

He has most of the stuff there. It is quite a good and a studious book. He doesn't make Hume quite as exciting as I think Hume ought to be made, but his remarks are sagacious and helpful, usually very helpful, to any of you to whom I have been too superficial or too brief or too given to asides.

NOTE

1. Robbins presumably calls this "essay 3" because it is the third of Hume's economics essays which he is discussing in his lecture. However, this essay is in fact essay 5 in Green and Grose, vol. 1.

General Survey of Smith's Intentions— *The Wealth of Nations: Analytical (I)*

IT IS TIME to catch up, just at the point at which these lectures become, I won't say respectable, but less negatively respectable than they were. That is to say that I am going to lecture to you for two or three lectures on Adam Smith and the beginnings of classical economics.

I won't assume, as I did with Hume, that all self-respecting people will know the details of the life of Adam Smith, and I can rehearse the leading events very quickly. Let me get the dates right. He was born at a place north of the Firth of Forth called Kirkcaldy, which must have been a much more agreeable spot than it is nowadays. I once went up to try to buy a printing works there, and the shade of Adam Smith wasn't particularly evident. He was born in Kirkcaldy in 1723. His father was a civil servant of kinds. Adam Smith studied at Glasgow University under the "never-to-be-forgotten" Francis Hutcheson, of whom I was talking to you last time. He studied from 1737 to 1740, and then he had the good fortune, or the misfortune, to get a Snell Exhibition to Balliol College, Oxford, where he lived from 1740 to 1747. What he did there is to some extent veiled in mystery; his correspondence isn't very revealing. We know that he thought extremely poorly of the educational arrangements at Oxford: At the University of Oxford the professors have long ago abandoned "even the pretence of teaching," he says in the *Wealth of Nations* [Smith, 1776, vol. 2:251].

He must have made pretty good use of his time in the libraries there because he emerged an extremely well-read man, and from 1746 to 1750 he was a sort of extension lecturer at Edinburgh, which then, as now, was so to speak, the capital city of Scotland and the home of perhaps 40 percent of the intellectual life—the other 40 percent being at Glasgow and leaving 20 percent scattered about the country. In 1751, he was made Professor of Logic at Glasgow, but in 1752, the Chair of Moral Philosophy having become vacant, he transferred from logic to moral philosophy, and the lectures that he gave there, of which we now have two sets of student notes, covered political economy incidentally.

When Adam Smith was dying he summoned his executors and exhorted them to burn all his papers except sundry philosophical papers. But student notes were discovered by Cannan in 1896, and a second set of student notes was discovered in Aberdeen in the fifties and are now published in the very expensive but very scholarly book issued in celebration of the bicentenary of the *Wealth of Nations* by the University of Glasgow [Smith,

1778]. In 1759—this is an important date—he worked up that part of his lectures which dealt with moral philosophy, a work which would have made him famous even if he had not written the *Wealth of Nations*—namely, the celebrated *Theory of Moral Sentiments*.

In 1764 he gave up his Chair halfway through the session. Townshend, the famous politician who was responsible in many ways for the quarrel with the American colonies, persuaded Adam Smith to accompany the young Duke of Buccleuch on a journey in France. The better-to-do people, more right-thinking people, among the aristocrats who ruled the country in those days for the most part, despairing of getting their sons a good education at the English universities, used to send their sons on continental trips which lasted two or three years, and for the most part they came back, if they had aesthetic tastes, loaded with works of art. Much of the richness of the artistic heritage of this country comes from the trips of the young British aristocrats in Italy and elsewhere. Townshend thought that the young Duke of Buccleuch, who seems to have been a nice chap and a virtuous man, might acquire bad habits if he were abroad unaccompanied, and he conceived the—from the Duke of Buccleuch's point of view—marvellous idea of getting this famous professor to be his companion.

And they stayed in France for some time, and it was there that Adam Smith made the acquaintance of the physiocrats. And he got on quite well with them. He thought well of Quesnay, and it is rumoured that if Quesnay had not been dead—I think I said this before—Adam Smith intended to dedicate the *Wealth of Nations* to him. Not that he agreed with him, but he had a respect for his character and for his intellect.

In 1766 the Buccleuch family pensioned Adam Smith off, and for ten years he spent his time between Kirkcaldy, London and Edinburgh, writing the *Wealth of Nations*, which was published in 1776—a date which is famous for other reasons to those of you who come from abroad, and which also saw the publication of the first of Jeremy Bentham's works. It was an *annus mirabilis* in many ways. In 1778 Adam Smith was made a Commissioner of Customs, and in 1790 he died.

As you can see, it was a comparatively uneventful life. He seems to have got lost when he was a child, and he was recovered without any damage done, but academically it was about as favourable as can be conceived. He was a great friend of David Hume. Some of Hume's best letters are written to Adam Smith, and Hume's best letters are among the best letters in the language.¹ Adam Smith was a great influence in the University of Glasgow. He was apparently quite a good administrator, and highly respected by his colleagues and by his students.

Have I told you the story of his retirement? Well, he retired halfway through a session in order to accompany the Duke of Buccleuch, and this weighed on his conscience very much. He made arrangements for a substitute—a good substitute, in his judgement—but he thought that the students, who in those days paid fees to the lecturers, were not getting a fair

deal, and so at his last lecture he lugged along a bag of silver. And he announced to the students that compelling reasons necessitated his retirement and that his place would be taken—and worthily taken, I daresay he said—by his successor. But he felt that they had not got value for money out of him, and he proposed therefore to give them back a proportionate amount of their fees. And apparently they said, "Oh dear Mr Smith, we love you so. We really don't want the fees back," and he was so distressed at this that eventually they agreed, and they filed up to the rostrum, and he dropped in the hands of each of the students a proportionate repayment of the fees.

He was in many respects an absent-minded man. He was a bad correspondent. He was a companionable, a clubbable man. He belonged to clubs in Glasgow where he had very worthy intellectual companionship. He belonged also to clubs in Edinburgh, and he was sometimes apt to interrupt the conversation by saying out loud that he thought that some person was talking nonsense.

I must correct an impression that you may get from reading Schumpeter. You know how much I admire Schumpeter's book, but Schumpeter wasn't so careful about facts as he ought to have been. And Schumpeter had a down on Adam Smith, not that he didn't realise the importance of the *Wealth of Nations*, but, Schumpeter-wise, he wanted slightly to denigrate it, to say that it contained no original thoughts [Schumpeter, 1954, pp. 184–86], and that his handling of the world of reality was a bit—what shall I say?—stepmotherly. And Schumpeter [ibid., p. 182] actually says that it is noticeable that there was no woman in his life except his mother. Now, if Schumpeter had taken the trouble to read Dugald Stewart's [1811] biographical sketch, published after Adam Smith's death, he would have known that there was a lady to whom Adam Smith was very attached for many years, and his friends always were surprised that in the end it didn't end in marriage. He also, when he was a young man, went about with a girl called Jeanie, and that didn't come to anything either. Perhaps Jeanie was not a particularly fascinating person, or at any rate drifted off. Adam Smith and his mother went to a ball and Jeanie was there, and Adam Smith didn't recognise her. And his mother said to him, "Adam, don't you realise that this is your ain-Jeanie?" So there he was—a rather lovable character, and he put political economy on the world map as a serious subject.

If you read French works of the nineteenth century, you will find that the authors are inclined to think that Adam Smith got his system from the physiocrats, but that was before Cannan's discovery of the student's notes, and the later discovery at Aberdeen of other student's notes. These are very good students' notes; the Cannan discovery is extremely well written. God grant that notes taken in this institution are half as good as the students' notes of Adam Smith's lectures on jurisprudence and political economy. These lectures, which were delivered before he went to France and mixed

with the physiocrats, and other evidence which is produced in Scott's quite important book on *Adam Smith as Student and Professor* [1937], make it quite clear that the main parts of his system were discovered before he knew the physiocrats. But it may very well be that from the physiocrats or from Turgot he was inspired to write parts of book 2, particularly those parts which depict capital as advances. And it may well be that he derived more, I think, from the physiocrats, whom he liked but whom he thought were wrong, and that he derived more from Turgot, although again Turgot's dialogue, which I explained to you, was not published until the late 1760s, and the students' notes show that the system was elaborated before then.

Well now, let's begin to tackle the *Wealth of Nations*. And first of all, I want you to realise the mixed nature of the *Wealth of Nations*. And I can best convey that to you by reading to you the titles of the five books. The first book is called—you needn't take notes about this because you will all be reading book 1—"Of the Causes of Improvement in the productive Powers of Labour, and of the Order according to which its Produce is naturally distributed among the different Ranks of the People." Book 2 is called "Of the Nature, Accumulation, and Employment of Stock." Book 3, "Of the different Progress of Opulence in different Nations." Book 4, which occupies a tremendous space, "Of Systems of political Economy"—the mercantile system and the agricultural system, as he called it, of the physiocrats. And book 5 is called "Of the Revenue of the Sovereign or Commonwealth."

Well, you can see from that list of contents that Adam Smith's *Wealth of Nations* is not wholly or nearly scientific, in the sense that Cantillon's *Essay on Commerce* was almost 99 percent detached and scientific. Book 3, *Of the different Progress of Opulence in different Nations*, contains a normity of overtone. It is clear what he thinks that the progress ought to have been, and how it had been stopped at different stages. And book 4, *Of Systems of political Economy*, is overtly polemical. Adam Smith was out to kill the mercantile system and all the regulations which went with it. And you can see that the scientific part of his book, although, once he comes airborne, is pretty candid and scientific, had an overtone of controversy, in it in that, since he was anxious to kill the mercantile system and abolish all sorts of regulations, he was anxious to set out in a systematic way how the economic system worked in the absence of the mercantile system, or how it would work in the absence of the agricultural system. But the agricultural system, in his judgement, was never likely to come into being.

But now, I put this first lest you should say that, in the lengthy discussion that I'm going to give to the scientific foundations of classical political economy, I have concealed from you the background of the controversy and controversial sections. But you will go completely wrong if you write off the *Wealth of Nations* simply as a polemic, simply as an apologia for a bourgeois society which was coming into being, and so on and so forth. It

was the work of a profound thinker anxious to discover the nature of things. And once he was embarked on the discovery, then an impulse to tell the truth as he saw it, whether it was favourable or not, inspired his writing. And lastly I would say, on this mixture of polemic and scientific work, that it is not without significance that Smith is appealed to not only by the classical economists, but by Marxian economists, by nationalist economists—by almost all schools of thought which have succeeded the writing of the *Wealth of Nations*.

Well now, let us now get down to the scientific side of it. The main content of the scientific side of it—and here I am being a spot controversial; not all historians of economic thought would put it this way, but I am saying to you that in my opinion the main content of the *Wealth of Nations* is a theory of productive organisation and a theory of the causes of economic growth. Some people will fasten attention on the theory of value and distribution. And it is true that the theory of value and distribution in book 1, and some parts of the theory of money and capital in book 2, have attracted most attention among theoretical economists. But my own belief, which has grown through years of reading and thinking about the *Wealth of Nations*, is that you get the perspective wrong if you focus too much—even I may have done this in earlier lectures or earlier footnotes—on the value and distribution side, although I'm going to give you quite a strong dose of value and distribution in a moment.

The scientific content can be more broadly summarised by saying that the first book lays it down that growth depends on the division of labour, and the division of labour is organised by the market and the force of what he called self-interest. And the scientific part of the second book is devoted to explaining how the possession of stock facilitates the division of labour—promotes it—and the accumulation of stock promotes the increase. It also contains Adam Smith's analysis of money, which he covers under the heading of capital. Now, you must put up with this, and I'll try to make it as interesting as I can, but we must go through books 1 and 2 in greater detail.

The book starts with an introduction and plan, which I think you should all read, and which I won't read to you. But book 1, which, as I have said, deals with the improvement of the productive powers of labour and the order according to which it is distributed, begins with the most famous chapter in political economy, possibly chapter 1, "Of the Division of Labour." And the first sentence runs: "The greatest improvement in the productive powers of labour, and the greater part of the skill, dexterity, and judgment with which it is any where directed, or applied, seem to have been the effects of the division of labour" [Smith, 1776, 1:5].

And then comes an example which has become very famous, and which he probably got from the French encyclopedia—not this application of it, but the technology involved. He takes the example of pin-making and shows how if labour is appropriately divided between casting the pins and

casting the head and then fitting the two together and so on and so forth, many times as much pins can be produced per man in an institution practising the division of labour than could be produced if each man applied himself to all the operations necessary for doing the division of labour. Well, you should all read that.

On page 9 of Cannan, however, he sums up the causes of the increase of the quantity of work which, in consequence of the division of labour, the same number of people are capable of performing. It

is owing to three different circumstances: first, the increase of dexterity in every particular workman; secondly, to the saving of time which is commonly lost in passing from one species of work to another; and lastly, to the invention of a great number of machines which facilitate and abridge labour, and enable one man to do the work of many. [ibid., 1:9]

Now, there are two comments to be made on this enumeration. First of all, contrast it with Plato, who emphasises the genetic factors—the inborn differences between people. I dwell upon that sufficiently. Adam Smith, following the tradition of the eighteenth-century enlightenment, and following Locke in this particular respect, thought that we all come into the world with, roughly speaking, equal potentiality, and what happens afterwards is a matter of education and experience—a thought which did him credit, but which was not, I think, exactly right. Don't think I underestimate the importance of experience and education. Don't think that I want to thrust down your throats the genetic differences, about which we know very, very little indeed, and most people who talk about them are frauds. But there it is.

The second comment I have to make is that he omits what a minor classical economist called Torrens [1833] called the territorial division of labour—the differences in the division of labour which derive from the fact that different parts of the earth's surface are differently suited for different kinds of activity—agricultural and industrial and commercial and so on and so forth. But he deals with that splendidly later on when he is dealing with the mercantile system.

And then he broadens out, and he gives you an extensive view of what the division of labour really means for society in general. The pin factory is often quoted as being his proof of the advantages of the division of labour, but the last paragraph of chapter 1 is much, much more important than that, and I propose to read you extracts from it:

Observe the accommodation of the most common artificer or day-labourer in a civilised 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 work-

men. The shepherd, the sorter of the wool, the wool comber or carder, the dyer, the scribbler, the spinner, the weaver, the fuller, the dresser, with many others, must all join their different arts in order to complete even this homely production. How many merchants and carriers, besides, must have been employed in transporting the materials from some of those workmen to others who often live in a very distant part of the country! how much commerce and navigation in particular, how many shipbuilders, sailors, sail-makers, rope-makers, must have been employed in order to bring together the different drugs made use of by the dyer, which often come from the remotest corners of the world! [Smith, 1776, 1:13]

And then—I am missing out a lot in order to save time—

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. Compared, indeed, with the more extravagant luxury of the great, his accommodation must no doubt appear extremely simple and easy; and yet it may be true, perhaps, that the accommodation of an European prince does not always so much exceed that of an industrious and frugal peasant, as the accommodation of the latter exceeds that of [kings in other parts]

—I am paraphrasing, lest this terminology should give offence to any of you—

the absolute master of the lives and liberties of ten thousand [of his subjects]. [ibid., 1:14]

The last sentence is a little watered down, since this is an international institution and he was writing about the eighteenth century.²

Now, chapter 2 is just as important. And he thinks that the division of labour—from which we get so many advantages which really, as he depicts it, given an apparatus of justice and law and order and so on and so forth, is the thing which binds a society together, whether justly or unjustly—is the basis of the economic aspect of the civilisation. And he thinks that this arises from a propensity in human nature—a “propensity to truck, barter, and exchange one thing for another” [ibid., 1:15]. And then he goes on with a rather dubious remark that “Nobody ever saw a dog make a fair and deliberate exchange of one bone for another with another dog” [ibid.], to which Cannan, who was something of a wit, says in a footnote: “It is by no means clear what object there could be in exchanging one bone for another” [ibid., at note 2].

But he then goes on to say that

A puppy fawns up on its dam, and a spaniel endeavours by a thousand attractions to engage the attention of its master who is at dinner, when it wants to

be fed by him. Man sometimes uses the same arts with his brethren, and when he has no other means of engaging them to act according to his inclinations, endeavours by every servile and fawning attention to obtain their good will. He has not time, however, to do this upon every occasion. In civilized society he stands at all times in need of the co-operation and assistance of great multitudes. . . . In almost every other race of animals each individual, when it is grown up to maturity, is entirely independent, and in its natural state has occasion for the assistance of no other living creature. But 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. [ibid., 1:15-16]

And notice that the self-love is on the side of the chap or lady from whom he wants to get something. "His favour" clearly means his immediate circle, his family.

As Wicksteed says in his *Commonsense of Political Economy* [1910], which probably most of you haven't read nowadays, the important aspect of Adam Smith's emphasis on self-love, as he calls it, is the non-tuism of the person with whom he bargains. He doesn't interest himself—he may, but he doesn't necessarily, interest himself—in what the person with whom he's bargaining is doing with his family. He may be interested in all sorts of things with which he favours his family and wider circles in society. We'll talk more about self-love later on.

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 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. [Smith, 1776, 1:16]

Well, I see that the time is up and perhaps that is a piquant way in which to end this particular proposition, but I shall be going on to talk about self-interest and the market and the width of the market tomorrow, and then I shall get on to value and distribution.

NOTES

1. See Hume (1932; 1954).
2. The actual phrase used by Smith is "exceeds that of many an African King, the absolute master of the lives and liberties of ten thousand naked savages."

The Wealth of Nations: Analytical (II)

THE LECTURE yesterday was interrupted by the fire alarm, and consequently I had to break off just at the point at which the most interesting developments of the *Wealth of Nations* were becoming obvious. Let me recapitulate that chapter 2 of book 1 is headed "Of the Principle which gives Occasion to the Division of Labour," and the famous passage dwells upon the fact that, although if one is closely allied in friendship within one's family or in one's circle, one can obtain scarce commodities by way of gift or common use, that in a civilised society most of us are in need of scarce commodities, goods and services which are the produce, as had been explained in chapter 1 of the *Wealth of Nations*, of thousands and thousands of people, and it is the impersonal relationship of exchange which provides the incentive to division of labour: "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. . . . 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" [Smith, 1776, 1:16]. Now, let me dwell on this just a little bit.

I was explaining this to you in the last lecture by reference to Wicksteed's extensive discussion of the meaning of self-love in this part of the classical analysis, dwelling upon the fact that the person negotiating a purchase may be interested in his own welfare—self-love—in his family welfare—family love—in his circle of intimate friends—friendship—or he may be interested on behalf of people with whom he hasn't the same friendly interest. It's notorious, if you are at all worldly wise, that the people who make the hardest bargains in contemporary life are people who are executors of other peoples' wills, or who are trustees of charitable foundations. And why? Because in that case you are not free to indulge yourself in relatively disinterested action; you are under instructions by the trust or by the will. Well, that relationship—the relationship in exchange described by Adam Smith—was described by Wicksteed as "non-tuism," and that, I think, is all that needs to be said about that.

But I was asked a question as I came out whether Adam Smith did actually think that all actions in society were conducted on the basis of this enlarged conception of self or family or trust interest. And the answer is "No." The answer is that if you look—which most of you won't do—at his other famous book, *The Theory of Moral Sentiments* [1759/1792], you will find that Adam Smith's chief conception of the criteria of moral action vis-à-vis one's fellows and so on and so forth is sympathy, and he judges, he sets out as a criterion of, right moral actions the estimate which would be

made of the motives and the effects of actions by an impersonal spectator. He creates the fiction of an impersonal spectator who is not interested on one side or the other, and that impersonal spectator is, in the last analysis, subject, if you like, to the rules of high heaven—in which Adam Smith was, in contradistinction to David Hume, a believer. Subject to the rules of high heaven, the impartial spectator was, so to speak, the criterion of moral action in general.

This is not to say that there is a contradiction between *The Theory of Moral Sentiments* and the *Wealth of Nations*. If challenged, I have absolutely no doubt at all that Adam Smith would have said, in regard to the organisation of production and the division of labour, that the impartial spectator would judge that social utility was best served by the exchange relationship, and the exchange relationship is as I have described it. However, this is a matter on which controversy has prevailed, and my point of view may not be right, although it's not one of the points of view about which I have any very great queasiness of conscience, I am bound to say.

The chapter goes on enlarging on the way in which the possibility of exchange gives rise to the division of labour, and then he divagates and talks about the differences of natural talent, which he had mentioned in chapter 1 as giving rise to the division of labour. And it's here that he says: "The difference between the most dissimilar characters, between a philosopher and a common street porter, for example, seems to arise not so much from nature, as from habit, custom, and education" [Smith, 1776, 1:17]. I am skipping an awful lot. "By nature a philosopher is not in genius and disposition half so different from a street porter, as a mastiff is from a greyhound, or a greyhound from a spaniel, or this last from a shepherd's dog" [ibid., 1:18].

Well, when I think of the difference between me and Einstein, I'm not at all sure that he's right, and I don't think that Einstein's genius, or the genius of Newton and many other people, arose simply from circumstances and education, although no doubt it played a part. I wouldn't have been an academic for so long if I didn't think that education was sometimes some good to some of you.

Well, now, chapter 3. This chapter is, I think, one of the most important chapters in the history of political economy, but I can summarise it very quickly. Indeed, the summary is given to you by the chapter heading: "That the Division of Labour is limited by the Extent of the Market." If you conceive a very small village community, for instance, isolated from the rest of the world, it is not worth anybody's while concentrating on a minute division of labour or inventing very expensive machines to serve a wide market. You have to have an extensive market in order to take account of, as it were, to use a modern phrase, the indivisibilities of character or machinery. Now, I say that's important because I have no doubt at all that the nineteenth-century classical economists would have acknowledged that it was obvious and, of course, that it was in the background of their

thoughts. But certainly in the twentieth century, in my young days in the 1920s and early 1930s, there arose discussions with regard to the nature of the firm, initiated by a very important article by Mr Sraffa in the *Economic Journal* [1926]. And there were infinite discussions concerning the conception of increasing returns—a downward-sloping supply curve within the firm. And tremendous ingenuity was displayed, as had been displayed by Marshall, criticising a proposition of Cournot's which I will explain to you next term. But all this was quite out of perspective until the contribution of the great American professor who presided over the Economics Department at the School of Economics from 1927 to 1929 and then died suddenly. He had been a Harvard professor—Allyn Young.

How many of you know the name of Allyn Young? Very few. But his influence on American economics during his lifetime was enormous. You only have to read the preface to Chamberlin's *Economics of Monopolistic Competition* [1933] to realise that. He was a man who on the whole published comparatively little, and he wasn't a popular lecturer. He used to hesitate a long time, and students at the School of Economics used to compile books on the intervals which would elapse between important sentences. But he was a truly great man, and he wrote what, in my opinion, is one of the most important articles to be published in the *Economic Journal*—namely, his presidential address to the British Association, delivered shortly before he died, on "Increasing Returns and Economic Progress" [Young, 1928]. He drew attention to this chapter of Adam Smith's, and drew attention to the fact that the important examples of increasing returns in modern manufacturing industry are constituted by the disintegration of firms. Just think, for instance, of the history of the automobile industry, the pioneers of this mode of travel, which takes us about quickly on Sundays but which hampers progress nowadays on weekdays. The pioneers assembled all their parts and put them together. The motor industry now covers a variety of different firms, each making one, two or three components of the complicated machines which now carry us about under that title. And of course a narrow theory of the firm—a geometrical theory of what happens within the firm—really gives you no idea of increasing returns as it takes place through society in general via the division of labour. And Young, in modern terms—I have been talking colloquially to you—drew attention to this and thus restored the perspective which economists should have preserved absolutely prominently in their minds after reading Adam Smith.

Chapter 3 goes on giving illustrations of the limitations of the division of labour by the extent of the market. And that I won't expatiate upon. Chapter 4 deals with "the Origin and Use of Money," and although it's quite a lively chapter and is, I think, quite important if you are concentrating on Adam Smith's theory of money, I will do nothing but mention it.

Chapter 5 is more important. It distinguishes between the real and the nominal price of commodities, the nominal price being their price in

money. Now, the fact of the variation in the value of money had been realised for centuries. The way that we use—an imperfect way—of distinguishing between money prices and real prices is by way of the device of index numbers, which as you know, at its most refined, has in it the element of the arbitrary and the approximation. It's essentially a sample and subject to all the reservations which beset a conscientious use of sampling theory. But in Adam Smith's day, index numbers had not been invented. They were first hinted at just shortly after Adam Smith's death, and only came into operation, really, halfway through the nineteenth century. So that Adam Smith, in this chapter, takes as his measure of real price, as distinct from nominal price, the price in labour terms, with all the qualifications that that involves and all the controversies to which his treatment gave rise when you came to Ricardian classical economics. Ricardo wanted to measure the real price by the quantity of labour expended. Adam Smith wanted to measure the real price by the quantity of labour which the commodity would command. And as Ricardo pointed out, there is all the difference in the world between those two measures. But this is an esoteric subject; I don't want to expatiate on this at this juncture—it would take a whole lecture. I will allude to it when I come to Ricardo. I draw your attention to its sequence in the development of Adam Smith's argument.

Much more important from my point of view in giving you an idea of Adam Smith's value and distribution theory and book 2 of the *Wealth of Nations* is chapter 6. With his emphasis on the importance of the market, its connection with the division of labour, behind him—his great achievement in Book 1—he then goes on to talk of “the component Parts of the Price of Commodities.” And here you have got to watch your step very carefully, because at the opening of the chapter he talks about primitive conditions:

In that early and rude state of society which precedes both the accumulation of stock and the appropriation of land, the proportion between the quantities of labour necessary for acquiring different objects seems to be the only circumstance which can afford any rule for exchanging them for one another. If

—and now this is a famous couple of sentences; it's often referred to as the parable of the beaver and the deer—

If among a nation of hunters, for example, it usually costs twice the labour to kill a beaver which it does to kill a deer, one beaver should naturally exchange for or be worth two deer. [Smith, 1776, 1:49]

Well, I hope that that's obvious to all of you. When you have an economy in which the only scarce factor service is unskilled labour, then the ratio of the quantities of labour expended provides a key to what Adam Smith calls the natural, and what we should call the normal, price. Those of you who like monkeying about with geometrical economics can easily draw it on the blackboard. I won't take time by doing it. If you do quantity of labour

necessary to kill a beaver on one axis and the quantity of labour necessary to kill a deer on the other axis, then if you draw a straight line connecting different points on the two axes, you have the production function, and wherever it is touched by an indifference curve you have the same price.

Then Adam Smith goes on to discuss differences of skill. And he doesn't really solve the problem, but he thinks that in the advanced state of society allowances must be made for superior hardship and superior skill. Those allowances, of course, are in value terms, and Adam Smith has begged the question by just casually treating it that way. But let us go on:

In this state of things, the whole produce of labour belongs to the labourer; and the quantity of labour commonly employed in acquiring or producing any commodity, is the only circumstance which can regulate the quantity of labour which it ought commonly to purchase, command, or exchange for. [ibid., 1:49–50]

Then he switches to an advanced society, a society in which real capital has been accumulated in one form or another—wage goods or machines or anything you like—and land has been appropriated. And then he switches to a value cost of production—a value cost of production—theory of natural price: “As soon as stock has accumulated in the hands of particular persons, some of them will . . . [wish] to make a profit by the sale of their work, or by what their labour adds to the value of the materials” [ibid., 1:50]. And the stockholder would “have no interest to employ [people], unless he expected from the sale of their work something more than what was sufficient to replace his stock to him” [ibid.,] so that you have profits emerging.

As soon as the land of any country has all become private property,

—and, inferentially, scarce—

the landlords, like all other men, love to reap where they never sowed, and demand a rent even for its natural produce. . . . This portion, or, what comes to the same thing, the price of this portion, constitutes the rent of land, and in the price of the greater part of commodities makes a third component part. [ibid., 1:51]

You will notice that I said that once Adam Smith became airborne, he was not arguing a particular case for a particular class of people. The passage in question, I think, shows that. Well, he expatiates on this. He distinguishes between the excess of outlay and receipts of common farmers, where he detects an element of remuneration for their labour as well as an element of remuneration for the stock that they employ and so on. Again, each of these chapters needs your earnest attention.

Chapter 7 deals not with the real or nominal prices of commodities—that was dealt with, his problem not having the index number partial solution to help him, and that I've left behind—but chapter 7 deals with “the

natural and market Price of Commodities." And he says that he has explained the natural price of commodities—he'd begun to explain it in the last chapter—and he sums up:

When the price of any commodity is neither more nor less than what is sufficient to pay the rent of the land, the wages of the labour, and the profits of the stock employed in raising, preparing, and bringing it to market, according to their natural rates,

—a hint of the distribution theory to come—

the commodity is then sold for what may be called its natural price.

The commodity is then sold precisely for what it is worth, or for what it really costs the person who brings it to market. [ibid., 1:57]

But prices are not always at their natural level, and the rest of the chapter is devoted to explaining the variations and the effect of the variations of actual market prices from natural or normal prices.

The market price of every particular commodity is regulated by the proportion between the quantity . . . brought to market, and the demand of those . . . willing to pay. [ibid., 1:58]

And he distinguishes the demand in the market, which is given by the incomes of the people who are in the market, and what he calls absolute demand:

A very poor man may be said in some sense to have a demand for a coach and six; he might like to have it; but his demand is not an effectual demand, as the commodity can never be brought to market in order to satisfy it. [ibid.]

And he then goes on to explain what happens when the market demand results in a price which is above the natural price, given, roughly speaking, competitive conditions. People will see an unusually high rate of profit and surge in until the increase of supply in relation to the demand brings the price down to something like the normal price. Conversely, if the state of demand is such that the market price is below the natural price, then some people will leave that particular kind of supply and new recruitment will cease, and consequently supply will eventually diminish, and so the market price will rise to the competitive normal price. Well, so much for chapter 7.

Chapter 8 deals with "the Wages of Labour" and is extremely perplexing until you reach halfway through. He says that the wages of labour tend towards subsistence level. And then he proceeds to explain it in terms of the weakness of the labourers, uncombined, vis-à-vis the strength of the employers who perhaps have not got an official combination but, according to Adam Smith, always tend to be in a tacit agreement to keep wages low. And he actually says:

We rarely hear . . . of the combination of masters, though frequently of those of workmen. But whoever imagines, upon this account, that masters rarely combine, is as ignorant of the world as of the subject. Masters are always and every where in a sort of tacit, but constant and uniform combination, not to raise the wages of labour above their actual rate. To violate this combination is every where a most unpopular action, and a sort of reproach to a master among his neighbours and equals. We seldom, indeed, hear of this combination, because it is the usual, and one may say, the natural state of affairs which nobody ever hears of. [ibid., 1:68-69]

And he then goes on to expatiate on this state of affairs.

But then he reverts to the supply side for a moment, and he says that of course masters can't force wages down below what is the subsistence level in the climate, and given the habits of the people in question: "A man must always live by his work, and his wages must . . . at least be sufficient to maintain him. They must even upon most occasions be somewhat more; otherwise it would be impossible for him to bring up a family" [ibid., 1:69]. And he expatiates on the fact that half the children born, it is computed, die before the age of manhood, so that the subsistence wage must make allowance for that.

But then he suddenly switches over—after all, the *Wealth of Nations* is essentially an empirical book as well as a speculative book—and he observed that wages were not at subsistence level in his own country, that they differed in different parts—in some parts they were very low, in other parts they were higher—and that in other countries they were sometimes far above subsistence level, and in other countries at subsistence level, and in other countries still, below subsistence level—giving rise to the most horrible state of affairs. And he then enunciates the reason why:

When in any country the demand for those who live by wages . . . is continually increasing; when every year furnishes employment for a greater number than had been employed the year before, the workmen have no occasion to combine in order to raise their wages. The scarcity of hands occasions competition among masters, who bid against one another, in order to get workmen, and thus voluntarily break through the natural combination of masters not to raise wages. [ibid., 1:70]

And so he unfolds.

In countries where accumulation is taking place, Smith sees a fairly cheerful prospect for mankind, as distinct from the very uncheerful prospect of the countries in which net accumulation is not taking place. And he says:

It is not the actual greatness of national wealth,

—by which he means national capital, not wages per head in this case—

but its continual increase, which occasions a rise in the wages of labour. [ibid., 1:71]

And then he gives the example of America, where wages were far in excess of subsistence level even in those days. And he also discusses other parts. He then gives the most terrible description of a stationary State, which he thought had existed in China,

long one of the richest, that is, one of the most fertile, best cultivated, most industrious, and most populous countries in the world. It seems, however, to have been long stationary. [ibid., 1:73]

And he then gives a description of the absolutely lamentable condition of the working population, and particularly in the neighbourhood of Canton, which he hadn't visited—he took his knowledge from various books that he had read. And then he goes on to take the case of Bengal, which had been in a state of more or less civil chaos for some time, with people living on past accumulation. Capital wealth was actually declining. The description of the state of Bengal, well, it's such that I won't read it aloud to you. But that is the declining State.

And having, so to speak, contrasted the United States of America and the neighbourhood of Canton and Bengal as progressive, stationary and declining States, he then says—and this is a famous paragraph—

It deserves to be remarked, perhaps, that it is in the progressive state, while the society is advancing to the further acquisition, rather than when it has acquired its full complement of riches,

—whatever he meant by that—

that the condition of the labouring poor, of the great body of the people, seems to be the happiest and the most comfortable. It is hard in the stationary, and miserable in the declining state. The progressive state is in reality the cheerful and the hearty state to all the different orders of the society. The stationary is dull; the declining melancholy [ibid., 1:83]

—which is putting it mildly. He goes on . . . —“Of the Wages of Labour” is a long chapter.

I can deal quickly with the remaining chapters of book 1. Chapter 9 is entitled “Of the Profits of Stock.” I will only point out to you at this stage that he thinks that “The rise and fall in the profits of stock depend upon the same causes with the rise and fall in the wages of labour, the increasing or declining state of the wealth of the society” [ibid., 1:89]. But as wealth increases, so Adam Smith explains the declining rate of profits in progressive society. He thought—and he thought rightly—that the rate of profit had declined since the Middle Ages. And that was that. I mention it thus briefly because I shall be coming back to Ricardo's very difficult theory of

profit, which was directed against this version of the theory of profits which you find in Adam Smith's chapter “Of the Profits of Stock.”

And in spite of what is said by the writers of cheap textbooks on the history of economic theory, he was not in favour of the merchants and manufacturers. The last section, page 100 of Cannan's edition, says:

Our merchants and master-manufacturers complain much of the bad effects of high wages in raising the price, and thereby lessening the sale of their goods both at home and abroad. They say nothing concerning the bad effects of high profits. They are silent with regard to the pernicious effects of their own gains. They complain only of those of other people. [ibid., 1:100]

That was not the utterance of the paid emissary of the rising bourgeoisie. You have to go back to the original texts, you know, to get the truth.

Chapter 10 is “Of Wages and Profit in the different Employments of Labour and Stock.” And this is a chapter which in a way has stood up to criticism much better than any of his other chapters. You all know how, in elementary lectures on economics, you were told to contemplate first of all a state of affairs in which labour and capital are completely mobile and consequently rates of wages are the same in all different industries and rates of profit are the same in all different industries, and then you are shown that there are differences of skill, differences of risk, differences of other elements in the environment than the earnings of wages or profits, and then you are given the picture of a tendency in a competitive society for an equality of net advantages, provided that there is sufficient equality. And then, following Adam Smith in part 2 of his chapter, you are told of the effects of various kinds of monopolistic restriction, both as regards the movement of labour and as regards the movement of capital. I won't insult an advanced class by expatiating on that, delicious though many of the side remarks are. He explains the comparatively low remuneration of the average lawyer by the inordinate conceit which people have of their own abilities. So that because the prizes of Queen's Counsel are very high, even at this day all sorts of people who never earned £100 arguing a case in a police court crowd into the industry, and then do occasional journalism and so on and so forth, and eke out their not very opulent existence because they have overestimated their own abilities in that particular line. Well, Adam Smith expatiates on that and on many other things.

Well then, at last we come to “the Rent of Land” [chap. 11], and again I will come back to this when I'm dealing with Ricardo. Adam Smith deals with the rent of land very thoroughly, and the descriptive method and historical material there is very good. He regards rent, however, as a component part of price. And when David Hume received the first edition of the *Wealth of Nations*, although he was dying, he took up his pen and said, “Bravo, Mr. Smith. You have done marvellously. Were we able to meet there are various little points I should like to take up with you. I rather

think that rent is a consequence of price rather than a cause of price."¹ Well now, Adam Smith had said occasionally in the long chapter on rent that rent differed slightly from wages and profits in some respects, not having a variable supply function. But that again I can deal with when I come to deal with classical economics in general.

Well, so much for book 1. I'm nearly caught up now. I shall be briefly dealing with book 2 in the first lecture next week, and I shall get on to Adam Smith on "Policy" halfway through that lecture.

NOTE

1. Paraphrase of parts of a letter from Hume to Smith, 1 April 1776, reprinted in Hume (1955, pp. 216-17).

The Wealth of Nations: Analytical (III)—Policy I

I RECOMMEND to you Professor Samuel Hollander's [1973] book on Adam Smith. He's one of our most distinguished academic alumni, and I am now reading his recently published book on Ricardo, and it makes me feel sorry for you that you have to listen to me rather than to Professor Hollander, who is so good. He really surpasses all previous historians of economic thought, especially on Ricardo [1979], but his book on Adam Smith is quite first rate. All of you who are specialising in this subject are recommended to read the relevant chapters of his books, at any rate. He gives you a good deal of background history so far as Adam Smith is concerned, and when you get on to Ricardo, although it's pretty stiff reading and it's 679 pages, I think, there are chapters in it which really throw a new light on Ricardo.

Now, last time I finished an extremely inadequate account of book 1 of the *Wealth of Nations*. I now want to go on to book 2, and that ought not to take so long. Book 2 is called "Of the Nature, Accumulation, and Employment of Stock," and it is quite as important in the history of economic thought as book 1. It starts with an introduction which lays it down that division of labour depends upon the accumulation and employment of stock, which is his name for what we should call real capital. And he explains that the "stock of goods of different kinds . . . must be stored up . . . sufficient to maintain [those who participate in a division of labour which is at all advanced, supplying] with the materials and tools of his work, till such time, at least, as both these events can be brought about" [Smith, 1776, 1.258].

Well, he then sets out what he's going to do in the different chapters, which I needn't elaborate. Then chapter 1 discusses the kinds of stock, and it is important because it contains a distinction between circulating capital and fixed capital, which is perfectly all right if you are thinking of the point of view of an individual firm, but is *wrong*, or unhelpful, if you are thinking of the economy as a whole. According to this distinction, circulating capital is capital which *captures* a profit by being sold, whereas fixed capital is something like a machine or a factory building which simply facilitates production, but which is not necessarily sold.

Well, that, of course, corresponds to a conversational usage among the directors of firms, and it is quite useful to keep one's head clear about the division of capital in any firm that one is in control of, based on this distinction. But as you can all see at once, it won't do for society as a whole because it depends entirely on the accidental degree to which production is

integrated. In a vertical integration, all sorts of things are of course passed forward from stage to stage which do not make a profit unless they are priced inside the firm, which is a very sophisticated method of modern management. But an integrated industry makes the profit that Adam Smith regards as being made on circulating capital only when you get to the end of the integration, and the product, which has undergone various vicissitudes as it is passed from the earlier part of the integration to a later part, is, on this definition, "fixed."

So, subsequent economists have not used Adam Smith's definition very much. They have rather made any distinction that they want to make between fixed and circulating capital depend upon the durability of the capital involved. This is a semantic matter; it's not a fundamental one, but it's quite important to bear it in mind to preserve yourselves from confusion when you are reading the different historic authors.

Well then, chapter 2 deals with "Money." He regards money as part of national capital and deals with the expense of maintaining it. But I don't myself think that what he says about money is particularly relevant to this part of my lectures. I shall refer back to Adam Smith on money when I come to certain controversies of nineteenth-century classicism.

Chapter 3, however, I must dwell on. Chapter 3 is entitled "Of the Accumulation of Capital, or of productive and unproductive Labour." And here he uses the same terms as the physiocrats, but whereas the physiocrats effectively applied the term *productive* only to agriculture, and some of them to extractive industry, Adam Smith uses it in an entirely different way, and let me read the opening sentences: "There is one sort of labour which adds to the value of the subject upon which it is bestowed: there is another which has no such effect. The former, as it produces a value, may be called *productive*; the latter, *unproductive labour*" [ibid., 1:313].

Well now, that has some analytical sense: the distinction between a consumption service, which perishes in the moment of its production, although it may be remunerated, and investment, whether in material objects or—well, the classical economists called it education—investment in human capital. And presumably they thought that lectures didn't perish in the moment of their production. Having been a lecturer for nearly sixty years of my life, I am not quite so sure.

And then there comes a comic paragraph which I must read to you, because it is one of the most famous paragraphs in Adam Smith's book 2:

The labour of some of the most respectable orders in the society is, like that of menial servants, unproductive of any value, and does not fix or realize itself in any permanent subject, or vendible commodity, which endures after that labour is past, and for which an equal quantity of labour could afterwards be procured. The sovereign, for example, with all the officers both of justice and war who serve under him, the whole army and navy, are unproductive labourers. They are the servants of the public, and are maintained by a part of the

annual produce of the industry of other people. Their service, how honourable, how useful, or how necessary soever, produces nothing for which an equal quantity of service can afterwards be procured. [ibid., 1:314]

I am not quite sure about that.

In the same class must be ranked, some both of the gravest and most important and some of the most frivolous professions: churchmen, lawyers, physicians, men of letters of all kinds; players, buffoons, musicians, opera-singers, opera-dancers, &c. The labour of the meanest of these has a certain value, regulated by the very same principles which regulate that of every other sort of labour; and that of the noblest and most useful, produces nothing which could afterwards purchase or procure an equal quantity of labour. Like the declamation of the actor, the harangue of the orator, or the tune of the musician, the work of all of them perishes in the very instant of its production. [ibid.]

Well, there you are. And Marx adopted that division, and I understand that it still figures in some Russian statistics.

But then he goes on to discuss the proportion between productive and unproductive labour as so defined. And this leads on to the proposition that productive labour is productive of capital, in some sense or other, and unproductive labour, while it may produce a revenue of consumption to those who enjoy it, is not productive of capital. And this leads him to expatiate at some length on the formation of capital: "Capitals are increased by parsimony"—saving—"and diminished by prodigality and misconduct."

Whatever a person saves from his revenue he adds to his capital, and either employs it himself in maintaining an additional number of productive hands, or enables some other person to do so, by lending it to him for an interest, that is, for a share of the profits. As the capital of an individual can be increased only by what he saves from his annual revenue . . . so the capital of a society, which is the same with that of all the individuals who compose it, can be increased only in the same manner. [ibid., 1:320]

Well, that's OK. It leaves out of account forced saving, for instance, which takes place in the early days of inflation, and it leaves out of account monetary complications of a like character.

But he then goes on to reassure people that saving does not mean a diminution of employment, and he says, in a very well-known sentence:

What is annually saved is as regularly consumed as what is annually spent, and nearly in the same time too; but it is consumed by a different set of people. That portion of his revenue which a rich man annually spends, is in most cases consumed by idle guests, and menial servants, who leave nothing behind them in return for their consumption. That portion which he annually saves, as for the sake of the profit it is immediately employed as a capital, is consumed in the same manner, and nearly in the same time too, but by a different set of

people, by labourers, manufacturers, and artificers, who re-produce with a profit the value of their annual consumption. [ibid.]

Now that fateful sentence leaves out entirely the possibility of variations in the velocity of circulation, which are the same as attempts to hoard. Now it is quite true, as Keynes pointed out (and many other people have pointed out too), that, provided that the quantity of money, either metallic or paper, in a community is constant, attempts to hoard will influence simply the volume of production and employment, but they won't diminish the amount of hoarded money in the community. The effect is on the velocity of circulation. But that is a very important effect: It is one of the ways in which we can partially explain fluctuations in trade and employment.

And this remark of Adam Smith's was emulated by the majority of the classical economists and found further development in the celebrated, but possibly misnamed, Say's Law. J. B. Say was a French economist of great distinction, who popularised Adam Smith and rearranged his exposition in a very French logical way, and who is an economist of stature. And the idea that aggregate supply must always be equal to aggregate demand has in modern jargon been described as Say's Law. And all sorts of people, great and small, have made some reputations for themselves by explanations why Say's Law doesn't always hold.

Well, if you read Professor Baumol [1977] in quite a recent number of *Economica*—I think it is 68—on the eight different meanings of J. B. Say, you will realise that J. B. Say did realise the possibility of hoarding, and he did realise all sorts of other possibilities, so that it's really rather a mistake to blame Say for mistakes into which James Mill fell—or at least I think that he fell—and which Ricardo certainly maintained from time to time, and indeed employed with tremendous effect in his arguments with Malthus about depressions and things of that sort. But there it is: Give a dog a bad name and it will stay with him. And I suppose this will go on being called Say's Law even though the history of economic thought shows that Say was not so guilty as other people.

Well, the rest of the book dwells on the benefits to society of accumulation, and it makes a distinction between private individuals and Governments. Adam Smith, being slightly Marxian at this moment—I may remind you, he was a Scotsman—Adam Smith thinks that private individuals on the whole tend to save, to make safeguard against the future, whereas he finds it extremely hard to believe that Governments save. On the contrary, Governments are always exceeding their revenue, and if only they would stop messing private individuals about, one need not worry about the accumulation of capital. But both Adam Smith and Hume, with the very, very small National Debt hanging about in those days, were very, very much worried by the prodigality of Governments, and both Adam Smith and Hume denounced the prodigality of Governments in no uncertain terms.

Then you go on to a chapter [chap. 4] on "Stock lent at Interest," which is interesting, but which employs no new concepts.

He then goes on in book 3 to suggest that the policies of States have distorted "the Natural Progress of Opulence," and he expatiates on "the Discouragement of Agriculture in the ancient State of Europe after the Fall of the Roman Empire." Then in chapter 3 he discusses "the Rise and Progress of Cities and Towns." In chapter 4 he discusses the mutual relationship of towns and country given in the policies of the State. That is all that I need to say about book 3.

In book 4 he talks about "Systems of political Economy." The introduction gives a new slant to political economy. Books 1, 2 and 3—although there is a spot of polemic in book 3—may be regarded as analytical, but book 4, "Of Systems of Political Economy," is polemical. He says:

Political economy, considered as a branch of the science of a statesman or legislator, proposes two distinct objects: first, to provide a plentiful revenue or subsistence for the people, or more properly to enable them to provide such a revenue or subsistence for themselves; and secondly, to supply the state or commonwealth with a revenue sufficient for the public services. It proposes to enrich both the people and the sovereign. [Smith, 1776, 1:395]

He adds:

The different progress of opulence in different ages and nations, has given occasion to two different systems of political economy, with regard to enriching the people. The one may be called the system of commerce,

—later on he calls it the mercantile system—

the other that of agriculture. I shall endeavour to explain both as fully and distinctly as I can, and shall begin with the system of commerce. [ibid.]

The system of commerce occupies the rest of chapter 1 and a good part of chapter 2, and I do not propose to go into it at great length, because, while it is of *immense* value to historians, as indicating the appraisal which Adam Smith made of various historical interventions and regulations, I do not think that it falls much within the compass of these lectures.

Chapter 1, which deals with "the Principle of the commercial, or mercantile System," inveighs against the idea that wealth consists in money, or gold and silver—a popular notion which naturally arises from the double function of money as the instrument of commerce. He then goes on to indicate that he disagrees with the mercantile or commercial system, which holds that it should be the object of commercial policy to secure a constant inflow of the precious metals. He thinks that the country which has no mines of its own must undoubtedly draw its gold and silver from foreign countries in the same manner as one that has no vineyards of its own must draw its wine. He thinks that that is all that there is to it. He is here relying on what I have already referred to in discussing Hume—the specie flow

hypothesis, which Hume expounded in a notable way. Adam Smith must have been acquainted with Hume's refutation, although he does not refer to it in the *Wealth of Nations*, which is felt to be something of a mystery. At any rate, he is not as good as Hume in that particular connection.

Chapter 2 discusses restraints on particular imports, and he thinks that the interests of various kinds of producers will guide them, and he uses some rather rocky arguments here about the amount that goes into foreign trade and our domestic trade. That leads up to his famous remarks about the invisible hand, which I must read to you, because you must all know about it:

the annual revenue of every society is always precisely equal to the exchangeable value of the whole annual produce of its industry, or rather is precisely the same thing with that exchangeable value. As every individual, therefore, endeavours 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

—he said earlier in the chapter that domestic industry tends to be more productive than foreign industry, which is very, very questionable if you apply it to particular historical instances—

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. 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. I have never known

—this is the so-called apologist for the bourgeoisie—

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. [ibid., 1:421]

Then he goes on to say that

The statesman, who should attempt to direct private people in what manner they ought to employ their capitals, would not only load himself with a most unnecessary attention, but assume an authority which could safely be trusted, not only to no single person, but to no council or senate whatever, and which would no-where be so dangerous as in the hands of a man who had folly and presumption enough to fancy himself fit to exercise it. [ibid.]

This passage is always quoted by those who describe Adam Smith as a laissez-faire extremist. Of course if you take it by itself, it sounds that way, but if you read on in the book you will find that he assigns all sorts of functions to the State which really distinguish him from those who regard laissez-faire as a dogma. I intend to go on to discuss that sort of thing in the next lecture. I will say on that passage only what I have said already: that, analytically, the part about the invisible hand directing people to domestic investment until domestic investment is less profitable than foreign investment is not frightfully convincing, although it seems clear that Adam Smith set some store by it. His praise of the invisible hand guiding self-interest when not supported by monopolistic restriction of one kind or another would have been very much better if he had not used that particular example. But perhaps this is esoteric stuff.

Let me go on to what he says about the physiocrats. There is only one chapter devoted to physiocracy, as distinct from many chapters devoted to details of the mercantile system. But his reaction to physiocracy is quite interesting and deserves just a little attention.

I have already introduced you to the chapter on physiocracy when I read to you Adam Smith's rather contemptuous appraisal of Colbert, a plodding man who was very efficient at looking after accounts, but who was not, in Adam Smith's opinion, efficient in managing the affairs of a great country because he devoted all his attention to fostering industry, and consequently left agriculture at a disadvantage. He goes on to say: "If the rod be bent too much one way, says the proverb, in order to make it straight you must bend it as much the other" [ibid., 2:162].

The French philosophers had been rather offputting so far as Hume was concerned—I think that I quoted to you the saying that they were of all men the most chimerical—but they rather attracted Adam Smith. And he says:

The French philosophers, who have proposed the system which represents agriculture as the sole source of the revenue and wealth of every country, seem to have adopted this proverbial maxim; and as in the plan of Mr. Colbert the industry of the towns was certainly over-valued in comparison with that of the country; so in their system it seems to be as certainly under-valued. [ibid.]

Then he goes on to explain the physiocratic system, which I have already tried to explain to you. He mentions the physiocratic table, which he obviously regarded with a certain amount of respect. He calls Quesnay's system "this liberal and generous system" [ibid., 2:170], but he thinks that "The capital error of this system . . . seems to lie in its representing the class of artificers, manufacturers and merchants, as altogether barren and unproductive" [ibid., 2:172]. He says that the following observations may serve to show the impropriety of this representation:

First, this class, it is acknowledged, reproduces annually the value of its own annual consumption, and continues, at least, the existence of the stock or capital which maintains and employs it. But upon this account alone the denomination of barren or unproductive should seem to be very improperly applied to it. We should not call a marriage barren or unproductive, though it produced only a son and a daughter, to replace the father and mother, and though it did not increase the number of the human species, but only continued it as it was before. . . .

Secondly, it seems, upon this account, altogether improper to consider artificers, manufacturers and merchants, in the same light as menial servants. The labour of menial servants

—and the Sovereign, I interpolate that—

does not continue the existence of the fund which maintains and employs them. Their maintenance and employment is altogether at the expence of their masters, and the work which they perform is not of a nature to repay that expence. That work consists in services which perish generally in the very instant of their performance, and does not fix or realise itself in any vendable commodity which can replace the value of their wages and maintenance. [ibid., 2:173]

And so on and so forth.

On the page before there is a slight dig at Quesnay, which I think is worth reading to you because it shows Adam Smith's much more eclectic attitude to the constitution of society and the possible control of society. He says:

Some speculative physicians seem to have imagined that the health of the human body could be preserved only by a certain precise regimen of diet and exercise, of which every, the smallest, violation necessarily occasioned some degree of disease or disorder proportioned to the degree of the violation. Experience, however, would seem to show, that the human body frequently preserves, to all appearance at least, the most perfect state of health under a vast variety of different regimens; even under some which are generally believed to be very far from being perfectly wholesome. . . . Mr. Quesnai, who was himself a physician, and a very speculative physician, seems to have entertained a notion of the same kind concerning the political body, and to have imagined that it would thrive and prosper only under a certain precise regimen, the exact regimen of perfect liberty and perfect justice. [ibid., 2:172]

Then after a few sentences he says:

If a nation could not prosper without the enjoyment of perfect liberty and perfect justice, there is not in the world a nation which could ever have prospered. In the political body, however, the wisdom of nature has fortunately made ample provision for remedying many of the bad effects of the folly and

injustice of man; in the same manner as it has done in the natural body, for remedying those of his sloth and intemperance. [ibid.]

Then he bestows a little praise on the system. He says of the agricultural system:

This system, however, with all its imperfections, is, perhaps, the nearest approximation to the truth that has yet been published upon the subject of political œconomy, and is upon that account well worth the consideration of every man who wishes to examine with attention the principles of that very important science. [ibid., 2:176]

Now, why did Adam Smith praise the physiocrats and Hume denigrate them, with the exception of Turgot? It was clearly because Adam Smith felt that the physiocrats, in the course of their analysis of the system as a whole, denounced all sorts of regulations—regulations which prevented the passage of corn from one district where it was plentiful to another district where there was famine, and so on and so forth. He felt that they were on to a good thing in emphasising the benefits of greater freedom of markets and greater freedom of individual enterprise. He did not agree with their definition of “productive” and “unproductive” labour; he felt that the economic table—not to use his words—was not as important as the invention of writing, or the wheel, or something of that sort. He thought that the physiocrats exaggerated its importance, but he thought that it was a liberal and generous system and deserved attention.

But he winds up book 4 with a very important passage, in which he says that the mercantile system, having proved its rottenness in various ways, and the agricultural system being shown to be defective in various ways, with “All [these] systems either of preference or restraint, therefore, being thus completely taken away, the obvious and simple system of natural liberty establishes itself of its own accord” [ibid., 2:184].

He then defines the system of natural liberty and that is very important, lest you should have got wrong ideas from superficial reading of the passage on the invisible hand:

According to the system of natural liberty, the sovereign has only three duties to attend to; three duties of great importance, indeed, but plain and intelligible to common understandings: first, the duty of protecting the society from the violence and invasion of other independent societies. [ibid., 2: 184–85]

He said earlier, in praising the navigation laws which confined various kinds of trade to British ships, that they had built up a powerful navigable force which was capable of being used for military purposes, and defence was more than opulence. He said that in the chapters on the mercantile system.

[S]econdly, the duty of protecting, as far as possible, every member of the society from the injustice or oppression of every other member of it, or the duty of establishing an exact administration of justice. [ibid., 2:185]

I think that Adam Smith was a bit wrong there in saying that justice was plain and intelligible to common understanding. Hume was more right when he drew attention to the fact that systems of justice—systems relating to property (in Hume's terminology) and contract—are extremely complicated, not capable of being written on two tablets of stone or anything of that sort, but demanding from very superior intellects the minute attention of a lifetime. But *thirdly*—and this is the one that I want you to keep in your heads—

and, thirdly, the duty of 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. [ibid.]

That third duty of the State is not the utterance of a dogmatic supporter of the police State or (was it Marx or Lassalle who called it) the "nightwatchman theory of the State."¹

What he thought about the duties of the State, and what he thought about public finance, I shall endeavour to compress within my lecture tomorrow, so as to be able to go on next week with the much more difficult nineteenth-century classicists.

NOTE

1. It was Lassalle.

The Wealth of Nations: Policy II

WE HAVE more or less caught up, and at the conclusion of my last lecture I read you Adam Smith's discussion of the functions of the State under the system of natural liberty, dwelling especially on the third function, which was for the State to carry out branches of enterprise or undertakings which it could never be to the profit of any individual or small collection of individuals to undertake, although it might be to the benefit of a large country.

The only thing I want to say about that is that I forgot as I was walking out of the room to exhort you to compare that definition of the functions of the State with that in Keynes' famous pamphlet *The End of Laissez-Faire* [1926]. I don't think at that stage Keynes, who was a marvellous man, but had an extremely bad memory—an *extremely* bad memory; it explains all sorts of things which have been ascribed to him for unrighteousness, and quite unfairly so—but he obviously hadn't read this last chapter of Adam Smith's fourth book, because his own definition of the functions of the State runs in almost the same words and it has exactly the same formal purport, although of course all sorts of things have happened since 1776, and I am inclined to say that any reasonable person would regard the specific functions of the State falling under this heading as meaning more in the twentieth century than they did in the eighteenth. Well, that's all that I want to say about the general enunciation.

But now I want this morning to talk to you about Adam Smith's elaboration in book 5 of the expenditure and regulations of the State and the various heads that they fall under, and to take a brief glance at public finance. So I had better get on with it.

Well, the beginning of book 5 deals with the first of the duties of the State in liberal circumstances, namely, defence. I am not going to dwell on that. He gives an interesting account of the evolution of defence from the time of the lowest and rudest state of society in which every man is a warrior as well as a hunter, and possibly a shepherd, to times which were modern at the time when he wrote the *Wealth of Nations*. And he dwells, not unnaturally, on the increased costs of defence since the invention of gunpowder and the greater specialisation of defence. And that doesn't involve economic analysis, and I pass on.

He then deals with the question of justice, and although he does not use the word *justice* in the rather narrow sense in which Hume uses it when dealing with law relating to property and contract, he does go out of his

way to say that where there is no property and where therefore there can be no theft and violence concerning property, the execution of justice is a comparatively narrow matter. And he then proceeds to expatiate on the execution of justice in more advanced society, particularly as regards property, which he thinks owes its origin either to good fortune or to birth. And he concludes that section by tracing the evolution of institutions of justice, showing how in the past the institutions were such as to permit those who administered justice to accept gifts and in various other ways to be corrupted, and he dwells upon the extreme importance of the independence of the judiciary.

Well, what we're concerned with, mostly, is the third duty of the State—that of fostering or actually carrying out undertakings which it can be to the interest of no private individual or group of individuals to foster. And first of all, on page 215 of Cannan's edition [vol. 2], he dwells upon the importance of institutions of this sort, and he recommends that in many cases, as for instance a road system or a bridge system—that sort of thing—these works could be financed by means other than taxation, and he comes down pretty heavily in favour of tolls—tolls both for roads and for canals, which were beginning to come into fashion in a large way in his day. And to show his empiricism in this respect, he says that if canals are not looked after continually, the banks tend to fall in, and consequently it will be to the self-interest of the people who maintain canals to keep them navigable. The same is not true of roads, where a road can be usable although it has been allowed to fall into grave deterioration. And he consequently thinks that the ownership of roads must reside in some public authority.

And he then goes on—the final point in his general treatment of this matter, before he comes to particular institutions—he says that public works of a local nature should be locally administered because the local authorities are more affected in one way or another, however they may be constituted, than the central authority. And he contrasts the good lighting of cities where local authorities control them with cities where that is not the case.

Then he proceeds to particular branches of commerce, and there is a long disquisition on the authorisation by the State of regulated or joint stock companies. Now, on the whole, as I shall be revealing in a moment, Adam Smith had a strong suspicion both of the administration of such companies and of their efficiency if they were to reach out beyond certain very specified functions. He thinks that there is some justification for the regulated companies where the trade was concerned with comparatively primitive communities enjoying different systems of law, and where there was very great risk for individual traders. But he goes on to say that there is a great risk in affording particular status even to the regulated companies, and he has, in this part of his book and other parts of his book, pretty harsh things to say about the East India Company, which had such tremendous powers as regards the subcontinent of India and elsewhere.

And then when he gets to joint stock companies he says again that the joint stock principle is all right, provided that it is extinguished in a comparatively short time. And he follows up what he said about the regulated companies by very grave reflections on the more limited purposes of the joint stock companies:

Without a monopoly, however, a joint stock company, it would appear from experience, cannot long carry on any branch of foreign trade. To buy in one market, in order to sell, with profit, in another, when there are many competitors in both; to watch over, not only the occasional variations in the demand, but the much greater and more frequent variations in the competition, or in the supply which that demand is likely to get from other people, and to suit with dexterity and judgment both the quantity and quality of each assortment of goods to all these circumstances, is a species of warfare of which the operations are continually changing, and which can scarce ever be conducted successfully, without such an unremitting exertion of vigilance and attention, as cannot long be expected from the directors of a joint stock company. [Smith, 1776, 2:245]

Well, if you were a critic of Adam Smith, you could have a perfect field day as regards his further observations elaborating this particular generalisation. He actually goes on to say:

The only trades which it seems possible for a joint stock company to carry on successfully, without an exclusive privilege, are those, of which all the operations are capable of being reduced to what is called a routine, or to such a uniformity of method as admits of little or no variation. Of this kind is, first, the banking trade; secondly, the trade of insurance from fire, and from sea risk and capture in time of war; thirdly, the trade of making and maintaining a navigable cut or canal; and, fourthly, the similar trade of bringing water for the supply of a great city. [ibid., 2:246]

Well now, whatever one thinks of the present law relating to joint stock companies and the present efficiency of joint stock companies, it must historically be admitted that Adam Smith was very wide of the mark in saying that. Successful joint stock companies which haven't been granted a State-conferred monopoly have been conspicuously successful—some of them being conspicuously unsuccessful—at subsequent times in history. You should read that part and reflect on it, and try to think out the various generalisations applicable to joint stock companies which didn't occur to Adam Smith. There are some generalisations appropriate to joint stock companies as we know them which are by no means entirely favourable, but that is another question.

I pass to the much more fascinating—and, since you have given me this splendid birthday card, much more relevant to today—chapter, "Of the Expence of the Institutions for the Education of Youth." And he talks first of all about universities. "Have those public endowments," he asked,

contributed in general to promote the end of their institution? Have they contributed to encourage the diligence, and to improve the abilities of the teachers? Have they directed the course of education towards objects more useful, both to the individual and to the public, than those to which it would naturally have gone of its own accord? It should not seem very difficult to give at least a probable answer to each of these questions. [ibid., 2:249]

Then he goes on to make a generalisation which some of you may think to be true and which I think is partially true, but not wholly:

In every profession, the exertion of the greater part of those who exercise it, is always in proportion to the necessity they are under of making that exertion. This necessity is the greatest with those to whom the emoluments of their profession are the only source from which they expect their fortune. [ibid.]

That is to say that, as regards university professors, he thought that the ideal state of affairs was that they should derive their incomes from the pay which their students contributed. And so if they gave good lectures they would get a good many students, and if they gave bad lectures they would get few students.

Now, you mustn't think that that is an entirely unreal supposition. Do any of you come from Germany? Does the *Kollegiumgeld* still function in different universities in Germany? [A student seems to respond in the negative.] It has only been abolished, then, since the Second World War. Indeed, I know professors of business administration, who may be dead now, who used to make an enormous fortune from the very successful lectures which they gave by the *Kollegiumgeld*.

And he says that

The greatness of the objects which are to be acquired by success in some particular professions may, no doubt, sometimes animate the exertion of a few men of extraordinary spirit and ambition. Great objects, however, are evidently not necessary in order to occasion the greatest exertions. [ibid., 2:249-50]

And he then says that

The endowments of schools and colleges have necessarily diminished more or less the necessity of application in the teachers. . . .

In some universities the salary makes but a part, and frequently but a small part of the emoluments of the teacher, of which the greater part arises from the honoraries or fees of his pupils. [ibid., 2:250]

He was thinking of his own university of Glasgow, which he obviously thought was pretty efficient.

The necessity of application, though always more or less diminished, is not in this case entirely taken away. Reputation in his profession is still of some importance to him, and he still has some dependency upon the affection,

gratitude, and favourable report of those who have attended upon his instructions. . . .

In other universities the teacher is prohibited from receiving any honorary or fee from his pupils, and his salary constitutes the whole of the revenue which he derives from his office. His interest is, in this case, set as directly in opposition to his duty as it is possible to set it. It is the interest of every man to live as much at his ease as he can; and if his emoluments are to be precisely the same, whether he does, or does not perform some very laborious duty, it is certainly his interest, at least as interest is vulgarly understood, either to neglect it altogether, or, if he is subject to some authority which will not suffer him to do this, to perform it in as careless and slovenly a manner as that authority will permit. . . .

If the authority to which he is subject resides in the body corporate, the college, or university, of which he himself is a member, and in which the greater part of the other members are, like himself, persons who either are, or ought to be teachers; they are likely to make a common cause, to be all very indulgent to one another, and every man to consent that his neighbour may neglect his duty, provided he himself is allowed to neglect his own. In the university of Oxford, the greater part of the public professors have, for these many years, given up altogether even the pretence of teaching. [ibid., 2:250-51]

And Adam Smith had been a Snell scholar at Balliol for seven years!

He then goes on to discuss French universities, and he thinks pretty badly of the French universities. I must read this, which perhaps you may interpret against me!

If the teacher happens to be a man of sense, it must be an unpleasant thing for him to be conscious, while he is lecturing his students, that he is either speaking or reading nonsense, or what is very little better than nonsense. It must too be unpleasant to him to observe that the greater part of his students desert his lectures; or perhaps attend upon them with plain enough marks of neglect, contempt, and derision. . . . Several different expedients . . . may . . . blunt the edge of all those incitements to diligence. The teacher, instead of explaining to his pupils himself the science in which he proposes to instruct them, may read some book upon it;

—which is what I am doing now—

and if this book is written in a foreign and dead language, by interpreting it to them into their own. [ibid., 2:252-53]

And he then goes on in the immortal paragraph which makes you love Adam Smith, even if, as I shall be saying in a moment, you don't totally agree with him:

The discipline of colleges and universities is in general contrived, not for the benefit of the students, but for the interest, or more properly speaking, for the

perfectly well in the very distinguished state of the Scottish universities, was not, I think, universally applicable for that reason.

However, Adam Smith then goes on to talk—what is really much more important than university education—to the education of people who don't have the benefit of university or college education. And he thinks that the division of labour, which he has so praised in book 1 of the *Wealth of Nations*, has a bad effect on those who are involved in the division of labour at a lower level, insofar as they receive no education. And there is a memorable paragraph that I'll read, again despite what Adam Smith says about those who read things:

In the progress of the division of labour, the employment of the far greater part of those who live by labour . . . comes to be confined to a few very simple operations. . . . But the understandings of the greater part of men are necessarily formed by their ordinary employments. The man whose whole life is spent in performing a few simple operations, of which the effects too are, perhaps, always the same, or very nearly the same, has no occasion to exert his understanding, or to exercise his invention in finding out expedients for removing difficulties which never occur. He naturally loses, therefore, the habit of such exertion, and generally becomes as stupid and ignorant as it is possible for a human creature to become. The torpor of his mind renders him, not only incapable of relishing or bearing a part in any rational conversation, but of conceiving any generous, noble, or tender sentiment, and consequently of forming any just judgment concerning many even of the ordinary duties of private life. [ibid., 2:267]

And he goes on to say that it even corrupts the activity of his body and renders him incapable of exerting his strengths of adventure and perseverance and so on.

And so, in order to avoid these deplorable results, he thinks that though the common people cannot, in any civilized society, be so well instructed as people of some rank and fortune, the most essential parts of education, however to read, write, and account, can be acquired at so early a period of life, that the greater part even of those who are bred to the lowest occupations, have time to acquire them. . . . For a very small expence the public can facilitate, can encourage, and can even impose upon almost the whole body of the people, the necessity of acquiring those most essential parts of education. [ibid., 2:270]

And he goes on to recommend the establishment

in every parish or district [of] a little school, where children may be taught for a reward so moderate, that even a common labourer may afford it; the master being partly, but not wholly paid by the public. . . . In Scotland the establishment of such parish schools has taught almost the whole common people to read, and a very great proportion of them to write and account. [ibid.]

And so he goes on, and he suggests that certain professions should be free only to those who have passed certain examinations. He doesn't believe altogether in university examinations, but he does believe that certain degrees of competence can be imposed. And so on.

He goes on to discuss the expense of religious instruction [ibid., 2:273–99] and indulges in a very amusing controversy with Hume, whom he describes as “the most illustrious philosopher . . . of . . . the age” [ibid., 2:275]. Hume had said that it's a very good thing to have a State religion, with the people in it maintained by the State, because, Hume says, this discourages fanaticism and fanaticism is a very disturbing thing. Indeed, diligence is a very disturbing thing in the promulgation of everything—and here surely Hume is being ironical—everything except the “true” religion, which he inserted obviously to keep at arm's length those who criticised him for being an agnostic. Adam Smith enters into controversy with him not so much on religious grounds, but on the ground that if there is a multiplicity of sects in competition with one another, none of them will become sufficiently predominant, and they won't be sufficiently wealthy to attract very distinguished people, and the universities will be able to attract from—in such a state of affairs in the organisation of a multiplicity of sects of religion—the more distinguished people, because the universities can afford by way of fees and salaries to offer superior advantages. All that is very amusing, but I don't think it is analytically very important.

The important thing which I just want to draw your attention to is the section in the rest of the book which deals with questions of taxation and debt.¹ Now, as regards taxation, you will receive very superior lectures on taxation elsewhere in your specialisation here, and it would therefore be totally superfluous for me to go through Adam Smith's arguments about taxation in detail. It is necessary, however, just to mention the famous canons of taxation which he laid down at the beginning of this discussion of a good tax system.

The first canon is that a tax system should conform to equality of burden. Now, the interpretation of that is ambiguous. In parts of his treatment he seems to mean proportionality to income, and there are other parts which can be picked out by those who favour progressiveness of income taxation. The second canon of taxation is certainty. People ought to know what taxation they are charged, either direct or indirect. The third canon is convenience. Taxation should be collected in a way which causes least inconvenience. And the fourth canon is economy in collection [ibid., 2:310–12].

Well, he then goes on to discuss various taxes, direct and indirect, and sometimes you agree with him and sometimes you don't. It is all very interesting, but I think it is below the horizon for a course of 35 lectures on the history of economic thought.

The last part of the book deals with public debt [book 5, chap. 3]. And since there are sufficient of you here, how many of you come from Amer-

ica? Hands up, please. Well now, here is something which is rather piquant so far as you're concerned. Way back in the second volume of Cannan's edition, on page 124, he has revealed his extreme concern about the public financial arrangements as between the American colonies, as they were, and Great Britain. And he doesn't think that these are at all fair, and he thinks of it in some respects from the British point of view. He points out the great expense of maintaining an army and a navy to guard the colonies from the depredations of the French and the Red Indians and so on and so forth. And so he suggests a federation, and he thinks that that would be almost ideal. And he says—and this I read to you to show his open-mindedness:

The people on the other side of the water are afraid lest their distance from the seat of government might expose them to many oppressions. But their representatives in parliament, of which the number ought from the first to be considerable, would easily be able to protect them from all oppression. The distance could not much weaken the dependancy of the representative upon the constituent, and the former would still feel that he owed his seat in parliament, and all the consequence which he derived from it, to the good-will of the latter. [ibid., 2:124]

Well, I am a little bit in disagreement with Adam Smith considering that it took two months to communicate with the eastern seaboard of the United States; I think that that might be regarded as a disadvantage. But he says that this distance would not be of very long continuance:

Such has hitherto been the rapid progress of that country in wealth, population and improvement, that in the course of little more than a century, perhaps, the produce of American might exceed that of British taxation. [ibid.]

And then—listen carefully, see that he was not a good internationalist, at any rate as regards the English-speaking world—

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. [ibid.]

And then he returns to this at the very end of the book, and he says that—I mean, people preen themselves on possessing an empire—

The rulers of Great Britain have, for more than a century past, amused the people with the imagination that they possessed a great empire on the west side of the Atlantic. This empire, however, has hitherto existed in imagination only. It has been, not an empire, but the project of an empire; not a gold mine, but the project of a gold mine; a project which has cost, which continues to cost, and which, if pursued in the same way as it has been hitherto, is likely to cost, immense expence, without being likely to bring any profit. . . . It is surely now time that our rulers should either realize this golden dream, in

which they have been indulging themselves . . . ; or, that they should awake from it themselves, and endeavour to awaken the people. If the project cannot be completed, it ought to be given up. 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 Great 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. [ibid., 2:432-33]

Well, you may agree with that or you may disagree with it, but no one can say that Adam Smith was not candid.

Well, I apologise for dealing with Adam Smith in three short lectures. It would be a pleasure for me to deal with him in twenty lectures. But time presses, and I shall go on next week to the beginnings of nineteenth-century classical economics.

NOTE

1. See Smith (1776, vol. 2, book 5, chaps. 2 and 3, respectively).