

ADAM SMITH: A REAPPRAISAL

ELLEN FRANKEL PAUL

Department of Political Science, Miami University, Ohio

In his monumental work, *An Inquiry into the Nature and Causes of the Wealth of Nations*, Adam Smith captured the spirit of the new industrial and commercial system and presented its theoretical defense in a form which dominated the thought of the most influential writers of political economy for the greater part of the next century. In fact, the principles which Smith formulated retained their hegemony until the Jevonian, marginalist revolution of the 1870s.

Smith's thinking on "pure" economics, moral theory, and the role of the government in the economy ought to be of direct concern to contemporary theorists because he set the stage upon which so much thought of an individualistic and minimal state orientation would be played out. A reappraisal of the works of this seminal theorist is in order, I will maintain, primarily for two reasons: (1) many critics have alleged that there is a discontinuity between the Smith of the *Moral Sentiments* and the Smith of the *Wealth of Nations*, with the former advocating an altruistic moral system and the latter exemplifying a system of rampant egoism; and (2) it has often been claimed that Smith, as a political economist and political theorist, is a Utilitarian rather than a natural rights advocate. It will be the contention of the ensuing argument that, upon a close examination of the critical works of Smith's, both contentions will be brought into doubt, and, ultimately, found wanting.

I. THE MORAL UNIVERSE OF SMITH'S ECONOMIC MAN

Before embarking upon our investigation of Adam Smith as Political Economist, it will prove salutary to pause for a moment and examine both the moral system and teleological

position which Smith brought to the study of economics, for in these areas he differed markedly from the Utilitarian moral code in which Bentham was soon to entwine British thought on politics and economics. The Smith of *The Theory of Moral Sentiments* has often been perceived by critics as a different species of moralist from the Smith who penned the *Wealth of Nations*; the one promulgating a system based upon moral sentiments and the sympathetic feelings among men, and the other advocating an extreme individualism in which men are motivated solely by self-interest. Upon a close examination of these two works, it will become apparent that there is but one Smith, and that the *Wealth of Nations* fits rather nicely into the moral framework of the *Theory of Moral Sentiments*. The former exhibited that by merely employing one aspect of man's nature, and that the most selfish and anti-social, men can function quite adequately and, indeed, socially, in both the economic sphere and the political sphere. But men are more than their self-regarding sentiments; they are desirous of pleasing others, of gaining the approval of others, of both being and seeming to be honorable and virtuous. And so there is more to life than economics and politics, there is the life afforded in a society based upon friendship and mutual observance of the higher virtues. However, such considerations fall outside the domain of political economy which is concerned strictly with the maximization of wealth. It is the singular beauty of the economic realm, Smith believed, that it permits men to function on the lowest level of virtue, that of self-interest, which is still a virtue in its proper place, and yet secure the greatest benefit for the whole society. There are no passages extolling self-love or the selfish pursuit of men's own interests to the detriment

of others in the *Wealth of Nations*, but there is an examination of this part of man's nature as it performs its proper function.

If men are to a certain degree self-regarding, it is for a definite purpose that they are so constituted. In Smith we are far, indeed, from a Benthamite world-view. Nature, for Smith, is harmonious and economical,^[1] and, thus, men's selfish desires are implanted in their breasts for a positive and useful purpose. Smith accepts the natural law conception of nature and of man and, whether he is dealing with the subjects of morality, justice, government or economics, he is constantly striving to determine the natural principles which govern men's conduct in such pursuits.

In every part of the universe we observe means adjusted with the nicest artifice to the ends which they are intended to produce; and in the mechanism of a plant or animal body, admire how everything is contrived for advancing the two great purposes of nature; the support of the individual and the propagation of the species.^[2]

In addition to these selfish instincts, nature has provided man with "principles of his nature" which interest him in the welfare of others and make their happiness necessary to him. Through imagination only can we identify with the feelings of others and share a fellow-feeling with them. Thus, man can, through sympathy, pity, and compassion, enlarge his feelings beyond himself to engage those of his family, neighbors, countrymen, and even all mankind, though in diminishing degrees as the connection to himself becomes more and more attenuated.^[3] In addition to this capacity for empathy with the feelings, motives, and sentiments of others, nature endowed man with other attributes which make him fit for society; i.e. a natural desire to be the proper object of love and a concomitant dread of being the deserved object of hatred, an original desire to please and an aversion to offending his fellows, and a desire to actually be virtuous and not simply to be thought of as virtuous.^[4]

The mechanism by which men emerge from the isolation of their own sentiments and judgments, is a combination of this capacity for sympathy with others' feelings through the use of our imagination, and the natural need to love and be loved, to garner the praise of our neighbors. But the socialization process, Smith

hints, is never complete and must be constantly regenerated, and the instinct for raw self-advancement neutralized, by a realization that such avarice will endanger our need for approval and the empathetic understanding of others.

The socialization process, then, is an ongoing one, but the self-regarding sentiments of men are implanted within them by nature for a definite, and socially necessary purpose. Every man, Smith the individualist maintains, is by nature principally recommended to his own care. He is fitter to take care of himself than is any other person.^[5] "Every man, therefore, is much more deeply interested in whatever immediately concerns himself than in what concerns any other man."^[6] This natural propensity of mankind for self-preference would induce him to prefer a large hurt to someone else to a small injury to himself. Fortunately, the social attributes of men intervene at this point to warn them that they cannot pursue their own interests by injuring others or they will forfeit the good opinion and praise of others. But it is not simply from an enlightened self-interest that men avoid injuring others (as it would be, for example, on a Benthamite calculus), for Smithian man naturally desires the sympathy of others "We must here, as in all other cases, view ourselves not so much according to that light in which we may naturally appear to ourselves, as according to that in which we appear to others."^[7] Thus, the individual must "humble the arrogance of his self-love"; for it seems absurd to the multitude because to them he is but one, and bring it down to the level at which other men can go along with it. Reason, conscience, and principle intervene to prevent us from pursuing an insignificant advantage to ourselves at the cost of the greater interest of mankind. Reason tells us that we will be the fitting object of ridicule if we so act. It is not love for our neighbor which prevents us from injuring him for our own benefit, Smith argues, but a stronger love, the love of what is honorable and noble, of the grandeur, dignity and superiority of our own character. Thus, a higher selfishness comes to replace a lower, as we come to naturally prefer an image of ourselves as being just and virtuous to one of

being a crass and mendacious self-seeker. Smith goes even further than this when he claims that we have a natural aversion to inflicting injury upon others unless they have committed a prior injustice.

Justice, according to Smith, is the necessary ingredient of society without which it could not survive, and, thus, the observance of its dictates can be extorted by force. Unlike beneficence, which is always free and cannot be properly commanded, justice is necessary to the existence of society and its observance requires no reward, while its breach incurs punishment.¹⁸¹ "Mere justice is, upon most occasions, but a negative virtue and only hinders us from hurting our neighbors."¹⁹¹ From the nature of man, his self-regarding motivation and his need to live in society in order to survive and function as a man (Aristotle's social animal), the "most sacred laws of justice" emerge. They are in order of priority: (1) those laws which guard the life and person of our neighbors, (2) those which guard his property and possessions, and, lastly, (3) those which protect his personal (i.e. contractual) rights.¹⁰¹ Without justice the "immense fabric" of human society would crumble into "atoms"¹¹¹; so, to enforce the observation of justice, nature, according to Smith, has not relied on men's reason but has implanted in each human breast a consciousness of ill desert and a terror of merited punishment, as the twin safeguards of human association. Thus, while men are naturally sympathetic to a certain degree, the feeling is greatly attenuated when the personal connection is not great, and, consequently, this principle of justice is necessary to curb our own interest when it would injure others. The principles of justice are implanted in the human heart to conserve society and curb harmful selfishness, and reason intervenes to make us choose the greater interest of mankind to our own trifling interest.

But how do men first come to recognize the requirements of justice and, indeed, to make all different kinds of moral distinctions, to approve and disapprove of their own actions and those of others? It is not by reason, which cannot make the original perception of what is right and wrong. Nor is it by a "moral sense" in the way in which such was conceived by Hume and

Hutcheson, Smith's mentors. Rather, it is by an original experience which each individual has of how the actions of others and of his own feelings and actions affect him directly; that is, whether they please or displease him directly. From these primary experiences and the reactions of other men to his actions, the individual forms general rules of conduct.¹²¹ The mechanism is, then, one of induction from experience.

They (the general rules) are ultimately founded upon experience of what, in particular instances, our moral faculties, our natural sense of merit and propriety, approve or disapprove of.¹³¹

These general rules serve as a corrective for the partiality which men have in their own cases. Smith suggests, as a further corrective, the hypostatization of an "impartial spectator" to whom we can appeal in our minds to judge whether we are about to act in a way which will garner the sympathy of other men.

This "impartial spectator" is not the standard of what is moral, as it may appear to be on a cursory reading, but rather a mental construct by which the individual can be guided in his moral judgments when his own interest is so intimately involved in the case that his objectivity might be severely undermined. The "impartial spectator" prevents Smithian man from being prejudiced in his own case, while Smith's ethics as a whole are prevented from being solipsistic or different for each man by the assumption that all men have the same natural sentiments implanted in them by nature or God, which dictate the same moral judgments to all men once partiality is excluded. While these sentiments can be perverted in some men, they cannot be wholly expunged. Hence, Smith claims, the general rules, while drawn from experience and induction by each individual, are Laws of the Deity,¹⁴¹ although impressed by nature.

The most virtuous man for Smith is not the man of a merely commercial spirit, the man whom he describes in his *Lectures of Justice, Police, Revenue and Arms*, but is rather more of an Aristotelian man. He governs himself by self-command, thus reining in his selfish or unruly impulses and regulating his conduct by the strict demands of the three primary virtues of: prudence — to properly regulate his own

happiness; justice — to exhibit the minimum of concern for others' happiness, and beneficence — to positively act for the happiness; of others.¹¹⁵ He joins the most perfect command of his own original and selfish feelings to a most "exquisite sensibility" to both the original and sympathetic feelings of others; he possesses both the gentle virtues and the great, awful, and respectable virtues.¹¹⁶

And hence it is that to feel much for others and little for ourselves, that to restrain our selfish and to indulge our benevolent affections, constitutes the perfection of human nature, and can alone produce among mankind that harmony of sentiment and passion in which consists their whole grace and propriety.¹¹⁷

Smith even goes so far as to say that it is a precept of nature that we must love ourselves only as we love our neighbor.¹¹⁸ But this is an ideal standard; a more suitable one to judge our actions by, he suggests, might be the approximation to this standard which is commonly attained in the world.¹¹⁹ Perhaps, Smith set the ideal so high because he realized that it went so strongly against the grain of man's original, selfish sentiments. If men were so strongly pulled in one direction it could only help in reinforcing the weaker, sympathetic feelings, to state the case so emphatically for acting virtuously towards our fellows; few men would go overboard in trying to exceed the limits of beneficence. But Smith, always the realist, finally drew back from the excesses of his own rhetoric, by cautioning that while the virtuous man, like the good soldier, must be willing to sacrifice his own interest to society, and his society's interest to the greater interest of the state or sovereignty, and that in turn to the interest of mankind, such self-sacrifice is usually unnecessary, because the Divine Being conducts the universe to produce the greatest possible quantity of happiness, and, hence, the job of caring for all mankind is best left to Him. Men perform their proper functions when they attend to their own happiness and that of their families, friends, and country; such mundane duties, he admonishes, must not be neglected for the contemplation of the sublime.

In summation, then, we can say of Smithian man that he is (1) a being who inhabits his proper place in a natural order which is efficient and harmonious, (2) a moral being who can attain his true nature and potentialities only in

society, (3) a social creature who acquires a moral code by experience and induction, although it is founded upon and judged by his innate moral sentiments which are given to him by nature, (4) a composite of original, selfish sentiments which are, in their way, necessary to his survival and that of society, but also endowed with sympathetic feelings for other men, and finally, (5) a being who requires for his happiness the praise and approval of his compatriots in addition to his own estimation of himself as a virtuous man worthy of such accolades. It is interesting to reflect, in passing, that Smithian man desires wealth not for the ease and comfort which it will afford him, but for the approval it will garner for his actions in the estimation of other men, for it is a universal peculiarity of men, Smith observes, that render them more sympathetic to the actions of the rich man than the poor.¹²⁰ "Upon this disposition of mankind to go along with all the passions of the rich and powerful is founded the distinction of rank and the order of society."¹²¹ This disposition to admire and accept the actions of the rich and despise those of the poor is, also, the "most universal cause of the corruption of our moral sentiments".¹²²

The commercial man of the *Wealth of Nations* is the same man as this one, he inhabits the same natural universe of natural laws, efficiency, and harmony. But the commercial man is the virtuous man in only one of his aspects. He does not go beyond the private virtue of prudence or the limited social virtue of justice (i.e. refraining from injuring others) into the positive virtue of beneficence, but he need not, for such is not the proper concern of men in their strictly economic function which is to secure the well-being of themselves and their dependents. Beneficence cannot be compelled or purchased, it must be a free gift. So while the commercial man may be beneficent in his private capacity, such considerations are not properly entertained in a discussion of economics. Smith, in his lecture *Of Police*,¹²³ speaks of the introduction of commerce into a country as serving to foster probity and punctuality, such being attributable to self-interest and the realization that one has more to lose in a reputation for cheating than he has to gain by a particular fraud. But the

commercial spirit is, also, confining, because the necessary division of labor in industrialized society limits men's perspectives. In this respect, Smith yearns for the virtues of the past, honor, glory, and the martial spirit, which have passed on with the arrival of commercial man. And so the tone of the *Theory of Moral Sentiments*, which first came to print in 1759, and the *Lectures*, of 1763, are less accepting of this new man than is the *Wealth of Nations* of 1776. The commercial man is a part of the virtuous man — he is not complete — but it is the genius of nature that he need not be the wholly virtuous man for society to function or for the economic system to operate for the maximization of wealth. For simply by pursuing his own private interests, the original and selfish sentiments of the *Theory of Moral Sentiments*, he will, in the economic realm, choose those endeavors which will best serve society. Herein lies the connection between the two great works which make them the work of a single and largely consistent theorist. With this key, Smith's political economy fits rather neatly into his moral system and his conception of the universe.

II. THE FOUNDATION OF CLASSICAL ECONOMICS

During the course of the *Theory of Moral Sentiments*, Smith projects the need for a comprehensive study of the general principles which ought to be the foundation for the laws of all nations. *An Inquiry into the Nature and Causes of the Wealth of Nations* is Smith's attempt to discover and formulate these general principles of legislation in the economic realm. Political economy as a discipline had, for Smith, the specific purpose of discovering the nature of wealth and the means by which wealth can be maximized for a nation. As a science, then, it is valued for its practical instructions concerning how an economic system ought to be operated, and not simply for its theoretical analysis of abstract laws, or its observations concerning existent systems. As a branch of the science of a statesman or legislator, political economy has a heuristic and meliorative function, i.e. it must instruct the statesman on how best to secure its two great objectives: (1) to supply a plentiful

revenue or subsistence for the people, or, more fittingly, once one grasps the true system of political economy, to enable the people to provide such an abundance for themselves, and (2) to provide the state with a revenue sufficient to perform its proper public services.^[24]

Thus, the study of the science of political economy should provide concrete principles by which the legislator can establish a system whereby both the people and the sovereign shall be enriched.

Smith did not draw the distinction between "positive" and "normative" economics which was later made by Senior and Mill for the purpose of restricting economics as a discipline to the sole practical function of predicting the outcome of various policies (the "positive" aspect), and leaving all questions of competing value systems or objectives to be adjudicated by citizens or their representatives (the "normative" aspect).^[25] In fact, the rationale behind such a circumscription of the science would have been very nearly incomprehensible to him, since he thought the objectives were implicit in the way the discipline was defined; i.e. as an instrument for maximizing the wealth of the nation, and that the means for attaining this end would be discovered in the study and should be applied in the real world by the political powers. The kind of "normative" questions that so troubled later economists; e.g. should wealth be distributed equally to all, were not problems for him because of the moral framework of natural law and a quasi natural rights position which he brought to economics. Smithian economics would instruct the sovereign on the laws that should be enacted and those that should be repealed in order to maximize national wealth within a moral framework of individualism and self-reliance; it would provide the best system for the production of wealth, which is assumed to be the sole "normative" purpose to be pursued by the sovereign. Hence, disputes about values and collective objectives do not arise in a political economy so conceived.

The men who inhabit the world of the *Wealth of Nations* are Greek men in the same sense that they were so in the *Theory of Moral Sentiments*, if we mean by "Greek" that they are, in Aristotle's term, "social animals". Just as the

man of the *Moral Sentiments* was dependent for the formulation of a moral code upon others to mirror his acts by proffering their approbation or disapprobation, so the man of the *Inquiry* is dependent upon a great multitude of other men for his material survival as a result of the advancement of the principle of the division of labor. It is remarkable, Smith writes, how the support of the most humble workman in his customary life style involves the assistance and cooperation of thousands of workmen. Thanks to this system of cooperation brought about by the division of labor,

it may be true, perhaps, that the accommodations of a European Prince does not always so much exceed that of an industrious and frugal peasant, as the accommodations of the latter exceeds that of many an African King, the absolute master of the lives and liberties of ten thousand naked savages.^[26]

The division of labor, which accounts for the great improvement in the productive powers of labor, was originally brought about not by any conscious, reasoned, or willed act of men, but rather, resulted from the realization of the advantages which arise from the specialization of trades. In the early stage of civilization it was soon apparent that all men could be better off if each pursued a trade in which he had a natural propensity and, subsequently, engaged in exchange with others of his surplus in order to acquire the balance of his needs. The system of exchange and, eventually, the replacement of barter by a monetary system were natural developments from the division of labor, which itself was a natural outgrowth not of human wisdom and design, but of a human propensity:

it is the necessary, though very slow and gradual consequence of a certain propensity in human nature which has in view no such extensive utility; the propensity to truck, barter, and exchange one thing for another.^[27]

This "propensity" may be an original principle of human nature. However, Smith thinks it more likely that it was a necessary consequence of the faculties of reason and speech. This attribute is common to all men, and only to men. We owe to this drive the specialization which greatly multiplies the productiveness of man's labor and diffuses through all of society a "universal opulence" which extends even to the lowest ranks of the people.^[28]

Men in society, then, require the continual assistance of other men, few of whom they actually know, and fewer still could they call upon as friends. It is vain, warns Smith, to expect help from others by appealing to their vanity. "It is not from the benevolence of the butcher, the brewer, or the baker that we expect our dinner, but from their regard for their own interests."^[29] One gains another's willing assistance by appealing to his "self-love", by showing him that it is actually to his own advantage to do what one wishes of him. And so, a bargain is struck. "We address ourselves, not to their humanity, but to their self-love; and never talk to them of our own necessities, but of their advantage."^[30] In the *Moral Sentiments* we were told that men have but little regard for people who have no immediate connection with them; and, here, we are instructed in the natural way in which such indifference and self-preference is overcome in the economic realm where men are dependent for their survival and comfort upon the willing cooperation of other men. The mechanism of exchange accomplishes this without coercion by making each man serve his own self-interest and his own needs by producing goods for the immediate satisfaction of others. The disposition to exchange enables us to get from people who are totally indifferent to our welfare the means for our happiness, "by treaty, by barter, by prudence".^[31]

Smith accepts the Lockean-Liberal notion of men as naturally equal, attributing the differences apparent in men more to the specializations which they pursued in life, rather than to any great natural disparities in ability. These differences are more the effect than the cause of the division of labor. "The difference between the most dissimilar characters," Smith remarks in a light vein, "between a philosopher and a common street porter, for example, seems to arise not so much from nature as from habit, custom, and education."^[32]

Smithian man, then, is roughly equal by natural abilities, and equipped with a "propensity" to exchange; he is, also, motivated principally by self-interest in his economic dealings, and he is provided by nature, slowly and spontaneously, with a system which perfectly suits him, and one which naturally

makes his inherent self-seeking fit him for society. And from this desire of every man to seek his own advantage and to improve his condition, arises all public and private wealth. In fact, the drive is so strong that it is often able to overcome the extravagances of bad governments and the imposition of improper laws of political economy.¹³³¹

The extent to which Smith remained in the natural law–natural rights tradition has been hotly disputed, with some interpreters, such as Lord Robbins,¹³⁴¹ viewing him as being much closer to a pragmatic utilitarianism, and with others, for example, T. W. Hutchison,¹³⁵¹ maintaining that he was still fairly well infused with a natural law perspective. On balance, the latter view of Smith appears to be the more credible when one considers the consistency in outlook evidenced in the *Moral Sentiments*, the *Lectures*, and the *Wealth of Nations*. In the two former works he continually speaks of the need to discover the natural rules of justice which underlie the positive laws of different states,¹³⁶¹ while in the latter, it will be argued, the same philosophical position is maintained.

In his *Lecture on Justice*, Smith argues for natural rights, but in a way that differed from Locke in that he drew a distinction between the rights to life and liberty, declaring them to be natural rights, and the right to property, which he considered an acquired right dependent upon the sufferance of society. “The rights which a man has to the preservation of his body and reputation from injury are called natural”¹³⁷¹ This distinction between the natural rights of life and liberty (*iura hominum naturalis*) and the acquired property rights (*iura adventitia*) was a critical alteration of the Lockean formulation in which he portrayed all these rights as having force before the creation of civil government. Smith’s distinction between natural rights and property rights is articulated in the following passage:

The origin of natural rights is quite evident, that a person has a right to have his body free from injury and his liberty free from infringement unless there be a proper cause, nobody doubts. But acquired rights such as property require more explanation. Property and civil government very much depend on one another. The preservation of property and the inequality of possession first formed it, and the state of property must always vary with the form of government.¹³⁸¹

In the *Wealth of Nations* the same philosophical assumptions are made concerning the existence of natural rights and natural laws of justice, although, not being a disquisition on justice, the distinction between civil and property rights is not discussed. If anything, the impression one draws from this work is even more Lockean than that which emerges from the *Lecture on Justice*. Here, in point of fact, Smith unambiguously declares that the property which every man has in his own labor is the foundation of all property and is sacred and inviolable.¹³⁹¹ Consequently, Smith condemns all legislation which interferes with the free bargaining between workmen and employers. To hinder a man from employing his labor in whatever manner he wishes without injuring his neighbor is a violation of this “most sacred property”; it is a violation of the just liberty of both the workmen and their potential employers. In a similar vein, Smith condemns legislation on apprenticeships as a violation of property in one’s own person. This is most definitely Locke, and not Hume or Bentham.

In addition, then, to the pragmatic, utilitarian arguments for a free economy which are displayed throughout the *Inquiry* — arguments to the effect that the maximization of national wealth can best be achieved by leaving men free in their economic choices, and that all other systems which aim at this end by other means are self-defeating — there is running through the volume a “natural rights” defense of economic freedom which cannot be ignored. The law should let people judge of their own interests, Smith repeatedly intones: laws which are violations of natural liberty are unjust.¹⁴⁰¹ In discussing the prohibition by governments on the exportation of corn, for example, he speaks of such acts as tantamount to sacrificing the “ordinary laws of justice to an idea of public utility, to a social reason of state; an art of legislation which ought to be excused only, which can be *pardoned* only, in cases of the most urgent necessity.”¹⁴¹¹

Free trade is pragmatically desirable, Smithian economics contends, and, therefore, it should be practiced by every enlightened state, but it also argues that any violation of the maxims of free trade is a violation of natural

liberty and justice, and should be condemned for that reason alone. Furthermore, Smith employs the same natural rights argument when he anathematizes all acts which prohibit people from trading freely as "a violation of the most sacred rights of mankind".¹⁴² The evidence shows clearly, then, that a "natural rights" defense of the free market was an integral part of Smith's orchestration.

How was Smith able to consummate this marriage of natural rights with a utility defense of economic freedom? It was accomplished through the economic argument that self-interest will prompt men to enter those trades in which the profit will be greatest and that these trades are the most profitable precisely because they fill the most urgently felt needs of society. The argument proceeds as follows: (1) every individual continually exerts himself to find the most advantageous use for his capital — this is a deduction from the principle of self-interest, and, consequently, (2) that in looking out only for his own interest he is naturally and necessarily led to prefer that employment which is most advantageous for society as a whole. The individual, then, is the best judge of the most efficacious investment for his industry, much more so than the statesman or the lawgiver, because his interest is more immediate than theirs, it is he who stands to gain or lose by the transaction, not the legislator.¹⁴³ Without the intervention of any laws, private interest disposes men to distribute their stock among employments in the proportion most agreeable to the welfare of society.¹⁴⁴

Therefore, all regulatory systems, such as the Mercantile System, derange this natural mechanism, and thus can only be injurious to society. Profit serves as a natural criterion by which to judge the efficacy of one's investments; if too much capital is drawn into one employment then profit goes down and funds are withdrawn to other lines of endeavor. The system is self-correcting. By artificial, legislative regulations one only succeeds in diverting capital to less profitable products (i.e. those less desired by the ultimate consumers), thus, curtailing consumer satisfaction. A "natural rights" argument would lead to a system of economic freedom by the following steps: (1) all

men have the natural rights of life, liberty and property, and, therefore, (2) they must be free to transfer, exchange, sell or will their property as they wish. The argument from self-interest to division of labor and a system of exchange simply illustrates how the naturally right and just leads of necessity to what would be considered most beneficial on a purely pragmatic, utilitarian calculation. For this is the same Smith of the *Moral Sentiments*, who maintained that nature was both harmonious and economical. What is just and right, consequently, *must* be what leads to the happiness and material welfare of mankind, for man is a natural part of a natural *telos* and he is fitted with those attributes, namely self-interest for the economic realm, which will enable him to play his part successfully. And so, Smith can write that the establishment of perfect justice, liberty, and equality will secure the greatest prosperity to all classes;¹⁴⁵ i.e. there is a natural harmony of interest between the different classes of society. Men have a natural right to do precisely those things which upon examination will prove to be most beneficial for themselves and for their fellows — a harmonious and efficient nature insures this outcome. It could not be otherwise. The extent to which Smith was a consistent advocate of this his dominant view will be discussed subsequently.

Now, as we come to examine Adam Smith's contributions to what would later be considered "pure" economics, the following tenets will be considered both because of the centrality of their role in Smith's own system and for the influence which they were to have upon the future course of economic theory: his theory of value and price; his analysis of the origins and nature of profit, wages, and rent; his treatment of the way in which classes were delineated and their interests distinguished; and his projections as to the effects of improvement in the economic sphere.

The labor theory of value which Smith propounded remained *the* theory of value until the development of the marginal utility theory in the 1870s, and as such it influenced the economic and social thinking of such diverse theoreticians as Karl Marx and Jeremy Bentham. To elicit a clear view of this theory, however, is

not a simple task, as Smith's formulation contains elements of at least two types of labor theories which were muddled together by him, and only later distinguished by Ricardo.¹⁴⁶¹ Smith combines both (1) a "labor-cost" theory of value; i.e. that a commodity's value is what it has cost the laborer in time to produce the object, and (2) a "labor-purchase" (or "labor-command") theory of value; i.e. that the value of an item produced by labor is determined by what it will exchange for, or, how much of the products of other men's labor it will purchase. What Smith seems to be saying, although it is never quite in focus, is that "labor-cost" is the real, original, and underlying measure of value, and that "labor-purchase" is the rough measure employed once civilization advances and appropriation has made some men capitalists and others their employees.

To backtrack for a moment, let us examine certain other features of Smith's value theory which are explicitly stated and of equal importance. Smith, in attempting to define value, draws the distinction between (1) value in use, i.e. the utility of a certain object in satisfying human wants, and (2) value in exchange, the power of purchasing other goods which the possession of that object conveys.¹⁴⁷¹ What the economist is concerned with, Smith contends, is exchange value, and, thus, he rejects utility as the standard of value. He made such a move largely because his conception of utility was of "total" utility and not of the later notion of "marginal" utility. He was driven to this conclusion by the consideration of such examples as the diamond-water paradox (a paradox, one might add, only on (1) an objective theory of value, one which does not consider the subjective evaluations of individual consumers, or (2) a theory which neglects to consider the role played by scarcity in the formulation of value) in which water, a good of inestimable value in use is worth little or nothing in exchange, while diamonds, a commodity of scarcely any value in use, are worth a great deal in exchange value. From this objective definition of value — value in exchange being defined as the power of purchasing other goods — Smith moves on to the "cost" theory of value, of which we spoke previously. "The real price of

everything (Smith treats the "real price" and "exchangeable value" as equivalent terms), what everything really costs to the man who wants to acquire it, is the toil and trouble of acquiring it."¹⁴⁸¹ "What everything is really worth to the man who has acquired it; and who wants to dispose of it or exchange it for something else is the toil and trouble which it can save himself"¹⁴⁹¹ The implication being that, once a good is destined for sale, the regnant principle of exchange value is the "labor-purchase" theory of value, i.e. the value of a good destined for exchange is equal to the quantity of labor which it will purchase. Labor — whether it be the original labor that went into the production of a commodity, or the labor which that good when exchanged will enable the producer to command, is not clear — is the real measure of the exchangeable value of all commodities. All the wealth of the world was originally purchased by labor. Labor, then, is both the cause and measure of value.

Labor, however, is not the medium in which value is commonly estimated because it is difficult to equate the hardship entailed in different occupations or the varying amounts of ingenuity which they require. Consequently, the equation is never precise and the adjustment is left to "the higgling and the bargaining of the market".¹⁵⁰¹ Furthermore, goods are most frequently exchanged for each other, and with the advancement of society, for money, and these commodities or money become thought of as the measure of value. But it is Smith's contention that while these commodities and money (gold and silver) vary in value through time, labor (in the sense of sacrifice of ease on the part of the laborer) never varies in value, although it may purchase larger or smaller quantities of goods — it is the real price of all goods. While labor may appear to the employer to cost more at some times than at others, it is actually the goods which he uses to purchase labor that are cheaper or dearer. Labor is the unchanging real price of all commodities; money is the nominal price because it fluctuates in value.

When it came to the actual exchange of goods in the marketplace, Smith drew a distinction, one which was later adopted by both Ricardo

and J. S. Mill, between natural price and market price, the former being the long-range price around which the market or actual price would tend to gravitate. Natural price, as determined by labor cost, rent, and profits (or what it really cost the manufacturer to bring it to market), would not be affected by factors of supply and demand, while the variation in the market price from this natural price would be solely attributable to that source. There are problems with this two-tier price system, as Malthus for one realized, the principal one being that it artificially excluded all questions of consumer preference from the establishment of the long-range or natural price. The natural price notion seems to be a holdover from the medieval notion of a "just price".

In moving from "labor-cost" to "labor-purchase", Smith offers an inadequate explanation of profit which was to haunt the Classical Economists and provide ammunition for socialists such as Marx to undermine the capitalist system to the extent that it was defended by this kind of an argument. Profit, on this account proffered by Smith, seems as though it were merely slapped on as men emerged from the "labor-cost" governed primitive society. It was all too easy for Marx to come along and denounce this as an act of expropriation by the capitalist, and demand the full product for the laborers. What Smith fails to see is that even in a relatively primitive society in which, say, Albert exchanges boots he produced for the coats Bert produced, each man has gained a profit, even though money is not exchanged. If it took Albert four hours to produce the boots and Bert four hours to produce the coats, it might have taken Albert many hours more to produce a coat for himself if he attempted to go beyond his own trade and provide for his own needs himself; and the same is true for Bert, the coatmaker, if he attempted to produce his own boots, an occupation foreign to his expertise. It might take each six hours to produce the goods for which they were formerly able to trade. Consequently, each enjoys a profit of two hours in the exchange. While Smith recognizes such advantages when he discusses the benefits of the division of labor, he does not understand that in this he has found the true source of profit. Instead, he draws a false

distinction between (1) an early trading state of society which precedes the appropriation of land and the accumulation of stock, in which the proportion between the quantities of labor necessary for acquiring different objects appears to afford the only rule for determining their exchange value, and (2) an advanced stage of society in which men have accumulated stock and in which they employ laborers; here, profit arises as the worker produces his salary plus a part for the profit of the employer as payment for hazarding his stock in the venture. These profits are — and here is where Smith gets into even deeper trouble — regulated by the value of the stock employed and are not the wages of the labor of inspection and direction.^[51] Thus, whenever Smith speaks of profit it is as if the capitalist were entitled to his 5% or 10% or whatever the customary, "natural" rate of profit might be, and his share would be governed solely by the quantity of stock which he originally invested. From the commodities which a capitalist's laborers produced, he would receive $x\%$ on his capital, and, hence, the laborers would not be entitled to the whole product of their labor.^[52] The problem with this theory is that it makes profit appear to be arbitrarily determined, as though each venturer of stock would automatically receive profit on his investment regardless of whether the business was managed efficiently, or whether there was any demand for the good.

Similar problems are to be found with Smith's account of the determinants of price, in which he isolated labor, rent, and profit as discrete components of price. Though all were ultimately measured by labor, each was considered as a separable entity with both profit and rent tacked on with the advent of an advanced society based on accumulation of stock and land appropriation. From the produce of labor, chunks were to be deducted for both profit and rent. Smith himself was not unaware of the apparent arbitrariness of this arrangement, as he disparages landlords as those who desire to reap where they have not sowed,^[53] and he describes rent on land as naturally a monopoly price.^[54] In point of fact, as Professor Paul Douglas observed,^[55] Smith offers four different accounts of how the landlord is able to collect

rent: (1) because he demands it, (2) because he holds a monopoly, (3) because of differential advantage, and (4) because of the bounty of nature. His account of profit was similarly confused. Smith's account hardly provides an adequate description of, let alone a justification for, profit or rent.

By isolating wages, profit, and rent as separate components of price, Smith was led to the separation of men into discrete, and even hostile classes, of rent collectors, wage earners, and profit seekers, thus undermining the very notion of the harmony of interests which was the dominant thrust of his political economy. His approach was adopted by his followers, and much of their effort was wasted down a blind alley as they attempted to discover the proper distribution between these three factors of production. This class analysis, when driven to its limit, led to a Marxian class hatred analysis of the workings of the capitalist economic system.

Let us ponder the question of class a bit further, and examine what has happened to the "harmony of interests" claim discussed above. For, it will be recalled, Smith's conception of nature led him to conceive of the economic order as an essentially harmonious one. However, in the course of the *Inquiry*, certain discordant notes are struck. While the landlord's interest is inseparably connected with the general interest of society, as is that of the wage earners, the interest of the merchant or manufacturer is not so intimately connected. This state of affairs is the result of the fact that the rate of profit does not, like rent or wages, rise with the prosperity and fall with the declension of society; rather, it is naturally low in wealthy countries and high in poor ones, and highest in countries going fastest to ruin. A political problem emanates from this economic source in that those classes, the landlords and laborers, which are most in harmony with the interest of the whole society are precisely those least equipped to project their interest into political action, while the class which is least intrinsically interested in the general good, the merchants and manufacturers, is best equipped to influence legislation. The proprietors of land can never mislead their fellows in deliberations

concerning commerce or police, if only they know their own true interest, but they are, thanks to their occupation, indolent and unfit for public office; likewise, the wage earners are incapable of comprehending their own interests and its relationship to the remainder of society. The profit seekers, on the contrary, have a much better understanding of their own interest, which is to widen the market and narrow the competition. Consequently, those best situated by inclination, experience, and position to influence legislation are precisely those whose interest does not coincide most nearly with the public interest and who may even have an interest in oppressing society.¹⁵⁶¹

Smith does not abandon the "harmony of interests" generalization entirely in the case of merchants and manufacturers, as evidenced by his discussion of the role of the inland corn dealers; at which point he notes that by pursuing their own interests in times of shortage — i.e. by holding out part of the supply until the price rises — the corn trader actually serves the society's interest by acting as an automatic, self-governing allocation system, thus stretching the insufficient supply over a longer period of time.¹⁵⁷¹ Government interference, Smith cautions, would only turn a dearth into a famine.¹⁵⁸¹

A partial reconciliation may be affected between Smith's "harmony of interest" position and his contention that class interests may diverge and even run counter to the general interest. It can, perhaps, be argued that Smith can be made more consistent by interpreting his cautions against conflicting class interests, and conflicting class and general interests, as warnings against exacerbating existing differences by permitting classes to influence legislation. While Smith does decry class inspired legislation it seems to be condemned more on a "natural rights" or "violation of justice" basis than on an empirical argument based on class interests; e.g. his contention that to hurt one class of citizens in order to help another is contrary to the justice and equality of treatment which the sovereign owes to all the different orders of his subjects;¹⁵⁹¹ and that laws should let people judge their own interests because to do otherwise would be a violation of natural

liberty and, as such, unjust.¹⁶⁰ What we can say, then, is that Smith had three separate arguments for limiting the use of state power by classes for their own interests: (1) the "harmony of interest" contention, in which the interests of all classes are seen as compatible, hence, state intervention could serve only to unbalance the natural mechanism; (2) the "disharmony of interest" argument, wherein the class of manufacturers and merchants are seen as having interests which can in some cases run counter to the interest of society, thus leading us to conclude that the state should be limited in its economic intervention so as to avoid making matters worse by fostering class legislation by the profit seekers, the most politically active and economically aware class; and, finally, (3) the "natural rights" and "violation of justice" type of position which would dictate a limitation of legislation in the economic sphere because such laws would necessarily violate certain people's rights or nullify their claims to equal justice under the law.

Arguments (1) and (2) are obviously inconsistent in their basic assumptions, although all three arguments, as employed by Smith, lead to the same conclusion. It is only possible to reconcile (1) and (2) if we take the "harmony of interests" among classes to mean that they all enjoy greater prosperity, and, thus, have an interest, in the establishment of perfect justice, liberty, and equality. While Smith says this,¹⁶¹ it is a minimal claim, and he seems to be maintaining much more when he repeatedly claims that by pursuing one's own interest one benefits society. All we can conclude, then, is that Smith interweaves several incompatible foundations as justification for minimal state intervention in the economy, and that he was apparently unaware or untroubled by these inconsistencies because they all led to the same conclusion; i.e. that of minimal state intervention in the economy.

Smith's arguments for general *laissez-faire* are further buttressed by the orientation of his economics; i.e. it is consumer orientated. Consumption is, according to Smith's conception, the sole end and purpose of all production. Consequently, the interest of the producers ought to be attended to only in so far as it may

be necessary for promoting that of the consumer.¹⁶² Smith considers that a self-evident maxim. It is on these grounds that he condemns the Mercantilist system which sacrificed consumers to producers by legislating bounties and restraints on importation.

III. SMITH'S THEORY OF GOVERNMENT

As we turn, now, to Smith's theory of government, the importance of his "harmony of interest" analysis will become apparent, as it led him to promulgate a "minimal state" theory of government which, while not the much maligned "night watchman state", argued for the circumscription of state interference in the economy. In the *Lectures*, Smith follows Hume in denying the validity of a Lockean type of contractual basis both for the foundation of government and for the source of our obligation to obey its dictates.¹⁶³ Rather, he maintains, there are only two principles which can induce men to enter civil society: (1) authority; or (2) utility. The former is constituted primarily by superior wealth, but encompasses, also, all other facets in which some men may excel their fellows; e.g. superior ability, age, strength, mental capacity, long possession of power, ancient family, etc.; while the latter principle dictates that men ought to submit to governmental decisions for the good of the whole, for public more than private utility, and in order to prevent the greater evil of anarchy. Government came about only with the appropriation of herds and flocks which introduced inequality of fortunes: "Till there be property there can be no government, the very end of which is to secure wealth and to defend the rich from the poor."¹⁶⁴ The genesis of government, then, is through a natural process as men emerge from their primitive state, into a herding phase, and eventually culminating in a commercial society. This development occurs without the intervention of human planning in a Lockean or Hobbesian sense, and this is certainly not surprising considering Smith's general conception of nature and man's place in it. Just as individual economic relationships proceed in a manner most amenable to progress without such effects being consciously intended by the actors,

government develops spontaneously to insure an orderly and non-violent nexus in which men can pursue their objectives.

If the operations of the market combined with the natural propensity of men to truck and barter in the pursuit of their own self-interest and advancement will insure the maximum output of wealth for the nation as a whole, and no other system, such as a Mercantilist system of intervention in favor of the producers, or an Agricultural system which views manufacturers as unproductive, will do anything but thwart this system of natural liberty, as Smithian economics contends, then government must not interfere with this natural mechanism so as to cause its derangement. What role remains, then, for government to play? Clearly, it has no need to propound positive policy objectives such as furthering full employment, maximizing output, encouraging a high rate of growth, or stimulating an advantageous balance of trade, because such ends are best secured by the free play of the marketplace. Positive intervention by government on behalf of any of these goals would only serve to divert investment from its naturally most profitable course, profitable precisely because it served the most urgent wants of the people. But the "simple system of natural liberty" does require for its efficient operation the restriction of force, because only then can men pursue their interests with the assurance that they can retain the fruits of their labor. Freedom and security, Smith constantly reiterates, are the two requisites for the maximization of national wealth.¹⁶⁵¹

Dugald Stewart, in his introduction to the *Wealth of Nations*, quotes from a manuscript of Smith's from the year 1755 (over 20 years before the publication of Smith's political economy, interestingly enough) in which Smith succinctly summarized his leading principles on government in the process of enumerating what he considered to be his original contribution to the subject. It will be helpful to cite this passage here, for it captures the essence of Smith's conception of both the natural workings of the economic system and of the state, which is itself a natural outgrowth:

Man is generally considered by statesmen and projectors as the material of a sort of political mechanics.

Projectors disturb nature in the course of her operations in human affairs; and it requires no more than to let her alone, and give her fair play in the pursuit of her ends, that she may establish her own designs . . . Little else is requisite to carry a state to the highest degree of opulence from the lowest barbarism, but peace, easy taxes, and a tolerable administration of justice; all the rest being brought about by the natural course of things. All governments which thwart this natural course, which force things into another channel, or which endeavour to arrest the progress of society at a particular point, are unnatural, and to support themselves are obliged to be oppressive and tyrannical.¹⁶⁶¹

Both Mercantilism and the Agricultural system of favoritism fail because they subvert the very purpose they were meant to promote; i.e. they hinder the progress of society by restricting the production of wealth. Therefore, argues Smith, the system of "natural liberty is proved", since all systems based on principles of state intervention in the economy would be susceptible to the same criticism of being self-defeating. Neither by encouragements for capital to seek investments which it would not naturally pursue, nor by restraints against certain categories of investment, can the government accelerate the progress of society towards greater wealth and greatness.¹⁶⁷¹ "All systems of preference or of restraint, being thus completely taken away, the obvious and simple system of natural liberty establishes itself of its own accord."¹⁶⁸¹ Every man must be left free to pursue his own interests and to compete with all other men, so long as he does not violate the laws of justice. Consequently, the sovereign is released from the intolerable burden, which he cannot perform advantageously or even adequately, in any case, of intervening in the economic order where no human wisdom or knowledge can ever be efficacious. He no longer is responsible for superintending the industry of private individuals or directing their efforts to the interest of society, because this is already accomplished without his intervention.

Thus, the sovereign, according to this system of "natural liberty" has only three duties: (I) the duty of protecting the society from the violence and invasion of other independent societies, (II) the duty of protecting as far as possible, every member of society from the injustice and oppression of every other member, i.e. the duty of establishing an exact administration of

justice; and (III) the duty of erecting and maintaining certain necessary public works and certain public institutions which it can never be in the interest of any small number of individuals to maintain because the profit would not repay the expense.¹⁶⁹ Naturally, to support these projects, the government requires revenue to be raised by taxation. Smith offers as an illustration of how government can correctly perform its functions the following case — of a landlord and a farmer for whom the government can provide assistance (a) negatively — by allowing both to pursue their own interests in their own way, (b) positively — by providing to them the most perfect security to ensure that they shall enjoy the full recompense of their own enterprise, and (c) positively — by procuring to them the most extensive market possible for their products through the establishment of easy and safe communications by land and water within the country, as well as the most unrestricted freedom of exportation to foreign countries.¹⁷⁰

There is, quite obviously, a problem with Smith's analysis of the duties of government, and the problem lies precisely in his third injunction (III), to the effect that the government has a duty to engage in public works and institutions when private incentive is insufficient to secure the desired good. Why does the mechanism of "natural liberty" break down in these cases — or does it? What Smith does, here, is to smuggle in a utilitarian standard to cover these cases in which the market purportedly will not provide adequate services; examples of which being: the construction of streets, canals, harbors, embassies and fortifications for the encouragement of trade and commerce; the education of youth and the general population; and the maintenance of the Church. He had been arguing all along that the system of "natural liberty" will accomplish all the utilitarian kinds of objectives (the principal one being the maximization of the wealth of society as a whole), and that these goods can be achieved, and can only be achieved effectively, by adhering to this system of individual freedom and non-violation of the claims of others to justice; i.e. their equal claim to enjoy the fruits of their own industry without threat or violence.

If the free play of the market, which Smith wholeheartedly endorses, fails to provide roads or schools (which is extremely doubtful as evidenced historically by the existence of private railroads and private schools), by what justification can the government step in to build the roads and schools, when in the process they cannot help but commit the economic sin of diverting capital from its most profitable avenue of employment (that which satisfies the most pressing wants), and the political and moral sin of coercing men through taxation to pursue ends other than their own? It is only because Smith is confused about his ultimate principles that he can make such an argument. That he combines and obfuscates the distinction between a "natural rights" defense of the system of "natural liberty" and a "utilitarian" defense is apparent. This confusion led Smith to make what is in effect a tyrannical claim; i.e. that when the market fails to provide the canals, roads, and schools which he, Smith, deems desirable, then he is justified in using the coercive force of the state to compel all individuals to contribute to these projects.

On a consistent rendition of the "natural liberty" system, one would argue that the fact that these projects were not undertaken would be sufficient evidence to prove that they were not desired enough by the consumers to make their production possible on a profitable basis; and, consequently, no case could be made for the government engaging in such enterprises. To argue, as Smith does, that these socially advantageous projects (socially advantageous by what standard and in whose judgment, is never specified) should be undertaken when the market fails to provide them, is to undermine the whole edifice, based on private interests leading naturally to social advantage, which he attempted to construct. If it is once conceded that some higher force, the government, may legitimately intervene when some putative social good is not being produced by the marketplace, then it is but a logical step to say that the market is not producing some other desired effect, say the equal distribution of incomes, or full employment, etc, which I consider socially desirable and, therefore, the government must intervene to accomplish this.

This is precisely the kind of claim that Smith considered totally illegitimate. And it is ironic that he himself sowed the seeds for just such claims by future proponents of a utilitarian based defense of the free market. On a theoretical level, Smith understood perfectly well that you cannot have it both ways, that you must, in order to secure men's purposes, either defer to the market and the infinite array of individual choices which it encompasses, or you must establish some other ultimate authority, the government, to make men's choices for them. He opted for the former solution because it cohered with the "natural" workings of the world, thus providing the only security for individual well-being and social wealth. But when it came to describing the role of the government in safeguarding this system, Smith fell into contradiction by proposing a positive role for government which went beyond upholding justice, and thus he succeeded only in undermining his defense of the "natural" system. While governmental duties (I) and (II) are defensible on "natural justice" grounds principally, and only incidentally on grounds of utility, duty (III) can only be justified, and not even correctly so, on Utilitarian grounds.

It was from this third duty of government — which we have criticized as being (1) inconsistent with Smith's system of "natural liberty" and justice for all, and (2) indefensible on even utilitarian grounds because Smithian economics teaches that the happiness of the whole can best be achieved through the interplay of individual, free choice — that Smith drew the justification for certain instances of governmental interference which he deemed acceptable in certain clearly delineated cases. Hence, he allows for several circumstances in which it may be advantageous to restrict foreign in favor of domestic industry: (1) when a certain industry is necessary for the defense of the nation; e.g. the Navigation Acts are permissible, (2) when a tax is imposed on a domestic industry it should also be levied on foreign industry, and (3) when a foreign country imposes taxes on your exports you may do likewise but only in hopes of getting the imposition removed.¹⁷¹ Similarly, there were other exceptional cases in which the government may properly intervene: monopolies may be

legitimately granted to joint stock companies in unexplored areas on a temporary basis; in the case of banking where the liberty of a few endangers the liberty of the whole society, the few ought to be restrained by law; the rate of interest should be determined by the state (a position which he later recanted under Bentham's prodding); and education should be provided for those who can't afford it. It should be noted, once again, that all these governmental incursions are justified by Smith on either the grounds that they are desirable and necessary, or that the market will fail to provide these services. Both claims are subject to serious dispute, even on utilitarian grounds.

Smith's discussion of taxation suffers from similar difficulties. Taxation is necessary not for the maintenance of justice, which Smith says can be sufficiently supplied by court fees levied on the users, but for the defense of the society and the dignity of the sovereign, and for the public institutions and public works (III); activities, we have argued, of questionable legitimacy on Smith's own terms. Nevertheless, Smith argues that those institutions or public works which are beneficial to the whole society may without injustice be defrayed by the general contributions of the whole society.¹⁷² He cites the expense of maintaining roads and communication, educating children, and instructing in religion. The preferred method of payment would be by those who directly receive the benefit or by voluntary contributions, but the national treasury can be utilized if these sources fail to provide all the requisite funds. It is a peculiarity of early liberal theory that taxation for social projects was not considered to be a violation of anyone's claim to equal justice or a transgression of the right to one's own property. Smith thought that the citizen was bound to contribute taxes to the sovereign,¹⁷³ and, in fact, he goes much further than this when he remarks that every tax is a badge of liberty not of slavery, because it shows that the taxpayer has no master,¹⁷⁴ a view of taxation subsequently rejected, and with good reason, by Jeremy Bentham.

Smith offers the following guidelines for the least oppressive manner in which taxes can be imposed: (1) subjects should contribute taxes in

proportion to their respective abilities; i.e. in proportion to the revenue which they enjoy under the protection of the state; (2) a tax should be certain and not arbitrary; (3) a tax should be levied at a convenient time for the contributor to pay it; and (4) a tax should not take from people much more than it gives into the public treasury; i.e. the expense of collection should be kept down.¹⁷⁵¹ These strictures appear reasonable enough — and, indeed, they were influential, appearing intact in the works of Smith's followers, Ricardo and Mill — once one grants the justice of taxation itself and the justifiability of the public works for which the taxes were raised, both dubious claims. But Smith strays even further from a "night-watchman" conception of the state when he suggests that a tax on homes and luxuries could be justified in order to discourage opulence and induce people to invest their money in other, more productive avenues.¹⁷⁶¹ This is most definitely a "utility" based approach, which attempts to direct men's efforts into channels approved by some higher authority who knows better than the natural workings of the market what will benefit society. Smith's contention that rent provides the best base for taxation, because taxes on profits or wages would be ultimately borne by the consumer anyway, and would be difficult to assess or collect, is open to the objection that such governmental interference is discriminatory and even redistributive in effect. It should be noted, in passing, that Smith objected to inheritance taxes, not as violations of property rights, but because they would be difficult to assess or collect.

Smith's discussion of legitimate governmental practices was most consistent with his "pure" economic theory when he came to discuss the questions of freedom of trade and colonial policies. It is here that his "let alone" philosophy achieves full play. To prohibit people from trading freely is a "violation of the most sacred rights of mankind",¹⁷⁷¹ and it is also an utterly feckless policy because no conceivable regulations can increase the quantity of industry in any country beyond what its capital will maintain, rather it can only be redirected without any guarantee of producing a more advantageous result.¹⁷⁸¹ Wealth, Smith lectures

the Mercantilists, does not consist in gold and silver but in the commodities which they purchase.¹⁷⁹¹ Freedom of trade without governmental intervention will supply us with all the requisites of existence, as well as gold and silver, these latter being regulated by the effective demand for them in each country. Gold and silver are the most effortlessly self-regulating commodities. "Upon every account, therefore, the attention of government never was so unnecessarily employed, as when directed to watch over the preservation or increase of the quantity of money in any country."¹⁸⁰¹ Foreign trade free from governmental interference is to be heartily approved for its beneficial effects, including (1) the exchange of superfluities for things in demand which are not produced in one's own country, (2) the incentive it offers to improvements in productive powers, and (3) the stimulus it provides to progress in the division of labor.¹⁸¹¹ In regard to the colonial question, Smith considered the policies of his day as injurious both to the colonies themselves and to the mother countries, and he remarks that Britain's colonies fared somewhat better than Spain's only because of the greater security and freedom permitted in the former, but that nevertheless Britain's trading policies were largely monopolistic in intent. This viewpoint carried through the entire Classical School; imperialism was anathema to all of them. It is, then, in his discussion of free trade and the errors in the Mercantilist system, and colonial policies, that Smith remains most consistent with both his philosophical formulations and his "pure" economic principles.

IV. CONCLUSION

In the preceding discussion of Smith's economic moral, and political works, we have seen that Smith can hardly be accused of erring on the side of consistency, although a general compatibility was perceived between his world view as propounded in the *Theory of Moral Sentiments* and in the *Wealth of Nations*. It is in the latter work that Smith's ambivalence as regards ultimate principles is most apparent, appealing at times to a "natural rights—natural law" foundation and on other occasions to a

utility standard. There is, then, a marked disjunction between his philosophical premises (i.e. individualism and the natural harmony of interests between non-rights-violating men) and his discussion of governmental activities, in which he becomes much more of a common sense, pragmatic utilitarian (e.g. his assertion that the government has as one of its legitimate functions the undertaking of public works and institutions).

Another disjunction was found to exist between Smith's moral Aristotelianism and his decidedly un-Aristotelian attitude towards politics. Where Aristotle stressed man's nature as being principally political, the result of his status in a particular society and the moral view implanted in him by that society, Smith emphasized man's individuality and his natural independence from government as a rights bearing entity even before government was instituted. Smith, then, was an heir of Locke in politics, and Aristotle in morals. Aristotle's man was not truly human unless he was a member of a *polis*, while Smith's man of the political economy was bound to his fellows as a result of the division of labor and his own realization that, consequently, self-interest necessitated such an association. Aristotle's political entity embraced a teleological purpose and Smith's did not. Thus, Aristotle's view of politics was far more interventionist because his men had to be fitted into a society in order to achieve their communal moral end. Smith's man could be left much more liberty by government because his moral ends were private only. Politics was a positive good for Aristotle, whereas for Smith it was merely a necessary construct without which there could be no guarantee that the play of individual interests would be restricted to peaceful means. Aristotelian man could not be truly man without the state. Smith's man could be properly such with or without government.

Smith's conception of the purpose of political economy as being the instruction of legislators in the best means of maximizing national wealth, held the seeds of future problems. While in Smith's own economics the conclusion was that the politician desirous of achieving this maximization of wealth should leave the

economic sphere alone in most instances, he did, however, acknowledge cases in which private interest would not accomplish desirable social goods and then government action would be acceptable. But when future economists came to question the efficacy of private initiatives in achieving social goals over much wider areas than Smith acknowledged as deficient, and they, furthermore, questioned the sanctity of wealth maximization as the sole national objective (they considered other factors, such as the distribution of wealth, as equally worthy national goals), then Smith's conception of political economy as the handmaiden of the legislator was to have far different effects than Smith intended.

The confusion engendered by Smith's labor theory of value and his mistaken notions about the origin of profits caused a great deal of trouble for classical economists and, in addition, provided ammunition for future socialist writers in their attempts to discredit the free market economy. One can find little to disagree with Professor Douglas' assertion (except to deny the "inevitability") that Smith's formulation of the problems of exchange value and the distribution of the national product among the factors of production "was such as almost inevitably gave rise to the doctrines of the post-Ricardian socialists and to the labor theory of value and the exploitation theory of Karl Marx."¹⁸² Smith's claim that in the early stages of society the laborer would receive the whole of his product led quite naturally to the socialists' clamor that the laborer in an industrialized society should once again receive all that he produces.

We can conclude this investigation into the origins of Classical Economics by reiterating the point that Smith failed to provide a theory of legitimate governmental action in the economic realm consistent with his economic principles of individual self-interest leading to a "harmony of interests" when men were left free to pursue their own ends. His conception of political economy was far more intimately connected with a "natural law", "harmony of nature" viewpoint than would be the works of his followers.

NOTES

1. Adam Smith, *The Theory of Moral Sentiments*, (6th ed., 1759) in Herbert W. Schneider, *Adam Smith's Moral and Political Philosophy* (New York: Harper Torchbooks, 1948), Part II, Section I, pp. 114-115.
2. *Ibid.*, Part II, Section II, Ch. III, p. 125.
3. *Ibid.*, Part I, Section I, p. 73.
4. *Ibid.*, Part III, Ch. II, p. 144.
5. *Ibid.*, Part II, Section II, Ch. II, p. 120.
6. *Ibid.*, Part II, Section II, Ch. II, pp. 120-121.
7. *Ibid.*, Part II, Section II, Ch. II, p. 121.
8. *Ibid.*, Part II, Section II, Ch. I, pp. 116-119.
9. *Ibid.*, Part II, Section II, Ch. I, p. 119.
10. *Ibid.*, Part II, Section II, Ch. II, p. 122.
11. *Ibid.*, Part II, Section II, Ch. III, p. 125.
12. *Ibid.*, Part III, Ch. IV, pp. 185-186.
13. *Ibid.*, Part III, Ch. IV, p. 186.
14. *Ibid.*, Part III, Ch. II, p. 191.
15. *Ibid.*, Part IV, Section III, p. 251; Conclusion, p. 274.
16. *Ibid.*, Part III, Ch. III, p. 178.
17. *Ibid.*, Part I, Section I, Ch. IV, p. 88.
18. *Ibid.*, p. 89.
19. *Ibid.*, Part VI, Section III, p. 261.
20. *Ibid.*, Part VI, Section III, p. 250.
21. *Ibid.*, Part I, Section III, pp. 91-102.
22. *Ibid.*, Part I, Section III, Ch. I, p. 94.
23. Adam Smith, *Lectures in Justice, Police, Revenue and Arms* (from a student's notes of the year 1763, first published by Edwin Cannan, Oxford, 1896), in Herbert W. Schneider, *Adam Smith's Moral and Political Philosophy* (New York: Harper Torchbooks, 1948, p. 317.
24. Adam Smith, *An Inquiry Into the Nature and Causes of the Wealth of Nations* (1776, rpt. London, Routledge, 1908), Bk. IV, Introduction, p. 323.
25. T. W. Hutchison, "Positive" *Economics and Policy Objectives*, (Cambridge, Mass., Harvard University Press, 1964), Ch. I, p. 16; see also: J. S. Mill, "On the Definition of Political Economy and on the Method of Investigation Proper to it"; and Nassau Senior, *Outline of Political Economy*.
26. Smith, *Wealth of Nations*, Bk. I, Ch. I, p. 10.
27. *Ibid.*, Bk. I, Ch. II, p. 10.
28. *Ibid.*, Bk. I, Ch. I, p. 8.
29. *Ibid.*, Bk. I, Ch. I, p. 11.
30. *Ibid.*, p. 11.
31. *Ibid.*, p. 11.
32. *Ibid.*, Bk. I, Ch. II, p. 12.
33. *Ibid.*, Bk. II, Ch. III, p. 264.
34. Lionel Robbins, *The Theory of Economic Policy in English Classical Political Economy* (London, MacMillan, 1952).
35. T. W. Hutchison, "Positive" *Economics and Policy Objectives*.
36. Smith, *The Theory of Moral Sentiments*, pp. 67-69.
37. Smith, *Lectures on Justice, Police, Revenue and Arms*, p. 285.
38. *Ibid.*, p. 286.
39. Smith, *The Wealth of Nations*, Bk. I, Ch. X, p. 96.
40. *Ibid.*, Bk. IV, Ch. V, p. 407.
41. *Ibid.*, Bk. IV, Ch. V, p. 414.
42. *Ibid.*, Bk. IV, Ch. VII, p. 451.
43. *Ibid.*, Bk. IV, Ch. II, pp. 343-345.
44. *Ibid.*, Bk. IV, Ch. VII, pp. 491-494.
45. *Ibid.*, Bk. IV, Ch. VII, p. 525.
46. Paul H. Douglas, "Smith's Theory of Value and Distribution" *Adam Smith, 1776-1926* (Chicago, The University of Chicago Press, 1928) rpt. in *The Development of Economic Thought*, ed. H. W. Spiegel (New York: Wiley, 1964), "Douglas on Smith", p. 71-102, p. 82.
47. Smith, *The Wealth of Nations*, Bk. I, Ch. IV, p. 21.
48. *Ibid.*, Bk. I, Ch. V, p. 22.
49. *Ibid.*, p. 22.
50. *Ibid.*, p. 23.
51. *Ibid.*, Bk. I, Ch. VI, p. 37.
52. *Ibid.*, p. 38.
53. *Ibid.*, p. 38.
54. *Ibid.*, Bk. I, Ch. XI, p. 115.
55. Douglas, "Smith's Theory of Value and Distribution".
56. Smith, *The Wealth of Nations*, Bk. I, Conclusion, pp. 201-203.
57. *Ibid.*, Bk. IV, Ch. V, p. 401.
58. *Ibid.*, pp. 403-404.
59. *Ibid.*, Bk. IV, Ch. VIII, p. 512.
60. *Ibid.*, Bk. IV, Ch. V, p. 407.
61. *Ibid.*, Bk. IV, Ch. IX, p. 525.
62. *Ibid.*, p. 517.
63. Smith, *Lectures on Justice, Police Revenue and Arms*, Division I, "Of Public Jurisprudence".
64. *Ibid.*, p. 291; see also, Smith, *Wealth of Nations*, p. 560, for an expression of the same sentiment.
65. Smith, *The Wealth of Nations*, Bk. IV, Ch. V, p. 415, and Bk. IV, Ch. VII, pp. 457, 459.
66. *Ibid.*, pp. XI-XII.
67. *Ibid.*, Bk. IV, Ch. IX, pp. 539-540.
68. *Ibid.*, p. 540.
69. *Ibid.*, p. 540.
70. *Ibid.*, Bk. V, Ch. II, p. 658.
71. *Ibid.*, Bk. IV, Ch. II.
72. *Ibid.*, p. 644.
73. *Ibid.*, Bk. IV, Ch. VIII, p. 512.
74. *Ibid.*, Bk. V, Ch. II, p. 679.
75. *Ibid.*, pp. 651-652.
76. *Ibid.*, p. 667.
77. *Ibid.*, Bk. IV, Ch. VII, p. 451.
78. *Ibid.*, Bk. IV, Ch. II, p. 343.
79. *Ibid.*, Bk. IV, Ch. I, pp. 330-331.
80. *Ibid.*, p. 330.
81. *Ibid.*, p. 338.
82. Douglas, p. 73.