



ADAM SMITH: 1776-1976

by B. A. Rogge

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He joined the Wabash College faculty in 1949 as an assistant professor of economics and was named dean of the college in 1956. He served in that position until 1964, when he was appointed distinguished professor of political economy.

Dr. Rogge gave this presentation on the Hillsdale College campus as part of the Ludwig von Mises Lecture Series.

“To prohibit a great people [the American colonials] . . . from making all that they can of every part of their own produce, or from employing their [capital] and industry in the way that they judge most advantageous to themselves, is a manifest violation of the most sacred rights of mankind.” Adam Smith, *The Wealth of Nations*, 1776.

“We hold these truths to be self-evident, that all men are created equal, that they are endowed by their Creator with certain unalienable Rights, that among these are Life, Liberty, and the Pursuit of Happiness.” Thomas Jefferson, “Declaration of Independence,” 1776.

In these two passages we find one of the common elements in the two significant bicentennials we celebrate this year. The common element is the conviction that man is endowed by a source greater than himself with certain natural and hence inalienable rights. This common element in the two bicentennials is one of the themes I shall develop in these comments of mine. But first let me hasten to admit that, in the households of the United States in 1976, the two bicentennials (the publication of *The Wealth of Nations* and the proclamation of the Declaration of Independence) are not held in equal awareness or veneration, nor does Adam Smith's name compete for the attention of the young with that of Thomas Jefferson. Yet it is my firm conviction that the members of our own society (and in fact of all societies based on the concept of freedom under law) must look to Smith as well as to Jefferson (and his fellow Founding Fathers) to fully understand our goodly heritage of freedom with order.

Here, as in all matters of judgment, I admit to bias. Adam Smith is generally known as the Father

of Economics, the field of study which is also my own. Moreover, Smith's brand of economics, carrying the trademarks of voluntary exchange, freedom in the marketplace and limited government, is also my brand of economics—Brand X though it may have become in today's intellectual marketplace. Finally, I believe Adam Smith not only to have been possessed of true wisdom about the nature and possibilities of the human condition but also to have been possessed of a capacity to communicate those ideas with great clarity and great style. In other words, I am an admitted, card-carrying Adam Smith buff.

With no embarrassment, I admit that I hope through these words to encourage some of you who may now know little of Smith and his work to come to want to know more. Even for those who bring to their studies of Smith a presupposition against his strong free market policy position, there is something to be gained. His writing is free of that obscurantism, technical jargon and complicated mathematics that distinguish most modern materials in economics. In Smith's writings, the case for what might be roughly called “capitalism” is put in so clear and straightforward a fashion that it makes a useful stone against which even the convinced socialist can hone his own counter-arguments. Finally, no one who professes to understand even commonly well the course of events of these last two hundred years can afford to be ignorant of the influence on that course of events of the ideas of Adam Smith, whether they have been proven right or wrong. In the words of the historian, Henry Thomas Buckle, in his *The History of Civilization*, published in the middle of the last century: “In the year 1776, Adam Smith published his *Wealth of Nations*, which, looking at its ultimate

im·primis (im-pri' mīs) adv. In the first place. Middle English, from Latin *in primis*, among the first (things) . . .

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results, is probably the most important book that has ever been written" (p. 122) Even a true Smith buff may be at least mildly embarrassed by this claim, but that his ideas did have consequences no one can really doubt (but more on this later).

Who was this man, what did he have to say in 1776 and how, if at all, is his thinking relevant to the world of 1976? Adam Smith was born in Kircaldy, Scotland in 1723 and died in Edinburgh, Scotland in 1790. In between he lived a life free of scandal, wife or children, great incident and severe disappointment. He was a student (at Glasgow and Oxford), a teacher (at Glasgow and Edinburgh) and a scholar, and his friends were students, teachers and scholars—but also artists, writers, businessmen and men of affairs. In a sense, though, he was the true "spectator" of the human scene, involved in that scene, yes, but always capable of detached analysis and appraisal of everything that came within his view.

My intent here is to concentrate on Smith's words and ideas and on their usefulness (if any) in interpreting the modern scene. Those of you who wish to know more of Smith's life or of the intellectual influences that shaped his thinking or of his weaknesses and strengths as a pure technician in the science of economics will need to look elsewhere.

My plan is as follows: First, to present in concise form what I see as Smith's view of the social order. Next, to identify the ways in which he applied this view to the world of his day, particularly the British treatment of the American colonies. Finally, to identify those ways in which it seems to me that Smith speaks most directly to the problems and possibilities of today's world.

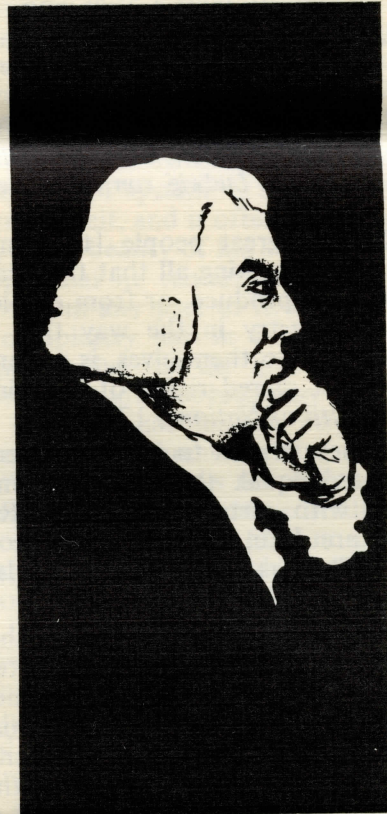
Section I – Smith's basic argument

We begin with what I believe to be the essence of the Smith argument—but first a word of preparation. Smith is known as the Father of Economics and the book whose bicentennial year we now celebrate has as its complete title, *An Inquiry into the Nature and Causes of the Wealth of Nations*. The first sentence of Chapter I, Book I, reads as follows: "The greatest improvement in the productive powers of labour, and the greater part of the skill, dexterity, and judgment with which it is any where directed, or applied, seem to have been the effects of the division of labour." These substantial straws in the wind would seem to imply that we are about to grapple with a pure piece of economic analysis applied to the essentially vulgar question of how to multiply the quantity of "things" in a nation—and indeed Smith does have a kind word for those vulgar "things" when he writes that, "No society can surely be flourishing and happy, of which the greater part of the members are poor and miserable." (p. 79)

But to see Smith as nothing more than an early-day consultant on how to make everyone rich is to do him an injustice. Smith was first and foremost a professor of moral philosophy and his economic analysis was in a sense a by-product of his concern with such questions as the nature of the universe,

the nature of man and the relationship of the individual to society.

When curiosity turns his attention to "the wealth of nations," he begins in effect by reaching into his philosopher's cupboard for the basic materials of his proposed studies. First and foremost he draws out his conviction that there exists a natural order in the universe which, if properly understood and lived in accordance with, tends to produce the "good." Coordinate with and deriving from this natural order is a set of natural rights of individuals (recall the phrasing of the opening passage from Smith—"the most sacred rights of mankind"). For a society to live in harmony with the natural order requires that it respect those "most sacred rights of mankind."



But what does all this have to do with getting more bread on the table? Comes now Smith, the eternal spectator, the observer of all that transpires around him, who is also curious as to what puts more bread on the table. His observations tell him very quickly that the wealth of a nation is primarily determined "by the skill, dexterity and judgment with which its labour is generally applied." But by what in turn are these determined? By two primary factors: (1) the extent to which the division of labor is carried in the society, and (2) the stock of capital available to the laborers.

But what forces give rise to or permit of the division of labor and the accumulation of capital? Must it be the forces of the ruler, commanding one man to do this and another to do that and ordering all to go without so that the stock of capital may grow? Not at all, replies Smith, the observer-philosopher. *In the natural order of things*, man is so disposed to act as to promote these very ends without the necessity of external commands.

The division of labor finds some part of its initial support in man's natural instinct to truck and barter. More importantly, the apparent problem of securing each man's cooperation in serving the needs of others proves to be no problem at all. His cooperation is readily secured, not out of his benevolence, but out of his natural regard for his own interest. "It is not from the benevolence of the butcher, the brewer, or the baker, that we expect our dinner, but from their regard to their own self-interest."

Thus the seeds of the division of labor lie in the very nature of man, that is, in the natural order. In the same way, man's desire for improvement induces him to save and hence to accumulate the capital needed to add even further to the productivity of labor.

But how are the activities of all of these specialists coordinated, what assures that the various parts and processes will be brought together properly in time and place and quantity and quality and all other relevant attributes? Surely here the offices of government must be required. Not at all, Smith replies; a spontaneous order emerges in the very nature of things, an order that arises out of the interaction in the marketplace between the two great forces of supply and demand.

If any one element in this complex chain comes to be in short supply, its price will rise and suppliers will be induced to bring more to the market; in cases of excess supply, the reverse. In this way, in Smith's words, "the quantity of every commodity brought to market naturally suits itself to the effectual demand." (p. 57)

The marketplace, then, as a spontaneously emerging and self-regulating process, is but the natural order at work in the ordering of economic life.

The pattern is now complete and he concludes as follows:

As every individual, therefore, endeavours as much as he can both to employ his capital in the support of industry, and so to direct that industry that its produce may be of the greatest value; every individual necessarily labours to render the annual revenues of the society as great as he can. He generally indeed neither intends to promote the public interest, nor knows by how much he is promoting it. . . . [H]e intends only his own gain, and he is in this, as in many other cases, led by an invisible hand to promote an end which was no part of his intention. (p. 423)

Continuing with Smith's words,

All systems either of preference or of restraint, therefore, being thus completely taken away, the obvious and simple system of natural liberty establishes itself of its own accord. Every man, as long as he does not violate the laws of justice, is left perfectly free to pursue his own interest his own way, and to bring both his industry and capital into competition with those of any other man, or order of men. The sovereign is completely discharged from a duty, in the

attempting to perform which he must always be exposed to innumerable delusions, and for the proper performance of which no human wisdom or knowledge could ever be sufficient; the duty of superintending the industry of private people, and of directing it towards the employments most suitable to the interest of the society. According to the system of natural liberty, the sovereign has only three duties to attend to; three duties of great importance, indeed, but plain and intelligible to common understandings: first, the duty of protecting the society from the violence and invasion of other independent societies; secondly, the duty of protecting, as far as possible, every member of the society from the injustice or oppression of every other member of it, or the duty of establishing an exact administration of justice; and, thirdly, the duty of erecting and maintaining certain public works and certain public institutions. (p. 651)

Section II – Smith's thinking applied to the problems of his day

In a very real sense, *The Wealth of Nations* can be viewed as an attack on the prevailing economic philosophy and practice of the author's day—an untidy collection of ideas and actions identified as mercantilism. Mercantilism, as you know, was associated with the more-powerful nation-states of seventeenth and eighteenth century Europe, with England, France, Spain, Portugal and Holland. Its primary purpose was to enhance the power and wealth of the nation, whether led by a king or a Cromwell or a parliament. The techniques were those of control—control not only of foreign trade (for the purpose of assuring a favorable balance of trade), control not only of colonies around the world, but control of most aspects of domestic economic life as well.

Smith argued that such controls were in fact directly opposed to the ultimate ends they were designed to serve. Thus, not only were the economic controls placed on her American colonies "a manifest violation of the most sacred rights of mankind," but moreover, "Under the present system of management Great Britain derives nothing but loss from the dominion which she assumes over her colonies." (p. 581)

What were his proposals for the British colonies? Radical ones indeed! His first was "that Great Britain should voluntarily give up all authority over her colonies, and leave them to elect their own magistrates, to enact their own laws, and to make peace and war as they might think proper." (p. 581) However he admitted that this was "to propose such a measure as never was and never will be adopted, by any nation in the world." Why not? Not because such an action wouldn't be beneficial to the interests of the society but because it would be "mortifying to the pride" and because it would deprive the rulers "of the disposal of many places of trust and profit, of many opportunities of acquiring wealth and distinction, which the possession of the most turbulent, and, to the great body of the people, the

most unprofitable province seldom fails to afford.” (p. 582)

His next and somewhat less sweeping proposal was that Great Britain give the colonies direct representation in Parliament. “Instead of piddling for the little prizes which are to be found in what may be called the paltry raffle of colony faction; they might then hope, from the presumption which men naturally have in their own ability and good fortune, to draw some of the great prizes which sometimes come from the wheel of the great state lottery of British politics.” (p. 587)



He goes on to argue that unless this or some other method is found of “preserving the importance and of gratifying the ambition of the leading men of America, it is not very probable that they will ever voluntarily submit to us.” Moreover (in a phrase of shrewd prophecy), “They are very weak who flatter themselves that, in the state to which things have come, our colonies will be easily conquered by force alone.” (p. 587)

“From shopkeepers, tradesmen, and attorneys, they are become statesmen and legislators, and are employed in contriving a new form of government for an extensive empire, which, they flatter themselves, will become, and which, indeed, seems very likely to become, one of the greatest and most formidable that ever was in the world.” (pp. 587-8)

These words could have been written no later than 1775 and speak well, at the very least, of Smith’s powers of prophecy.

In concluding this section, I wish to point out that Smith’s handling of the colonial question was in full accord with and, in fact, derived directly from his general philosophy of free peoples, free economies and free societies.

Section III – Is Smith still relevant?

The question now before us is whether Smith’s work is of only antiquarian interest to those of us who inhabit the world of 1976—or does it have some continuing relevance? I intend to argue that Smith does indeed provide us with most useful insights into our own problems and with those insights often so phrased as to make them at least the equal in power of persuasion of any later versions of the same thinking. I offer up now for your examination a series of examples, presented in no particular order.

To those who call for the businessman (or others) to act less on self-interest and more on the desire to serve others, he answers: “I have never known much good done by those who affected to trade for the public good. It is an affectation, indeed, not very common among merchants, and very few words need be employed in dissuading them from it.” (p. 423)

To those who are now calling for some kind of national economic plan for the United States, he responds:

What is the species of domestic industry which his capital can employ, and of which the produce is likely to be of the greatest value, every individual, it is evident, can, in his local situation, judge much better than any statesman or lawgiver can do for him. The statesman, who should attempt to direct private people in what manner they ought to employ their capitals, would not only load himself with a most unnecessary attention, but assume an authority which could safely be trusted, not only to no single person, but to no council or senate whatever, and which would nowhere be so dangerous as in the hands of a man who had folly and presumption enough to fancy himself fit to exercise it. (p. 423)

To those special interests who demand protection from goods produced in other countries: “By means of glasses, hotbeds and hotwalls, very good grapes can be raised in Scotland, and very good wines too can be made of them *at about thirty times the expence* from which at least equally good can be brought from foreign countries. Would it be a reasonable law to prohibit the importation of all foreign wines, merely to encourage the making of claret and burgundy in Scotland?” (p. 425)

To the tendency of governors and governments to reduce the purchasing power of the money (that is, to produce inflation):

For in every country of the world, I believe, the avarice and injustice of princes and sovereign states, abusing the confidence of their subjects, have by degrees diminished the real quantity of metal, which had been originally contained in their coins. The Roman As, in the latter ages of the Republic, was reduced to the twenty-fourth part of its original value The English pound and penny contain at present about a third only; the Scots pounds and penny about

a thirty-sixth; and the French pound and penny about a sixty-sixth part of their original value Such operations have always proved favorable to the debtor, and ruinous to the creditor, and have sometimes produced a greater and more universal revolution in the fortunes of private persons, than could have been occasioned by a very great public calamity. (pp. 27-8)

On the behavior of organizations of workers: "Their usual pretences are sometimes the high price of provisions; sometimes the great profit which their masters make by their work [T]heir combinations . . . are always abundantly heard of. In order to bring the point to a speedy decision, they have always recourse to the loudest clamour, and sometimes to the most shocking violence and outrage." (p. 67)

In fact, though, Smith's sympathies were with the workers (as against the masters) and he was pleased with what he observed to be the improvement in the lot of the common worker in the England of his day.

"The common complaint that luxury extends itself even to the lowest ranks of the people, and that the labouring poor will not now be contented with the same food, clothing and lodging which satisfied them in former times, may convince us that it is not the money price of labour only, but its real recompence which has augmented." (p. 78)

To the argument that the workman (and those who use his services) must be protected by apprenticeships, licensing, wage-setting by law or what have you, he responds:

The property which every man has in his own labour, as it is the original foundation of all other property, so it is the most sacred and inviolable. The patrimony of a poor man lies in the strength and dexterity of his hands; and to hinder him from employing this strength and dexterity in what manner he thinks proper without injury to his neighbour, is a plain violation of this most sacred property. It is a manifest encroachment upon the just liberty both of the workman, and of those who might be disposed to employ him. As it hinders the one from working at what he thinks proper, so it hinders the others from employing whom they think proper. To judge whether he is fit to be employed, may surely be trusted to the discretion of the employers whose interest it so much concerns. (pp. 121-2)

But his criticism of some practices of workmen should not be taken to mean that he was uncritical of the businessman or merchant. To many of both the initiated and the uninitiated, Adam Smith is seen as a spokesman for the business interest. Thus, for reasons that can only be guessed at, when The Modern Library edition of *The Wealth of Nations* was published in 1937, it included an introduction by Max Lerner, then editor of *The Nation*.

In his introduction, Lerner writes that Smith "was an unconscious mercenary in the service of a rising capitalist class [H]e gave a new dignity to greed and a new sanctification of the predatory impulses [H]e rationalized the economic interests of the class that was coming to power" (pp. ix-x)

Even though Lerner admits that "Smith's doctrine has been twisted in ways he would not have approved," the damage is already done and Smith is confirmed again in the mind of the reading public as the puppet of the bourgeois, business interest—a view of him that continues to this day to color the thinking of those who might otherwise learn from him.

Compare this view of Smith with these words in which he describes the proper attitude of the society to proposals for legislation coming from businessmen (and which serves equally well to answer those today who believe that we can best solve our problems by turning over our economic decision-making to good, experienced, competent leaders of business): "The proposal of any new law or regulation which comes from this order [the businessmen] ought always to be listened to with great precaution, and ought never to be adopted till after having been long and carefully examined, not only with the most scrupulous, but with the most suspicious attention." (p. 250)

Nor is Smith at all unaware of the ancient (and modern) propensity of businessmen (as well as others) to attempt to combine to restrict competition. In a famous passage he writes that, "People of the same trade seldom meet together, even for merriment and diversion, but the conversation ends in a conspiracy against the public, or in some contrivance to raise prices." (p. 128)

At the same time, his recommendations for dealing with such cases seem to me to reflect greater wisdom than our policies of today.

He continues from the statement above:

"It is impossible indeed to prevent such meetings, by any law which either could be executed, or would be consistent with liberty and justice. But though the law cannot hinder people of the same trade from sometimes assembling together, it ought to do nothing to facilitate such assemblies; much less to render them necessary." (p. 128)

But wouldn't such a policy leave the public to the none-too-tender mercies of the conspirators? Not at all, replies Smith. Why not? Because in the absence of government backing, such conspiracies do not survive. "In a free trade an effectual combination cannot be established but by the unanimous consent of every single trader, and it cannot last longer than every single trader continues of the same mind. The majority of a corporation [i.e. of a government-granted monopoly power to a group of traders] can enact a by-law with proper penalties, which will limit the competition more effectually and more

durably than any voluntary combination whatever.” (p. 129)

As a matter of fact, in this whole area of competition and monopoly, it seems to me that Smith speaks with more wisdom than most modern economists and most of the associated legislation. Smith creates no unattainable ideal of “perfect competition” as a bench mark for use in appraisal and policy-making. Rather he argues that “all systems either of preference or of restraint . . . being thus completely taken away”—that is, all government interventionist action removed from the marketplace—“the obvious and simple system of natural liberty establishes itself of its own accord.” (p. 651)

In other words, all that governments must do to see that competition (i.e. the open marketplace) prevails is to *not* create monopoly. Competition does not need to be created or protected or restored—it inheres in the natural order of things and in the very nature of man. I believe this to have been true in 1776 and to be equally true in 1976. The technological changes of the last two hundred years have served only to make the competitive process *more* intense and to ensure the even quicker demise of the firm that doesn’t maintain a perpetual effort to better serve its customers.

But enough of the examples. If you are not yet persuaded of Smith’s continuing relevance, a further parade of cases is not likely to be useful. God knows I may be in error, but I am convinced that Smith is not only relevant today but that his insight and wisdom, if applied to today’s world, would yield only a freer but a more productive and equitable set of economic arrangements than if we applied a mixture of what was thought to be the best of contemporary thought.

This does not mean that I have no quarrels with Smith; his third function of government seems to me to be a Pandora’s Box; his handling of the theory of value, of what determines the ratio of exchange among goods and services seems to me to be importantly in error, etc.

At the same time, I yield to no one in my admiration for his wisdom and for his magnificent contribu-

tion to our understanding of ourselves and of our institutions, in the form particularly of this book whose bicentenary year of publication we celebrate this year. It was from this book that such disparate types as William Pitt and Edmund Burke in England and Alexander Hamilton and John Adams in this country admitted having drawn some part of their own thinking on political economy. It is my reasoned conviction that the well-being of every society in the modern world would be at a significantly higher level if more of those in leadership roles in our societies of today were to be reading *The Wealth of Nations* rather than the modern works from which they draw their tragically mistaken policy advice.

I close now with a final offering of the wisdom of Adam Smith, this on the inherent error in *all* systems of control and this one coming not from *The Wealth of Nations* but from his first book, *The Theory of Moral Sentiments*.

The man of system, is apt to be very wise in his own conceit, and is often so enamoured with the supposed beauty of his own ideal plan of government, that he cannot suffer the smallest deviation from any part of it. He goes on to establish it completely and in all its parts, without any regard either to the great interests or to the strong prejudices which may oppose it: he seems to imagine that he can arrange the different members of a great society with as much ease as the hand arranges the different pieces upon a chess-board; he does not consider that the pieces upon the chess-board have no other principle of motion besides that which the hand impresses upon them; but that, in the great chess-board of human society, every single piece has a principle of motion of its own, altogether different from that which the legislature might choose to impress upon it. If those two principles coincide and act in the same direction, the game of human society will go on easily and harmoniously, and is very likely to be happy and successful. If they are opposite or different, the game will go on miserably, and the society must be at all times in the highest degree of disorder. (pp. 342-3)

Liberty Fund, Inc., of Indianapolis and Charles Barker Films of London have produced an excellent thirty-minute color film “Adam Smith and the Wealth of Nations.” Technical advisors on the film included B. A. Rogge, the author of this month’s IMPRIMIS, along with Ronald H. Coase and E. G. West.

The 16 mm film, which is narrated by Dr. Rogge, is available at no cost through Modern Talking Picture Service, 2323 N. Hyde Park Rd., New Hyde Park, N.Y. 11040, (telephone (516) 437-6300).

We urge you to acquaint as many people as possible with this excellent film in this bicentennial year of the publication of *The Wealth of Nations*.