



Adam Smith and Laissez Faire

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ADAM SMITH AND LAISSEZ FAIRE^{1*}

I. THE HARMONIOUS ORDER OF NATURE

An endeavor to make a just appraisal of Adam Smith's original contributions to economic doctrine would even today be a task of extraordinary difficulty. On the one hand, what was serviceable in his doctrines has become so thoroughly incorporated in our modern thinking that we discover it upon the slightest provocation in whatever we may read that was written before his day, and we are especially prone to make a virtue of obscurity in his predecessors by taking it for granted that it conceals premature insight rather than unduly prolonged lack of it. On the other hand, there is always great danger lest what we credit to a writer as priority of doctrine may not in reality be merely an indecent exposure of our own ignorance concerning his predecessors. There is much weight of authority and of evidence, however, that Smith's major claim to originality, in English economic thought at least, was his detailed and elaborate application to the wilderness of economic phenomena of the unifying concept of a co-ordinated and mutually interdependent system of cause and effect relationships which philosophers and theologians had already applied to the world in general. Smith's doctrine that economic phenomena were manifestations of an underlying order in nature, governed by natural forces, gave to English economics for the first time a definite trend toward logically consistent synthesis of economic relationships, toward "system-building." Smith's further doctrine that this underlying natural order required, for its most beneficent operation, a system of natural liberty, and that in the main public regulation

* Lecture delivered at the University of Chicago on January 21, 1927, in a series commemorative of the one hundred and fiftieth anniversary of the publication of the *Wealth of Nations*.

¹ References to Adam Smith's writings are to the following editions: *History of Ancient Physics*, and *Theory of Moral Sentiments*, in "Essays Philosophical and Literary by Adam Smith" (Ward, Lock & Co., London, n.d.); *Wealth of Nations*, Cannan edition; *Lectures*, Cannan, editor.

and private monopoly were corruptions of that natural order, at once gave to economics a bond of union with the prevailing philosophy and theology, and to economists and statesmen a program of practical reform.

Smith was *the* great eclectic. He drew upon all previous knowledge in developing his doctrine of a harmonious order in nature manifesting itself through the instincts of the individual man. The oldest source in which he expressly finds an approach to his own views is in the science of the classical philosophers: "In the first ages of the world . . . the idea of a universal mind, of a God of all, who originally formed the whole, and who governs the whole by general laws, directed to the conservation and prosperity of the whole, without regard to that of any private individual, was a notion to which [the Ancients] were utterly strangers . . . [but] as ignorance begot superstition, science gave birth to the first theism that arose among those nations, who were not enlightened by divine Revelation."²

The Roman *jus naturale*, through Grotius and Pufendorf, strongly influenced Smith's thinking. The Renaissance emphasis on the individual, the naturalistic philosophy of Shaftesbury, Locke, Hume, Hutcheson, the optimistic theism of the Scotch philosophers, the empiricism of Montesquieu, were more immediate and more powerful influences. Science, philosophy, theology, psychology, history, contemporary observation of facts—all of them were made to produce, under Smith's capable management, an abundance of evidence of the existence of an order in nature in which beneficent intentions toward mankind could be discerned. If Smith at times showed more catholicity than scientific discrimination in what he accepted as supporting evidence, if some of this evidence appeared upon close scrutiny to be conjectural, contradictory, irrelevant, or inconclusive, the richness of argument, the power of his exposition, the attractiveness of his conclusions served to overwhelm the captious critic and to postpone closer scrutiny to a later day.

Smith's major claim to fame, as I have said, seems to rest on his elaborate and detailed application to the economic world of the concept of a unified natural order, operating according to

² *History of Ancient Physics*, pp. 391, 392.

natural law, and if left to its own course producing results beneficial to mankind. On every detail, taken by itself, Smith appears to have had predecessors in plenty. On few details was Smith as penetrating as the best of his predecessors. There had been earlier pleas for freedom of internal trade, freedom of foreign trade, free trade in land, free choice of occupations, free choice of place of residence. Some philosophers, notably Shaftesbury and Smith's own teacher, Hutcheson, had already extended to economic phenomena, though sketchily, the concept of an underlying natural order manifesting itself through the operation of physical forces and individual psychology. But Smith made an original forward step when he seriously applied himself to the task of analyzing the whole range of economic process with the purpose of discovering the nature of the order which underlay its surface chaos. Claims have been made for the Physiocrats, but the evidence indicates that Smith had already formulated his central doctrine before he came into contact with them or their writings. As early as 1755 Smith had publicly asserted his claim to priority, as against some unnamed rival, in applying to the economic order the system of natural liberty. In doing so, he cited a lecture, delivered in 1749, which even in the fragment which has survived contains the essence of his fully developed doctrine, as expounded in the *Wealth of Nations*. It even uses an English equivalent of the very phrase "laissez faire," which the Physiocrats were soon to make the war cry of the system of natural liberty.

Projectors disturb nature in the course of her operations on human affairs, and it requires no more than to *leave her alone* and give her fair play in the pursuit of her ends that she may establish her own designs. . . . Little else is required to carry a state to the highest degree of affluence 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 endeavor to arrest the progress of society at a particular point, are unnatural, and, to support themselves, are obliged to be oppressive and tyrannical.³

In his *Theory of Moral Sentiments*, Smith develops his system of ethics on the basis of a doctrine of a harmonious order

³ Rae, *Life of Adam Smith*, p. 62. Italics mine.

in nature guided by God, and in an incidental manner applies his general doctrine with strict consistency to the economic order. In his later work, the *Wealth of Nations*, Smith devotes himself to a specialized inquiry into the nature of the economic order. It is a commonplace among the authorities on Adam Smith that it is impossible fully to understand the *Wealth of Nations* without recourse to the *Theory of Moral Sentiments*. The vast bulk of economists, however, who have read the *Wealth of Nations* without reading the *Theory of Moral Sentiments*, have not regarded Smith's masterpiece as an obscure book, as one especially hard to understand. On the other hand, the very authorities who are most emphatic in asserting the need of reference to the *Theory of Moral Sentiments* to understand the *Wealth of Nations*, once they embark upon their self-imposed task of interpreting the latter in the light of the former, become immersed in difficult problems of interpretation for which scarcely any two writers offer the same solution. The system of individual liberty is much in evidence among the interpreters of Smith, but that natural harmony which should also result is strikingly lacking. The Germans, who, it seems, in their methodical manner commonly read both the *Theory of Moral Sentiments* and the *Wealth of Nations*, have coined a pretty term, *Das Adam Smith Problem*, to denote the failure to understand either which results from the attempt to use the one in the interpretation of the other. I will endeavor to show that the difficulties of the authorities result mainly from their determination to find a basis for complete concordance of the two books, and that there are divergences between them which are impossible of reconciliation even by such heroic means as one writer has adopted of appeal to the existence in Smith's thought of a Kantian dualism. I will further endeavor to show that the *Wealth of Nations* was a better book because of its partial breach with the *Theory of Moral Sentiments*, and that it could not have remained, as it has, a living book were it not that in its methods of analysis, its basic assumptions, and its conclusions it abandoned the absolutism, the rigidity, the romanticism which characterize the earlier book.

II. THE "THEORY OF MORAL SENTIMENTS"

In the *Theory of Moral Sentiments*, Smith develops the doctrine of a beneficent order in nature, manifesting itself through the operation of the forces of external nature and the innate propensities implanted in man by nature. The moral sentiments, self-interest, regulated by natural justice and tempered by sympathy or benevolence, operate in conjunction with the physical forces of nature to achieve the beneficent purposes of Nature. Underlying the matter-of-fact phenomena of human and physical nature is benign Nature, a guiding providence, which is concerned that natural processes shall operate to produce the "happiness and perfection of the species." Smith is unfortunately far from explicit as to just how Nature makes certain that nature shall not betray the former's intentions, though he does say that Nature dictates to man the laws which he shall follow.⁴ It seems, however, that the essence of Smith's doctrine is that Providence has so fashioned the constitution of external nature as to make its processes favorable to man, and has implanted *ab initio* in human nature such sentiments as would bring about, through their ordinary working, the happiness and welfare of mankind. The many titles by which this beneficent Nature is designated must have taxed severely the terminological resources of the Scotch optimistic theism. Among them are: "the great Director of Nature,"⁵ "the final cause,"⁶ "the Author of Nature,"⁷ "the great judge of hearts,"⁸ "an invisible hand,"⁹ "Providence,"¹⁰ "the divine Being,"¹¹ and, in rare instances, "God."¹² Smith definitely commits himself to the theism of his time. The harmony and beneficence to be perceived in the matter-of-fact processes of nature are the results of the design and intervention of a benevolent God.

The idea of that divine Being, whose benevolence and wisdom have, from all eternity, contrived and conducted the immense machine of the uni-

⁴ *Theory of Moral Sentiments*, p. 75.

⁵ *Ibid.*, p. 71 n.

⁶ *Ibid.*, p. 80.

⁷ *Ibid.*, p. 96.

⁸ *Ibid.*

⁹ *Ibid.*, p. 163.

¹⁰ *Ibid.*, p. 163.

¹¹ *Ibid.*, p. 210.

¹² *Ibid.*, pp. 80, 97.

verse, so as at all times to produce the greatest quantity of happiness, is certainly of all the objects of human contemplation by far the most sublime. . . . The administration of the great system of the universe, . . . the care of the universal happiness of all rational and sensible beings, is the business of God and not of man. To man is allotted a much humbler department, but one much more suitable to the weakness of his powers, and to the narrowness of his comprehension; the care of his own happiness, of that of his family, his friends, his country.¹³

Thus self-preservation, and the propagation of the species, are the great ends which Nature seems to have proposed in the formation of all animals. . . . But though we are . . . endowed with a very strong desire of those ends, it has not been intrusted to the slow and uncertain determinations of our reason to find out the proper means of bringing them about. Nature has directed us to the greater part of these by original and immediate instincts. Hunger, thirst, the passion which unites the two sexes, the love of pleasure, and the dread of pain, prompt us to apply those means for their own sakes, and without any consideration of their tendency to those beneficent ends which the great Director of nature intended to produce by them.¹⁴

Society can get along tolerably well even though beneficence is absent and self-interest and justice alone operate. "Society may subsist among different men, as among different merchants, from a sense of its utility, without any mutual love or affection; and though no man in it should owe any obligation, or be bound in gratitude to any other, it may still be upheld by a mercenary exchange of good offices according to an agreed valuation." Beneficence "is the ornament which embellishes, not the foundation which supports, the building. . . . Justice, on the contrary, is the main pillar that upholds the whole edifice." "Society may subsist, though not in the most comfortable state, without beneficence; but the prevalence of injustice must utterly destroy it."¹⁵

There are no serious flaws in the harmonious operation of natural forces, even in the economic order, where self-interest, which is ordinarily a virtue, but if not regulated by justice may degenerate into vice, is the most powerful of the impulses to action:

If we consider the general rules by which external prosperity and adversity are commonly distributed in this life, we shall find, that notwith-

¹³ *Ibid.*, p. 210.

¹⁴ *Ibid.*, p. 71 n.

¹⁵ *Ibid.*, p. 79.

standing the disorder in which all things appear to be in this world, yet even here every virtue naturally meets with its proper reward, with the recompense which is most fit to encourage and promote it; and this too so surely, that it requires a very extraordinary concurrence of circumstances entirely to disappoint it.

What is the reward most proper for encouraging industry, prudence, and circumspection? Success in every sort of business. And is it possible that in the whole of life these virtues should fail of attaining it? Wealth and external honours are their proper recompense, and the recompense which they can seldom fail of acquiring.¹⁶

The poorer classes have little if any ground for complaint as to their lot in life, and no reason to seek to improve it except by methods which contribute to the general welfare of society. "In the middling and inferior stations of life, the road to virtue and that to fortune . . . are, happily, in most cases, very nearly the same. . . . The good old proverb, therefore, that honesty is the best policy, holds, in such situations, almost always perfectly true."¹⁷ Beneficent Nature so operates the machinery behind the scenes that even inequality in the distribution of happiness is more apparent than real:

[The rich] are led by an invisible hand to make nearly the same distribution of the necessaries of life which would have been made had the earth been divided into equal portions among all its inhabitants, and thus without intending it, without knowing it, advance the interest of the society, and afford means to the multiplication of the species. When Providence divided the earth among a few lordly masters, it neither forgot nor abandoned those who seemed to have been left out in the partition. These last, too, enjoy their share of all that it produces. In what constitutes the real happiness of human life, they are in no respect inferior to those who would seem so much above them. In ease of the body and peace of the mind, all the different ranks of life are nearly upon a level, and the beggar, who suns himself by the side of the highway, possesses that security which kings are fighting for.¹⁸

Smith concedes that the processes of nature operate at times with what, by man's standards, are results so unjust that they arouse our indignation:

¹⁶ *Ibid.*, p. 146.

¹⁷ *Ibid.*, 58.

¹⁸ *Ibid.*, p. 163.

Fraud, falsehood, brutality, and violence, . . . excite in every human breast such scorn and abhorrence, that our indignation rouses to see them possess those advantages which they may in some sense be said to have merited, by the diligence and industry with which they are sometimes attended. The industrious knave cultivates the soil, the indolent man leaves it uncultivated. Who ought to reap the harvest? Who starve, and who live in plenty? The natural course of things decides it in favour of the knave; the natural sentiments of mankind in favour of the man of virtue.¹⁹

This is a familiar dilemma of the optimistic theology, but Smith is precluded from adopting the familiar solution that "the ways of the Lord are inscrutable" by the fact that he is at the moment engaged in the task of formulating with great precision and assurance just what the ways of the Lord are. A contemporary economist of Adam Smith, Josiah Tucker, who was also by the necessity of his profession a theologian, when faced with an apparent conflict between the processes of nature and the "fundamental Principle of Universal Benevolence" found an ingenious solution in the conclusion a priori that there must be something wrong in the appearance of things: "I conclude *a priori*, that there must be some flaw or other in the preceding Arguments, plausible as they seem, and great as they are upon the foot of human Authority. For though the Appearance of Things makes for this Conclusion . . . the Fact, itself, cannot be so."²⁰ Smith also succeeded in keeping his theory alive when the force of conflicting fact seemed to threaten to destroy it, but his method was more gentle to the facts. Man has been given by nature one standard by which to judge it, but nature has retained another and different standard for itself. "Both are calculated to promote the same great end, the order of the world, and the perfection and happiness of human nature."²¹ Only an inordinately exacting critic would suggest that this solution is not wholly satisfactory, since Smith can have logically reached it only by applying to nature its own standard, which it was not appropriate for man to use. But if this solution does not satisfy, Smith has another one. If we despair of finding any force upon

¹⁹ *Ibid.*, pp. 147, 148.

²⁰ *Four Tracts* (Gloucester, 1774), p. 12.

²¹ *Theory of Moral Sentiments*, p. 148.

earth which can check the triumph of injustice, we "naturally appeal to heaven, and hope that the great Author of our nature will himself execute hereafter what all the principles which he has given us for the direction of our conduct prompt us to attempt even here; that he will complete the plan which he himself has thus taught us to begin; and will, in a life to come, render to every one according to the works which he has performed in this world."²² If, judged by men's standards, the order of nature does not result in perfect justice on earth, we apparently have two alternative explanations: either that man's standards are an inadequate basis for appraisal, or that there is opportunity in a future state for redress of the injustices of the present one.

What we have, therefore, in the *Theory of Moral Sentiments* is an unqualified doctrine of a harmonious order of nature, under divine guidance, which promotes the welfare of man through the operation of his individual propensities. Of these, self-interest is the most important one, in so far as economic life is concerned, though it is subject to the regulations of natural justice, to which it must conform. "In the race for wealth, for honours, and preferments, he may run as hard as he can, and strain every nerve and every muscle, in order to outstrip all his competitors. But if he should jostle, or throw down any of them, the indulgence of the spectator is entirely at an end. It is a violation of fair play, which they cannot admit of."²³ In economic matters, benevolence plays but a minor rôle. There is no express formulation of a principle of laissez faire, and no explicit condemnation of governmental interference with individual initiative; but it is quite clearly implied that self-interest, if regulated by justice, which may be natural justice, but is likely to be more effective if it is administered by a magistrate, is sufficient to attain the ends of Nature in the economic world. There is convincing evidence from other sources that Smith was already an exponent of the system of natural liberty.

²² *Ibid.*, p. 149.

²³ *Ibid.*, p. 76.

III. THE SYSTEM OF NATURAL LIBERTY IN THE "WEALTH OF NATIONS"

Traces of the general doctrine expounded in the *Theory of Moral Sentiments*, that there is a beneficent order in nature which, if left to take its own course, will bring to mankind maximum happiness and prosperity, are undoubtedly to be discovered in the *Wealth of Nations*. Traces of every conceivable sort of doctrine are to be found in that most catholic book, and an economist must have peculiar theories indeed who cannot quote from the *Wealth of Nations* to support his special purposes. But it can be convincingly demonstrated, I believe, that on the points at which they come into contact there is a substantial measure of irreconcilable divergence between the *Theory of Moral Sentiments* and the *Wealth of Nations*, with respect to the character of the natural order.

In the first case, the emphasis in the *Theory of Moral Sentiments* upon a benevolent deity as the author and guide of nature is almost, though not quite, completely absent in the *Wealth of Nations*. There are only a few minor passages in the later work which can be adduced as supporting evidence of the survival in Smith's thought of the concept of a divinity who has so shaped economic process that it operates necessarily to promote human welfare: an incidental allusion to "the wisdom of nature";²⁴ a remark that with respect to smuggling the laws of the country had "made that a crime which nature never meant to be so";²⁵ and a more famous passage, the main reliance of those who would completely reconcile the doctrines expounded in the two works, in which Smith repeats the phrase "the invisible hand" which he had used in the *Theory of Moral Sentiments*.²⁶ The only explicit reference to God is one which could have given but scant comfort to the natural theology of his time: "Superstition first attempted to satisfy this curiosity [about natural phenomena] by referring all those wonderful appearances to the immediate agency of the gods. Philosophy afterward endeavored to account for them from more familiar causes,

²⁴ *Wealth of Nations*, II, 174.

²⁵ *Ibid.*, II, 381.

²⁶ *Ibid.*, I, 421.

or from such as mankind were better acquainted with, than the agency of the gods."²⁷ To the extent that Smith in the *Wealth of Nations* does expound a doctrine of a harmonious order in nature, he accounts for it, as a rule, and perhaps even invariably, by reference to "more familiar causes [and] to such as mankind were better acquainted with, than the agency of the gods." The significance for our purposes of this virtual disappearance from the *Wealth of Nations* of the doctrine of an order of nature designed and guided by a benevolent God is that it leaves Smith free to find defects in the order of nature without casting reflections on the workmanship of its Author.

To some extent Smith makes use of this freedom. In both works he finds an inherent harmony in the order of nature, whereby man, in following his own interests, at the same time and without necessarily intending it serves also the general interests of mankind. In the *Theory of Moral Sentiments*, this harmony, as I have shown, is represented as universal and perfect. In the *Wealth of Nations*, this harmony is represented as not extending to all elements of the economic order, and often as partial and imperfect where it does extend. Where harmony does prevail, it is as a rule a sort of average or statistical harmony, revealing itself only in the general mass of phenomena and leaving scope for the possibility that natural processes whose general effect is beneficial may work disadvantageously in individual cases or at particular moments of time. As a rule, though not invariably, Smith qualifies his assertions of harmony by such phrases as "in most cases," "the majority," "in general," "frequently." For example, the exercise of common prudence is a prerequisite if the system of natural liberty is to operate harmoniously, and "though the principles of common prudence do not always govern the conduct of every individual, they always influence that of *the majority* of every class or order."²⁸ "It is advantageous to the great body of workmen . . . that all these trades should be free, though this freedom may be abused in all of them, and is more likely to be so, perhaps, in some than

²⁷ *Ibid.*, II, 256.

²⁸ *Ibid.*, I, 278. Italics mine.

in others.”²⁹ Drawbacks “tend not to destroy, but to preserve, what it is *in most cases* advantageous to preserve, the natural division and distribution of labour in the society.”³⁰

There are a number of well-known passages in the *Wealth of Nations* in which Smith asserts the existence of a more-or-less complete harmony between the general interests of society and the particular interests of individuals.

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. . . .³¹ 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. . . .³² As every individual, therefore, endeavors as much as he can both to employ his capital in the support of domestic industry, and so to direct that industry that its produce may be of the greatest value; every individual necessarily labours to render the annual revenue of the society as great as he can. He generally, indeed, neither intends to promote the public interest, nor knows how much he is promoting it. By preferring the support of domestic to that of foreign industry he intends only his own security; and by directing that industry in such a manner as its produce may be of the greatest value, he 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. . . .³³ The natural effort of every individual to better his own condition, when suffered to exert itself with freedom and security, is so powerful a principle, that it is alone, and without any assistance, not only capable of carrying on the society to wealth and prosperity, but of surmounting a hundred impertinent obstructions with which the folly of human laws too often incumbers its operations; though the effect of these obstructions is always more or less either to encroach upon its freedom, or to diminish its security.³⁴

But whereas in the *Theory of Moral Sentiments* such general statements as these comprise the main substance of the doctrine of a harmonious order in the economic world, in the

²⁹ *Ibid.*, I, 456.

³⁰ *Ibid.*, II, 1. Italics mine.

³¹ *Ibid.*, I, 16.

³² *Ibid.*, I, 419.

³³ *Ibid.*, I, 421.

³⁴ *Ibid.*, II, 43.

Wealth of Nations they play a much more modest rôle. Though Smith in the *Wealth of Nations* frequently makes general statements intended apparently to apply to the entire universe, he has always before him for consideration some concrete problem, or some finite section of the universe. In no instance does Smith rely heavily upon his assertions as to the existence of harmony in the natural order at large to establish his immediate point that such harmony exists within the specific range of economic phenomena which he is at the moment examining. Such demonstration he accomplishes primarily by means of reference to the nature of these specific phenomena, by appeal to some self-evident principles of human psychology, by citation of historical object lessons, or by inference from contemporary experience. The general statements, though they may, as has been asserted, reveal the secret basis of Smith's conclusions, are given the appearance of mere obiter dicta, thrown in as supernumerary reinforcements to an argument already sufficiently fortified by more specific and immediate data. Smith's argument for the existence of a natural harmony in the economic order, to be preserved by following the system of natural liberty, is, in form at least, built up by detailed inference from specific data and by examination of specific problems, and is not deduced from wide-sweeping generalizations concerning the universe in general. What were the secret mental processes of Adam Smith whereby he really reached his conclusions it seems at this late date somewhat difficult to talk about with any degree of assurance.

Nowhere in the *Wealth of Nations* does Smith place any reliance for the proper working of the economic order upon the operation of benevolence or sympathy, the emphasis upon which was the novel feature in the account of human nature presented in the *Theory of Moral Sentiments*. In the *Wealth of Nations*, benevolence is not merely as a rule left out of the picture of the economic order; when mentioned, it is with the implication that it is a weak reed upon which to depend. "By pursuing his own interest he frequently promotes that of the society more effectually than when he really intends to promote it. 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."³⁵ The only other instance in which Smith concedes the possible operation of benevolence in the economic world he also does not take too seriously:

Whatever part of the produce . . . is over and above this share, he [i.e., the landlord] naturally endeavors to reserve to himself as the rent of his land, which is evidently the highest the tenant can afford to pay in the actual circumstances of the land. Sometimes, indeed, the liberality, more frequently the ignorance, of the landlord, makes him accept of somewhat less than this portion. . . . This portion, however, may still be considered as the natural rent of land, or the rent for which it is naturally meant that land should for the most part be let.³⁶

The consequences of the intervention of liberality apparently are not "natural," are not in accordance with the intent of nature! Smith shows little faith in the prevalence of benevolence in the economic sphere. "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. . . . 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."³⁷ "The late resolution of the Quakers in Pennsylvania to set at liberty all their negro slaves, may satisfy us that their number cannot be very great. Had they made any considerable part of their property, such a resolution could never have been agreed to."³⁸ Even the college professor cannot be expected to expend much energy in teaching effectively, cannot even be depended upon to teach at all, if it is not made to his interest to do so.³⁹ In the case of the clergy, the situation seems even more desperate. If they are endowed, they become indolent, and their zeal and industry become impaired. If, on the other hand, they are dependent upon voluntary contributions for their support, they become too zealous. He quotes from his skeptical friend Hume:

. . . This interested diligence of the clergy is what every wise legislator will study to prevent; because, in every religion except the true, it

³⁵ *Ibid.*, I, 421.

³⁶ *Ibid.*, I, 145.

³⁷ *Ibid.*, I, 16

³⁸ *Ibid.*, I, 365.

³⁹ *Ibid.*, II, 250 ff.

is highly pernicious. . . . Each ghostly practitioner, in order to render himself more precious and sacred in the eyes of his retainers, will inspire them with the most violent abhorrence of all other sects, and continually endeavor, by some novelty, to excite the languid devotion of his audience. No regard will be paid to truth, morals, or decency in the doctrines inculcated. Every tenet will be adopted that best suits the disorderly affections of the human frame. Customers will be drawn to each conventicle by new industry and address in practising on the passions and credulity of the populace.⁴⁰

Smith laid little stress even in the *Theory of Moral Sentiments* upon the importance of benevolence in the economic order. But writers who have labored under a sense of obligation to find a basis for reconciliation of the *Wealth of Nations* with the *Theory of Moral Sentiments* have nevertheless discovered a problem in the insignificant rôle assigned to benevolence in the *Wealth of Nations*. Buckle's solution of the problem was that in the *Wealth of Nations* Smith was deliberately abstracting from all principles of human nature except self-interest, whereas in the *Theory of Moral Sentiments* he aimed at a complete picture of human nature. Not a trace of evidence is discoverable, however, that Smith in the *Wealth of Nations* was aware that he was abstracting selected elements from the totality of human nature. It awaited a later and keener mind, Ricardo, to discover the possibilities of the technique of deliberate abstraction in the field of economics. A more ingenious attempt at reconciliation rests, in part, on the identification of self-interest as used in the *Wealth of Nations* with rational pecuniary interest, with a desire for more wealth, and by demonstrating that Smith takes into account other motives than the rational desire for more wealth, claims to demonstrate that Smith did not exclude all principles but self-interest from the economic sphere. But self-interest meant to Smith not only the desire for wealth, but self-love in all its possible manifestations. "It is the interest of every man to live as much at his ease as he can."⁴¹ "Avarice and ambition in the rich, in the poor the hatred of labour and the love of present ease and enjoyment," envy, malice and resentment,⁴² all of these are manifestations of self-interest; the agreeable-

⁴⁰ *Ibid.*, II, 273 ff.

⁴¹ *Ibid.*, II, 250.

⁴² *Ibid.*, II, 203.

ness, the ease or hardship, the cleanliness or dirtiness, the honorableness or dishonorableness, of the different employments are all factors affecting the attractiveness to labor of different occupations, as well as the wages paid: "Honour makes a great part of the reward of all honourable professions."⁴³ Smith distinguishes also between what a man is interested in and what is to his interest. Man is sometimes ignorant of the latter. "But though the interest of the labourer is strictly connected with that of the society, he is incapable either of comprehending that interest, or of understanding its connexion with his own."⁴⁴ It is what a man regards as his interest, even though mistakenly, that controls his actions. But every possible impulse and motive to action is included under self-interest except a deliberate intention to promote the welfare of others than one's self.

From his examination of the operation of self-interest in specific phases of the economic order and of the consequences of government interference with the free operation of self-interest, Smith arrives at an extensive program for the extension of the system of natural liberty through the abolition of existing systems of governmental regulation, though he nowhere brings the several items in that program together. Four main reforms are advocated. Free choice of occupations is to be established through the abolition of the apprenticeship regulations and settlement laws; free trade in land, through the repeal of laws establishing entails, primogenitures, and other restrictions on the free transfer of land by gift, devise, or sale; internal free trade, where such does not already prevail, by the abolition of local customs taxes; and most important of all, free trade in foreign commerce, through the abolition of the duties, bounties, and prohibitions of the mercantilistic régime and the trading monopolies of the chartered companies. These various restrictions and regulations are objectionable either because they operate to keep commerce, labor, or capital from following the channels in which they would otherwise go, or because they attract to a particular species of industry a greater share of the factors than would ordinarily be employed in it. In all of these cases there is

⁴³ *Ibid.*, I, 102.

⁴⁴ *Ibid.*, I, 249.

close harmony, under the system of natural liberty, between the interests of individuals and the public interest, and interference by government, instead of promoting, hinders, though it does not necessarily prevent, the attainment of prosperity.

In England all of this program has been achieved, and in so far as such things can be traced to their source, the influence of the *Wealth of Nations* was an important factor in bringing about the reforms. That they were genuine reforms most economists will admit, though even in England there is no longer the unanimity there once was on these matters. It is a somewhat ironical coincidence that the least important plank in Smith's program, the reform of the English law of property, should be in process of achievement only as the permanence of the greatest of his victories, the establishment of free trade in foreign commerce, faces its first serious threat in sixty years.

IV. FLAWS IN THE NATURAL ORDER

The foregoing is familiar matter. What is not so familiar, however, is the extent to which Smith acknowledged exceptions to the doctrine of a natural harmony in the economic order even when left to take its natural course. Smith, himself, never brought these together; but if this is done, they make a surprisingly comprehensive list and they demonstrate beyond dispute the existence of a wide divergence between the perfectly harmonious, completely beneficent natural order of the *Theory of Moral Sentiments* and the partial and limited harmony in the economic order of the *Wealth of Nations*. Masters and workmen have a conflict of interest with respect to wages, and the weakness in bargaining power of the latter ordinarily gives the advantage in any dispute to the former.⁴⁵ Masters, traders, and apprentices, on the one hand, and the public on the other, have divergent interests with respect to apprenticeship rules.⁴⁶ The interest of merchants and manufacturers is in high profits, which are disadvantageous to the public.⁴⁷ Merchants and manufacturers have interests opposed to those of the farmers and land-

⁴⁵ *Ibid.*, I, 68-69.

⁴⁶ *Ibid.*, I, 125.

⁴⁷ *Ibid.*, I, 100; II, 112 ff.

lords,⁴⁸ and of the general public.⁴⁹ "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. It is impossible indeed to prevent such meetings, by any law which either could be executed, or would be consistent with liberty and justice."⁵⁰ The corn-dealer, on the whole, performs a useful service, but because of his "excess of avarice he does not perform it perfectly."⁵¹ The merchant exporter sometimes finds it to his interest, when dearth prevails both at home and abroad, "very much to aggravate the calamities of the dearth" at home by exporting corn.⁵² Men commonly overestimate their chances of success in risky ventures, with the consequence that too great a share of the nation's stock of capital goes into such ventures.⁵³ It being the custom to pay attorneys and clerks according to the number of pages they had occasion to write, their self-interest led them "to multiply words beyond all necessity, to the corruption of the law language of, I believe, every court of justice in Europe."⁵⁴ Private initiative cannot be trusted to take proper care of the roads.⁵⁵ Division of labor operates to impair the intelligence, enterprise, martial courage, and moral character of the laborers,⁵⁶ though division of labor is itself "the necessary, though very slow and gradual, consequence of a certain propensity in human nature . . . the propensity to truck, barter, and exchange one thing for another."⁵⁷ In old countries, "rent and profit eat up wages, and the two superior orders of people oppress the inferior one."⁵⁸ This is only a partial list of the defects in the natural order, even when left to take its own course, which Smith points out, though it would suffice to provide ammunition for several socialist orations. This is a far cry from the account given in the *Theory of Moral Sentiments* of a perfectly harmonious order of nature, operating under divine guidance, to promote its "great end, the order of the world, and the perfection and happiness of human nature."

⁴⁸ *Ibid.*, I, 129.⁵² *Ibid.*, II, 40.⁴⁹ *Ibid.*, I, 250, 428.⁵³ *Ibid.*, II, 64-65.⁵⁶ *Ibid.*, II, 267.⁵⁰ *Ibid.*, I, 130.⁵⁴ *Ibid.*, II, 213.⁵⁷ *Ibid.*, I, 15.⁵¹ *Ibid.*, II, 26.⁵⁵ *Ibid.*, II, 217.⁵⁸ *Ibid.*, II, 67.

In the *Theory of Moral Sentiments* Smith started out with a few general propositions about the nature of the universe which any educated Scotchman of his day would have vouched for as self-evident truths; and following them wherever they led him, he picked up en route a few more self-evident truths about the nature of human nature, and finally reached conclusions of the sort we have examined. Failing to compare his conclusions with the facts, he saw no necessity for qualifying them, and no reason for re-examining his premises. Unfortunately, these premises were in special need of careful scrutiny, for they were all drawn from a peculiar class of axioms which urgently require, but are incapable of, proof. In his earlier work Smith was a purely speculative philosopher, reasoning from notions masquerading as self-evident verities. In the *Wealth of Nations* Smith made use of a rich harvest of facts gathered by personal observation at home and abroad, by conversation and correspondence with many keen and intelligent observers of the current scene, by wide reading in a miscellany of sources, from law books to travelers' tales. With this factual material Smith kept close contact, and he never departed from it for long. He still, it is true, retained his flair for resounding generalizations of heroic range. There is a long-standing feud between sweeping generalization and run-of-the-mill factual data, and when Smith brought them together he did not always succeed in inducing altogether harmonious relations. But Smith's strength lay in other directions than exactly logical thinking, and he displayed a fine tolerance for a generous measure of inconsistency. It is to his credit that when there was sharp conflict between his generalization and his data, he usually abandoned his generalization.

There would be little ground for insistence upon reconciliation between the *Theory of Moral Sentiments* and the *Wealth of Nations* if it were simply a case of comparing one book written in 1757 with another written in 1776. It may not be as common as it should be for a man in his full maturity to advance beyond the level of his first book; but it surely is not a rare phenomenon requiring to be explained out of existence. In every respect

which is of concern to the economist as such, with the possible exception of his treatment of benevolence, the apparent discrepancies between the *Theory of Moral Sentiments* and the *Wealth of Nations* mark distinct advances of the latter over the former in realism and in application of the saving grace of common sense. But in the last year of his life Smith made extensive revisions and additions to the *Theory of Moral Sentiments*, without diminishing in any particular the points of conflict between the two books. This would make it seem that in Smith's mind, at least, there was to the last no consciousness of any difference in the doctrines expounded in the two books. Though we grant this, however, are we obliged to accept his judgment and to strain interpretations in order to find consistency prevailing where inconsistency appeareth to reign supreme? I think not. There persisted within the *Wealth of Nations*, through five successive editions, many, and to later eyes obvious, inconsistencies. When Smith revised his *Theory of Moral Sentiments* he was elderly and unwell. It is not altogether unreasonable to suppose that he had lost the capacity to make drastic changes in his philosophy, but had retained his capacity to overlook the absence of complete co-ordination and unity in that philosophy.

V. THE FUNCTIONS OF GOVERNMENT

Adam Smith, as has been shown, recognized that the economic order, when left to its natural course, was marked by serious conflicts between private interests and the interests of the general public. This would seem to suggest that there was an important sphere in which government interference with private interests might promote the general welfare. In his one deliberate and comprehensive generalization dealing with the proper functions of the state, Smith made it clear, however, that he would narrowly restrict the activities of government. "According to the system of natural liberty, the sovereign has only three duties to attend to; . . . first, the duty of protecting the society from the violence and invasion of other independent societies; secondly, . . . the duty of establishing an exact administration of justice; and, thirdly, the duty of erecting and

maintaining certain public institutions and certain public works."⁵⁹ Even here, however, he grants to government a somewhat more extensive range of proper activities than in many scattered dicta throughout the remainder of the book, where he was primarily condemning some specific governmental activity and was not really giving serious consideration to the wider problem of the proper range of governmental activity. Smith had himself undermined what is ordinarily regarded as his principal argument for *laissez faire*, by demonstrating that the natural order, when left to take its own course, in many respects works against, instead of for, the general welfare. How can his adherence, notwithstanding, to a policy of narrow limitation of the functions of government be explained?

The *Wealth of Nations*, though it was from one point of view only a segment of a larger and systematic treatise on social philosophy, was at the same time a tract for the times, a specific attack on certain types of government activity which Smith was convinced, on both a priori and empirical grounds, operated against national prosperity, namely, bounties, duties, and prohibitions in foreign trade; apprenticeship and settlement laws; legal monopolies; laws of succession hindering free trade in land. Smith's primary objective was to secure the termination of *these* activities of government. His wider generalizations were invoked to support the attack on *these* political institutions. Everything else was to a large degree secondary. Smith made many exceptions to his general argument for *laissez faire*. But his interest as a reformer and a propagandist was not in these exceptions. He nowhere gathered together in orderly fashion the exceptions which he would have made to his general restriction of government activity to protection, justice, and the maintenance of a few types of public works and public institutions. When considering in general terms the proper functions of government, he forgot all about these exceptions. If he had been brought face to face with a complete list of the modifications to the principle of *laissez faire* to which he at one place or another had granted his approval, I have no doubt that he would

⁵⁹ *Ibid.*, II, 185.

have been astounded at his own moderation. I once heard a president of a state bankers' association at the afternoon session of its annual convention make the theme of his presidential address the unmitigated iniquity of government interference with business and the necessity of more business men in government in order that they should see to it that there was less government in business. In the evening of the same day he introduced to the audience the state commissioner of banking as one to whom the bankers were deeply indebted, because by promoting the enactment of sound regulations governing the entrance into the banking field and the practice of banking he had secured the suppression of irresponsible and fraudulent banking, to the benefit of the solid and respectable bankers there assembled and of the general public. He was as sincere in the evening as he had been that afternoon. Not only was Smith fully capable of this type of inconsistency, but there is in the *Wealth of Nations* an almost exact parallel of this modern instance.⁶⁰

There is no possible room for doubt, however, that Smith in general believed that there was, to say the least, a strong presumption against government activity beyond its fundamental duties of protection against its foreign foes and maintenance of justice. In his *Lectures*, Smith had said: "Till there be property, there can be no government, the very end of which is to secure wealth [i. e., to make wealth secure] and to defend the rich from the poor,"⁶¹ following closely Locke's dictum that "Government has no other end but the preservation of property." In the *Wealth of Nations* he was more guarded: "Civil government, so far as it is instituted for the security of property, is in reality instituted for the defence of the rich against the poor, or of those who have some property against those who have none at all."⁶² What were the considerations which brought Smith to his laissez faire conclusions? His philosophical speculations about a harmonious order in nature undoubtedly made it easier for him to reach a laissez faire policy, though I believe that the significance of the natural order in Smith's economic

⁶⁰ Cf. *ibid.*, II, 307.

⁶¹ *Lectures*, p. 15.

⁶² *Wealth of Nations*, II, 207.

doctrines has been grossly exaggerated. But was not government itself a part of the order of nature, and its activities as "natural" as those of the individuals whom it governed? Smith is obscure on this point, and an adequate answer to this question, if possible at all, would require a detailed examination of Smith's position in the evolution of political theory, especially with respect to the origin of government and the character of the state of nature in the absence of government. It is clear, however, that to Smith the activities of government in the maintenance of justice are an essential part of the order of nature in its full development, and that such activities are not interferences with the system of natural liberty.

In the *Theory of Moral Sentiments* there is a vague passage which seems to suggest that government itself is an agency of the order of nature, and to imply that all of its activities may, therefore, be as "natural" as those of individuals.⁶³ In the *Wealth of Nations*, Smith is a little more precise. He draws a definite line between those activities of government which are, and those which are not, in accord with the natural order, on the basis of empirical data. Government activity is natural and therefore good where it promotes the general welfare, and is an interference with nature and therefore bad when it injures the general interests of society. Whether in particular circumstances it works well or ill is to be determined only by examination of the character of those circumstances, though in most cases such examination may be expected a priori to reveal that it works badly.

This general presumption against government intervention in the affairs of mankind was itself largely the product of direct inference from experience. Against those particular activities of government which he subjected to special attack, viz., mercantilistic regulations, settlement and apprenticeship laws, legal monopolies, Smith thought he had specific objections, drawn from the results of their operation, sufficient to condemn them. Aside from protection and justice, these were the important activities of the governments of his day. In condemning them he

⁶³ *Theory of Moral Sentiments*, pp. 163-64.

was not far from condemning all the main types of government activity, aside from justice and protection, which were prominently in the public view. To justify these activities, it was necessary, Smith believed, to credit government with better knowledge of what was to a man's interest than the ordinary man himself was endowed with. This Smith could not concede. The standards of honesty and competence of the governments of his day with which Smith was acquainted were unbelievably low, moreover, not only in comparison with what they are today in England, Germany, and the Scandinavian countries, but apparently even in comparison with earlier periods in English political history. Smith had encountered few instances in which government was rendering intelligent and efficient service to the public welfare outside of the fields of protection and justice. The English government of his day was in the hands of an aristocratic clique, the place-jobbing, corrupt, cynical, and class-biased flower of the British gentry, who clung to the traditional mercantilism not so much because of a strong faith that it met the problems of a growing trade struggling to burst its fetters, but because they did not know anything else to do. Even when Smith was prepared to admit that the system of natural liberty would not serve the public welfare with optimum effectiveness, he did not feel driven necessarily to the conclusion that government intervention was preferable to *laissez faire*. The evils of unrestrained selfishness might be better than the evils of incompetent and corrupt government.

In this connection, Smith has, indeed, a lesson to teach the "new economics" of the present day, which is peddling antique nostrums under new trademarks, and which has substituted for the answer to all economic problems of the classically trained parrot, "demand and supply," the equally magical phrase, "social control." If the standards of public administration are low, progress from a life regulated by the law of demand and supply to a life under the realm of social control may be progress from the discomforts of the frying-pan to the agonies of the fire.

It is the highest impertinence and presumption, therefore, in kings and ministers, to pretend to watch over the economy of private people, and to

restrain their expense, either by sumptuary laws, or by prohibiting the importation of foreign luxuries. 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.⁶⁴ The violence and injustice of the rulers of mankind is an ancient evil, for which, I am afraid, the nature of human affairs can scarce admit of a remedy.⁶⁵

Where, by exception, good government made its appearance, Smith was ready to grant it a wider range of activities.

The orderly, vigilant, and parsimonious administration of such aristocracies as those of Venice and Amsterdam, is extremely proper, it appears from experience, for the management of a mercantile project of this kind. But whether such a government as that of England; which, whatever may be its virtues, has never been famous for good economy; which, in time of peace, has generally conducted itself with the slothful and negligent profusion that is perhaps natural to monarchies; and in time of war has constantly acted with all the thoughtless extravagance that democracies are apt to fall into; could be safely trusted with the management of such a project, must at least be a good deal more doubtful.⁶⁶

Smith believed, moreover, that there were evils involved in the economic order which it was beyond the competence of even good government to remedy. To repeat a useful quotation: "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. It is impossible indeed to prevent such meetings, by any law which could be executed, or would be consistent with liberty and justice."⁶⁷ We have tried, in this country, to abolish Gary dinners by law. Whether we have succeeded seems still to be open to argument.

So much for the negative aspects of Smith's theory of the functions of the state. Let us examine now what concessions he made to the possibilities of the promotion of human welfare through governmental action. Smith conceded that it was the duty of the government to provide protection against external foes, and on the ground of their necessity for defense, he ap-

⁶⁴ *Wealth of Nations*, I, 328.

⁶⁶ *Ibid.*, II, 303.

⁶⁵ *Ibid.*, I, 457.

⁶⁷ *Ibid.*, I, 130.

proved of commercial regulations which on purely economic grounds he would condemn. "The act of navigation is not favourable to foreign commerce, or to the growth of that opulence which can arise from it. . . . As defence, however, is of much more importance than opulence, the act of navigation is, perhaps, the wisest of all the commercial regulations of England."⁶⁸ In the same spirit, Smith mildly supported bounties on manufactures necessary for defense, which would not otherwise be produced at home.⁶⁹

Smith assigned to government also "the duty of establishing an exact administration of justice." Unfortunately, Smith never succeeded in carrying out his original plan of writing a treatise on jurisprudence, and the scattered materials in the *Wealth of Nations* and the meager outline in the *Lectures* are insufficient to give us a trustworthy judgment as to what he would include under "justice." His own definition in the *Wealth of Nations*, "the duty of protecting, as far as possible, every member of the society from the injustice or oppression of every other member of it,"⁷⁰ if broadly interpreted, would assign to government the task of a major reconstruction of the economic order, since Smith, as has been shown, recited many phases of it in which injustice and oppression prevailed. It seems clear, however, that Smith, like later and more doctrinaire exponents of laissez faire, took for granted the inevitability of private property and class conflict, and understood by justice the whole legal and customary code of his time dealing with individual rights, privileges, and obligations under that system of economic organization. It is also likely that Smith failed to see how far acceptance of even the prevailing code of justice carried him from a simple order of nature in which natural justice automatically emerges from the harmony of individual interests, independently of governmental machinery and sanctions. Punishment and enforcement of redress after the act in case of dishonesty, violence, fraud, clearly would be included under the "administration of justice." Smith would, perhaps, include as a proper phase of this function such preventive measures as would tend to give security against

⁶⁸ *Ibid.*, I, 429.

⁶⁹ *Ibid.*, II, 23.

⁷⁰ *Ibid.*, II, 185.

the perpetration of dishonesty, extortion, and violence. In any case, he does not oppose such regulations, though his *Lectures* indicate that he would include them under "police" rather than "justice."⁷¹ "The institution of long apprenticeships can give no security that insufficient workmanship shall not frequently be exposed to public sale. When this is done it is generally the effect of fraud, and not of inability; and the longest apprenticeship can give no security against fraud. Quite different regulations are necessary to prevent this abuse. The sterling mark upon plate, and the stamps upon linen and woollen cloth, give the purchaser much greater security than any statute of apprenticeship."⁷² Unqualified adherence to the principle of *caveat emptor* was apparently not a necessary implication of Smith's laissez faire doctrines. Enforcement of contracts is specified as an important function of government,⁷³ and a law obliging masters to pay wages in money rather than in kind is justifiable as a protection to the workers against fraud. "It imposes no real hardship upon the masters. It only obliges them to pay that value in money, which they pretended to pay but did not always really pay, in goods."⁷⁴ "Where there is an exclusive corporation, it may perhaps be proper to regulate the price of the first necessary of life."⁷⁵ Protection of slaves against violence by their masters is approved of both as in accord with common humanity and as promoting the productivity of slave labor.⁷⁶ Smith recognized the existence of a higher social justice, which may override the "natural liberty" of the individual, but he would invoke it sparingly. Regulations of paper money banking "may, no doubt, be considered as in some respect a violation of natural liberty. But those exertions of the natural liberty of a few individuals, which might endanger the security of the whole society, are, and ought to be, restrained by the laws of all governments; of the most free, as well as of the most despotal. The obligation of building party walls, in order to prevent the communication of fire, is a violation of natural liberty, exactly of the same kind with the

⁷¹ *Lectures*, 154 ff.

⁷⁴ *Ibid.*, I, 143.

⁷² *Wealth of Nations*, I, 123.

⁷⁵ *Ibid.*, I, 144.

⁷³ *Ibid.*, I, 97.

⁷⁶ *Ibid.*, II, 88.

regulations of the banking trade which are here proposed.”⁷⁷ But “To hinder . . . the farmer from sending his goods at all times to the best market, is evidently to sacrifice the ordinary laws of justice to an idea of public utility, to a sort of reasons of state; an act of legislative authority which ought to be exercised only, which can be pardoned only in cases of the most urgent necessity.”⁷⁸ We have here, perhaps, the germ of that later maxim of convenient vagueness, that every individual should be protected in his natural rights, but only to the extent to which they do not interfere with the natural rights of others. There is no evidence that Smith would include as a proper phase of the administration of justice any drastic revision of the content of these rights.

There remains to be considered the third government function: “erecting and maintaining certain public works and certain public institutions, which it can never be for the interest of any individual, or small number of individuals, to erect and maintain; because the profit could never repay the expence to any individual or small number of individuals, though it may frequently do much more than repay it to a great society.”⁷⁹ Smith here clearly assigns to the government a duty of promoting the general welfare other than in connection with protection and justice, if the means to do so are within the power of the government, but not within the power of individuals. What the relationship of this function is to the natural order Smith does not discuss in the *Wealth of Nations*. The attention given to it by Smith has been attributed to the influence of the Physiocrats. In the *Theory of Moral Sentiments* there is one passage which appears to praise such institutions, but may have been intended in a satirical sense:

The same principle, the same love of system, the same regard to the beauty of order, of art and contrivance, frequently serves to recommend those institutions which tend to promote the public welfare. . . . It is not commonly from a fellow-feeling with carriers and waggoners that a public-spirited man encourages the mending of high roads. When the legislature establishes premiums and other encouragements to advance the linen or

⁷⁷ *Ibid.*, I, 307.

⁷⁸ *Ibid.*, II, 41-42.

⁷⁹ *Ibid.*, II, 185.

woollen manufactures, its conduct seldom proceeds from pure sympathy with the wearer of cheap or fine cloth, and much less from that with the manufacturer or merchant. The perfection of police, the extension of trade and manufactures, are noble and magnificent objects. . . . They make part of the great system of government, and the wheels of the political machine seem to move with more harmony and ease by means of them. . . . All constitutions of government, however, are [ought to be?] valued only in proportion as they tend to promote the happiness of those who live under them.⁸⁰

In the *Lectures*, the only relevant passage is a passing reference under the general heading of "Police" to what may be regarded as a detailed phase of this function of government, the promotion of cleanliness, presumably of the streets.⁸¹

In the *Wealth of Nations* the discussion lacks somewhat in breadth, perhaps because it is merely incidental to Smith's discussion of the financial aspects of government. The public works and public institutions in this class, says Smith, "are chiefly those for facilitating the commerce of the society, and those for promoting the instruction of the people."⁸² He nowhere purports to give a complete list of the public works proper to government, but he mentions highways, bridges, canals, and harbors. In discussing the propriety of particular projects, however, he completely ignores the criterion he had laid down at the beginning of his discussion, namely, the impossibility of their being conducted profitably as private enterprises. The only reason he gives for his approval of government maintenance of the highways is that private management would not have a sufficient incentive to maintain them properly, and therefore could not be trusted to do so.⁸³ He apparently approves of government operation of canals, though he grants that they can be left safely in private hands,⁸⁴ and that they can be profitably managed by joint-stock companies.⁸⁵

The modern issue of the propriety of government participation in commerce and industry is dealt with by Adam Smith almost solely from the viewpoint: Can the government make a net revenue out of it? He takes coinage for granted as a gov-

⁸⁰ *Theory of Moral Sentiments*, pp. 163-64.

⁸¹ *Lectures*, p. 154.

⁸² *Wealth of Nations*, II, 214.

⁸³ *Ibid.*, II, 217.

⁸⁴ *Ibid.*, II, 217.

⁸⁵ *Ibid.*, II, 247.

ernment function without considering any possible alternative. He apparently approves of government operation of the post-office, but if so, the only ground given is the ability of the government to manage it with successful financial results.⁸⁶ He in general disapproves of government ventures into business, but solely on the ground that the government is a poor trader and a poor manager. The public domain, except what may be needed for parks, should be disposed of, because the sovereign is a poor farmer and forester. Smith apparently could not read German, and makes no references to German literature. Knowledge of the success of some of the German principalities in managing the public domain, and in other phases of public administration, would perhaps have lessened Smith's opposition to government ventures into industry. The modern advocate of laissez faire who objects to government participation in business on the ground that it is an encroachment upon a field reserved by nature for private enterprise cannot find support for this argument in the *Wealth of Nations*.

Of government "institutions," other than public works, intended to facilitate commerce, Smith opposes legal monopolies in general, though he concedes the validity of a temporary monopoly when a trading company undertakes, at its own risk and expense, to establish a new trade with some remote and barbarous nation, and he indicates that he approves for the same reason of the institutions of patent and copyright.⁸⁷

Smith supports the participation of the government in the general education of the people, because it will help prepare them for industry, will make them better citizens and better soldiers, and happier and healthier men in mind and body. Public education is made necessary to check as far as may be the evil effects on the standards, mentality, and character of the working classes of the division of labor and the inequality in the distribution of wealth.⁸⁸ Here once more Smith draws a picture of the economic order under the system of natural liberty which is quite different from that beatific state which he dreamed about in the *Theory of Moral Sentiments*.

It is quite probable that Smith overlooked some current ac-

⁸⁶ *Ibid.*, II, 303.

⁸⁷ *Ibid.*, II, 245.

⁸⁸ *Ibid.*, II, 267 ff.

tivities of government to which he would have given his approval if they had been called to his attention. The absence, for instance, in the *Wealth of Nations* of any discussion of poor relief as a public function has often been commented upon, and is generally regarded as having been due to oversight. But we have not yet revealed the full extent to which Smith showed himself prepared to depart from a rigid policy of laissez faire. The one personal characteristic which all of his biographers agree in attributing to him is absent-mindedness, and his general principle of natural liberty seems to have been one of the things he was most absent-minded about. We have already seen that in his more systematic discussion of the functions of government, Smith made important concessions to the possibility of government promotion of the general welfare through public works and institutions. In stray but frequent moments of intimate contact with facts apparently hostile to the principle of natural liberty, Smith conveniently forgot the principle and went beyond the limits set in his formal discussion to the proper activities of government. In arguing for the duty of government to support educational institutions which promote the martial spirit of the people, Smith incidentally concedes that "it would deserve its most serious attention to prevent a leprosy or any other loathsome and offensive disease, though neither mortal nor dangerous, from spreading itself among them,"⁸⁹ from which it may reasonably be inferred that he would even more strongly support public action taken to prevent the spread of dangerous diseases, and thus would include public hygiene among the proper functions of government. In many instances Smith supported government restrictions on private initiative where neither justice nor defense was involved, and where the sole aim was to improve upon the direction which private initiative gave to the investment of capital, the course of commerce, and the employment of labor. He supported the compulsory registration of mortgages,⁹⁰ and he wrote approvingly of colonial laws which promoted agricultural progress by checking the engrossing of land.⁹¹

To the great indignation of Jeremy Bentham, he approved

⁸⁹ *Ibid.*, II, 272.

⁹⁰ *Ibid.*, II, 347.

⁹¹ *Ibid.*, II, 73.

of the prevailing restriction of the maximum rate of interest to 5 per cent, on the ground that if a higher rate were current, "the greater part of the money which was to be lent, would be lent to prodigals and projectors, who alone would be willing to give this high interest. . . . A great part of the capital of the country would thus be kept out of the hands which were most likely to make a profitable and advantageous use of it, and thrown into those which were most likely to waste and destroy it."⁹² We may be inclined to agree with Bentham that this is an inadequate defense of the usury laws, but what makes it significant for our purposes is that it involves an admission on Smith's part that the majority of investors could not be relied upon to invest their funds prudently and safely, and that government regulation was a good corrective for individual stupidity.

Smith also makes several concessions to the mercantilistic policy of regulation of the foreign trade. He admits that there are circumstances under which export restrictions on corn may be warranted;⁹³ he approves of a moderate export tax on wool on the ground that it would produce revenue for the government and at the same time would afford an advantage over their foreign competitors to the British manufacturer of woolsens;⁹⁴ he favors moderate taxes on foreign manufactures, which would still give to domestic workmen "a considerable advantage in the home market."⁹⁵

Smith recommended that rents in kind should be taxed more heavily than money rents, because "such rents are always more hurtful to the tenant than beneficial to the landlord."⁹⁶ He would tax rent from leases which prescribe to the tenant a certain mode of cultivation more heavily than other rent, in order to discourage the practice of making such leases, "which is generally a foolish one."⁹⁷ He would tax at more favorable rates the landlord who cultivates a part of his own land, because it is of importance that the landlord, with his greater command of capital

⁹² *Ibid.*, I, 338.

⁹³ *Ibid.*, II, 41.

⁹⁴ *Ibid.*, II, 152.

⁹⁵ *Ibid.*, II, 367. Smith may, however, have supported such taxes as an alternative to the existing higher taxes and prohibitions of import, and not as preferable to free import.

⁹⁶ *Ibid.*, II, 316.

⁹⁷ *Ibid.*

and his greater willingness and capacity to try experiments, should be encouraged to take an active part in agriculture.⁹⁸ He would penalize by heavier taxation the landlord who capitalizes a part of the future rent, because this is usually the expedient of a spendthrift, is frequently hurtful to landlord and tenant, is always hurtful to the community.⁹⁹ Shortly thereafter, however, Smith returns to *laissez faire*: "The principal attention of the sovereign ought to be to encourage, by every means in his power, the attention both of the landlord and of the farmer; by allowing both to pursue their own interest in their own way, and according to their own judgment."¹⁰⁰

Smith gives a little support to the use of the taxing power as what would now be called "an instrument of social reform." He approves of a tax on the retail sale of liquor so adjusted as to discourage the multiplication of little alehouses,¹⁰¹ and of a heavy tax on distilleries as a sumptuary measure against spirituous liquors, especially if accompanied by a reduction in the tax on "the wholesome and invigorating liquors of beer and ale."¹⁰² He supports heavier highway tolls upon luxury carriages than upon freight wagons, in order that "the indolence and vanity of the rich [be] made to contribute in a very easy manner to the relief of the poor."¹⁰³ He asserts that "the gains of monopolists, whenever they can be come at [are] certainly of all subjects the most proper" for taxation.¹⁰⁴ The modern single-taxer finds support for his cause in Smith's argument for the special taxation of land values. "Ground-rents, so far as they exceed the ordinary rent of land, are altogether owing to the good government of the sovereign. . . . Nothing can be more reasonable than that a fund which owes its existence to the good government of the state, should be taxed peculiarly, or should contribute something more than the greater part of other funds, towards the support of the government."¹⁰⁵ He lends mild support to the principle of progressive taxation: "It is not very unreasonable

⁹⁸ *Ibid.*¹⁰² *Ibid.*, II, 375.⁹⁹ *Ibid.*, II, 315.¹⁰³ *Ibid.*, II, 216.¹⁰⁰ *Ibid.*, II, 318.¹⁰⁴ *Ibid.*, II, 377.¹⁰¹ *Ibid.*, II, 337.¹⁰⁵ *Ibid.*, II, 329.

that the rich should contribute to the public expence, not only in proportion to their revenue, but something more than in that proportion.¹⁰⁶

Though there is nowhere in Smith's writings a general discussion of the possibilities of voluntary co-operation, he makes clear that he did not hope for much good from it. Making a reasonable inference from past experience, but a bad forecast of the subsequent trend, he saw in the joint-stock company very limited promise even for money-making purposes.¹⁰⁷ It was his verdict that the corporate guilds had failed to promote good workmanship.¹⁰⁸ Exception being made for the Presbyterian church, he saw even in religious associations much to blame.¹⁰⁹ About the only types of voluntary association in which Smith saw a high degree of effectiveness in accomplishing their purposes were associations of merchants and manufacturers to exploit the consumer and of masters to exploit the worker.

Adam Smith was not a doctrinaire advocate of laissez faire. He saw a wide and elastic range of activity for government, and he was prepared to extend it even farther if government, by improving its standards of competence, honesty, and public spirit, showed itself entitled to wider responsibilities. He attributed great capacity to serve the general welfare to individual initiative applied in competitive ways to promote individual ends. He devoted more effort to the presentation of his case for individual freedom than to exploring the possibilities of service through government. He helped greatly to free England from the bonds of a set of regulatory measures which had always been ill advised and based on fallacious economic notions, but he did not foresee that England would soon need a new set of regulations to protect her laboring masses against new, and to them dangerous, methods of industrial organization and industrial technique. Smith was endowed with more than the ordinary allotment of common sense, but he was not a prophet. But even in his own day, when it was not so easy to see, Smith saw that self-interest and competition were sometimes treacherous to the

¹⁰⁶ *Ibid.*, II, 327.

¹⁰⁸ *Ibid.*, I, 131.

¹⁰⁷ *Ibid.*, II, 246.

¹⁰⁹ *Ibid.*, II, 273 ff.

public interest they were supposed to serve, and he was prepared to have government exercise some measure of control over them where the need could be shown and the competence of government for the task demonstrated. His sympathy with the humble and the lowly, with the farmer and the laborer, was made plain for all to see. He had not succeeded in completely freeing himself from mercantilistic delusions, and he had his own peculiar doctrinal and class prejudices. But his prejudices, such as they were, were against the powerful and the grasping, and it was the interests of the general masses that he wished above all to promote, in an age when even philosophers rarely condescended to deal sympathetically with their needs. He had little trust in the competence or good faith of government. He knew who controlled it, and whose purposes they tried to serve, though against the local magistrate his indictment was probably unduly harsh. He saw, nevertheless, that it was necessary, in the absence of a better instrument, to rely upon government for the performance of many tasks which individuals as such would not do, or could not do, or could do only badly. He did not believe that laissez faire was always good, or always bad. It depended on circumstances; and as best he could, Adam Smith took into account all of the circumstances he could find. In these days of contending schools, each of them with the deep, though momentary, conviction that it, and it alone, knows the one and only path to economic truth, how refreshing it is to return to the *Wealth of Nations* with its eclecticism, its good temper, its common sense, and its willingness to grant that those who saw things differently from itself were only partly wrong.

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