

THE WEALTH OF NATIONS

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We meet today, on the ninth of March, to commemorate the 200th anniversary of the publication of the *Wealth of Nations*. We do this, I believe, not simply because of its historical importance as a landmark in the development of economics, but because it is a book that still lives and from which we continue to learn. Commentaries such as mine are only of value as a preliminary to reading the *Wealth of Nations* itself or, if this has already been done, to rereading it.

The *Wealth of Nations* is a masterpiece. With its interrelated themes, its careful observations on economic life, and its powerful ideas — clearly expressed and beautifully illustrated — it cannot fail to work its magic. But the very richness of the book means that each of us will see it in a somewhat different way. It is not like a multiplication table, or a modern textbook with a few simple messages which, once absorbed, makes a rereading unnecessary. The *Wealth of Nations* has many ideas from which to choose and many problems to ponder. Though the time may come when we will have nothing more to learn from the *Wealth of Nations* or, more accurately, when what we would learn would be irrelevant to our problems, that time has not yet been reached, nor will it, in my view, for a long time to come.

Adam Smith was born in 1723. He went to the University of Glasgow when he was fourteen years old, according to Scott somewhat older than was usual at the time. In 1740, when he was seventeen years old, he graduated with an MA. He was then elected to what we would call a post-graduate fellowship at Oxford. There, neglected by his teachers who, as he observes in the *Wealth of Nations*, received their pay whether they taught or not, he studied on his own for six years. He then returned to Scotland and, in the period between 1748 and 1751, gave public lectures in Edinburgh on literature, rhetoric, and jurisprudence. It seems clear that the lectures on jurisprudence included an early version of some of the leading ideas which were to appear later in the *Wealth of Nations*. In 1751, he was appointed professor at the University of Glasgow, at first of logic, but shortly afterwards of moral philosophy.

In 1759 he published, in *The Theory of Moral Sentiments*, the substance of a major part of his lectures. But Adam Smith also gave lectures on jurisprudence and, in them, he presented his views on economics under the heading, "Police." As Cannan points out, this may

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appear strange to us, but this is only because Adam Smith believed that the economic system should be controlled through the operations of the market, a view which, largely because of his work, many of us share. Had Adam Smith been, in Cannan's words, "an old-fashioned believer in state control of trade and industry," as were many of his contemporaries and most of his predecessors, this would, of course, have seemed the most natural heading in the world under which to discuss the determination of prices.¹ The surprise felt by those listening to his lectures at Glasgow would not have been at the heading, but at his conclusion.

Adam Smith resigned his professorship in 1764 to become tutor to the young Duke of Buccleuch and passed the next two and a half years with him, mainly in France. This position brought with it a pension of £300 a year for life and, after his return to Britain in 1766, Adam Smith spent most of his time in Kirkcaldy, his birthplace, where he devoted himself to study and the writing of the *Wealth of Nations*.

From this account of Adam Smith's life it is possible to discern the special circumstances which, his genius apart, made the *Wealth of Nations* so extraordinarily influential. First, many of his main ideas were conceived very early in his life, very probably in his days at Oxford. He thought about these ideas and enriched his analysis by reading and observation for about thirty years. His life included long periods, in Oxford and later in Kirkcaldy, in which he worked out his position completely alone, with little or no contact with others interested in economic questions. Adam Smith called himself a "solitary philosopher," and though he also seems to have been a "clubable" man, there can be no doubt that he enjoyed his own company and could work well on his own without requiring any stimulus from others. In a letter to his friend David Hume, written from Kirkcaldy, he says: "My business here is study. . . . My amusements are long solitary walks by the seaside. You may judge how I spend my time. I feel myself, however, extremely happy, comfortable, and contented. I never was perhaps more so in all my life."²

Adam Smith's independence of mind and his liking for solitude which gave his independence free reign, must have helped greatly in writing a book which was to launch a new subject. It is perhaps no accident that Adam Smith and Isaac Newton were both posthumous children. Historians of economic thought tell us, I am sure correctly, of the works of others, such as Hutcheson and Mandeville, that influenced Smith. But he absorbed their ideas and made them serve purposes of his own.

The popular success of the *Wealth of Nations*, however, depended on another factor: its readability. Adam Smith, as is clear from the subjects dealt with in the Edinburgh lectures and later at Glasgow, was interested

1. Adam Smith, *An Inquiry Into the Nature and Causes of the Wealth of Nations*, editor's introduction, pp. xxix-xxx (Modern Library edition: 1937).

2. E. G. West, *Adam Smith, the Man and his Works*, p. 153 (1969).

in the art of writing — and James Boswell was one of his pupils. Schumpeter acknowledges Adam Smith's skill in rather grudging terms: "... he disliked whatever went beyond plain common sense. He never moved above the heads of even the dullest readers. He led them on gently, encouraging them by trivialities and homely observations, making them feel comfortable all along."³ What Schumpeter means is that the *Wealth of Nations* can be read with pleasure. It is clear, amusing, and persuasive. Adam Smith's style is, of course, very different from that of most modern economists who are either incapable of writing simple English or have decided that they have more to gain by concealment.

That Adam Smith worked alone and wrote the *Wealth of Nations* over half a lifetime was in part responsible for the qualities which made it so influential. But it also brought with it some disadvantages. It has often been remarked that the *Wealth of Nations* is not particularly well constructed, with sections awkwardly placed. Indeed, Adam Smith himself labels some very long sections, "Digressions." The explanation normally given is that as he wrote the *Wealth of Nations* over a very long period, completing sections one at a time, he found it too onerous a task to make the substantial revisions in earlier sections which a finer construction would have called for. I accept this explanation. It seems clear that Adam Smith found writing extremely painful. This seems to have been true even for the physical act of writing and he usually composed by dictating to an amanuensis.

The *Wealth of Nations* also contains some obscurities and inconsistencies which might have been removed had Adam Smith not been so solitary but had consulted more with others, although it has to be confessed that not many of his contemporaries were capable of a close analysis of his work. There is, however, another reason why Adam Smith did not give that added attention which might have removed some of the inconsistencies: he did not know that he was Adam Smith. Had he known that we would be discussing his work 200 years after it was published, he would undoubtedly have been even more careful about his writing. But I think we may be glad that he could not have foreseen this great interest in his work, for the most probable result would have been an unwillingness to publish the *Wealth of Nations* at all. When Adam Smith was dying he asked that his surviving manuscripts be burnt which, to the despair of all lovers of Adam Smith's work, was in fact done. A man so anxious that work not properly finished should be withheld from the public, would have been greatly concerned about the kind of scrutiny which the *Wealth of Nations* has come to receive. Another remark he made as he awaited death was to regret that he had done so little: "... I meant to have done more."⁴ All of which suggests that he never knew

3. Joseph A. Schumpeter, *History of Economic Analysis*, p. 185 (1954).

4. John Rae, *Life of Adam Smith*, p. 434 (1895).

what he had achieved — that his concentrated study had produced the most important book on economics ever written, a work of genius.

What Adam Smith did was to give economics its shape. The subjects he dealt with, the approach that he used, even the order in which the various topics are treated can be found repeated in economics courses as they are given today. From one point of view, the last 200 years of economics have been little more than a vast mopping up operation in which economists have filled in the gaps, corrected the errors, and refined the analysis of the *Wealth of Nations*.

Adam Smith succeeded in creating a system of analysis — our system — by a series of masterstrokes. Some are very familiar to us. Others, it seems to me, are not, even yet, fully appreciated. Adam Smith's starting point is well-known. He abandoned the idea, held by many mercantilists, that wealth consists of gold or money. To Adam Smith, the wealth of a nation was what people get for their money, that is, what is produced, either directly, or indirectly by exchange with other nations. This is the viewpoint he expresses in the opening words of the *Wealth of Nations*:

The annual labour of every nation is the fund which originally supplies it with all the necessities and conveniencies of life which it annually consumes, and which consist always either in the immediate produce of that labour, or in what is purchased with that produce from other nations. According therefore, as this produce, or what is purchased with it, bears a greater or smaller proportion to the number of those who are to consume it, the nation will be better or worse supplied with all the necessities and conveniencies for which it has occasion.⁵

We can see immediately that what Adam Smith is concerned with is the flow of real goods and services over a period of time and its relation to the numbers of those who are to consume. The emphasis is on real income, not money income: "The labourer is rich or poor, is well or ill rewarded, in proportion to the real, not to the nominal price of his labour."⁶

This is Adam Smith's starting point. The welfare of a nation depends on its production. But the amount that is produced depends on the division of labour: "The greatest improvement in the productive powers of labour, and the greater part of the skill, dexterity, and judgment with which it is anywhere directed or applied, seem to have been the effect of the division of labour."⁷ To produce even the most ordinary commodities requires the cooperation of a vast number of people:

5. Smith, *Wealth of Nations*, p. lvii.

6. Ibid., p. 33.

7. Ibid., p. 3.

Observe the accommodation of the most common artificer or day-labourer in a civilized and thriving country, and you will perceive that the number of people of whose industry a part, though but a small part, has been employed in procuring him this accommodation, exceeds all computation. The woollen coat, for example, which covers the day-labourer, as coarse and rough as it may appear, is the produce of the joint labour of a great multitude of workmen. The shepherd, the sorter of the wool, the wool-comber or carder, the dyer, the scribbler, the spinner, the weaver, the fuller, the dresser, and many others, must all join their different arts. ...⁸

And so Adam Smith continues, adding more and more detail, until at the end he is able to conclude: "... if we examine, I say, all these things, and consider what a variety of labour is employed about each of them, we shall be sensible that without the assistance and co-operation of many thousands, the very meanest person in a civilized country could not be provided, even according to, what we very falsely imagine, the easy and simple manner in which he is commonly accommodated."⁹

Schumpeter remarks that "nobody either before or after A[dam] Smith, ever thought of putting such a burden upon division of labour."¹⁰ But Adam Smith was right to insist on the importance of division of labour and we do wrong to slight it, for it turns economics into a study of man in society and poses an extremely difficult question: How is the cooperation of these vast numbers of people in countries all over the world, which is necessary for even a modest standard of living, to be brought about? Adam Smith's answer is that it is done by means of trade or exchange, the use of the market fueled by self-interest:

... man has almost constant occasion for the help of his brethren, and it is in vain for him to expect it from their benevolence only. He will be more likely to prevail if he can interest their self-love in his favour, and shew them that it is for their own advantage to do for him what he requires of them. Whoever offers to another a bargain of any kind, proposes to do this. Give me that which I want, and you shall have this which you want, is the meaning of every such offer; and it is in this manner that we obtain from one another the far greater part of those good offices which we stand in need of. 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 interest. We address ourselves, not to their humanity but to their self-love, and never talk to them of our own necessities but of their advantages.¹¹

8. Ibid., p. 11.

9. Ibid., p. 12.

10. Schumpeter, *Economic Analysis*, p. 187.

11. Smith, *Wealth of Nations*, p. 14.

This is a familiar quotation which you and I have read on innumerable occasions in one textbook or another. It seems to assert that man is wholly dominated by self-interest and not at all by feelings of benevolence. Furthermore, it seems to imply that benevolence, or love, could not form the basis on which an economic organization could function. Neither of these inferences would be correct. Man's behavior, as the author of *The Theory of Moral Sentiments* knew, is influenced by feelings of benevolence — and the division of labour within a family, even an extended family, may be sustained by love and affection. Adam Smith is, I believe, making a more subtle and more important point than we normally assume. Benevolence or love is personal; it is strongest within a family, but it may also exist between associates and friends. However, the more remote the connection the less strongly, in general, are we influenced by feelings of love or benevolence. This is indeed what Adam Smith says in *The Theory of Moral Sentiments*.

It is very strange but I do not recall anyone who, when giving this famous quotation — and it has been repeated on innumerable occasions — also includes what Adam Smith says in just the sentence but one before. "In civilized society [man] stands at all times in need of the co-operation and assistance of great multitudes, while his whole life is scarce sufficient to gain the friendship of a few persons."¹² This, as I see it, completely alters one's perception of Adam Smith's argument. To rely on benevolence to bring about an adequate division of labour is an impossibility. We need the cooperation of multitudes, many of whom we do not even know and for whom we can therefore feel no benevolence, nor can they for us. Indeed, if we did know them, their lives and circumstances would often be so different from our own that it would be hard for us to sympathize with them at all. Reliance on self-interest is not simply one way in which the required division of labour is achieved; for the division of labour needed for a civilized life, it is the only way.

We just do not have the time to learn who the people are who gain from our labors or to learn of their circumstances, and so we cannot feel benevolence towards them even if benevolence would be justified were we to be fully informed. The fact that when discussing Adam Smith's treatment of the division of labour economists have usually quoted his famous pinmaking example — where everyone is situated within a single factory — rather than the long passage from which I quoted earlier — where the participants in the division of labour are scattered all over the world — has also helped to divert attention from the extremely limited role benevolence could play in bringing about the division of labour in a modern economy.

12. Ibid.

I have remarked that the earlier sentence about one's whole life being "scarce sufficient to gain the friendship of a few persons" is never quoted. Neither, curiously, are the sentences which follow and which make the same point: "Nobody but a beggar chuses to depend chiefly upon the benevolence of his fellow-citizens. Even a beggar does not depend upon it entirely. ... The greater part of his occasional wants are supplied in the same manner as those of other people, by treaty, by barter, and by purchase. With the money which one man gives him he purchases food. The old cloaths which another bestows upon him he exchanges for other old cloaths which suit him better, or for lodging, or for food, or for money, with which he can buy either food, cloaths, or lodging, as he has occasion."¹³

Adam Smith's main point, as I see it, is not that benevolence or love is not the basis of economic life in a modern society, but that it cannot be. We have to rely on the market, with its motive force, self-interest. If man were so constituted that he only responded to feelings of benevolence, we would still be living in caves with lives "nasty, bruteish and short."

The efficient working of the market thus becomes the key to the maintenance of a comfortable standard of living and to its increase. What Adam Smith does first, is to show that an efficient market system is one in which, because of the inconveniences of barter, we use money, in terms of which all prices are expressed. He then shows that the pricing system is a self-adjusting mechanism which leads to resources being used in a way that maximizes the value of their contribution to production: "Every individual is continually exerting himself to find out the most advantageous employment for whatever capital he can command. It is his own advantage, indeed, and not that of the society, which he has in view. But the study of his own advantage naturally, or rather necessarily, leads him to prefer that employment which is most advantageous to the society."¹⁴ He is "led by an invisible hand to promote an end which was no part of his intention. Nor is it always the worse for the society that it was no part of it. By pursuing his own interest he frequently promotes that of the society more effectually than when he really intends to promote it."¹⁵

Adam Smith's analytical system may seem primitive to us but in fact he reaches results we accept as correct today. He uses the concept of the natural price, what we would call the long-run supply price. The effectual demand is the amount demanded at that price. This is how Adam Smith describes the position of equilibrium:

13. Ibid.

14. Ibid., p. 421.

15. Ibid., p. 423.

When the quantity brought to market is just sufficient to supply the effectual demand and no more, the market price naturally comes to be either exactly, or as nearly as can be judged of, the same with the natural price. The whole quantity upon hand can be disposed of for this price, and cannot be disposed of for more. The competition of the different dealers obliges them all to accept of this price, but does not oblige them to accept less.¹⁶

He also goes through the operation familiar to those taking introductory courses in economics of supposing that the amount supplied is less than the amount demanded at the equilibrium price:

When the quantity of any commodity which is brought to market falls short of the effectual demand, all those who are willing to pay the whole value of the rent, wages, and profit, which must be paid in order to bring it thither, cannot be supplied with the quantity which they want. Rather than want it altogether, some of them will be willing to give more. A competition will immediately begin among them, and the market price will rise more or less above the natural price. ...¹⁷

And, of course, he also examines what happens when the amount supplied is more than the amount demanded at the equilibrium price:

When the quantity brought to market exceeds the effectual demand, it cannot be all sold to those who are willing to pay the whole value of the rent, wages, and profit, which must be paid in order to bring it thither. Some part must be sold to those who are willing to pay less, and the low price which they give for it must reduce the price of the whole. The market price will sink more or less below the natural price, according as the greatness of the excess increases more or less the competition of the sellers, or according as it happens to be more or less important to them to get immediately rid of the commodity. The same excess in the importation of perishable, will occasion a much greater competition than in that of durable commodities; in the importation of oranges, for example, than in that of old iron.¹⁸

As an example of the way in which Adam Smith examined an actual situation, consider his discussion of the effect of a public mourning which increases the demand for black cloth: "A public mourning raises the price of black cloth (with which the market is almost always understocked upon such occasions), and augments the profits of the merchants who possess any considerable quantity of it. It has no effect upon the wages of the weavers. The market is under-stocked with commodities, not with labour; with work done, not with work to be done. It raises the wages of

16. *Ibid.*, p. 57.

17. *Ibid.*, p. 56.

18. *Ibid.*, p. 57.

journeymen tailors. The market is here under-stocked with labour. There is an effectual demand for more labour, for more work to be done than can be had. It sinks the price of coloured silks and cloths, and thereby reduces the profits of the merchants who have any considerable quantity of them upon hand. It sinks too the wages of the workmen employed in preparing such commodities, for which all demand is stopped for six months, perhaps for a twelvemonth. The market is here over-stocked both with commodities and with labour.”¹⁹

There is a surefootedness about this analysis which demonstrates Adam Smith’s ability to get at the heart of the matter. His tools may be primitive, but his skill in handling them is superb. He may not work with schedules, but implicit in his analysis is the view that if one did construct a demand schedule, more would be demanded at a lower price. Consider, again, Adam Smith’s discussion of the effects of price regulation:

When the government, in order to remedy the inconveniencies of dearth, orders all the dealers to sell their corn at what it supposes a reasonable price, it either hinders them from bringing it to market which may sometimes produce a famine even in the beginning of the season; or if they bring it thither, it enables the people, and thereby encourages them to consume it so fast, as must necessarily produce a famine before the end of the season. The unlimited, unrestrained freedom of the corn trade, as it is the only effectual preventative of the miseries of a famine, so it is the best palliative of the inconveniences of a dearth; for the inconveniencies of a real scarcity cannot be remedied; they can only be palliated.²⁰

Could we do much better today if we were discussing government control of the price of oil and natural gas?

Adam Smith’s handling of economic analysis has not, however, occasioned universal praise. The clumsiness of his treatment and its lack of finish have been strongly criticized by some economists, so strongly, indeed, as to suggest that if only these writers had been around in 1776 Adam Smith would not have been necessary. Many economists have criticized the way in which Adam Smith discusses the distinction between “value in use” and “value in exchange”: “The things which have the greatest value in use have frequently little or no value in exchange; and on the contrary, those which have the greatest value in exchange have frequently little or no value in use. Nothing is more useful than water: but it will purchase scarce any thing ... A diamond, on the contrary, has scarce any value in use; but a very great quantity of other goods may frequently be had in exchange for it.”²¹ This passage is, it is true, neither

19. *Ibid.*, p. 59.

20. *Ibid.*, p. 493.

21. *Ibid.*, p. 28.

original nor particularly helpful. But Adam Smith's economics in no way suffers because he did not also give us the theory of diminishing marginal utility. Utility theory has always been an ornament rather than a working part of economic analysis.

Another passage which has offended economists is Adam Smith's statement about monopoly price: "The price of monopoly is upon every occasion the highest which can be got. The natural price, or the price of free competition, on the contrary, is the lowest which can be taken, not upon every occasion indeed, but for any considerable time together. The one is upon every occasion the highest which can be squeezed out of the buyers, or which, it is supposed, they will consent to give: The other is the lowest which the sellers can commonly afford to take, and at the same time continue their business."²² What is found objectionable is that Adam Smith, by speaking of the "highest possible price" rather than the "price which maximizes profits," seems not to take into consideration that at a higher price less would be demanded, or alternatively assumes that the decrease in the amount demanded takes place in a discontinuous fashion. But it is apparent from the quotations I gave earlier, and is quite explicit elsewhere in the *Wealth of Nations*, that Adam Smith knew that the demand schedule was downward sloping. What does seem clear is that he was not able to formulate the determination of monopoly price in the rigorous manner of Cournot. However, Adam Smith's view of competition was quite robust. He thought of competition, as the quotations given earlier illustrate, as rivalry, as a process, rather than as a condition defined by a high elasticity of demand, as would be true for most modern economists. I need not conceal from you my belief that ultimately the Smithian view of competition will prevail.

Adam Smith also discusses the relation between the number of competitors and the price that will emerge. He says that if the trade "is divided between two different grocers, their competition will tend to make both of them sell cheaper than if it were in the hands of one only; and if it were divided among twenty, their competition would be just so much the greater, and the chance of their combining together, in order to raise the price, just so much the less."²³ What Adam Smith believed was that a greater number of competitors leads to lower prices, both directly through the competitive process and also indirectly by making collusion less likely. It is not a very thorough treatment but I am not sure that modern economists can do much better. We should not object because Adam Smith left us some problems to solve, although it may be a legitimate complaint that in the 200 years since the *Wealth of Nations* we have made such little progress in solving them.

22. Ibid., p. 61.

23. Ibid., p. 324.

Adam Smith showed how the operations of the market would regulate an economy so as to maximize the value of production. To accomplish this required little assistance from government: "Every man, as long as he does not violate the laws of justice [should be] 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. ... 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 society."²⁴ Note that Adam Smith, as his reference to the "laws of justice" shows, saw the necessity for the government establishing what we would call a "property-rights system." But he did not favor government action that went much beyond this.

Adam Smith's opposition to more extensive government action did not arise simply because he thought it was unnecessary, but because government action would usually make matters worse. Governments lacked both the knowledge and the motivation to do a satisfactory job in regulating an economic system. He says: "Great nations are never impoverished by private, though they sometimes are by public prodigality and misconduct."²⁵ Again: "It is the highest impertinence and presumption ... in kings and ministers, to pretend to watch over the economy of private people, and to restrain their expence. ... They are themselves always, and without any exception, the greatest spendthrifts in the society. Let them look well after their own expence, and they may safely trust private people with theirs. If their own extravagance does not ruin the state, that of their subjects never will."²⁶

Adam Smith explains that government regulations will normally be much influenced by those who stand to benefit from them, with the result that they are not necessarily advantageous to society:

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

24. Ibid., p. 651.

25. Ibid., p. 325.

26. Ibid., p. 329.

new law or regulation of commerce which comes from this order, ought always to be listened to with great precaution, and ought never to be adopted till after having been long and carefully examined, not only with the most scrupulous, but with the most suspicious attention. It comes from an order of men, whose interest is never exactly the same with that of the public, who have generally an interest to deceive and even to oppress the public, and who accordingly have, upon many occasions, both deceived and oppressed it.²⁷

According to Adam Smith, the government has only three duties. The first is to protect society from “the violence and invasion of other independent societies.”²⁸ As he says, “defence ... is much more important than opulence.”²⁹ The second duty is to establish a system of justice, by which he means a legal system which defines everyone’s rights. Economists are prone to think of Adam Smith as simply advocating the use of a pricing system, but throughout the *Wealth of Nations* one finds Adam Smith discussing the appropriate institutional framework for the working of a pricing system. Whether one agrees or disagrees with his views on apprenticeship laws, land tenure, joint-stock companies, the administration of justice, or the educational system, what distinguishes Adam Smith’s approach from much of what has come since is that he obviously thinks this a proper and important part of the work of an economist. It is, I believe, only recently that economists in any number have come to realize that the choice of an institutional framework is a subject which deserves to be studied systematically.

The final duty Adam Smith gives to the government is the establishment of certain public works and public institutions. What he mainly has in mind are roads, bridges, canals, and suchlike. It seems to me that the list of public works that Adam Smith thought should be undertaken by government, although quite limited, was as extensive as it was because he did not foresee the potentialities of the modern corporation and a modern capital market, a position understandable in the light of the history up to his day of joint-stock companies, of which he had a very unfavorable opinion. But there is nothing ordinary even about his treatment of a subject such as this. In his discussion of how these public works should be financed and administered, Adam Smith argued that they should be financed by payments from consumers rather than by grants from the public revenue: “It does not seem necessary that the expence of those public works should be defrayed from the public revenue. ... The greater part of such public works may easily be so managed, as to afford a particular revenue sufficient for defraying their own expence, without

27. Ibid., p. 280.

28. Ibid., p. 653.

29. Ibid., p. 431.

bringing any burden upon the general revenue of the society.”³⁰

“A highway, a bridge, a navigable canal, for example, may in most cases be both made and maintained by a small toll upon the carriages which make use of them: a harbour, by a moderate port-duty upon the tunnage of the shipping which load or unload in it.” If this were done, such works would only be provided where they were needed: “When high roads, bridges, canals, &c. are in this manner made and supported by the commerce which is carried on by means of them, they can be made only where that commerce requires them and consequently where it is proper to make them. ... A magnificent high road cannot be made through a desert country where there is little or no commerce, or merely because it happens to lead to the country villa of the intendant of the province, or to that of some great lord to whom the intendant finds it convenient to make his court. A great bridge cannot be thrown over a river at a place where nobody passes, or merely to embellish the view from the windows of a neighbouring palace: things which sometimes happen, in countries where works of this kind are carried on by any other revenue than that which they themselves are capable of affording.”³¹ It is clear that Adam Smith, had he been presented with a proposal for marginal cost pricing, would not have neglected the effect such a policy would have on what would be supplied.

In making this survey of the *Wealth of Nations* I have concentrated on what I see as Adam Smith’s main contributions to economics: the division of labour, the working of the market, and the role of government in the economic system. I am acutely aware that this does less than justice to Adam Smith’s great work. It would require, however, many lectures and many lecturers to do that. In the *Wealth of Nations* a number of subjects are dealt with doubtless as important as some of those I have mentioned. It is enough to note his discussion of economic development, of public finance, of education, of religious establishments, and, above all, his discussion of colonies — and particularly the American colonies. On all these subjects, and still others, Adam Smith has much to say that is profound, and his ideas appear striking and even, paradoxically, novel to someone reading him today.

I will illustrate this by considering the one subject which, on such an occasion as this, I can hardly avoid: Adam Smith’s view of the American Revolution. In the *Wealth of Nations* America becomes, in effect, the minor theme accompanying the major theme, the working of a pricing system. As Fay says: “America was never far from Adam Smith’s thought. Indeed, in the end it was almost an obsession.”³² On America, Adam

30. Ibid., p. 682.

31. Ibid., pp. 682-683.

32. C. R. Fay, *Adam Smith and the Scotland of His Day*, p. 98 (1956).

Smith's views were liberal. He saw the future greatness of America: it was likely to become "one of the greatest and most formidable [empires] that ever was in the world."³³ He had little faith in the conduct of British policy. In a letter written from Kirkcaldy in June 1776, a month before the Declaration of Independence was adopted, he wrote that "the American campaign has begun awkwardly. I hope, I cannot say that I expect, it will end better. England tho' in the present times it breeds men of great professional abilities in all different ways, great Lawyers, great watchmakers, and great clockmakers etc. etc., seems to breed neither Statesmen nor Generals."³⁴

Adam Smith did not underestimate the fighting quality of the American military forces. In discussing defense expenditures, he argued that although normally a militia would be inferior to a standing army, yet after a few years in the field it would become its equal. He added: "Should the war in America drag out through another campaign, the American militia may become in every respect a match for that [British] standing army, of which the valour appeared ... not inferior to the hardiest veterans of France and Spain."³⁵ It was no doubt in part with this in mind that Adam Smith said elsewhere in the *Wealth of Nations*: "They are very weak who flatter themselves that ... our colonies will be easily conquered by force alone."³⁶ In a memorandum written in 1778, Adam Smith gave as the probable outcome of the American conflict, out of four possibilities, that one which actually materialized.³⁷ And towards the end of the war, he wrote a letter of introduction to Lord Shelburne, who was to become Prime Minister, on behalf of Richard Oswald, who became the chief British peace negotiator with the Americans. Oswald signed the preliminary articles of peace in 1782 on Britain's behalf. He then lost his job, being attacked as one who supported "the Cause of America" rather than that of Britain, a view which may not have been too far from the truth. For example, Oswald not only forwarded Franklin's proposal that Britain cede Canada to the United States, but seems to have favoured it.³⁸

However, while all this is no doubt indicative of Adam Smith's attitude, he was by no means a cheering supporter of the American cause. In the *Wealth of Nations* he describes the motives of the leaders of the American Revolution in the following terms: "Men desire to have some share in the management of public affairs chiefly on account of

33. Smith, *Wealth of Nations*, p. 588.

34. Quoted in W. R. Scott, *Adam Smith, An Oration*, p. 23 (1938).

35. Smith, *Wealth of Nations*, pp. 662-663.

36. *Ibid.*, p. 587.

37. Reproduced in Fay, *Adam Smith*, pp. 110-114.

38. See Richard Oswald's *Memorandum on the Folly of Invading Virginia*, pp. 38-43. (edited, with an essay on Richard Oswald by W. Stilt Robinson, Jr., 1953).

the importance which it gives them. ... The leading men of America, like those of all other countries, desire to preserve their own importance. They feel, or imagine, that if their assemblies, which they are fond of calling parliaments, and of considering as equal in authority to the parliament of Great Britain, should be so far degraded as to become the humble ministers and executive officers of that parliament, the greater part of their importance would be at an end. They have rejected, therefore, the proposal of being taxed by parliamentary requisition, and like other ambitious and high-spirited men, have rather chosen to draw the sword in defence of their own importance."³⁹

To Adam Smith, what the American leaders wanted was, not liberty nor democracy, but position. He therefore devised a plan which would give it to them. He proposed to give the colonies representation in the British parliament in proportion to their contributions to the public revenues. If this were done, "a new method of acquiring importance, a new and more dazzling object of ambition would be presented to the leading men of each colony. 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."⁴⁰ That is to say, an ambitious American could hope to become Prime Minister and, in effect, the ruler of the British Empire. Adam Smith also argued that Americans could ultimately expect that the capital of the British Empire would cross the ocean. "Such has hitherto been the rapid progress of that of [America] in wealth, population and improvement, that in the course of little more than a century, perhaps, the produce of America might exceed that of British taxation. The seat of the empire would then naturally remove itself to that part of the empire which contributed most to the general defence and support of the whole."⁴¹

Professor Stigler quotes Adam Smith's account of the motives of the American leaders with approval as a discussion of "political behavior in perfectly cold-blooded rational terms," and considers Adam Smith's plan to be shrewd. He contrasts this discussion with other passages in the *Wealth of Nations* in which men are apparently "hot-blooded" or even "irrational" in their political behavior, passages which are inconsistent with the view that political behavior is "cold-blooded" and "rational" and are therefore wrong.⁴² But the behavior of Americans in the Revolu-

39. Smith, *Wealth of Nations*, pp. 586-587.

40. Ibid., p. 587.

41. Ibid., p. 590.

42. George J. Stigler, "Smith's Travels on the Ship of State," pp. 265, 270-272, 273 in vol. 3, *History of Political Economy* (Fall 1971).

tion demonstrates to me that men can be both "cold-blooded" and "hot-blooded." I do not myself find it difficult to understand why George Washington and Thomas Jefferson supported the American Revolution — Adam Smith adequately explains a large part of their motives. But why did they secure the support of the masses who suffered and died? Self-interest successfully pursued seems an inadequate explanation of their actions. Revolution is a risky business for all who take part in it, with the prizes going to the successful revolutionary leaders if the revolutionaries win.

Adam Smith does give an explanation of why the American leaders had followers, but this is to be found, not in the *Wealth of Nations*, but in *The Theory of Moral Sentiments*, in his discussion of the distinction of ranks. "The great mob of mankind are the admirers and worshippers, and, what may seem more extraordinary, most frequently the disinterested admirers and worshippers, of wealth and greatness."⁴³ This deference to the powerful, on which the distinction of ranks is based, is, Adam Smith explains, a human propensity necessary for the maintenance of order. But we can see that it is also, on occasion, capable of producing disorder.

Was it better for the ordinary American to have secured independence from British rule? It certainly got rid of those absurd restrictions on trade imposed for the benefit of British merchants and manufacturers which Adam Smith denounced. But the American government, through its tariff policy, was to reintroduce similar absurdities for the benefit of American merchants and manufacturers. And were taxes lower with independence than they would have been without it? As the main expenditure in America by Britain was for defense, to Adam Smith the taxation question became simply, who was the low-cost supplier of defense and, if it was the British government, would the colonies pay for it? If they would not, there was no reason for Britain to retain its control. "If any of the provinces of the British empire cannot be made to contribute towards the support of the whole empire, it is surely time that Britain should free herself from the expence of defending those provinces in time of war, and of supporting any part of their civil or military establishments in time of peace, and endeavour to accommodate her future views and designs to the real mediocrity of her circumstances."⁴⁴ These are the last words of the *Wealth of Nations*.

There is indeed some reason to suppose that Adam Smith may have had a hand in Charles Townshend's taxation schemes which helped to precipitate the American Revolution.⁴⁵ Adam Smith regarded the taxes

43. Adam Smith, *The Theory of Moral Sentiments*, p. 85 (E. G. West, ed.: 1969).

44. Smith, *Wealth of Nations*, p. 900.

45. Fay, *Adam Smith and Scotland*, pp. 115-116.

as a method of paying for the services which the mother country provided the colonies. The colonists, or rather their leaders, turned an economic problem into a political one. But had Adam Smith's whole plan been agreed to, there would have been no American Revolution. A child's essay on 1776 which I heard read on the radio in Chicago contained the following sentence: "If it had not been for 1776, England would now rule America." But had Adam Smith's plan been followed, there would have been no 1776, America would now be ruling England, and we would today be celebrating Adam Smith not simply as the author of the *Wealth of Nations*, but hailing him as a founding father.

The *Wealth of Nations* is a work that one contemplates with awe. In keenness of analysis and in its range it surpasses any other book on economics. Its preeminence is, however, disturbing. What have we been doing in the last 200 years? Our analysis has certainly become more sophisticated, but we display no greater insight into the working of the economic system and, in some ways, our approach is inferior to that of Adam Smith. And when we come to views on public policy, we find propositions ignored which Adam Smith demonstrates with such force as almost to make them "self-evident." I really do not know why this is so, but perhaps part of the answer is that we do not read the *Wealth of Nations*.