.ii.1.5, II.ii.2, heading.

The third duty of the sovereign is to do with public works and public institutions. In his discussion of institutions which might be thought necessary to facilitate commerce, Smith is principally concerned with the "mercantile system," as represented by the Royal African Company, the Turkey Company, and their assorted subscribers, enlarged monopolies, and "particular friends." He is opposed, not surprisingly, to government expenditure to help "particular branches of commerce"; this section of Book V of *The Wealth of Nations*, which was heavily revised and augmented in the *Additions and Corrections*, published by Smith in 1783, is the occasion, in fact, for some of his most pointed criticism of the British in India (their eagerness in the appointment of plunderers, their spirit of war and conquest, their negligence and profusion, their depredations, their misunderstanding of a mild and gentle people.)⁶⁰

The expenses of facilitating "commerce in general" are for Smith less misguided. He believed communications to be a necessary condition for the progress of opulence; he approved of the policies of the Muslim sovereigns of Bengal for improving roads and canals. However, the expense of most public works (bridges, canals, harbours, roads) could be met, he argued, by the individuals and enterprises who make use of them. Smith was very attached to roads in a figurative sense, as we have seen; he was much less well disposed toward real, existing roads. The high roads of a country "produce nothing," just like unproductive labourers, such as churchmen, lawyers, physicians, musicians, and opera dancers. They facilitate the carriage of food and clothing, but they do not themselves produce food or clothing. In each of his series of lectures, and in his early draft of *The Wealth of Nations*, he indeed imagines a violent reform to "save the ground taken up by highways," without "interrupting the communication." Banks and banknotes, he says, "enable us, as it were, to plough up our high roads, by affording us a sort of communication through the air by which we do our business equally well."⁶¹

Smith's explanation of the economy of roads, as so often in his account of government, is distinctively personal. He imagines the

⁶⁰ WN, V.i.e.2, 7.

⁶¹ LJ(A), vi.128-30; LJ(B), 244-5; Early Draft, 35-6; WN, II.iii.2.

individuals who build the roads and the individuals who make the decisions to build them. The obligation to make and maintain roads was a form of “servitude” imposed everywhere on the poor, with different degrees of “cruelty and oppression.” The *corvées* by which individuals were obliged to work on road projects were “one of the principal instruments of tyranny” in rural France. The decisions to build roads were made, meanwhile, in the frivolous spirit which is characteristic of oppressive governments. In France, “the great roads, the great communications which are likely to be the subjects of conversation at the court and in the capital, are attended to, and all the rest neglected.” Highways are built in locations where there is little or no commerce, but which happen to be on the way to “the country villa of the intendant of the province,” whereas to “execute a great number of little works... [which] have nothing to recommend them but their extreme utility,” would be beneath the dignity of the government. It is much better, therefore, that the expenses of roads be borne, wherever possible, by the people who will use them, just as the expenses of paving and lighting the streets of London should be borne by the people of London.⁶²

The other public institutions which Smith describes are also suited, in general, to private support. Smith was favourable, as has been seen, to the establishment of an extensive system of schools whereby the “public can facilitate, can encourage, and can even impose upon almost the whole body of the people, the necessity of acquiring [the] most essential parts of education.” This was important to counteract the stultifying effects of the division of labour or to “prevent the almost entire corruption and degeneracy of the great body of the people.” It is interesting that Smith’s principal justification for universal education had little to do with improving skills or diligence, but was rather a matter of the disposition of the people to make disinterested and reflective judgments about the government’s own conduct. The new system would require little expense, namely a limited support to the established public teachers. Smith draws a parallel with the merchants of the commercial system. If public teachers have full salaries, the private teacher is put into “the same state with a merchant who attempts to trade without a bounty.” The public role in the new system

⁶² WN, III.ii.18, V.i.d.6, 16–19.

should consist, rather, of "establishing in every parish or district a little school"; of paying part, but not all, of the salary of the teacher; of giving prizes to children; and of setting public examinations.⁶³

The public institutions for the support of instruction for people of all ages are "chiefly those for religious instruction." Smith takes issue, in his discussion of public expenditure on religion, with the policy, favoured by David Hume, of government support for an established church. He prefers the competition of "two or three hundred" or several thousand small sects, "of which no one could be considerable enough to disturb the public tranquillity." Established religion has several of the more distasteful characteristics of both the mercantile and the land-owning orders. The great clergy of medieval Europe were "like the great barons," in their "vanity, luxury, and expence." However, the church is also like an incorporation, which Smith describes in the language of mercantile plans: "the clergy of every established church constitute a great incorporation. They can act in concert, and pursue their interest upon one plan." The use of public money should be for instruction which is not religious. The intention is, indeed, to correct the excessively unsocial and rigorous morality of the religious sects by encouraging the "study of science and philosophy" through a system of public qualifications, and by securing the "frequency and gaiety of public diversions" through the "entire liberty" of the arts.⁶⁴

Smith's final concern is with the sources of public revenue. Government becomes more expensive as countries become more opulent. It may even become more judicious, and more informed by "an extensive view of the general good" (WN, IV.ii.44). It is of the greatest importance, therefore, that its revenue should be secured in an equitable and encouraging way through observation of certain maxims. "Maxims" are in general, for Smith, repositories of prejudice ("the vile maxim of the masters of mankind," the maxims of the commercial system or of "underling tradesmen").⁶⁵ However, his own maxims of taxation are a matter of "justice and utility." The first is equality: that individuals should pay taxes in proportion

⁶³ WN, V.i.f.45–61; cf. Emma Rothschild, "Condorcet and Adam Smith on Education and Instruction," in *Philosophers on Education: New Historical Perspectives*, ed. Amélie Oksenberg Rorty (London, 1998), pp. 209–26.

⁶⁴ WN, V.i.g.1, 8, 13–17, 25.

⁶⁵ WN, III.iv.10, IV.iii.c.8–12.

to their income. The second is that the tax should be certain, not arbitrary. The third is convenience to the taxpayer. The fourth is economy, to the tax collector and to the public; that is to say, that the costs of taxes to the taxpayers should not exceed by too much their benefits to the sovereign (WN, V.ii.b.2–7).

British taxes, at the time of the publication of *The Wealth of Nations*, were of four principal sorts. There were taxes on land, stamp duties, duties of customs, and duties of excise (WN, V.iii.69). (William Pitt introduced the first, temporary income tax in Britain only in 1799.⁶⁶) All were in varying degrees uneconomical. Some required a “great number of officers” to collect. Others created temptations of tax evasion, for example, by buying smuggled goods, especially when the regulations in question were widely perceived as unjust and scruples in their regard as “pedantic pieces of hypocrisy.” Yet others were vexatious. The individual was subjected to the “mortifying and vexatious visits of the tax-gatherers,” or to the “insolence and oppression of the officers, still more insupportable than any tax.” Vexation is not, strictly speaking, expence, Smith says, but “it is certainly equivalent to the expence at which every man would be willing to redeem himself from it.”⁶⁷

As so often in *The Wealth of Nations*, Smith’s description of the economy of taxation is extraordinarily concrete. He was intrigued by taxes and other charges on the use of luxuries. Taxes on “carriages of luxury,” for example, were such that “the indolence and vanity of the rich is made to contribute in a very easy manner to the relief of the poor” (WN, V.i.d.5). Smith was generally in favour of taxes on luxuries, including the luxuries of the poor. However, he was opposed to taxes on necessities, and it is in the course of a discussion of fiscal policy that he identifies linen shirts and leather shoes as the requirements of a decent public life in England. Indeed, his earliest influence on policy seems to have been in relation to fiscal innovation, and he learnt in 1778 that he had “awaked some new Ideas about improving the Revenue,” on the part of Lord North.⁶⁸

⁶⁶ See P. K. O’Brien, “The Political Economy of British Taxation, 1660–1815,” *Economic History Review* XLI (1988): 1–32.

⁶⁷ WN, V.ii.b.6–7, V.ii.k.64–5, V.iii.54–5; LJ(A), vi.34.

⁶⁸ Letter of November 1778, in Corr., p. 237.

Smith was at the same time preoccupied with the motives of taxpayers and of tax collectors. The "multitude of revenue officers" are odious, but they are also the victims of their duties. Window taxes are less oppressive than taxes on hearths because windows can be counted without going into every room in a house. To tax the spruce beer, which is the "common drink of the people in America" and is brewed at home, would be "to subject every private family to the odious visits and examination of the tax-gatherers."⁶⁹

Smith even considers that the desire to flee from countries which impose high taxes – a widespread inclination among the great merchants of the commercial system, in his view – is inspired by the feeling of being vexed, as much as by the dislike of having to contribute. The proprietor of stock "is properly a citizen of the world," and he would "be apt to abandon the country in which he was exposed to a vexatious inquisition, in order to be assessed to a burdensome tax." Merchants are in general disposed to remove their capital from countries with high taxes. It is when they are "continually exposed to the mortifying and vexatious visits of the tax-gatherers" that their disposition is expressed in an actual departure. The motives of merchants, like the motives of the poor and creditable day labourer, reluctant to appear in public without leather shoes, are to be respected, to avoid vexation and mortification. The great merchants of Holland remain there, Smith says, even though they make low rates of profit on their capital and low rates of interest on the money they lend, and even though they are subject to high rates of taxation. They do so, in his opinion, because Holland is a country in which they are respected and important. A different form of government, dominated by nobles and soldiers, "would soon render it disagreeable to them to live in a country where they were no longer likely to be much respected."⁷⁰

The peroration of *The Wealth of Nations* is concerned with public debt. This is the modern system of revenue for it is only possible in the circumstances of commercial countries. It is to be explained by a condition – "the operation of moral causes" – which is at the heart of all Smith's economic theories. Sovereigns have relatively little capital or treasure in commercial countries, in part because

⁶⁹ WN, V.ii.e.15, V.ii.k.67, V.iii.74.

⁷⁰ WN, V.ii.f.6, V.ii.k.80, V.iii.55.

they are captivated, like other rich men, by the "frivolous passions" associated with expensive luxuries. They have large expenditures, especially in times of war, and they are afraid of "offending the people by raising taxes." There are at the same time large sums of money available in a "country abounding with merchants and manufacturers." These merchants have confidence in the justice of the government; if this were not the case, commerce would not be flourishing. So they are confident, too, in the security of loans made to government. They are inclined to fund government expenditures, and the reluctance of sovereigns to save is matched by the willingness of their subjects to lend (WN, IV.iii.3–10).

This "pernicious system of funding" is for Smith a monument of modern delusion, defended with all the "sophistry of the mercantile system." War becomes an amusement. It is in the course of his account of the funding system, under which wars can be waged with only a modest increase in taxes, that Smith describes the virtual bellicosity of newspaper readers in times of distant war. Smith was cautious, in general, about predicting the ruin of societies. However, the funding system is in his description a source of "weakness or desolation" or both. The enormous debts of governments, he says, "at present oppress, and will in the long-run probably ruin, all the great nations of Europe."⁷¹

Smith's solution, as so often, is to be found in a combination of prudence and vast reform. Governments should do no more than they can pay for, and the costs of wars, in particular, should be defrayed out of current revenue. In future, the government of Britain should extend its system of taxation to the entire empire of countries (or "provinces") inhabited by people of "British or European extraction." To do so would require a vast zone of free trade and wide extension of "fair and equal" political representation; a "states-general of the British Empire." The seat of the empire would be likely to move, "in the course of little more than a century," to the other side of the Atlantic; it might even, as suggested by his use of the un-English phrase "states-general," move eventually to the other side of different seas. This is a "new Utopia," Smith says; it is no worse, at least, than the golden dreams of Britain's existing

⁷¹ WN, V.iii.10, 37, 51–7.

rulers, which are "not an empire, but the project of an empire; not a gold mine, but the project of a gold mine."⁷²

VII. RATIONALITY AND EXCHANGE

Smith's economic writings, in conclusion, present a subtle and diverse view of individual motivations. He argued for the importance of a plurality of motivations that may be relevant to and influence the behaviour of any individual. First, a narrowly defined self-interest, the only motive of the so-called "economic man," may feature in this along with others, including prudence, sympathy, generosity, and public spiritedness. However, self-interest cannot be sufficient for understanding human behaviour in society and even in the economy, except for very special cases such as the desire to exchange commodities to satisfy simple wants. Secondly, the overcoming of self-love may happen through moral or social reflection, but can also occur through imitative behaviour, the survival and flourishing of which may depend on their evolutionary role. While Smith does not pursue the evolutionary angle very explicitly, there is enough in Smith's writings on the emergence of social fashion to link comfortably with the recent literature on evolutionary behaviour.⁷³ Thirdly, Smith does not confine his motivational analysis to the listing of different motives. He also probes their implications and their causal consequences. One of the motives that figure prominently in *The Wealth of Nations* is the desire to be respected, which Smith sees as being part of the reason for the pursuit of wealth.

Fourthly, because of Smith's insistence on interpersonal variations in behavioural norms related particularly to different classes and occupation groups, the Smithian behavioural analysis never takes the mechanical form of finding a "reliable" mix of motivations and then applying that mix to explain the behaviour of all. Finally, in the Smithian perspective, rationality does not consist of falling into line with any pre-selected motivation, such as self-interest maximization which is often *defined* as rational behaviour

⁷² WN, IV.vii.c.79, V.iii.68, 92.

⁷³ See, for example, Jørgen Weibull, *Evolutionary Game Theory* (Cambridge, MA, 1995).

in parts of modern economics, for example, in “rational choice theory.” Rather, rationality is seen as reasoned reflection on the nature of the processes involved and the consequences generated, in the light of valuations one has reason to accept. Rationality is an exercise of reasoning, valuation, and choice, not a fixed formula with a pre-specified maximand.

Smith’s analysis of trade and exchange is a central feature of his overall economic understanding. Potential gains from trade can arise for at least three distinct reasons. First, in a situation of pure exchange – involving no alteration of production – a bilateral or a multilateral exchange can help improve the situation of each, if each would rather have what he or she can obtain through exchange than what they happen to own to start with. If I have a banana and you have a mango, and I would rather have the mango and you the banana, then an exchange will benefit us both (even in the absence of any change of production of commodities). This basic point, for what it is worth (and it is by no means worthless), gets immediate recognition from Smith, and indeed even the famous butcher-brewer-baker case can be seen as something rather like this operation of mutually beneficial pure exchange (until of course we start considering the production effects of the new exchange, which will, then, take the analysis beyond one of pure exchange). This is a natural starting point for seeing the benefits of exchange since it also tends to be incorporated into more complex developments.

The second argument for trade relates to comparative costs and the gains from trade arising from differences in resource bases of different traders (individuals, groups, or countries). Production patterns adjust to accommodate the efficiency advantages of each producing what it is comparatively better suited to produce. This is an argument that came to full flowering in the analysis of David Ricardo. Even though traces of this argument are also present in a relatively rudimentary form in Smithian discussions, it is not to Smith that we look for a definitive statement of this “comparative costs” argument.

The third argument concerns economies of scale related to division of labour, as well as skill formation and the long-run gains of specialization. This is, in fact, the quintessentially Smithian case for free trade, and it gets plentiful exposition in *The Wealth of Nations*. Even if every country or every group of people had exactly the same resource endowments, they can all benefit from

specialization and the exploitation of increasing returns to scale, as well as skill formation and the cultivation of distinctive dexterity. Despite getting an early start in Smith's writings, this argument for free trade has proved to be rather harder to accommodate formally within standard economic theory, to a great extent because of the difficulties of providing an adequately full analysis of increasing returns to scale in models of competitive equilibria. The needed reformulations of the standard price-based equilibria, with consideration of various forms of markets and different kinds of equilibria, have been pursued by a number of distinguished economists in recent years, and the implications of this "Smithian" model of trade is now much better understood.⁷⁴

Smith's interest in market forms other than pure competition has also proved to be deeply insightful. Indeed, in assessing the market mechanism, it is important to take note of the nature of the markets and not to confine oneself to the analysis of pure competition, which much of standard trade theory has done until recent years. The model of pure competition, which is assumed explicitly or implicitly, tends to hide monopolistic competition, missing markets, and other complexities. Smith's interest in what are often considered "details" (to use J. B. Say's expression) provides the basis of a much richer overall theory of what trade does or does not achieve. In explaining the differential benefits obtained from trade by the newly industrializing countries, for example, in East and Southeast Asia and in Latin America, these more extensive formulations, ultimately traceable to Smith's interest in division of labour, economies of scale, the formation of skills, and the presence of market imperfections, have been particularly profound.

There are also other fields in which the sophistication of Smith's analysis has proved to be extremely rewarding, and its implications are still invoked in contemporary economics and social analysis. The conceptual connection between poverty and inequality is one such implication, and is related to Smith's penetrating analysis of poverty. There are two interconnected points here. First, Smith sees poverty in the form of certain basic "unfreedoms" – well

⁷⁴ See, for example, Paul R. Krugman, "Scale Economies, Product Differentiation, and the Pattern of Trade," *American Economic Review* 70 (1981): 950–9; Paul M. Romer, "Growth Based on Increasing Returns Due to Specialization," *American Economic Review* 77 (1987): 56–62; Robert E. Lucas, "On the Mechanics of Economic Development," *Journal of Monetary Economics* 22 (1988): 3–42.

illustrated by his interest in the ability (or lack of it) of someone to appear in public without shame. (In England, even the poorest creditable people “would be ashamed to appear in publick” without leather shoes.) Poverty, thus, consists of certain failures of capabilities, rather than of lowness of income per se. A capability-based approach of poverty and deprivation can draw substantially on Smith’s pioneering analysis.⁷⁵

In Smith’s analysis of poverty the pivotal role is played by deprivation of necessities which in turn are determined by the consumption standards in the rest of the society. This clarifies why poverty cannot be divorced from the existence of inequality. A person’s ability to be clothed or to have other items of consumption goods that are appropriate by the standards of the society in which she lives may be crucial for her capability to mix with others in that society. This relates directly to her relative income vis-à-vis the general level of prosperity in that community and is well illustrated by Smith’s interest in the ability or inability of someone to appear in public without shame (WN, V.ii.k.3). A relative deprivation in terms of income can, thus, lead to an absolute deprivation in terms of capabilities, and in this sense, the problems of poverty and inequality are closely interlinked. Even if someone finds poverty but not inequality offensive, he or she still may have to take an interest in economic inequality as a determinant of poverty in the form of basic capability deprivation. Whether a person’s income is critically low depends, in this analysis, on various contingent circumstances, including the prevailing standards of consumption in the society in which the person lives, for this determines the minimum income a person may need to be capable of certain basic functionings, such as taking part in the life of the community. That insight of Smith has been important for contemporary investigations of poverty and inequality.

VIII. A HISTORY OF HUMAN MOTIVES

Walter Bagehot described *The Wealth of Nations* in 1876 as “a very amusing book about old times,” now “dropping out of immediate

⁷⁵ On this see Amartya Sen, *Poverty and Famines: An Essay on Entitlement and Deprivation* (Oxford, 1981), and *Commodities and Capabilities* (Amsterdam, 1985).

use from change of times."⁷⁶ Even in its own times, *The Wealth of Nations* was in large part a book about history. In following Smith's own plan or order of subjects, we have been concerned with controversies (over the "corporation spirit" and the East India Company, over apprenticeships and the English Poor Laws, over the regulation of customs and excise) which were the subject of intense contemporary debate. Others of Smith's disquisitions, on Peruvian silver, on the Roman art of war, or on bullion policies in seventeenth-century Amsterdam, were of less than compelling concern, even to contemporaries. His historical descriptions of English laws and institutions were "lacking in interest for anyone other than the English," in Jean-Baptiste Say's words.⁷⁷

The Wealth of Nations is in a profound sense a work of history. It is about the causes of economic progress, even more than about its nature. Smith's lifelong investigation, Dugald Stewart wrote in 1793, was of "human nature in all its branches, more particularly of the political history of mankind."⁷⁸ The two historical epics which are at the heart of *The Wealth of Nations* – the slow revolution in legal institutions and the progress of the human mind – unfolded over many centuries. This "increase in length of perspective" was itself one of the most important innovations of Smith's book, as Donald Winch has emphasised.⁷⁹ To explain the causal relations between freedom and commercial opulence was to contribute to contemporary political disputes. The greatly increased "request" for historical truths in recent times, Smith said in his lectures on rhetoric, was associated, in part, with the circumstance that "there are now severall sects in Religion and politicall disputes which are greatly dependent on the truth of certain facts" (LRBL, ii.40). However, historical explanation was also, and above all, the most important way to understand economic life.

⁷⁶ Walter Bagehot, "Adam Smith as a Person," in Walter Bagehot, *Biographical Studies* (London, 1881), p. 295.

⁷⁷ "Discours préliminaire," in Jean-Baptiste Say, *Traité d'Economie Politique, ou simple exposition de la manière dont se forment, se distribuent, et se consomment les richesses* (Paris, 1803), p. xxv.

⁷⁸ Stewart, *Account*, p. 271.

⁷⁹ The contrast was striking, in particular, with the "popular literature of jeremiad and mercantile panacea"; Donald Winch, "Adam Smith," *The New Dictionary of National Biography*.

Smith believed there are universal principles of human nature, including the desire to better one's condition and the disposition to conversation, or persuasion. However, the principles of political and commercial life are very different. They are influenced by historical circumstances; they are imprecise and incomplete. They are quite unlike the glittering principles – the “jewels” of thought, in Friedrich List's sardonic phrase – which have been identified, in Smith's work, by so many subsequent observers.⁸⁰ There is little in Smith's writings on economic subjects, for example, which corresponds to the timeless and universal dogma of self-interest, or of rational economic man.⁸¹ Smith believed that people were sometimes, but not always, influenced by self-interest, and that their self-interest was fulfilled sometimes, but not always, by money and goods. The augmentation of fortune is simply “the means the most vulgar and the most obvious” by which individuals seek to better their condition (WN, II.iii.28). Commodities are means to other ends, and in particular to the end of being well regarded. “To be observed, to be attended to, to be taken notice of with sympathy, complacency, and approbation” – these are the advantages to be derived from “all the toil and bustle of this world” (TMS, I.iii.2.1). Exchange is sometimes an end in itself, as an agreeable form of traffic or oratory. It is founded on the principles, including justice (or fairness), reflection (or deliberation), and the desire to persuade, which distinguish men from spaniels: “nobody ever saw a dog make a fair and deliberate exchange” (WN, I.ii.2).

Rationality is in general, for Smith, a sociable and discursive condition. Reasoning and conversation are companions. To reason, Smith says in *The Theory of Moral Sentiments*, is to be able to evaluate means and also ends. It is a companionable activity, in which one seeks to justify one's actions, and is influenced by the opinions of one's friends. The objective of ordinary life is “decent and becoming actions, for which a plausible or probable reason could be assigned” (TMS, VII.ii.1.42). It is interesting that self-love or self-interest, for Smith, is often in conflict with reason; it is a characteristically warm and confusing sentiment. The self-interest

⁸⁰ Friedrich List, *The National System of Political Economy*, trans. Sampson S. Lloyd (1885) (Fairfield, CT, 1977), p. 135

⁸¹ See Chapter 9 in this volume.

of merchants and traders, in *The Wealth of Nations*, is inimical to the cool evaluation of consequences, to reason, and even to truth. The deceptions of tradesmen are expressed with "all the passionate confidence of interested falsehood" (WN, IV.iii.c.13). Merchants have golden dreams of the great profits to be gained in vast and extensive projects. The whole mercantile system, with its colonies and empires, is a monument to unreason, the outcome of avidity, folly, and injustice.

The "principles of market" – the phrase was used by Edmund Burke in the 1790s – were for Smith similarly imprecise. Smith can be described as the discoverer of the market economy in the sense that *The Wealth of Nations* is an extended encomium to the interdependence of economic activities in different villages, cities, and continents. The more imposing idea of a general competitive equilibrium, in which the outcome of the self-interested actions of individuals is a system or order of maximal efficiency, is far less close to Smith's own conceptions. He was preoccupied, in all his economic writings, with the imperfections of markets, and with the obstructions to commerce imposed by insecurity, oppressive institutions, and imperfect communications. The longest book of *The Wealth of Nations* – and the one in which the invisible hand makes its fleeting appearance – is concerned with political influences on commerce, and with the self-interest of merchants, as expressed in their support for the regulations of the commercial or mercantile system. The image of the invisible hand was a minor and even, it has been suggested, an ironic element in Smith's own economic thought.⁸² The principle of the invisible hand, in its twentieth-century sense, was quite un-Smithian.

The principle of non-interference, or of *laissez-faire*, was also, for Smith, a matter of historical circumstance. The obvious and simple system of natural liberty was no more than a guide to policy. It was to be implemented with the greatest circumspection. It endowed the sovereign with duties "of great importance," as has been seen.⁸³ One of these duties, of protecting every member of the society from injustice and oppression, was itself of potentially vast extent. It also

⁸² See Emma Rothschild, *Economic Sentiments: Adam Smith, Condorcet and the Enlightenment* (Cambridge, MA, 2001), chapter 5.

⁸³ See Jacob Viner, "Adam Smith and Laissez Faire," in Jacob Viner, *The Long View and the Short* (Glencoe, IL, 1958).

required considerable interference with the interests of merchants. Monopolies are described as oppressive in *The Wealth of Nations*; Smith's principal example of "oppressive genius" is, as so often, the "exclusive company."⁸⁴ Even inequality, for Smith, could be a form of oppression. "Smith placed himself in all cases of conflict of interest between the poor and the rich, between the strong and the weak, *without exception* on the side of the latter," Carl Menger wrote in 1891.⁸⁵ This partiality was expressed in the policies that Smith recommended; in the principles (as distinct from the oppressive implementation) of the English Poor Laws, in certain regulations of wages, in his elaborate schemes for the taxation of luxuries.

The principle of the international division of labour, or of the connections over long distances which were eventually identified as "globalization," was for Smith a description of historical transformation. Smith wrote *The Wealth of Nations* at a time of euphoric excitement over the mid-eighteenth century expansion in worldwide commerce, investment, information, and influence. His conception of prosperity in "the whole globe of the earth" was a reflection of this excitement, and so was his conception of a large liberal system, in which "the different states into which a great continent was divided would so far resemble the different provinces of a great empire." But he was also suspicious, as so often, of great and global systems.⁸⁶ The restless, wandering proprietor of stock, the wholesale merchant, the "citizen of the world," is the central figure of *The Wealth of Nations*. Yet, its closest approximation to a hero is the proprietor of local agricultural land, the improver of the small estate, the tranquil man of civility and cultivation.

The Wealth of Nations is a great book – the greatest book ever written about economic life – in part because it is a book about old times. It is about the universal principles of the human spirit, and the circumstances of the human spirit in the sixteenth, seventeenth, and eighteenth centuries. These circumstances have a great deal in common with our own, at the outset of the twenty-first

⁸⁴ See WN, IV.vii.c.100; cf. I.x.c.17, IV.viii.17, V.i.e.8–12.

⁸⁵ Carl Menger, "Die Sozial-Theorien der classischen National-Oekonomie und die moderne Wirtschaftspolitik," (1891) in Carl Menger, *Kleinere Schriften zur Methode und Geschichte der Volkswirtschaftslehre* (London, 1935), p. 223.

⁸⁶ WN, IV.v.b.39.

century. Smith's continuing preoccupation with the relationship between the local and the global, in particular, is strikingly evocative in the new epoch of globalization and privatization. However, his economic writings, and his history of economic progress, are likely to be read long after our own historical moment has come to an end.