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**Political economy and statesmanship: Adam Smith and
Alexander Hamilton on the foundation of the commercial
republic**

McNamara, Peter, Ph.D.

Boston College, 1991

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Boston College

The Graduate School of Arts and Sciences

Department of Political Science

**POLITICAL ECONOMY AND STATESMANSHIP: ADAM SMITH AND ALEXANDER HAMILTON
ON THE FOUNDATION OF THE COMMERCIAL REPUBLIC**

a dissertation

by

PETER MC NAMARA

submitted in partial fulfillment of the requirements

for the degree of

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1991

**Political Economy and Statesmanship: Adam Smith and Alexander Hamilton on the Foundation of
the Commercial Republic**

by

Peter Mc Namara

In this study, I compare Adam Smith and Alexander Hamilton on the subject of the foundation of the commercial republic. The immediate point of comparison is each man's views on the economic future of North America. Smith presented what is still, perhaps, the classic case for the free market, while Hamilton presented a powerful and enduring case for state intervention in the economy. A consideration of these arguments provides a valuable insight into the question of the economic role of the state. Furthermore, the comparison of Smith, a theoretician, and Hamilton, a practitioner, establishes a vantage point from which to consider the role of the social sciences in a liberal democracy.

I conclude that Smith's political economy was based on a reading of history which ascribed an exaggerated role to commerce. On this basis, Smith was led to believe that economic forces are spontaneous and manifest themselves in an orderly and socially useful way. It is arguable whether Smith's positivist successors have escaped his errors. Smith himself had little faith in "political arithmetic," the eighteenth century forerunner of today's quantitative economics. Hamilton had a keener awareness both of the complexities of political life and of the problems of abstraction. His understanding of the volatile forces which drive industrial and financial capitalism is closer to reality than Smith's neat deductive system. Moreover, his economic program blended an awareness of the benefits and limits of state intervention. In sum, Hamilton's moderation in theory and practice provides a better model for the liberal statesman in the realm of economic affairs.

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To my mother and to the
memory of my father.

. . . it interests the Public Councils to estimate every object as it truly is; to appreciate how far the good in any measure is compensated by the ill, or the ill by the good. Either of them is seldom unmixed.

Alexander Hamilton, "Report on Manufactures," Dec. 5, 1791.

CHAPTER ONE
INTRODUCTION

A. Character and Scope of the Present Study

In this study, we consider the views of Adam Smith and Alexander Hamilton on the problem of economic development. Smith presented what may still be the classic case for the free market, while Hamilton made a powerful and enduring case for state intervention in the economy. Smith's advocacy of the free market was grounded in his studies in political economy. These studies were instrumental in establishing economics as a scientific discipline and, by separating it from political concerns, as an independent discipline. We will show that there was a close connection between Smith's establishment of political economy as an independent science and his advocacy of the free market. While our immediate focus is each man's views on the role of the state in the economy, the comparison with Hamilton will also establish a vantage point from which to consider the place of economics and the other social sciences in a liberal democracy. The contrast between Hamilton, a political man, and Smith, a theoretical man, brings into focus the question of the extent to which it is possible and useful to theorize about human affairs. It is clear that Smith wrote for men such as Hamilton, and that he thought deeply about their character and the nature of the problems they face. Furthermore, Hamilton's career coincided with the emergence of the social sciences, including economics.¹ Hamilton was aware of these innovations in thinking, but he rejected them as unsuited to the nature of the subject matter. His statesmanship reflected an earlier tradition in political thought which did not separate political and economic matters. We suspect there was a close connection between Hamilton's rejection of the scientific approach to political and economic matters and his failure to separate the two concerns. Our theme, then, is

¹This coincidence has been noted by Gerald Stourzh, *Alexander Hamilton and the Idea of Republican Government* (Stanford: Stanford University Press, 1970), p.177.

the relation between the science of political economy and statesmanship.² Our object is to begin to clarify the role of a liberal statesman with respect to commerce or the economy, as one would put it today. We will not make specific policy proposals, but our conclusions provide the basis for some general and useful reflections on the contemporary political and economic scene.

Our study does not fit neatly into any one of what might seem to be the obvious categories: economic history; the history of ideas; or, case-study in economic development. If pressed, we would characterize it as part case-study and part history of ideas. It has the character of a case-study of economic development in a limited, but not unimportant, respect. There exists an immediate point of comparison between Smith and Hamilton on a practical issue which does permit some "empirical testing" of a sort. That point of comparison is each man's views on the economic future of North America. Smith commented at length on American affairs and on possible economic strategies for North America. In addition, the *Wealth of Nations* contains his views on an even wider range of matters. We compare Smith's views to those of Hamilton who as the first Secretary of the Treasury undertook to establish the American economy on a sound basis. A substantial part of Hamilton's economic plan was implemented and, despite the lack of action on the industrial side of his program, his plan as a whole had its champions in nineteenth century America. This hardly constitutes a rigorous empirical test, but it is an illuminating exercise. We stress, however, that, to a large extent, we are considering *merely* arguments. Smith was essentially a man of theory, and, in the case of Hamilton, his economic program was not implemented as a whole. We attempt to show that, while there are substantial areas of agreement between the two men, there are important areas of disagreement, not only at the level of policy prescriptions but also at the level of principle. At times, we might be thought to engage in some

²We use the terms "political economy" and "statesmanship" broadly. Under the former, we include contemporary economic science, and, under the latter, the role of the state as a whole in the economy. As for the archaic "commercial republic," it was Hamilton's description for the United States. See *The Federalist*, No.6, Alexander Hamilton, et al., Edward Mead Earle ed., (New York: Modern Library, no date), p.30. (Hereafter cited as *The Federalist* followed by paper number and page)

excessive hair-splitting with respect to these differences, but our fastidiousness is motivated by a belief that, when looked at from the perspective of practical politics, they are really quite significant. There is considerable merit in the comparison because of the quality of the arguments presented by Smith and Hamilton.

Our consideration of Smith and Hamilton does not result in any substantial reassessment of the conventional scholarly opinion. We have sought, however, to refine that opinion where it has failed to do justice to the subtlety of each man's views. In particular, we have attempted to state precisely each man's intention and to uncover the assumptions on which that intention was conceived. Our conclusions emerge out of the comparison of their views. Historians of political and economic thought have always accorded Smith a significant place as one of the architects of the present age. His fame rests largely on *An Inquiry into the Nature and Causes of the Wealth of Nations*, which is taken by many to be the foundation of modern economic science. Most of the great classical economists accorded Smith a pivotal role in the development of economics as a science.³ Smith's stature as a founder of the discipline has remained high, although not without some challenges. Both Walter Bagehot and Joseph Schumpeter, for example, argued that Smith's theoretical contributions were minimal, and that his main contribution was in the area of popularizing the idea of free trade among political elites. More recent critics of the traditional view, or as they term it, the "liberal capitalist perspective," have focussed on Smith's place in the history of eighteenth century thought and have argued that it is a distortion to place Smith at the head of what is really a nineteenth century development.⁴ Smith's true niche, they argue, is

³See, especially, Jean Baptiste Say on the *Wealth of Nations*, *Treatise on Political Economy*, 1821 edition, (New York: Augustus M. Kelley, 1964), p. xxxviii: "until the epoch of its publication, the science of political economy did not exist." See also the neoclassical Alfred Marshall's judgement: "wherever he differs from his predecessors he is more nearly right than they; while there is scarce any economic truth now known of which he did not get some glimpse. And since he was the first to write a treatise on wealth in all its chief social aspects, he might on this ground alone have a claim to be regarded the founder of modern economics." *Principles of Economics*, Eighth Edition, (London: Macmillan, 1920), Appendix B, Sec. 3, p. 626.

⁴See especially Donald Winch, *Adam Smith's Politics: An Essay in Historiographic Revision* (Cambridge: Cambridge University Press, 1978); Knud Haakonsen, *The Science of a*

the eighteenth century where economics had yet to eclipse politics. The "revisionists" divide on the question of whether Smith belongs in the "civic humanist" tradition or the "natural jurisprudential" tradition or some other tradition. We are of the opinion that there is some truth in nearly all of the above positions on Smith. Yet all fall short because each of the arguments mentioned fails to take into account the complexity of Smith's thought and, especially, the complexity of his presentation of that thought. Our view, as it will unfold, is that all the elements of a scientific and autonomous political economy are present in Smith's *Wealth of Nations*. Smith came to think that such a science is possible on the basis of his understanding of the relationship between politics, economics, and history. We suggest that while Smith might seem to place economics in a subordinate position, this is more formal than substantial. In important respects, we will see that the tail wags the dog.

Hamilton's stature as an American statesman has long been recognized, but never without certain, sometimes severe, reservations. Over the years many have questioned his allegiance to republicanism. This is, perhaps, why he has consistently fared better in the judgments of foreigners than in those of his own countrymen.⁵ The exact character of Hamilton's political opinions has always been the subject of some controversy. De Tocqueville distinguished

Legislator: The Natural Jurisprudence of David Hume and Adam Smith (Cambridge: Cambridge University Press, 1981); and Richard Teichgräber, *Free Trade and Moral Philosophy: Rethinking the Sources of the Wealth of Nations* (Durham: Duke University Press, 1986). Winch seems to have coined the term "liberal capitalist perspective." *Adam Smith's Politics*, p.23. The revisionist literature is reviewed by Edward S. Cohen, "Justice and Political Economy in Commercial Society: Adam Smith's Science of a Legislator," *Journal of Politics* 51, No.1 (Feb. 1989):50-72. It is agreed by most commentators that the most subtle and comprehensive presentation of the "liberal capitalist perspective" on Smith is that of Joseph Cropsey, *Polity and Economy: An Interpretation of the Principles of Adam Smith* (The Hague: Martinus Nijhoff, 1957).

⁵Talleyrand ranked Hamilton above Napoleon and Fox whom he regarded as the other two great men of his day. See Allan McLaine Hamilton, *The Intimate Life of Alexander Hamilton* (New York: Charles Scribner's Sons, 1911), p.255. See also Lord Chamwood, *Abraham Lincoln* (New York: Henry Holt & Co., 1917), pp.28-9, and James Bryce, *The American Commonwealth*, 2 Vols., (New York: Macmillan, 1933), Vol. II, pp.6-8. Cf. the judgment of Woodrow Wilson on Hamilton, *The New Freedom* (Englewood Cliffs, N.J.: Prentice-Hall, 1961), p.47: "A great man, but, in my judgement, not a great American."

Federalists from Republicans (and, implicitly, Hamilton from Jefferson) on the grounds that the one feared and the other favored popular power.⁶ Historians have recently given this view a new twist by linking Jefferson with the English Country or Oppositionist faction and Hamilton with the English Court faction.⁷ The Court was, they argue, intent on modernizing English society, while the Country faction tried to preserve a traditional notion of civic virtue. When viewed from this perspective, Hamilton was an American Walpole and Jefferson an American Bolingbroke. Abstracting for the moment from the issue of the adequacy of this scheme as a description of the English debate, the Court-Country distinction is subject to great difficulties when applying it to the American case. Chiefly, it fails to recognize the extent to which both Hamilton and Jefferson were committed to modernization and, therewith, to modernity. Following de Tocqueville, we believe the deepest root of the disagreement between Jefferson and Hamilton was a different assessment of the potential for popular enlightenment, and this, in turn, seems traceable to a different assessment of human nature. Jefferson pointed to the true source of the disagreement in his Second Inaugural Address. After discussing the obstacles to enlightenment among the Indians, Jefferson remarked that "*they, too, have their anti-philosophers who find an interest on keeping things in their present state, who dread the reformation and exert all their faculties to maintain the ascendancy of habit over the duty of improving our reason, and of obeying its mandates.*"⁸ Hamilton was an "anti-philosopher" because he held a different opinion of the place of reason and habit in the operations of society.

We believe Hamilton's scepticism or, as he usually puts it, "moderation" is also visible in his economic views. Just as Hamilton was suspicious of Republican theorizing, he was also sceptical of the claims of the new science of political economy. Hamilton's influence in the history of

⁶*Democracy in America*, ed. J.P. Mayer, trans. George Lawrence, (Garden City, N.Y.: Anchor Books, 1969), p.175.

⁷See, e.g., Drew McCoy, *The Elusive Republic: Political Economy and Jeffersonian America* (Chapel Hill: University of North Carolina Press, 1980), and Forrest McDonald, *Alexander Hamilton: A Biography* (New York: Norton, 1979).

⁸*The Life and Selected Writings of Thomas Jefferson*, ed. Adrienne Koch and William Peden, (New York: Modern Library, 1944), p.342 (emphasis added).

economic thought, especially with respect to economic *policy*, is often neglected. Yet, it is clear that he exercised a considerable influence in the non-English speaking world chiefly through the work of Friederich List who visited the United States in the 1820s. List stands at the head of the tradition of modern state sponsored economic development which Germany and Japan have practiced successfully.⁹ While many have remarked on the differences between Smithian political economy and Hamilton's economic program, accounts of those differences have tended to be perfunctory. Hamilton is usually labelled, and often dismissed as, a mercantilist, i.e., as an adherent of a now obsolete doctrine.¹⁰ Some commentators have noticed the forward looking aspects of Hamilton's program. Forrest McDonald, for example, has pointed to Hamilton's advanced ideas on finance and economic development, while Hiram Caton has stressed Hamilton's appreciation of the pivotal role of technology in the modern economy. Both authors fault Smith for having failed to recognize the essential character of capitalist economic development.¹¹ Few have, however, paid any attention to Hamilton's specific "methodological" remarks on theorizing about political and economic matters. We believe these deserve special attention in any comparison with Smith. These remarks constitute one of the first reactions by a thoughtful practitioner to the new science of political economy as it was formulated by Smith.¹²

⁹Schumpeter remarks that Hamilton's Report on Manufactures "is really 'applied economics' at its best." Because he is dealing with a history of economic *analysis*, Schumpeter does not go beyond this brief remark. *History of Economic Analysis*, (New York: Oxford University Press, 1954), p.199. On the Hamilton-List connection, see *Ibid.*; Caton, *The Politics of Progress: Origins and Development of the Commercial Republic 1600-1835* (Gainesville Fl.: University of Florida Press, 1988), p.475 n.19; Gilpin, *The Political Economy of International Relations*, pp.181-2.

¹⁰See, e.g., Joyce Appleby, *Capitalism and a New Social Order: The Republican Vision of the 1790s* (New York: New York University Press, 1984), pp.88,92-3.

¹¹Caton, *The Politics of Progress*, pp.473-6,529; *Idem.*, "The Preindustrial Economics of Adam Smith," *Journal of Economic History* 45, No. 4, (Dec. 1985):846-9; McDonald, *Alexander Hamilton*, pp.160-1,233-6. Caton traces the different political economies of Smith and Hamilton to differences in what he terms their respective "anthropologies."

¹²For an account of some other early reactions to Smith's systematizing, see Samuel Hollander, *The Economics of David Ricardo* (Toronto: University of Toronto Press, 1979), pp.33-40. We might also mention French finance minister Jacques Necker whose example and writings seem to have exercised a considerable influence on Hamilton. See McDonald, *Hamilton*, pp.84-

As a result, Hamilton's remarks are untainted by the great authority which the science of economics attained in the nineteenth century. For there is great truth in Keynes's remark that Ricardo, Smith's great successor, "conquered England just as completely as the Holy Inquisition conquered Spain."¹³

There appear to be good reasons to turn back to the debates which led to the fracturing of the original political economy; if not to construct a new political economy, then at least to gain a clearer understanding of the nature of the disciplines of political science and economics as they exist today. To deal with pressing economic issues, politicians have at their disposal the social sciences, especially political science and economics. Both of these disciplines have established respectable positions for themselves in the universities and the governments of the world. Yet one cannot escape the feeling that neither lives up to the expectations which their high stature might evoke. Even the technical virtuosity of mathematical economics seems mismatched when confronted with the complex, murky, and rapidly changing reality of economic problems. Part of the problem arises from the inability of economics to provide much guidance on what could be regarded as the crucial step in the formulation of policy, namely, the integration of political and economic advice.¹⁴ The separation of the two concerns often seems artificial or strained. Moreover, one finds that certain perennial issues seem to defy resolution in a way which calls into question the adequacy of the instruments of inquiry. Take the example of the free trade versus

7,91,96,103,135-6,146, et passim.

¹³*The General Theory*, p.32. Smith's political economy is a kind of revisionist history of the preceding centuries. On Smith's neglect of the "mercantilist program for liberty, enlightenment, and progress," see Caton, "The Preindustrial Economics of Adam Smith," p.842 n.34.

¹⁴The issue of the diversity of the subject matter of economics and the consequent need for developing an awareness among economists of the inherently interdisciplinary character of economics has recently been discussed by Amartya Sen, "Economic Methodology: Heterogeneity and Relevance," *Social Research*, 56, No.2 (Summer 1989):299-329. This argument begs the question of the reason for the abandonment of the original political economy. The complexity of the inter-relationships between politics and economics is demonstrated by the difficulty which commentators have had explaining the recent success of many Asian economies. See William McCord, "Explaining the East Asian Miracle," *The National Interest*, No.16, (Summer 1989), pp.74-82.

protectionism debate. Despite the theoretically demonstrable advantages of free trade which mainstream economics has long predicted, the policy of nations shows little unanimity on the matter.¹⁵ Thus, there has transpired a curious combination of theoretical progress and practical stalemate. While economists have generally been content with the division of labor between political and economic studies, there have been a number significant attempts by political scientists to integrate political and economic inquiry, especially in the areas of international relations and public policy. The problem is that economic theory is very hard to swallow, let alone digest. It provides a set of techniques for the manipulation of data. Considerations which lie outside the assumptions on which these techniques are based are in principle excluded from the analysis. Thus, attempts at integration usually founder on the lack of a common ground between the two parts of the analysis. The most likely result is that one part of the analysis overwhelms the other. Analysts are left with no way of choosing between alternatives because they have no way of setting priorities.

We will proceed as follows: Chapters Two and Three take up Smith's general principles. We show the way in which Smith's scientific political economy emerged out of his general reflections on man and society. Chapter Four deals with the theme of political economy and statesmanship in the *Wealth of Nations*. We begin by considering Smith's pure science of political economy and then move to consider the way in which he proposed it be applied in practice. Chapters Five and Six deal with Hamilton's policies as the first Secretary of the Treasury. We introduce this subject

¹⁵The state of opinion has changed little since Keynes: "For some two hundred years both economic theorists and practical men did not doubt that there is a peculiar advantage to a country in a favourable balance of trade. . . . But for the past one hundred years there has been a remarkable divergence of opinion. The majority of statesmen and practical men in most countries, and nearly half of them in Great Britain, have remained faithful to the ancient doctrine; whereas almost all economic theorists have held that anxiety concerning such matters is absolutely groundless except on a very short view." *The General Theory of Employment, Interest, and Money* (London: Macmillan, 1973), p.333. Gilpin remarks on the rise of a "New Protectionism" in recent years, *The Political Economy of International Relations* (Princeton: Princeton University Press, 1987), pp.204-21.

by outlining Hamilton's basic political principles in order to indicate the connections between his political and economic goals. Chapter Seven concludes our study by summarizing the points of difference between the two men and reflecting on the contemporary relevance of their debate.

In the rest of this chapter, we turn briefly to consider the thought of David Hume from which both Smith and Hamilton drew extensively. Both men seem to have found particularly attractive Hume's attempts to moderate the optimistic rationalism and the doctrinaire universalism of the natural rights teachings associated with Hobbes and Locke. Curiously, though, Hume is also the source of many of their differences. Specifically, they laid different emphases on particular aspects of Hume which, perhaps, even Hume himself had not completely reconciled. We can see how this might have happened by a brief consideration of Hume's thought. Hume represents the transition from Montesquieu's comprehensive political science, in which political economy plays an important, but subordinate part, to the scientific and autonomous political economy formulated by Smith.¹⁶ Some elements of Hume are closer to Montesquieu, and others to Smith. As Smith was conspicuously silent on the question of his methodology, our discussion of Hume will also be useful as an introduction to Smith

B. Hume as a Common Point of Departure

Hume sought to fulfill the modern project, inaugurated by Bacon, of constructing a science of human nature which would be the basis for physical, moral, and political science. Hume believed his particular contribution to be that of placing the science of man on the correct epistemological basis. Earlier thinkers, he thought, were too content with "representing the common sense of mankind in the strongest lights, and with the best turn of thought and

¹⁶See Pierre Chamley's discussion of Hume's role in the transition from the particularism of Montesquieu to the universalism of Smith, "The Conflict between Montesquieu and Hume: A Study of the Origins of Adam Smith's Universalism," in *Essays on Adam Smith*, ed. Andrew S. Skinner and Thomas Wilson, (Oxford: Clarendon Press, 1975), pp.274-305.

expression, without following out steadily a chain of propositions, or forming the several truths into a regular science."¹⁷ Hume sought to model his science of man upon modern natural science.

Astronomers had long contented themselves with proving, from the phenomena, the true motions, order, and magnitude of the heavenly bodies, till a philosopher last arose who seems from the happiest reasoning, to have determined the laws and forces by which the revolutions of the planets are governed and directed. The like has been performed in other parts of nature. And there is no reason to despair of equal success in our inquiries concerning the mental powers and economy if prosecuted with equal capacity and caution.¹⁸

Hume saw the chief advantage of modern natural science as its greater accuracy in speaking about things. Central to his critique of traditional natural and moral philosophy is a claim that our ordinary or common sense way of speaking about the world is radically deficient. Rather than discussing opinions, Hume sought, instead, to "anatomize" the mind.¹⁹ In attempting to do so, he carried the empiricist criticism of Descartes' deductive method to its most radical conclusion. Hume, follows Locke, in attempting to specify the true bounds of human reason. He replaced Locke's notion of "ideas" with the notion of "impressions" and argued that "impressions" give rise to "ideas." Where there is doubt about an idea, we must have recourse to the impression which gave rise to it because impressions are clear and evident and admit of no controversy.²⁰ They are of two sorts: images of the external world conveyed by the senses and the effects in the mind of an emotion or a passion. The difference between ideas and impressions is the same as that between thinking and feeling. Thus, our knowledge of the world is limited to the range of impressions we have received in the course of our lives, and our reasonings about the world ought to follow rigorously this limitation. On this foundation, Hume launches his attack on the

¹⁷"Abstract of the Treatise on Human Nature," which is reprinted in *An Inquiry Concerning Human Understanding*, (1748), ed. Charles Hendel, (Indianapolis: Library of Liberal Arts, 1955), p.183. Hume so tried to distance himself from the *Treatise of Human Nature* that he denied his authorship of the "Abstract" and the *Treatise*. Smith was long thought to be the author of the abstract. It was Keynes who finally proved Hume's authorship. See Hendel's introduction at pp.xix-xxi.

¹⁸*Inquiry Concerning Human Understanding*, p.24. The philosopher was Newton.

¹⁹"Abstract," p.183.

²⁰"Abstract," p.186.

tradition. His study of traditional methods of reasoning about the world, or matters of "fact," led him to conclude that there is no real *a priori* basis on which to reason. His famous sceptical criticism of the notion of cause and effect forced him to reject as illusory any knowledge which did not stem from experience. Experience is our only access to knowledge of causes and effects and, because our experience is finite, we have no true or absolute knowledge of cause and effect apart from that experience. Our knowledge of the world is, then, customary or associational knowledge based on our observations of actual events.²¹ We may improve on our customary knowledge of the world by the use of the appropriate method. The appropriate method is, of course, the experimental method of Newton.²² Reasoning *a priori*, on the other hand, only leads to a compounding of the deficiencies of our ordinary understanding.

Hume thought that his science of human nature could be the basis for moral philosophy as well as natural philosophy. The "actions and volitions of intelligent agents," he argued, must be subjected to the same reasonings as the heavens or sicknesses of the body. Hume regarded the question of free-will as essentially illusory. Thus, he equated the natural order and necessity. As man is part of the natural order, he must in some way be governed by the same necessity which governs the natural order. Human behavior and human societies will exhibit a regularity which is a suitable subject for scientific study. This sort of study is superior to other forms of inquiry into human behavior because it goes behind, or beyond, the "pretexts" and "appearances" which usually color "public declarations."²³ Hume attempted to understand morality and politics in terms of the passions which he regarded the real causes of our actions. The passions provide us with "motives," including motives for morality.

Ambition, avarice, self-love, vanity, friendship, generosity, public spirit - these passions, mixed in various degrees and distributed through society, have been, from the beginning of the world, and still are, the source of all the actions and enterprises which have ever been observed among mankind.²⁴

²¹ *Inquiry Concerning Human Understanding*, pp.54-68.

²² With respect to morality, e.g., see Hume, *An Inquiry Concerning the Principles of Morals*, ed. Charles Hendel, (Indianapolis: Library of Liberal Arts, 1957), pp.8-9.

²³ *Inquiry Concerning Human Understanding*, p.94.

On this basis, it seemed to Hume, a comprehensive understanding of human behavior was possible.

A corollary to Hume's approach is a heightened interest in history. History is the great reservoir of facts or "experiments" on which we can base our reasonings.

Its chief use is only to discover the constant and universal principles of human nature by showing men in all varieties of circumstances and situations, and furnishing us with materials from which we may form our observations and become acquainted with the regular springs of human action and behaviour. The records of wars, intrigues, factions, and revolutions are so many collections of experiments by which the politician or moral philosopher fixes the principles of his science, in the same manner as the physician or natural philosopher becomes acquainted with the nature of plants, minerals, and other external objects, by the experiments which he forms concerning them.²⁵

In stressing the importance of history, Hume followed Montesquieu's lead, as did Smith and the rest of the Scottish Enlightenment. Hume, however, departed from Montesquieu on certain issues. These departures are crucial for understanding the transition to Smith. Montesquieu hesitated to speak of human nature simply because he believed it is always shaped to some extent by "physical causes." Ultimately, this is the decisive factor which prevents him from giving a universalistic account of the development of political societies.²⁶ Hume rejected the idea of "physical causes" as a factor in determining the general spirit of a nation. He thought the notion unscientific because none of its advocates could give an account of the precise way in which physical causes operated, and, in addition, there existed plausible explanations of the diversity of nations based on "moral causes" or simply on accidents. "If we run over the globe, or revolve the annals of history, we shall discover every where signs of sympathy or contagion of manners, none of the influence of air or climate."²⁷ According to Montesquieu, history is an uncertain and incomplete guide for practical politics because of the diversity of national spirits and, ultimately,

²⁴Ibid., p.93.

²⁵Ibid., p.93.

²⁶See Thomas Pangle, *Montesquieu's Philosophy of Liberalism* (Chicago: University of Chicago Press, 1973), pp.169-70.

²⁷"Of National Characters," in *Essays: Moral, Political, and Literary*, Eugene Miller ed., (Indianapolis: Liberty Classics, 1985), p.204.

because of the irreducible individuality of nations which arises from physical causes.²⁸ For Hume, history is a more certain guide because of the fundamental uniformity of human nature. Furthermore, the fundamental human motives are discoverable by methodical inquiry and are operative in all societies. Smith, as we will see, followed Hume rather than Montesquieu.

Hume saw himself as restoring some of the breadth to moral and political philosophy he thought had been lost by Hobbes and Locke. Hume's empirical approach towards human nature restored a place for moral virtue by expanding the place given by Montesquieu to the natural sentiments which draw men together. Hume rejected the idea of a natural law derived from reason. Morality "is nothing in the abstract nature of things, but is entirely relevant to the sentiment or mental taste of each particular being, in the same manner as the distinctions of sweet and bitter, hot and cold arise from the particular feeling of each sense and organ."²⁹ Yet, it is clear that he adopted much of the substance of Hobbes's and Locke's teachings. Hume did not restore the virtues to their traditional Christian or classical preeminence. He was much more permissive regarding the passions. For example, Hume almost completely absolves acquisitiveness from blame. Hume's comparison of ancient republics and modern commercial societies displays his understanding of morality. The former were little more than armed camps which did considerable violence to human nature, while the latter are humane and allow the passions to take their natural course. Much of this was implicit in Montesquieu, but Hume does away with all deference to classical antiquity and ancient virtue. Thus, when he speaks of the effects of luxury and its part in the fall of the Roman republic, he dismisses the conventional arguments about moral decline, concluding simply that the real problem was in the construction of the government.³⁰

It is, however, possible that Hume's accomplishments came at the expense of a certain realism or practicality which he failed to see in the natural rights teaching. Hume completed the

²⁸Pangle, *Montesquieu*, p.274.

²⁹*Ibid.*, p.23 n.2.

³⁰See *Essays*, "Of Refinement in the Arts," p. 276 and "Of Commerce," p.258-9,

break, begun by Montesquieu, from Hobbes and Locke on the question of the state of nature and the social contract.³¹ Hume rejected the state of nature as unempirical, there being no evidence that mankind had ever lived in such a state. The demise of the state of nature doctrine is important because it signals the emergence of a notion of society as an entity for study. The idea of the state of nature and the transition to civil society via the social contract had the effect of keeping political discourse political. The social contract was the outcome of the deliberate actions directed to particular ends and not, say, the outcome of a process intended by noone. Moreover, the essential character of the state of nature, since it remained an ever present possibility, ensured that political discourse remained political, that is, speech about war, peace, law, and so on, notwithstanding the legalism inherent in the idea of the social contract. The passions which animate society, on the other hand, are stripped of these political and rational dimensions. Thus, it becomes possible to speak of the operations of society independently of a consideration of politics. The transition from the state of nature to civil society is in Hume's account replaced by the history of the development of societies from primitive times to advanced times.³²

The theme of development or progress appears prominently in Hume's essays on economics which were published as part of a larger set of political, moral, and literary essays. While these essays were clearly founded on Hume's philosophical speculations on human nature and grew out of his application of those speculations to the study of history, his economic essays

³¹"Of the Original Contract," *Essays*, pp.465-487. On Montesquieu's innovation, see Pangle, *Montesquieu*, pp.41-4.

³²See, e.g., Hume's "Of Refinement in the Arts," *Essays*, pp.268-80. There is considerable debate among scholars regarding the extent to which Hume saw progress as an automatic process. Caton, e.g., claims that Hume took the "politics" out of progress by "conceiving it as a gradual process of advancing civilization, of which the development of rational politics was itself a part." *Politics of Progress*, p.326 (but cf. p.330). For a contrary view, see Duncan Forbes, *Hume's Philosophical Politics* (Cambridge: Cambridge University Press, 1975), pp.308-323. Forbes stresses the limits of Hume's "philosophical history" and the consequent need for choice and deliberate action on the part of legislators. See also John Danford, "Hume on Development: The First Volumes of the *History of England*," *Western Political Quarterly* 42, No.1 (Mar. 1989):107-127.

do not constitute a treatise of any sort. Moreover, Hume's depiction of the progress of society does not seem attribute it to any single cause or to describe it as an automatic process. This has led some commentators to argue that Hume formulated a "practical economics."³³

Nevertheless, Hume did begin the economic essays with a series of methodological remarks. He distinguished between reasoning about particular matters and about general matters.

When a man deliberates about a particular affair, and forms schemes in politics, trade, œconomy, or any business in life, he ought never to draw his arguments to fine, or connect too long a chain of consequences together. Something is sure to happen, that will disconnect his reasoning, and produce an event different from what he expected.³⁴

When it comes to reasoning about general subjects, matters are different. Moreover, the ability to reason generally is, he continued, that which distinguishes a man of genius from a common man.

Such reasoning is of particular importance because

general principles, if they be just and sound, must always prevail in the general course of things, though they may fail in particular cases; and it is the chief business of philosophers to regard the general course of things. I may add, that it is also the chief business of politicians; especially in the domestic government of the state, where the public good, which is, or ought to be their object, depends on a multitude of causes; not as in foreign politics, on accidents and chances, and the caprices of a few persons.³⁵

It requires only a little exaggeration to say that Smith erected a science on the basis of Hume's method and these rudimentary observations. It is also true that Hamilton took his bearings from Hume's economic essays. We might provisionally summarize the difference between Smith and Hamilton this way. Smith attempted to improve on Hume's political economy by systematically applying the Humean science of human nature to the study of the nature and causes of the wealth of nations. Hamilton, by contrast, took Hume's economic essays to represent the outer limit of the possible extent of theorizing about economic affairs. In short, Hamilton tended to the Montesquieuan or particularist elements in Hume and Smith to the universalistic elements.

³³T. Velk and A. R. Riggs, "Hume's Practical Economics," *Hume Studies* 11, No. 2 (Nov. 1985, Supplement): 154-63. See Eugene Rotwein's introduction to *Hume's Economic Writings* (Madison: University of Wisconsin Press, 1970), for a general discussion of the issue.

³⁴"Of Commerce," *Essays*, p. 254.

³⁵*Ibid.*, pp. 254-5.

CHAPTER TWO
PHILOSOPHY AND POLITICS IN THE
THOUGHT OF ADAM SMITH

A. The Eighteenth Century Predicament

It might be thought pedestrian to say that Smith was an Enlightenment thinker. He was one of the leading figures of what came to be known as the Scottish Enlightenment. Yet, by considering Smith's relationship to that general movement we believe it is possible to cut to the core of his thought by clarifying his intention, and the assumptions on which that intention was founded. Smith's economic writings were conceived in the broad context of his reflections on man, nature, and society. To understand the narrower subject--his scientific political economy--we must have some idea of the more extensive. In this task, we are aided by the fact that Smith said a great deal about the nature of the Enlightenment and its significance. Briefly put, the central questions here are: first, how did Smith understand the Enlightenment? and, second, what did he see as its limits, if any? In this chapter, then, we enquire into Smith's understanding of the relation between philosophy and politics. Smith, perhaps, would have substituted the terms science and civilization. It is opportune, though, to defer this broad question for a time and, instead, to begin with a pair of specific issues which establish an important context and between which the later discussion might act as a bridge. These two matters are Smith's understanding of the practical situation which confronted the civilized world in his time and his assessment of the state of human knowledge at that same time.

The considerable polemical and logical force of the *Wealth of Nations* is directed primarily at what Smith calls "the mercantile system." This category encompasses the range of restrictive

commercial practices adopted for the most part at the beginning of the previous century by the "civilized" nations of Europe. At the root of the mercantile system Smith finds the pernicious influence of the mercantile class. Almost all of the evils which he rails against can in some way be traced back to the merchants. Slow economic growth, a foolish colonial policy, injustice and inequality, war (and its accompanying debt burden) are all attributed by Smith, in one way or another, to the mercantile policy. As Smith explains it, the moving force behind the mercantile policy is the self-interest of the merchant class, and nothing else. The merchants had, of course, cloaked their naked self-interest in an appeal to the common good and their "clamour and sophistry" was sufficient to deceive other sections of the community, especially the powerful political class of "country gentleman" (WN l.x.c.25, l.xi.p.10).¹ In time, the views of the merchants were raised to the level of a theory or system. Their arguments were accepted by unwitting, but well intentioned, "nobles and country gentleman": "To the judges who were to decide the business, it appeared a most satisfactory account of the matter, when they were told that foreign trade brought money into the country, but that the laws in question hindered it from bringing so much as it otherwise would do" (WN IV.ix.10). In this way, what later became known as mercantilism established itself as the fundamental maxim "not of England only, but of all other commercial countries" (WN IV.ix.10). It is important to note that it is by changing public opinion that the merchants had been able to influence policy-making in Europe. Commercial society, for Smith, is not necessarily equivalent to the rule of the merchant class. In Great Britain, with its form of representative institutions, the merchants could exert a more direct influence, but this is not the case everywhere. Smith defines commercial society in a politically neutral way as a

¹ All references to Smith's writings are to the authoritative *Glasgow Edition of the Works and Correspondence of Adam Smith*, 7 vols. (Oxford University Press, 1976-83; Indianapolis: Liberty Classics, 1981-7). We follow the system of citations developed for the Glasgow edition: title, followed by book, chapter, and paragraph number. The following abbreviations are used: WN for *An Inquiry into the Nature and Causes of the Wealth of Nations*; TMS for *The Theory of Moral Sentiments*; EPS for *Essays on Philosophical Subjects*; LRBL for *Lectures on Rhetoric and Belles Lettres*; LJ for *Lectures on Jurisprudence*; and Corr. for *The Correspondence of Adam Smith*. See Appendix A for a full account of the system of abbreviations.

society where every "man lives . . . by exchanging, or becomes in some measure a merchant" (WN I.iv.1).

Smith's attack on the mercantile system is of particular significance when we consider his observations on the situation then emerging in the world. Smith thought that the age of global exploration had fundamentally changed the human situation.²

[T]he discovery of America, and that of a passage to the East Indies by the Cape of Good Hope, are the two greatest and most important events recorded in the history of mankind. Their consequences have already been great: but, in the short period of between two and three centuries which has elapsed since these discoveries were made, it is impossible that the whole extent of their consequences can have been seen. What benefits or what misfortunes to mankind may hereafter result from those great events, no human wisdom can foresee (WN IV.vii.c.80).

In what followed, and despite the caveat, Smith sounded an optimistic tone. He believed that further great commercial benefits were likely with the advent of a world market. Moreover, the excesses which had characterized European imperialism, especially that of Spain, were likely to be tempered as "the natives of those countries may grow stronger, or those of Europe weaker,³ and the inhabitants of all the different quarters of the world may arrive at that equality of courage and force which, by encouraging mutual fear, can alone overawe the injustice of independent nations into some sort of respect for the rights of one another." He concluded that "nothing seems more likely to establish this equality of force than the mutual communication of knowledge and of all sorts of improvements which an extensive commerce from all countries to all countries, naturally, or rather necessarily, carries along with it" (IV.vii.c.80).

Smith noted a second development which would almost seem to be of equal significance.

In modern war the great expence of fire-arms gives an evident advantage to the nation which can best afford that expence; and, consequently to an opulent and civilized, over a poor and barbarous nation. In ancient times the opulent and civilized found it difficult to defend themselves against the poor and barbarous nations. In modern times the poor and barbarous

²See Cropsey, "Capitalist' Liberalism," in *Political Philosophy and the Issues of Politics* (Chicago: University of Chicago Press, 1977), pp.71-72.

³Smith elsewhere claimed that England had already moved beyond "a period as long as the course of human prosperity usually endures" (WN III.iv.20). Also, he thought that the public debt would probably be the ruin of Europe (WN V.iii.10). Most important, perhaps, was that he believed the effects of commercial life were beginning to take their toll on the bulk of the population, stripping them of their intellectual and martial virtues (WN V.i.b,f,g).

find it difficult to defend themselves against the opulent and civilized. The invention of fire-arms, an invention which at first sight appears to be so pernicious, *is certainly favourable to the permanency and to the extension of civilization* (V.i.a.44, emphasis added).

In the *Lectures on Jurisprudence*, Smith chronicled how both Rome and Greece became soft as a result of the commercialization of their societies, and, in time, fell to more vigorous, but less civilized, nations. His accounts have an air of fatalism about them, as though the decline of these nations was itself part of the natural course of things (LJ(A), IV.76ff. and Cf. LJ(B) 326-333).⁴ A decade or so later in the *Wealth of Nations*, this pessimistic tone was, however, no longer as apparent. Modern nations have distinct advantages over the ancients. Whether this represents a change of view or merely a change due to the different purposes of the *Wealth of Nations* is difficult to say. Yet, the invention of fire-arms does seem to shift the balance substantially in favor of civilized nations. For this reason, the decline of a state seems no longer as inevitable. The practical problem, as Smith presented it, shifts to the management of the standing army at home and maintaining the balance of power internationally.⁵ Taken together, the exploration of the globe and the superior technology of civilized nations seem to hold out the possibility of an indefinite advance of civilization.

We turn now to Smith's assessment of the state of human knowledge in the eighteenth century. Smith is now famous, largely thanks to Marx and his followers, for his account of the degradation that occurs among the lower classes of a civilized society.⁶ One aspect of this

⁴LJ(A) refers to the lecture notes for 1762-3 and LJ(B) for those of 1766. These notes were made by students in Smith's classes, and as such they are not perfect records of his thoughts. The notes seem, however, to be faithful records of his lectures. They are extensive, and the two sets are roughly consistent. We have made considerable use of these notes to verify inferences made from Smith's published works.

⁵Haakonsen, *The Science of a Legislator: The Natural Jurisprudence of David Hume and Adam Smith* (Cambridge: Cambridge University Press, 1981), p.179, notes this as an argument against a fatalistic interpretation of Smith. Also, note Smith's account of managing the standing army; a task which he thought to be quite feasible (WN V.i.a.41).

⁶See, e.g., Marx, *Capital*, I.iii.14.5, in *The Marx-Engels Reader*, ed. Robert C. Tucker, (New York: Norton, 1978), p.399. See, also, Winch, *Adam Smith's Politics: An Essay in Historiographic Revision* (Cambridge: Cambridge University Press, 1978), Ch.5, and Cropsey, *Polity and Economy: An Interpretation of the Principles of Adam Smith* (The Hague: Martinus Nijhoff, 1957), Ch.3, for discussions of the relevance of these defects to Smith's thought as a

degradation is that in civilized societies there develops a gulf between the intellectual haves and the intellectual have-nots. He observed in the *Wealth of Nations* that the education of the lower classes in opulent societies must be more closely attended to than that of the wealthy; and not just to curtail religious zealotry borne of superstition, but also to preserve the qualities of humanity necessary for the preservation of society and, perhaps, for a decent life. By contrast, these deficiencies do not appear in primitive societies because the division of labor has not run its full course. In "barbarous" societies every man "is in some measure a statesman, and can form a tolerable judgement of the interest of society, and the conduct of those who govern it" (WN V.1.g.51). A barbarian possesses a rustic intelligence and a martial vigor. It seems that with the progress of society a dehumanization, including a depoliticization, occurs as the people retreat into private life and eventually lose even those qualities which distinguish them as men. Ironically, he saw this as occurring at a time when, for a few, society presents an unprecedented variety of objects for study and contemplation. "The contemplation of so great a variety of objects necessarily exercises their minds in endless comparisons and combinations, and renders their understandings, in an extraordinary degree, both acute and comprehensive."⁷ For the philosopher, it is a privileged moment. There is a further, crueller irony. "Unless those few, however, happen to be placed in some very particular situations, their great abilities, though honourable to themselves, may contribute very little to the good government or happiness of their society" (WN V.1.g.51). Science and power are separated. According to Smith, this is especially so in his own time because of the decrepit state of European universities. The question is

whole.

⁷ This question is treated from an economic point of view by Nathan Rosenberg in "Adam Smith on the Division of Labour: Two Views or One?" *Economica* 32 (May 1965):127-139. Rosenberg responds to the view that Smith's account is schizophrenic. (Cf. E.G.West "Adam Smith's Two Views on the Division of Labour," *Economica* 32 (February 1964):23-32.) Rosenberg suggests that "as a direct result of the increasing division of labour, the creativity of society as a whole grows while that of the labouring poor . . . declines"(p.139). Rosenberg extended this idea to the science of the law in "Another Advantage of the Division of Labour," *Journal of Political Economy* 84, No.4 pt.1 (August 1976):861-8. We take the argument a stage further and apply the idea of the division of labor to moral and political philosophy as a whole.

whether or not this separation is in the nature of things.

We intend to proceed as follows: First, we will consider Smith's understanding of science and rhetoric in order to indicate his hopes for enlightenment. Next, we will consider Smith's conception of the relations between political and speculative men. Finally, we will turn to the general issue of Smith's understanding of the relationship between science and civilization.

B. Science, Rhetoric, and Smith's Manner of Writing

Smith took elaborate measures to ensure that his actual publications, along with his good reputation, were the only testimonies to his life's work. Yet, as most commentators would grant, Smith's published works do not provide an easy access to his deepest thoughts and intentions. Perhaps, largely as a result of this, Smith has remained something of an enigma. It seems, in fact, that Smith made access to these reflections deliberately difficult. Smith's manner of writing suggests itself as a starting point for any attempt to reach these deeper theoretical levels. This has not, however, been a theme of most commentators, even though it would seem to be a crucial consideration. If we understand how Smith wrote, then inferences about his teaching as a whole will be easier to make. The crucial consideration here is Smith's understanding of science and rhetoric. As a preliminary, though, we should note one aspect of Smith's thought which bears on how we should read his works.

That Smith was a cautious man is well known. For example, he steadfastly refused to publish his close, but controversial, friend Hume's *Dialogues Concerning Natural Religion*. Equally notable is his meticulous supervision from his death bed of the destruction of most of his unpublished manuscripts and lectures.⁸ Less attention, however, has been given to the extent to which this caution is evident in Smith's writings themselves. This caution, we suspect, was part of

⁸For Smith's views on the dangers of letter writing, see Smith to William Strahan, Dec. 2, 1776, Corr. Letter No. 181.

a larger care on Smith's part to write effectively and to avoid unnecessary controversy.⁹ In the *Theory of Moral Sentiments*, Smith recommended the example of the prudent man over that of the ingenious but imprudent man. While Smith was himself a man of considerable genius, it seems reasonable to assume that he took his own advice to heart both in his life and his writings.

Consider his description of the prudent man.

The prudent man is always sincere, and feels horror at the very thought of exposing himself to the disgrace which attends upon the detection of falsehood. But though always sincere, he does not always think himself bound, when not properly called upon, to tell the whole truth. As he is cautious in his actions *he is also reserved in his speech*, and never obtrudes his opinions concerning either things or persons (VI.1.8, emphasis added).

Both in his conduct and conversation he is an exact observer of decency, and respects, with almost religious scrupulosity, all the established decorums and ceremonials of society. And in this respect he sets a much better example than has frequently been done by men of much more splendid talents and virtues - who in all ages, from that of Socrates and Aristippus down to that of Dr. Swift and Voltaire, and from Philip and Alexander the Great down to that of Czar Peter of Moscovy, have too often distinguished themselves by *the most improper and even insolent contempt of all the ordinary decorums of life and conversation*, and who have thereby set the most pernicious example to those who wish to resemble them, and who too often content themselves with imitating their follies without even attempting to attain their perfections (VI.1.10, emphasis added).

One should, therefore, approach Smith's work bearing in mind the maxims and standards of the age in which he lived, alert to the possibility that Smith may have tailored his writings to meet its needs and prejudices. One would thereby keep open the possibility that Smith was indeed saying something quite new that would, perhaps, be of more significance for the future than for his own time.

To understand Smith's manner of writing we must also consider his views on the history of science. The extraordinary success of Newton's physics seems to have had an important effect on Smith. In his *Lectures on Rhetoric*, Smith recommended the Newtonian method of didactic rhetoric as the proper form for scientific discourses. The Newtonian method proceeds by laying

⁹For Smith's views on the esoteric style see his *History of Ancient Physics* paragraph 3, note, which appears in EPS (hereafter *Ancient Physics* followed by paragraph number) on the question of whether Plato's doctrine of the ideas is simply an exoteric teaching. Smith says it was not. His views on this matter are conditioned by his acceptance of the Enlightenment. That said, Smith appreciated that dissimulation is often necessary, especially at times of civil or religious strife.

"down certain principles known or proved in the beginning, from whence we account for the several Phenomena, connecting all together by the same Chain." Smith regarded this method as the "most philosophical, and in every science whether of moral or natural philosophy etc, is vastly more ingenious and for that reason more engaging" than the Aristotelian method which did not employ an easily accessible mode of presentation (LRBL II.133-4). According to Smith, Newton made "the greatest discovery that ever was made by man" and acquired "the most universal empire that was ever established in philosophy" by gaining "the general and complete approbation of mankind."¹⁰ We need to consider Smith's understanding of Newton's success in order to see what he might have learned.

The subtitle of the essay entitled *History of Astronomy* is "The Principles Which Lead and Direct Philosophical Inquiries."¹¹ He explains his object as follows:

Let us examine, therefore, all the different systems of nature . . . without regarding their absurdity or probability, their agreement or inconsistency with truth and reality, let us consider them only in that particular point of view which belongs to our subject; and content ourselves with enquiring how far each of them was fitted to soothe the imagination, and to render the theatre of nature more coherent, and therefore a more magnificent spectacle than it would otherwise have appeared to be (II.12).

The principles which concerned Smith are not, strictly speaking, those that constitute scientific *truth* but, rather, those that provide the *motivation* for scientific activity and that account for the *popular success* of scientific theories. It is an exercise in what, today, might go by the name of the sociology of knowledge.

Smith extended Hume's theory of customary or associational knowledge to the development of science.¹² Science begins with an "unease" created by seeming discontinuities in the order of nature or "surprises." To the earliest men, thunder and lightning, volcanoes, and

¹⁰IV.76. The *History of Astronomy* appears in EPS. Hereafter, it will be cited as *Astronomy* followed by chapter and paragraph number.

¹¹Smith seems to use the terms "philosophy" and "science" interchangeably. See W. P. D. Wightman's "Introduction" to *Astronomy* in EPS pp.11-13. Smith claimed to be in the process of writing a "sort of philosophical history of all the different branches of Literature, of Philosophy, Poetry and Eloquence." Smith to Rochefocauld, Nov. 1, 1785, Corr., Letter No. 248.

¹²See the "General Introduction" by Raphael and Skinner to EPS, pp.15-20.

so on, would have seemed departures from the customary course of nature. In those primitive times, men naturally attribute to these events a divine cause. Worship of nature is, then, the first manifestation of the scientific spirit.¹³ It is, however, a lazy and inattentive manifestation. As times became more settled and as human beings became more secure, they have an opportunity to inquire into the natural causes of these events. "The leisure which they then enjoy renders them more attentive to the appearances of nature, more observant of her smallest irregularities, and more desirous to know the chain which links them all together" (III.3). Moreover, that "magnanimity, and cheerfulness" which comes when men are "more conscious of their strength and security" renders them "less disposed to employ, for this connecting chain those invisible beings whom the fear and ignorance of their rude forefathers had engendered" (III.3).

Philosophy, he explains,

is the science of the connecting principles of nature. Nature, after the largest experience that common observation can acquire, seems to abound with events that appear solitary and incoherent with all that go before them, which disturb the easy movement of the imagination; which make its ideas succeed each other, if one may say so, by irregular starts and sallies; and which thus tend in some measure, to introduce those confusions and distractions we formerly mentioned. Philosophy, by representing the invisible chains which bind together all these disjointed objects, endeavours to introduce order into this chaos of jarring and discordant appearances, and to restore it, when it surveys the great revolutions of the universe, to that tone of tranquility and composure, which is both agreeable in itself, and most suitable to its nature (II.12).

A scientific theory is, then, a set of propositions which purports to explain certain phenomena of the world by describing the chain of causes and effects which connects these phenomena. He terms such a set of propositions a "system." In addition,

[a] system in many respects resembles machines. A machine is a little system, created to perform, as well as to connect together, in reality, those different movements and effects which the artist has occasion for. A system is an imaginary machine invented to connect together in the fancy those different movements and effects which are in reality performed (IV.19).

The success of such a system, which is a separate question from its truth, depends on the ease with which the theory can account for the phenomena under investigation. This in turn is a

¹³Smith's only other use of the phrase "invisible hand" occurs in this context when he speaks of the "invisible hand of Jupiter" (*Astronomy* III.2). See Alec Macfie, "The Invisible Hand of Jupiter," *Journal of the History of Ideas* 32 (Oct. 1971):595-99. It is not an exaggeration to say that for Smith science and religion form a sort of continuum.

function of its coherence, explanatory power, and the simplicity of the system as a whole.¹⁴ Smith suggests that one system is likely to be superceded by another, if the established system becomes too cumbersome, and an alternative system can explain the phenomena more simply and just as comprehensively. Smith claims this was the reason for the demise of the classical view of the universe which became, after a point, too complicated. Furthermore, the popular appeal of any system depends crucially on its ability to make use of connecting principles which are in some way familiar to mankind. Smith claims that it was "the school of Socrates . . . from Plato and Aristotle, that philosophy first received that form, which introduced her, if one may say so, to the general acquaintance of the world" (III.6). The school of Socrates, however, like all schools until the time of the Enlightenment, remained a "sect."¹⁵ It is this ability to make use of familiar principles which explains the fantastic success of the Newtonian system. "The superior genius and sagacity of Sir Isaac Newton . . . made the most happy, and, we may now say, the greatest and most admirable improvement that was ever made in philosophy, when he discovered, that he could join together the movements of the Planets by so familiar a principle of connection, which completely removed all the difficulties the imagination had hitherto felt in attending to them" (IV.67). That familiar principle was, of course, the "earthly" principle of gravity which Newton simply extended to the heavens. "The gravity of matter is, of all its qualities, after

¹⁴On these points see Andrew Skinner "Adam Smith: Philosophy and Science," *Scottish Journal of Political Economy* 29 (Nov. 1972):307-319.

¹⁵The Physiocrats also remained merely a sect. In the *Wealth of Nations*, he notes the failure of the Physiocrats, or *œconomistes*, to have any practical impact (IV.ix.1). It was "a very ingenious system" and indeed was "perhaps, the nearest approximation to the truth that has yet been published upon the subject of political economy, 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" (IV.ix.2; IV.ix.38). Yet, it existed, and seemed destined only to exist, "in the speculation of a few men of great learning and ingenuity in France" (IV.ix.2). The Physiocrats were, perhaps above all, a "sect" along the lines of those that grew up around the ancient philosophers. While the school was able to attract a number of faithful, almost fanatical, adherents, it had little popular appeal. "Its [learned] followers are very numerous; and as men are fond of paradoxes, and appearing to surpass the apprehension of ordinary people, the paradox which it maintains, concerning the unproductive nature of manufacturing labour, has not perhaps contributed a little to increase the number of its admirers" (IV.ix.38).

its inertness, that which is most familiar to us."

The victory of the Newtonian system seems to have provided Smith with many insights.¹⁶ It showed the way to, and the potential for, popular enlightenment by providing a rhetorical model which could be used by all sciences, including the moral and political. Its mode of explanation, Smith thought, was that best suited to satiate the passions that fire the human imagination. The extent to which the Newtonian principles had entered the popular imagination was an encouraging sign for those who rested their hopes for civilizing political and social life on the enlightenment, in some fashion or other, of the great bulk of mankind.

"Newton's empire" was also a testimony to the superiority of the new experimental method. Only incidentally do we gain from the *Astronomy* an insight into Smith's view of the scientific method. His criticisms of Descartes are revealing. The system of Descartes, he acknowledged, had held great sway and was crucial to the acceptance of the Copernican system, but, as he is reported to have stated in his *Lectures on Rhetoric*, "it does not, perhaps, contain a word of truth" (LRBL II.134). "Reason and experience" were the two equally indispensable tools of science (*Astronomy* IV.4,44). The product of reason unaided by experience was illustrated by the Cartesian system and its success. The system of Descartes remained "one of the most entertaining romances that have ever been wrote" because it was unable to be confirmed by experience.¹⁷ It appears that Smith, like Hume, believed in the effectiveness of the experimental method as a corrective for the defects of the senses and ordinary language. In the *Wealth of Nations* and the *Theory of Moral Sentiments*, we see Smith's very conscious attempt to escape

¹⁶We will show that it influenced the substance of his political economy. In the *Astronomy* Smith notes the practice of artists and scientists of using analogies to explain disparate phenomena. He makes mention of "systems that have universally owed their origin to the lucubrations of those who were acquainted with the one art, but ignorant of the other; who therefore explained to themselves the phenomena, in that which was strange to them, by those which was familiar; and with whom, upon that account, the analogy, which in other writers gives occasion to a few ingenious similtudes, became the great hinge upon which everything turned" (II.12). For a suggestion of this sort see H.F. Thompson, "Adam Smith's Philosophy of Science," *Quarterly Journal of Economics* 79 (May 1965):222-29.

¹⁷LRBL II.133. See also TMS VII.2.4.14 and *Astronomy*, IV.66.

from the problems of ordinary speech.

Smith does not seem to doubt that one can speak meaningfully about the truth or falsity of a particular theory. Smith, however, was well aware, and, perhaps, even more so than Hume, of the radically hypothetical nature of modern scientific theories. His studies in the history of science must have alerted him to the provisional character of all theories. Consider his closing remarks on the success of the Newtonian system:

And even while we have been endeavouring to represent all philosophical systems as mere inventions of the imagination to connect the otherwise disjointed and discordant phenomena of nature we have been insensibly drawn in, to make use of language expressing the connecting principles of this one as if they were the real chains which nature makes use of to bind together her several operations (IV.76, emphasis added).

The fact that his science was limited to hypothetical propositions should, perhaps, have prompted Smith to deeper reflection on the character of modern science and the blurring of the distinction between faith and knowledge which it implies.¹⁸ As he states it, there is a tension between the truth of a theory and the historical character of that theory.

Having indicated Smith's understanding of the influence of science, we must consider, first, to his account of "speculative men" and, then, to his account of "men of the world" or political men. What are the political implications of theories or systems of politics? By way of background, we must begin with some consideration of the relevant aspects of Smith's moral theory.

¹⁸ See Cropsey, *Polity and Economy*, pp.43-48.

C. Philosophers and Political Men

1. Smith's Moral Theory

Smith regarded his moral theory as superior to the ancient systems of morality. While they provided many admirable models and accounts of virtue, the ancients fell short in two areas: first, they failed to give an account for the basis of moral judgement and, second, they failed to achieve precision in the area of morality most important for politics, namely, the rules of justice. "Different authors gave different systems of natural and moral philosophy. But the arguments by which they supported those different systems, far from being demonstrations were frequently at best very slender probabilities, and sometimes mere sophisms, which had no other foundation but the inaccuracy and ambiguity of common language" (WN V.i.1.26). In addition, Smith saw his own theory as superior to other modern systems of morality. These modern systems, he granted, had benefited significantly from advances in the science of the human mind which made it possible to speak accurately and systematically of "the distinct offices and powers of the different faculties of the human mind" (TMS VII.iii.2.5). Nevertheless, Smith thought his own system superior on two grounds: first, he believed he had dispensed with the excessive rationalism of the early modern thinkers such as Locke and Hobbes, residues of which he found in Hume and, second, he believed he had integrated the self-regarding and other-regarding virtues into a complete system, thus providing a full account of morality.

Smith analyzed man and society using the framework provided modern natural science. His analysis focussed on the passions which he understood to be the principles of motion inherent in men. According to Smith, human society is bound together by two strong threads: the neediness of human nature and the passion of sympathy. The former is the foundation of his scientific political economy and the latter of his moral theory. Sympathy is the means by which

the psychic state of one human being is communicated to other human beings. Sympathy is not the same as pity. It is a transmission mechanism and, as such, is morally neutral. "Pity and compassion are words appropriated to signify our fellow-feeling with the sorrow of others. Sympathy, though its meaning was, perhaps, originally the same, may now, however, without much impropriety, be made use of to denote our fellow-feeling with any passion whatever (TMS I.i.1.5). Furthermore, nature has adjusted our sentiments and our faculty of imagination so as to establish a basis for moral judgments and, indeed, for social harmony. "Sympathy," he continues, "does not arise so much from the view of the passion, as from the *situation* which excites it. We sometimes feel for another a passion of which he himself seems to be altogether incapable; because when we put ourselves in his case, that passion arises in our breast from the imagination, though it does not in him from the reality" (TMS I.i.1.9, emphasis added). Smith gives as examples our blushing at the impudence of another and our horror at the rantings of a lunatic. With an engaging elegance and an extraordinary ingenuity, Smith shows how the sympathy mechanism accounts for our original moral judgments of our own actions and those of others.¹⁹ These original judgments come, in time, to form the moral code which prevails in a given society. Society operates on the basis of certain moral rules of thumb or "general rules" which, though derived from our original moral sentiments, do not rely on those sentiments for their day-to-day effectiveness (TMS III.3-6).

We may summarize Smith's theory of the origin of moral judgment as follows: Human beings naturally consider the actions of others under two heads: first, the propriety or impropriety of the cause or motive for the action, and, second, the end which the action tends to produce. Our approval or disapproval of the motive is determined by the degree to which we can enter into the sentiments of the agent. If we can fully enter into, for example, the anger, sorrow, or gratitude, of an agent, then we may be said to approve of it. Smith locates the merit or demerit of

¹⁹The elegance of the *Theory of Moral Sentiments* impressed Burke and Hume. See letters from Hume of April 12, 1759 and Burke of September 10, 1759, Corr., Letter Nos 31&38.

an action in the tendency of the action to produce harmful or beneficial effects.²⁰ For an action to receive approval both motive and merit must be present. Good intentions alone are not enough and an accidental act of beneficence does not deserve praise. Smith explains how we come to judge our own actions by means of a fusion of the traditional notion of conscience and the sympathy mechanism. Our experience of judging the actions of others teaches us that we live under the scrutiny of others and that our acts will likewise be judged. Consequently, we come to appraise our own actions by reference to the anticipated reactions of our fellow human beings and, specifically, our assessment of the degree to which they could enter into and approve of our actions. This process is formalized by Smith in the concept of "the impartial spectator" which plays an integral role in Smith's recasting of the modern natural rights tradition. The impartial spectator is an hypothesized "other" who has no stake in the particular action or its consequences and whose sensibilities approach as near perfection as is humanly possible.²¹ Because of his qualifications, the impartial spectator is a higher tribunal than any actual spectator, and it is his approval which men seek and find comfort in. Smith explains the authority of conscience or, what is the same thing, the judgment of the impartial spectator in terms of the love of praise and the dread of blame which he saw as fundamental human passions. According to Smith, human beings crave the approval of their fellows and have a mortifying fear of their disapproval. Approval brings tranquility to their minds, whereas disapproval disturbs tranquility. That human happiness consists in a mental state which Smith generally describes as "tranquility" is a central, though not always overt, theme of the *Theory of Moral Sentiments*. We have already seen how the human mind attempts to correct for the discomfort brought about by anomalies in the natural

²⁰These in turn are, respectively, the grounds for gratitude and reward and for resentment and punishment. We should note that the harm or benefit need not be to ourselves and that the action need only tend to, not necessarily achieve, a particular result. There is no self-interested calculation involved.

²¹Smith suggests that even the impartial spectator's adherence to strict morality may, on occasion, falter, e.g., in his admiration for success rather than intention (TMS VI.iii.30). Elsewhere, he observes that "the man within" is part human and part divine (TMS III.ii.32).

world. It is Smith's contention that a moral life is also necessary for "tranquility."²²

In short, Smith's claim is that the human moral order is derivative from our passions. For our purposes, we must make two remarks. First, Smith maintains that the origin of moral judgments is in our untutored passions. He regards this as evidence of "the wisdom of nature." Nature has so ordered things that she has not relied on weak and fleeting human reason, but has placed her trust in the stronger, and more constant, human passions. Smith sought to remove the last vestiges of rationalism from moral theory, a process he saw as begun, but not completed, by Hume. Hume explained our approbation of an action with reference to its potential utility. Smith regarded this as untrue to the facts of human behavior. For example, we do not hate injustice, originally, because of its potential to do harm to society or ourselves, but because it is hateful in itself. Smith granted that our original judgments might later be refined and confirmed by reason, and that the utility of justice might add to it an additional lustre, but he maintained that rationality, even in the diminished sense of calculation, does not enter into our original experience of injustice (or our dread at committing injustice). Thus, nature has laid in the constituent passions of human nature the fundamental moral basis necessary for the maintenance of society. Earlier thinkers were mistaken in their belief in the power of human reason.

When by natural principles we are led to advance those ends which a refined and enlightened reason would recommend to us, we are very apt to impute to that reason, as to their efficient cause, the sentiments and actions by which we advance those ends, and to imagine that to be the wisdom of man, which in reality is the wisdom of God (TMS II.ii.3.5).

The effects of our sense of justice are in no way intended by us and the resultant moral community or society cannot be seen as a conscious human construction as it was for Hobbes and Locke. According to Smith, nature displays a particular "economy" in her productions. She has arranged her constituent parts so that they conduce to her end and maintain her order. Smith distinguishes two types of causes: final causes and efficient causes. Nature implanted in her constituent parts, including man, the efficient causes of the motions which conduce to her ends,

²²See also "Of the Nature of that Imitation which Takes Place in What Are Called the Imitative Arts," II.20, in EPS (hereafter *Imitative Arts*), where there is a description of the "natural state of mind."

or the final causes. The notion of "final causes," or "unintended consequences" as we might say, is fundamental to Smith's thought.

In the *Theory of Moral Sentiments*, Smith set down the ends of nature at a number of levels. The great end attributed to nature is "the prosperity of the universe," an end of which we can have little, perhaps no real knowledge (TMS II.i.5.9; cf. III.v.7, VI.ii.3.6). With regard to "all animals" nature seeks the "self-preservation and propagation" of "each species" (TMS II.i.5.10).²³ Finally, the "happiness of mankind, as well as of all other rational creatures, seems to have been the original purpose intended by the Author of Nature when he brought them into existence" (TMS III.5.7).²⁴ Smith regards the life of moral virtue as the surest path to happiness, but he is not clear on whether it is a guarantee of happiness.²⁵ In this scheme of things, the constituent parts of the natural order need not and, in general, do not act with any consciousness of the purposefulness of the system as a whole. We might characterize Smith's thought as a reflection on the implications for the "rational creature" man of the understanding of nature

²³"Mankind are endowed with a desire for those ends and an aversion to the contrary But it has not been entrusted to the slow and uncertain determinations of our reason, to find out the proper means of bringing them about. Nature has directed us to the greater part of these by original and immediate instincts" (TMS II.i.5.10).

²⁴This is a puzzling statement. To begin with, man does not appear to be the only "rational creature." Note also, that Smith only says "seems." In the immediate sequel, he again says only that an examination of the works of nature "seem" to show this (III.v.7). To ensure our happiness in this world, as the *Theory of Moral Sentiments* shows, is not without its difficulties. For example, Smith has recourse to the "natural" belief in divine reward and punishment in order to bolster the spirits of the just man held to be unjust (TMS II.ii.3.11; III.ii.33). Also, there is the problem of the ever present fear of death. Finally, there is the related conflict, which is elaborated in detail by Cropsey, between the natural course of things and the natural sentiments of mankind. See next footnote.

²⁵Nature, as Cropsey points out, seems to be divided against itself; "the moral sentiments" of man are in conflict with "the natural course of things." Man is in a way disposed to reject the natural distribution of rewards and honors. See *Polity and Economy*, pp. 37-40. In fact, to go a step further, the moral virtues seem to be divided themselves as they relate to human happiness. Those virtues belonging essentially to the private life--"truth, justice and humanity"--seem to be rewarded with greater regularity than those which require the exercise of public virtue. See TMS III.5.8 and III.5.9. In the references just cited "justice" appears in both listings of virtues. We would suggest that at III.5.9 Smith is referring to "justice" as it appears in political, rather than private life.

inherent in modern natural science.²⁶ "The reasonings of philosophy," says Smith, "though they may confound and perplex the understanding, can never break down the necessary connection which nature has established between causes and effects" (TMS VII.ii.47). The passions of men are part of the great chain of causes and effects and, therefore, cannot be ruled by reason. With respect to morality, Smith concludes that a philosophic awareness of the purposefulness of the universe as a whole is not sufficient to provide an independent standard for life--such as the idea of the good in Plato--but, in fact, directs us to pay heed to our passions in recognition of our place in nature as parts of a whole. We become moral by following our passions, not our reason.

A second element of Smith's moral theory is especially relevant to our broader inquiry. It should be clear from the above that something akin to what today we might call "socialization" is an integral part of Smith's moral order. According to Smith, precept and exhortation, have little effect on the characters of men, and, as a result, he saw little place for the notion of moral education as the means to the best life or the establishment of the best regime. The presumed inefficacy of precept is a direct consequence of Smith's claim that reason is defenseless before the passions. The moral sentiments are the only force within us that can overpower our self-love, and they are developed only through a constant and intense interaction with other human beings whom we perceive of as our equals. This takes place, and can only take place, in "society."²⁷ The basis of our moral judgments lies in our original passions, but they are activated only by our living together with other human beings in a state of virtual equality. Smith necessarily denies that a solitary human being could have any idea of moral judgement (TMS IV.2,12).²⁸ Living in

²⁶See Cropsey, "The Invisible Hand," in *Political Philosophy and the Issues of Politics*, pp.76-89, for a penetrating reflection on this aspect of Smith's thought in light of later political philosophy.

²⁷Consider the following statement on classical moral education: "If it were possible by precept and exhortation, to inspire the mind with fortitude and magnanimity, the ancient systems of propriety would seem sufficient to do this. Or, if it were possible by the same means, to soften it into humanity, and to awaken the affections of kindness and general love towards those we live with, some of the pictures with which those benevolent systems present us, might seem capable of producing this effect" (TMS VII.ii.5, emphasis added). See Cropsey, *Polity and Economy*, p.25, for comment. See also the critique of Greek education at WN V.i.f.38-45.

the eyes of others is essential for the development of that capacity which allows us to regulate our passions. Smith calls this capacity "self-command." It is itself something to be esteemed and admired, and it is the prerequisite for most of the other virtues.²⁹ The "most perfect knowledge" of the rules of prudence, justice and benevolence are of no avail unless supported by "the most perfect self-command" (TMS VI.iii). While simply living in society is sufficient for attaining a certain degree of self-command, the higher degrees of self-command requisite for great undertakings are possible only for those who have been continually exposed to the scrutiny of public life. The highest levels of self-command are learned most frequently in the great school of "war and faction," that is, in politics (TMS VI.iii.20; I.i.4.9-10). With these two points in mind, let us now turn to Smith's analysis of the respective characters of speculative men and political men.³⁰

2. Speculative Men

An important dichotomy between two types of human beings--the speculative man and the political man--emerges from Smith's account of a civilized society. It is a contrast between the man of the most exquisite humanity and greatest breadth of vision and the man of superior self-command and political skill. The dichotomy arises in the following way. The understanding and character of a human being is formed in the course of their ordinary employment in life. The term "employment" here encompasses both education to a task and the execution of the task itself. Smith goes so far as to say that this accounts for the greatest part, perhaps all, of the differences

²⁸Though he may develop a certain aesthetic appreciation of the respectable virtues.

²⁹Humanity would seem to be an exception.

³⁰Our discussion calls into question some of the conventional ways of looking at Smith. It is complimentary and corrective of those who focus solely on the bourgeoisification of life in a commercial society. Moreover, it provides a response to those who fault Smith for not extending his economic analysis into political life. See, e.g., George Stigler, "Smith's Travels on the Ship of State," in *Essays on Adam Smith*, ed. Andrew Skinner and Thomas Wilson, (Oxford: Clarendon Press, 1975), pp.265-7. Smith was concerned with a variety of human motivations.

we observe among human beings (WN I.ii.4-5). And, certainly, the "understandings of the greater part of men are formed by their ordinary employment" (WN V.1.f.50). The material progress of society is characterized by an ever increasing division of labor. A civilized society will be characterized by a diversity of human beings arising out of the diversity of the different forms of employment. To some an opportunity will be given to pursue a life of learning and teaching. Smith makes clear that considerable pleasures may be derived from this way of life in addition to any honor or pecuniary reward.

The philosopher's curiosity about nature will, however, seem to most observers as absurd as that of a lover's feeling for his beloved; intelligible perhaps, but not an emotion with which others can easily sympathize. "A philosopher is company to a philosopher only; the member of a club to his own little knot of companions" (TMS I.ii.3.6). In short, the philosopher lives a private life and seeks only the approbation of his fellow philosophers for his intellectual inquiries. The philosopher's isolation, mental and even physical, is essential to his professional activity. In particular, he is insulated from the pressure of public opinion whose favors he does not need to court. This is most clear in the case of mathematicians and natural philosophers who, from their independency upon the public opinion, have little temptation to form themselves into factions or cabals, either for their own reputation, or for the depression of that of their rivals. They are almost always men of the most amiable simplicity of manners, who live in good harmony with one another, are the friends of one another's reputation, enter into no intrigue to secure the public applause, but are pleased when their works are approved of, without being either much vexed or very angry when they are neglected (TMS III.ii.22; Cf. WN I.x.24).

The case of moral philosophy is slightly different. In moral philosophy it is easier for the "layman" to spot an absurd theory because he has at his disposal the evidence of every-day morality (TMS VII.ii.4.14). There must, therefore, be a greater consonance between moral theories and everyday life if they are to be accepted.³¹ An implication of this might be that moral philosophy is not independent of public opinion. One would, however, have to take into account the way in

³¹This reflection of Smith's shows, also, the extent to which he took morality for granted; as something to be explained, rather than questioned. A further, optimistic, implication explicitly drawn by Smith is that no moral theory could make its way in the world that did not have some considerable basis in the truth (TMS VII.ii.4.14).

which Smith thought he was approaching moral philosophy, namely, from a scientific point of view. He did not understand himself as a partisan. Indeed, this is one of his implicit criticisms of Whig philosophers like Locke.³² Furthermore, Smith regarded the mercantile school of thought as the product originally of the mercantile class. It was prejudice elevated to the status of science. Smith believed he was acting from a purer motive; perhaps, one might say, as a *partisan of mankind*.

The philosopher, because of his isolation from the world, is unlikely to possess the virtues necessary for politics. He is above all a humane man, but the virtue of humanity is largely incompatible with the virtue of self-command necessary for politics. It is a womanly virtue and in tension with the manly quality of self-command required for political life.

In the mild sunshine of undisturbed tranquility, in the calm retirement of undissipated and philosophical pleasure, the soft virtue of humanity flourishes and is capable of the highest improvement. But, in such situations, the greatest and noblest exertions of self-command have little exercise (TMS III.iii.37).³³

The philosopher is, in a sense, the culmination of civilized society. Civilized society allows, and even encourages, a retreat into private life and, for a few, this means a life of speculation (TMS V.ii.8-9). Not only is the philosopher a product of society's most advanced stage, but he comes to understand society and nature as much as is humanly possible. The philosopher stands outside the "bustle and business" of life and may judge of it undisturbed by those passions which might distort his informed impartiality. Smith often refers to this as an "abstract and philosophical light" which, while it yields vital insights into human life, is seldom, if ever, the perspective of the actual participants.³⁴ Through the thoughts of the philosopher society achieves a kind of awareness of its own existence which previously it did not possess.

While it is true in one sense that the philosopher represents the culmination of society, it

³²Cf. Hume, "Of Original Contract," *Essays: Moral, Political And Literary*, Eugene Miller ed., (Indianapolis: Liberty Classics, 1985), p.469: "philosophers who have embraced a party (if that be not a contradiction in terms)."

³³See also TMS IV.ii.10 and VI.iii.19.

³⁴ See, e.g., TMS III.iv.9; IV.i.9; IV.ii.2.

would be wrong to say that, for Smith, he represents the peak of society. He in no sense represents the pinnacle of human existence. Philosophy has no priority over other goods or ways of life. The philosopher is a part of a societal whole and subject to its demands. Smith states emphatically that the "most sublime speculation of the contemplative philosopher can scarce compensate the neglect of the smallest active duty" (TMS VI.ii.3.6). The philosopher is an observer and not a direct participator in the business of life. That he is not subject to society's passions does not, however, mean that he is not in the grip of his own passions. For Smith, what may properly be called the aesthetic pleasures of the life of the mind constitute its intrinsic value. The approbation of his fellow philosophers gives an additional lustre to the pursuit. There is, however, an important way in which the philosopher's following his passions leads him to assist society. Although he may not even intend it, his reflections on the discontinuities and incoherences of nature yield knowledge that is "useful" to society.³⁵ This is his defense before society. The philosopher, as he is portrayed by Smith (and Hume), is engaged in a pursuit which is both a trade and a pastime, but it is not conceived of as being the organizing principle of his life. ³⁶

³⁵As W.P.D. Wightman's Introduction to the *Astronomy* notes, there is a very interesting contrast to be made between Smith's account of the progress of science and that of other Baconians and, specifically, of D'Alembert, who explained the progress of science in terms of human need (pp.9-11). Hiram Caton develops this theme in "The Preindustrial Economics of Adam Smith," *Journal of Economic History* 45, No. 4 (Dec. 1985):833-53.

³⁶See Hume's essays "The Platonist", "The Sceptic" and, especially, "The Stoic" which bears a striking similarity to Smith's own position, *Essays*, pp.146-90. See also TMS VII.ii.1.46: "Nature has not prescribed to us this sublime contemplation as the great business and occupation of our lives. She only points it out to us as the *consolation of our misfortunes*" (*emphasis added*). The notion of philosophy as "consolation" is a sign of Smith's great departure from earlier understandings of the philosophic life. It is also a sign of the close connection between religion and philosophy in Smith's thought.

3. Political Men

At what might be regarded as the opposite pole to the speculative man is the political man. He lives, and must necessarily live, in the public realm. The political man requires the capacity for self-command in the highest degree. The revisionist commentators have focussed on Smith's account of political men as evidence of his traditional leanings, variously describing it as a continuation of the "civic humanist tradition" or as typical of "eighteenth century" thought in some way. It is, therefore, important that we present Smith's account in some detail. We will argue that there is a profound tension in Smith's account between the possibilities inherent in political life and the strict demands which Smithian morality seems to make on political men. Smith's account points to the defective character of political life.³⁷

An appropriate place to begin is Smith's account of prudence. Smith includes prudence among the respectable virtues, that is, those which concern the individual in his personal affairs.

The care of the health, of the fortune, of the rank and reputation of the individual, the objects which his comfort and happiness in this life are supposed principally to depend, is considered the business of that virtue which is commonly called prudence (TMS VI.1.5).

Smith does not consider prudence as an other-regarding virtue.³⁸ He acknowledges his departure from the Aristotelian tradition when he speaks of "superior prudence."

We talk of the prudence of the great general, of the great statesman, of the great legislator. Prudence is in all these cases, combined with many greater and more splendid virtues; with valour, with extensive and strong benevolence, with sacred regard to the rules of justice, and all these supported by a proper degree of self-command. . . . It constitutes very nearly the character of the Academical or Peripatetic sage, as the inferior prudence does that of the Epicurean (TMS VI.i.15).

³⁷Smith's praise of the Stoic emperor Marcus Antoninus is deceptive (TMS VI.ii.3.6). One might say of Smith's Marcus Antoninus something similar to what Hume said of Sparta: if we did not have such compelling evidence of his existence, his example might be dismissed as a philosophical whim. Furthermore, modern times are more civilized than Roman times and, as a result, the dichotomy between characters is more pronounced. Cf. Montesquieu, *The Spirit of the Laws*, trans. Thomas Nugent, (New York: Hafner Press, 1949), Bk XXIV, Ch.10 on the Stoics. Smith, also, was drawn to the Stoics. His criticisms of them could be seen as part of a reformulation of their teachings in light of a new concept of science.

³⁸See Cropsey, *Polity and Economy*, pp.40ff., for discussion .

This "superior prudence" is a composite virtue. Simple prudence is, in fact, something of a double-edged sword. In the *Theory of Moral Sentiments*, Smith considers acts which are prudent and virtuous, imprudent and base, and prudent and base. The first, he says, are universally admired, the second universally disapproved of, but the third meet with a mixed reception and are frequently admired (TMS VI.i.16). Furthermore, because Smith cuts the connection between prudence and the other moral virtues prudence ceases to be an aristocratic virtue as it was for Aristotle. Smith levels the character of virtue even further by separating ethics and politics. Smith's idea of the impartial spectator is based on the positing of a hypothetical other whose judgments are impartial, intelligent, and informed, but who does not hold aloft a standard of human excellence whose peak *requires* great and noble deeds. We can see separation Smith's account of the "prudent man" who stands somewhere in between the political man and the speculative man. The "prudent man is not willing to subject himself to any responsibility which his duty does not impose upon him . . . In the bottom of his heart he would prefer the undisturbed enjoyment of secure tranquillity, not only to all the vain splendour of successful ambition, but to the real and solid glory of performing the greatest and most magnanimous actions" (TMS VI.i.13). The prudent man is, one might say, the typical bourgeois. Yet does the impartial spectator--the source of our moral qualms--disapprove of this falling short of the ideal of "perfect virtue"? Smith answers with a clear no. Happiness, or tranquility of mind, is within the reach of all men. "What," asks Smith, "can be added to the happiness of the man who is in health, who is out of debt, and has a clear conscience?"³⁹ In this way, Smith is able to reconcile inequalities of virtue or merit with a more fundamental moral equality.

The man possessed of "superior prudence" would seem to correspond to what Smith describes as the man of "the most perfect virtue."

[The] man whom we naturally love and revere the most, is he who joins, to the most perfect command of his own original and selfish feelings, the most exquisite sensibility both to the original and sympathetic feelings of others. The man who, to all the soft, the amiable, and the

³⁹TMS I.iii.1.7. See, also, TMS IV.1.10 and Cropsey, *Polity and Economy*, pp.54-5, for comment on the general point made here.

gentle virtues, joins all the great, the awful, and the respectable, must surely be the natural and proper object of our highest love and admiration (TMS III.3.35).

He is the most correct in his own behavior and the greatest benefactor of others. The man who is most fitted by "nature" to receive both sets of virtues is the man of the most "exquisite humanity," "who feels most for the joys and sorrows of others" (TMS III.iii.36). A natural disposition towards the virtues does not, however, necessarily lead to their acquisition. The man who lives a private life, for example, will not have the opportunity to "exercise and practice" under those conditions necessary for acquiring self-command. Contrast the life of the public man.

Under the bolsterous and stormy sky of war and faction, of public tumult and confusion, the sturdy severity of self-command prospers the most, and can be the most successfully cultivated. But, in such situations, the strongest suggestions of humanity must frequently be stifled or neglected; and every such neglect tends to weaken the principle of humanity . . . It is upon this account that we so frequently find in the world . . . men of the most perfect self-command . . . who, at the same time, seem to be hardened against all sense either of justice or humanity (TMS III.3.38).

The "great schools of self-command" are war and faction.

Smith observes that our natural sentiments lead us to conceive of the idea of "universal benevolence," that is, of our inability "to form the idea of any innocent and sensible being whose happiness we should not desire, or to whose misery, when distinctly brought home to the imagination, we should not have some degree of aversion" (TMS VI.ii.3.1). Smith suggests that such universal benevolence is the *likely* principle of the Deity. The constitution of human nature is, however, such that we are in practice unable to extend this benevolent disposition much beyond our own circle. Society, for Smith, is a necessary part of the world, but it is a pseudo-natural part when looked at from a moral perspective. Society is a compound of various little "systems" radiating outwards from the individual to encompass the family, the neighborhood, one's class or rank, and, finally, the society as a whole. These systems are held together by mutual need and by "affection." "What is called affection," Smith notes, "is in reality nothing but habitual sympathy" (TMS VI.ii.1.7).⁴⁰ His description of actual societies shows that nature leads men down paths which drastically curtail their benevolence and even justice. In our sentiments,

⁴⁰ Cf. VI.ii.2.1.

"the love of our own country" and the "love of mankind" are distinct, and sometimes contradictory, passions. "The love of our own nation often disposes us to view, with the most malignant jealousy and envy, the prosperity and aggrandisement of any other neighbouring nation . . . and the mean principle of national prejudice is often founded upon the noble one of the love of our own country" (TMS VI.ii.2.3). The lack of a "common superior" among independent nations means that they must "live in continual dread and suspicion of one another" (TMS VI.ii.2.3). The law of nations is for this reason seldom observed. In fact, Smith claims that this law is itself "laid down without regard to the plainest and most obvious rules of justice" (TMS III.iii.42).

Notwithstanding the above, Smith concludes as follows:

That wisdom which contrived the system of human affections, as well as that of every other part of nature, seems to have judged that the interest of the great society of mankind would be best promoted by directing the principal attention of each individual to that particular portion of it which was most within the sphere both of his abilities and of his understanding (TMS VI.ii.2.4).

In short, the demands of society, "the peculiar care and darling of nature," prevail because society is the instrument through which nature achieves her great end of preserving and propagating the species (TMS II.ii.3.4). From a moral perspective, however, "the great society of mankind" is the truly natural whole.⁴¹ There is, in short, a seeming conflict between Smith's moral standard and his account of the basis and activity of society.

In practice, then, the two ways of life, the political and the philosophic, diverge in a manner which does not suggest any ready means of reconciliation. It should now be clear why Smith could refer in the *Wealth of Nations* to "the confused scramble of politics and war" (IV.vii.c.85). The air breathed by those who participate in political life is fouled. Yet, Smith seems to have seen a way out. Having ruled an appeal to reason ineffective, he proposed to appeal to the public passions of political men.

⁴¹The phrase is used by Smith in a number of places. See, e.g., TMS vi.ii.2.4. See, also, Cropsey, "Capitalist' Liberalism," pp.57-8, for comment on Smith's use of "mankind" as a standard, anticipating thinkers such as Kant and Marx.

4 . The Spirit of System

Smith was aware that a strict moral perspective is of only limited relevance to human life. He entertained no hope of an end to politics. As long as there are independent societies and the need to restrain injustice within those societies, the coercive power of government would be needed.⁴² Furthermore, Smith believed that certain human vices were crucial to the health and progress of society. The proud man, while not, strictly speaking, justified in his pride, is generally above the common rung of men (TMS VI.iii.41). Of proud men, who have achieved great "success in the world," Smith remarks as follows:

This presumption was, perhaps, necessary not only to prompt their undertakings which a more sober mind would never have thought of, but to command the submission and obedience of their followers to support them in such undertakings (TMS VI.iii.28).

The vain man, on the other hand, "is very seldom convinced of that superiority which which he wishes you to ascribe to him" (TMS VI.iii.35). It is, however, this defect which is commonly a spur to improvement. "The great secret of education is to direct vanity to its proper objects" (TMS VI.iii.45). We should "never suffer [the vain man] to value himself upon trivial accomplishments, but do not always discourage his pretensions to those that are of real importance" (TMS VI.iii.46).

On the basis of Smith's account, these observations point to a particular problem which will arise in societies where there is an extensive division of labor. Smith believed that constant exposure to the dangers of war and faction is necessary for the development of the high degree of self-command required for political action. In a commercial society, where people become

⁴² See Cropsey, "Capitalist' Liberalism," pp.72-74, on the difference between Smith and the post-Smithian critics of capitalism. Unlike those critics, Smith believed in an unchanging human nature. In some ways he even defends "politics." For example, he goes to some length to refute the arguments of "licentious systems" of philosophy which attempt to explain all actions in the public interest in terms of vanity and self-love. He is anxious to defend the "reality of virtue" and to distinguish between the pure love of virtue, the love of true glory, and great actions proceeding merely from self-love. The pure love of virtue is the "the most sublime and god-like motive which human nature is even capable of conceiving" and the love of true glory, while showing "a greater mixture of human infirmity" is still "the love of well grounded fame and reputation, the desire of esteem for what is really estimable" (TMS VII.ii.4.8-9).

more and more involved in their private affairs, such degrees of self-command will be rare (TMS V.2.7-11). Moreover, the desire for political involvement is also likely to decline. Smith's histories of Greece and Rome in the *Lectures on Jurisprudence* stress this retreat into private life and its political consequences.⁴³ The prudent man, who will predominate in a commercial society,

confines himself, as much as his duty will permit, to his own affairs, and has no taste for that foolish importance which many people wish to derive from appearing to have some influence in the management of . . . other people: he is averse to enter into party disputes, hates faction, and is not always very forward to listen to the voice of even noble and great ambition. When distinctly called upon, he will not decline the service of his country; but he will not cabal in order to force himself into it, and would be much better pleased were the public business well managed by some other person, than that he should have the trouble, and incur the responsibility of managing it (TMS VI.i.13).

Smith indicates that the prudent man has good reason to prefer the quiet life. The natural course of things or the progress of society is weighted against public pursuits.

The great sources of both the misery and disorders of human life seem to arise from overrating the difference between one permanent situation and another. Avarice overrates the difference between poverty and riches: *ambition, that between a public and a private station: vainglory, that between obscurity and extensive reputation.* . . . The slightest observation, however, might satisfy [a man], that, in all the ordinary situations of human life, a well disposed mind may be equally calm, equally cheerful, and equally contented (TMS III.3.31, emphasis added).

As we noted earlier, nature has distributed her rewards in such a way as to ensure the accomplishment of *her* purposes. "She bestows upon every virtue, and upon every vice, that precise reward or punishment which is best suited to encourage the one, or to restrain the other" (TMS III.5.9). According to Smith, she discriminates in favor of those virtues which pertain to the private life or, in other words, those that concern our health, wealth, and reputation. Nature makes the following dispensation:

Magnanimity, generosity, and justice, command so high a degree of admiration, that we desire to see them crowned with wealth, and power, and honours of every kind, the natural consequences of prudence, industry, and application; qualities with which those virtues are not inseparably connected. Fraud, falsehood, brutality, and violence, on the other hand, excite in every human breast such scorn and abhorrence, that our indignation rouses to see them possess those advantages which they may in some sense be said to have merited, by the diligence and industry with which they are sometimes attended. The industrious knave cultivates the soil; the indolent good man leaves it uncultivated. Who ought to reap the harvest? Who starve, and who live in plenty? The natural course of things decides it in favour

⁴³ To speak of this as "corruption", as Winch does, is to miss the mark. See *Adam Smith's Politics*, Ch.5. Smith sought to point out the way in which a "corrupt" system might be made to function.

of the knave; the natural sentiments of mankind in favour of the man of virtue (TMS III.5.9). In the "middling and inferior stations of life" the paths of virtue and success are essentially the same (TMS III.iii.5). To venture out into the world of greater endeavor is to take a seemingly unwarranted risk. It is to risk failure and, hence, the blame, warranted or not, of the bulk of mankind. It is to forsake an "almost infallible method of acquiring what the virtues chiefly aim at, the confidence and love of those we live with" (TMS III.5.8). One of the distinguishing characteristics of Smith's teaching is that the philosopher who sees things in a "cool and abstract light" and the prudent man have more in common than either has with the man of great and laudable ambition. Both of the former see the pitfalls of subjecting oneself to the "empire of fortune."⁴⁴

For Smith, there seem to be two political problems: on the one hand, the hardness of political men and, on the other, the depoliticization of the majority of the people which occurs in commercial societies. These particular problems are addressed in the central part of the *Theory of Moral Sentiments*.⁴⁵ Part IV is entitled "Of the Effect of Utility upon the Sentiment of Approbation." It is, in essence, Smith's response to Hume and contains what Smith regards as his original contributions to moral philosophy. Smith regarded the only difference between his moral theory and Hume's to be that Hume "makes utility, and not sympathy, or the correspondent affections of the spectator, the natural and original measure of [propriety]" (TMS VII.ii.3.21). Chapter One deals with the "secret motives" behind public and private endeavor, and it is here that Smith chooses to introduce the notion of the "invisible hand." Chapter Two deals with the extent to which utility is an original principle of approbation. For present purposes, the most important passages are those in Part IV, Chapter One, which deal with the "love of system." Smith sets down a principle which he says may be observed in "a thousand instances, both in the

⁴⁴See TMS II.iii.1.7 : "the consequences of actions are altogether under the empire of fortune." Here, he is speaking of those actions which earn merit.

⁴⁵In his *Lectures on Rhetoric* (II.126-8) Smith noted the importance attached to the place of items in a list. The central place naturally belongs to the most important item.

most frivolous and in the most important concerns of life" (IV.1.3). He explains that while we approve of a particular activity or object because of its utility to ourselves or others, it is also often the case that this activity or object, "the *means* for attaining any conveniency or pleasure," comes to be valued more than the end that it is intended to produce (IV.1.3, emphasis added). For example, "[a] watch . . . that falls above two minutes in a day, is despised by one curious in watches. He sells it perhaps for a couple of guineas, and purchases another at fifty, which will not lose above a minute a fortnight" (IV.1.2). When looked at from the point of view of the utility of watches, this is a foolish decision because the two watches accomplish essentially the same purpose. Yet human beings do not usually look at things in this "abstract and philosophical light," and, Smith adds, it is a good thing they do not.

This principle, he continues, is not only applicable to trivial things but is "often *the secret motive of the most serious and important pursuits of both public and private life*" (IV.1.7, emphasis added). With respect to economic pursuits, it is the basis of that desire to better our condition which is the fundamental principle of Smith's political economy and the real dynamic behind civilization. As a result of this salutary deception on the part of nature, we come to value the things which produce happiness more than happiness itself.⁴⁶ In the political realm, it is the foundation of the "love of system" which Smith finds behind much public spirited activity.

When the patriot exerts himself for the improvement of any part of the public police, his conduct does not always arise from pure sympathy with the happiness of those who are to reap the benefit of it. . . . The perfection of police, the extension of trade and manufactures, are noble and magnificent objects. The contemplation of them pleases us, and we are interested in whatever can tend to advance them. They make part of the great system of government, and the wheels of the political machine seem to move with more harmony and ease by means of them. We take pleasure in beholding the perfection of so beautiful and so grand a system, and we are uneasy till we remove any obstruction that can in the least disturb or encumber the regularity of its motions (TMS IV.1.11).

As with economic pursuits the end, or the utility of the thing, in this case law and policy, is the only relevant criterion when viewed abstractly and philosophically. Yet, we do not always act with a view to this end.

⁴⁶We take up this theme in our discussion of Smith's political economy.

From a certain spirit of system, . . . from a certain love of art and contrivance, we sometimes seem to value the means more than the end, and to be eager to promote the happiness of our fellow creatures, rather from a view to perfect and improve a certain beautiful and orderly system than from any immediate sense or feeling for what they either suffer or enjoy (IV.1.11).

This observation leads Smith to contrast the man of humanity who lacks public spirit with the man of public spirit who lacks humanity. Smith remarks that it often will be to no avail to appeal to the humane man who lacks "public virtue"⁴⁷ by speaking of the "interest" of his country.

You will be more likely to persuade, if you describe the great system of public police which procures these advantages, if you explain the connections and dependencies of its several parts, their mutual subordination to one another, and their general subserviency to the happiness of the society; if you show how the system might be introduced into his own country, what it is that hinders it from taking place there at present, how those obstructions might be removed, and all the several wheels of the machine of government be made to move with more harmony and smoothness, without grating on one another, or mutually retarding one another's motions (TMS IV.1.11).

Although Smith says nothing which might lead one to believe that such an injection of public spirit would be lasting in a man who has no public spirit to begin with, he next observes that

[n]othing tends so much to promote public spirit as the study of politics . . . Upon this account political disquisitions, if just, and reasonable, and practicable, are of all the works of speculation the most useful. Even the weakest and the worst of them are not altogether without their utility. They serve at least to rouse the public passions of men, and rouse them to seek out the means of promoting the happiness of society (TMS IV.i.11).

As Winch has very justly observed, we have in these passages "the strategy of persuasion that lies behind the *Wealth of Nations*" and which provides "the basis of Smith's case for bringing science to bear on the conduct of the legislator."⁴⁸ Smith's remarks reveal his conception of the social machine and, in particular, how the gears which link speculative and political men are meshed. The *Wealth of Nations* shows that the economic success of a nation depends, for the most part, on the steady pursuit of wealth by most people for the purposes of satisfying the desire to better their condition. In a way not dissimilar to this, he seems to suggest that the political success of the nation requires that at least some men follow their public passions and seek their happiness in public life.⁴⁹ The philosopher, for his own reasons, provides both the inspiration

⁴⁷ It is difficult to know what to make of the change in terminology from "public spirit" to "public virtue." Perhaps, it is an indication of the moral neutrality of "public spirit" when separated from the other virtues, especially humanity.

⁴⁸ "Science and the Legislator," *The Economic Journal* 93 (September 1983): 503. Winch moves in the opposite direction to the argument we present.

and the means.

Smith's emphasis on the role of a spirit of system is problematic in two respects. The *Theory of Moral Sentiments* itself contains a severe critique of the spirit of system which Smith added to the last edition, perhaps, in response to the French Revolution and its English enthusiasts.⁵⁰ The argument is, however, characteristically Smithian. He observes that in troubled times "a certain spirit of system is apt to mix itself with that public spirit which is founded upon the love of humanity . . . This spirit of system commonly takes the direction of the more gentle public spirit, always animates it, and often inflames it, even to the madness of fanaticism" (TMS VI.ii.2.16). The result is a dangerous and headlong rush to remodel the constitution. The man "whose public spirit is prompted altogether by humanity and benevolence" shows greater moderation. "When he cannot conquer the rooted prejudices of the people by reason and persuasion, he will not attempt to subdue them by force, but will religiously observe what by Cicero is justly called the divine maxim of Plato, never to use violence to his country, no more than his parents." Like Solon, "when he cannot establish the best system of laws, he will endeavour to establish the best that the people can bear" (TMS VI.ii.2.16). The "man of system on the other hand, "is apt to be very wise in his own conceit."

[H]e seems to imagine that he can arrange the different members of a great society with as much ease as the hand arranges the different pieces upon a chess board; he does not consider that the pieces upon the chess board have no other principle of motion besides that which the hand impresses upon them; but that in the great chess board of society, every single piece has a principle of motion of its own, altogether different from that which the legislature might choose to impress upon it (TMS VI.ii.2.17).

While it is quite plausible that these remarks were added in response to the French Revolution, Smith concludes by noting that "of all political speculators sovereign princes are by far the most dangerous" (TMS VI.ii.2.18). Thus, his discussion is a general indictment of role of theorizing in politics which is as applicable to the Physiocratic advocates of legal despotism as to modern

⁴⁹Recall that Smith makes avarice and ambition out of the same cloth. "The objects of avarice and ambition differ only in their greatness. The miser is as furious about a halfpenny as a man of ambition about the conquest of a kingdom"(TMS III.6.7).

⁵⁰See editorial notes 2 and 7 by Raphael and Macfie to TMS VI.ii.2.

republicans.

There is a second respect in which Smith's praise of the study of politics is problematic. Smith's discussion of public spirit and humanity does not deal with the more interesting case of what to do about the man of public spirit who lacks humanity, such as "the celebrated legislator of Muscovy." Such a man might be rare in a commercial society, but, as Smith's account of political life suggests, politics hardens men. Moreover, Smith was aware that large parts of the globe had not reached the level of civilization of Western Europe. How is Smith's praise of political studies reconcilable with his rather dire warnings about the dangers of a spirit of system? We must remember that Smith himself was the inventor of a system, the "system of natural liberty."

Reflecting on this omission, one begins to see the full significance for human life across the globe of the discovery and elaboration of a humane system of government and policy of the kind which we will suggest Smith advocated. Smith's political science and his political economy, we suggest, are systems which avoid the dangers of systems. Our account of Smith's understanding of the relationship between philosophers and political men shows the extent to which Smith was thoroughgoing in his attempt to systematize the workings of society. He extends the principle of the division of labor to encompass activities which would not ordinarily be considered as parts of the economy. In the conclusion of this chapter, we take the question of Smith's educational reforms which provide an insight into how he thought his science might be disseminated.

D. Science and Civilization

On the face of things, Smith seems to have suggested that the real obstacle in front of any plan for global peace and prosperity was the mercantile system which pitted nations in economic and political competition and which inhibits economic growth. Smith warned of the unsuitability of merchants for ruling, but this was not the fundamental problem; what had to be removed was a

pernicious opinion, not a class from power.⁵¹ An opinion first promulgated by "an order of men, whose interest is never exactly the same as that of the public, who have generally an interest to deceive and even to oppress the public, and who accordingly have, upon many occasions, both deceived and oppressed it" (WN I.xi.p.10). This opinion was raised to the level of a theory or system. The immediate solution would seem to be to enlighten the rest of society to their true interest. For example, the superiority of the merchants over "the country gentleman is, not so much in their knowledge of the public interest, as in their having a better knowledge of their own interest than he has of his" (WN I.xi.p.10). The *Wealth of Nations* clearly is an attempt to lead people to their interest. This might seem to be an easy thing--explaining hip-pocket issues usually are--but if we look at the *Wealth of Nations* we see that Smith thought it a rather complicated matter requiring nothing short of an over-haul of the entire educational system.

Smith's recommendations in the *Wealth of Nations* for educational reform deserve more attention than they have received from scholars. "I have," Smith wrote to a friend, "thought a great deal upon this subject, and have enquired very carefully into the constitution and history of the principal universities of Europe."⁵² Smith proposed reforms in the university curriculum and in the administration of the universities. Smith proposed that the university curriculum be reconstituted to follow the model of the classical division of the sciences--natural philosophy, moral philosophy and logic--but to teach *modern* natural and moral philosophy. Smith's object was to orientate learning toward the education of those he termed "gentleman and men of the world" rather than ecclesiastics.⁵³ Religion had subverted the teaching of useful knowledge by

⁵¹ The case of Great Britain might be an exception because of its representative institutions. See WN IV.ii.42.

⁵²To William Cullen, 20 Sept., 1774, Corr., Letter No.143.

⁵³ He seems to have in mind here a distinction between those students of noble birth and those of common but at least moderately wealthy families. See V.1.f.35 where he refers to "all gentleman and men of fortune." The distinction might also signify a more important distinction between the politically useful class, the natural aristocracy, and the upper class proper which does not usually serve a political purpose.

subordinating learning to the concerns of the next life, rather than to the "real business of the world." Moral philosophy, by "far the most important branch of all the different branches of philosophy," was the most corrupted and, in fact, destructive of "the liberal, generous and spirited conduct of a man" (WN V.1.f.30).⁵⁴ In short, Smith proposes the thorough secularization of the university. It is interesting to fit Smith's own writing and teaching into this scheme. He taught on many subjects: natural theology, rhetoric, ethics, and jurisprudence. The latter two, he characterized as the "useful" branches of moral philosophy. As it was, he published only two works: one on ethics and one on "that part of jurisprudence which concerns police, revenue and arms."⁵⁵ His proposed work on government would have completed his study of jurisprudence. Clearly, he followed the program that he recommended; one which addressed "the real business of the world."

Smith's second major proposal was for the financial reform of the universities.⁵⁶ Smith argued that the system of public endowments had taken away the incentives for diligence on the part of teachers and, also, the necessity of teaching useful knowledge. Instead, such things as "the cobweb science of ontology" dominated the curriculum (WN V.1.f.5,29,34,46). Education, he suggested, should be put on a strictly fee-for-service basis. Smith observed, that those "parts of education . . . for the teaching of which there are no public institutions, are generally the best taught" (WN V.1.f.16). As evidence, he cited the healthy state of women's education, the public schools, the unendowed universities and the schools of classical Greece. Smith's reasoning is based on a general rule: "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" (WN

⁵⁴Cf. TMS VI.ii.Introduction: "The principles upon which [the civil or criminal law] either are or ought to be founded, are the subject of a particular science, of all the sciences by far the most important, but, hitherto, perhaps, the least cultivated - that of natural jurisprudence."

⁵⁵Advertisement to the Sixth Edition of the *Theory of Moral Sentiments* (reprinted in Glasgow edition, p.3).

⁵⁶In the case of the education of the poorer sort of people, he was more inclined towards state intervention. See WN V.1.f.52.

V.1.f.4).

There is one major exception in this broad scheme of commercialization. We might have thought that Smith would have disapproved of any licensing system which forced individuals to achieve certain credentials before entering into the liberal professions as an infraction of natural liberty. He recommends, however, the institution of "some sort of probation, even in the higher and more difficult sciences, to be undergone by *every* person before he is permitted to exercise *any* liberal profession, or before he could be received as a candidate for *any* honourable office of trust or profit" (WN V.1.g.14, emphasis added). If the demand was created, Smith was confident teachers would be forthcoming.

The context of these remarks is a discussion of the dangers of religious zealotry among the common people. Smith was especially concerned with their fascination with asceticism and reverence towards ascetic religious leaders. Smith thought that an educated elite is an "easy and effectual" remedy for these tendencies. "Science is the great antidote to the poison of enthusiasm and superstition; and where all the superior ranks of the people were secured from it, the inferior ranks could not be much exposed to it (WN V.1.g.14).⁵⁷ This is one of the clearest and most intriguing cases where the "wisdom of the state" must supplement the "wisdom of nature." Smith makes clear that society by itself produces and disseminates certain types of useful knowledge, for example, inventions with commercial applications. The clearest reason for his departure in this case is the strength of religious passions. He warns that "the authority of religion is superior to every other authority. The fears which it suggests conquer all other fears"

⁵⁷ Cf. Hobbes, *Leviathan*, C.B. Macpherson ed., (Harmondsworth: Penguin Books, 1968), Review and Conclusion, pp.717-29. Cropsey, *Polity and Economy*, p.84n.6, comments on Smith's descent from Hobbes. Smith (and the American Founders?) stand in contrast to Locke and Rousseau in their emphasis on the universities. Both Locke and Rousseau emphasized education of the young through a careful moulding of their original and undirected passions. Smith seems to have neglected early education for two reasons: first, because of his emphasis on society as the true educator of those original passions and, second, because he thought that those passions were directed towards life in society. Smith differed from Hobbes in that he believed fear is a "wretched instrument" of ruling (WN V.i.g.19).

(WN V.1.g.17). Civilization, it seems, will always be in a state of tension with the religious passions of men. The requirement that the state always attend to the enlightenment of the people attests to this inference.

Smith's proposed reforms would have a much wider impact. By educating those who were to hold public office in the elements of statecraft, Smith, perhaps, hoped to introduce the fruits of his science into the dynamic of civilization. It is important to be clear on what this means for Smith. He does not purport to have discovered an architectonic science of human things. He does not hold out the possibility such as Plato's notion of a society oriented toward the good and ruled by a philosopher. Rather, he means to find the appropriate place for philosophy within the system, thus completing it. His political and economic science point to the way in which the class of political men might "preserve its own importance" by preserving society and civilization. Philosophy, on this view, remains a part of the society, and not its organizing principle. The connection of the foregoing to the emerging world situation is clear. The destruction of the pernicious influence of the mercantile system, while perhaps the major *desideratum*, is part of a larger plan of popularizing a form of statecraft appropriate to the modern world. Civilization might in this way be preserved and extended.

In this chapter, we have for the most part focussed on the form of Smith's teaching and what we will provisionally call its end—a humane enlightenment. In the next two chapters, we turn to the means or the substance of his teaching: his political science and his political economy.

CHAPTER THREE
ADAM SMITH'S POLITICAL SCIENCE

A. Adam Smith's "Politics"?

We noted in Chapter One the emerging consensus in the field of Smith scholarship that Smith had a "politics" which was not trivial and which distinguishes him from the later scientific political economists of the nineteenth century.¹ Also, we noted our partial agreement with this position, at least insofar as it attempts to restore the breadth of Smith's vision.

The revisionist position, however, suffers from a number of significant defects. To begin on something of a pedantic note, the claim that Smith had a "politics" is a little misleading. It raises an expectation which is not met. It is un-Smithian in the sense that Smith decried "politics" as the arena for the exercise of the arts of faction and intrigue. Smith's political science is, as we shall see, an effort to step outside of "politics," if we understand by that term the arena of partisanship. Whatever partisanship Smith displays is in favor of his system of natural liberty, a subpolitical, or, perhaps, transpolitical concern. Winch's *Adam Smith's Politics*, for example, founders on unresolved tension between his classification of Smith as a "sceptical", that is to say, "scientific" whig, in the manner of Hume, and his desire to point out the links between Smith and the "civic humanist" tradition.² The testimony of Dugald Stewart gives a useful overview of Smith's

¹The emerging consensus challenges the conventional view of Smith which emphasizes his political economy. The most sophisticated statement of the conventional view is that of Joseph Cropsey, *Polity and Economy: An Interpretation of the Principles of Adam Smith* (The Hague: Martinus Nijhoff, 1957). His position has been challenged by Duncan Forbes, "Sceptical Whiggism, Commerce and Liberty," in *Essays on Adam Smith*, ed. Andrew Skinner and Thomas Wilson (Oxford: Clarendon Press, 1975), pp.179-201, Donald Winch, *Adam Smith's Politics: An Essay in Historiographic Revision* (Cambridge: Cambridge University Press, 1978), Knud Haakonsen, *The Science of the Legislator: The Natural Jurisprudence of David Hume and Adam Smith* (Cambridge: Cambridge University Press, 1981) and Richard Teichgräber, *Free Trade and Moral Philosophy: Rethinking the Sources of Adam Smith's Wealth of Nations* (Durham: Duke University Press, 1986) who all in various ways stress Smith's "politics."

position. Soon after Smith's death, Stewart was called upon to defend his teacher and friend against charges of political radicalism. He replied that Smith aimed at the improvement of society not by delineating plans of new constitutions, but by enlightening the plans of actual legislators. Such speculations, while they are more essentially and more extensively useful than any others, have no tendency to unhinge established institutions, or to inflame the passions of the multitude. The improvements they recommend are to be effected by means too gradual and slow in their operation, to warm the imaginations of any but of a speculative few; and in proportion as they are adopted, they consolidate the political fabric, and enlarge the basis on which it rests.³

Nothing could be further from a partisan position.

We find the firmer ground of those who claim Adam Smith had a "politics", or a "political science", which is a better term, in their elaboration of Smith's account of the role of the state and in the somewhat surprising scope, given the conventional "liberal capitalist" perspective, he gives to state initiative, and even to the "legislator." There are several aspects to this realm of state initiative and discretion. The least problematic aspect concerns Smith's advocacy of a moderate, rather than doctrinaire, approach to the implementation of the recommendations of his political economy. This is a matter which Smith thought must be left to the "wisdom and prudence of future legislators" (WN IV.11.c.44). The revisionists see this as one of the features which distinguishes Smith from later political economists. This is, to an extent, a true characterization of Smith. Again, Stewart provides helpful clarification.

In what manner the execution of the theory should be conducted in particular circumstances, is a question of a very different nature, and to which the answer must vary, in different countries, according to the different circumstances of the case. In a speculative work such as Mr Smith's, the consideration of this question did not properly fall under his general plan; but that

²The attempt to fit Smith into the civic humanist perspective is the least convincing part of Winch's very stimulating book. He attempts this by discussing Smith's consideration of various political problems of the "eighteenth century"—a nebulous concept—and pointing to the similarities between Smith and the civic humanist tradition. This is unsatisfactory because it leaves no way of knowing whether these similarities are merely accidental or whether they flow from a basic similarity of approach. Winch, himself, argues that Smith was a sceptical whig and points to the differences between Smith and a real whig like Hutcheson. Surely then, any similarities are essentially accidents. See C.B. Macpherson's, "Review of *Adam Smith's Politics*" *History of Political Economy* 11, No.3 (Fall 1979):450-453, where it is pointed out that there is very little in Winch's account of Smith that is inconsistent with his main target "the liberal-capitalist perspective" on Smith.

³"Account of the Life and Writings of Adam Smith LL.D.," IV.6, which appears in EPS. Hereafter cited as *Account* followed by chapter and paragraph number.

he was abundantly aware of the danger to be apprehended from a rash application of political theories, appears not only from the general strain of his writings, but from some incidental observations which he has expressly made upon the subject (*Account IV.18*).

Such theories . . . ought to be considered merely as descriptions of the ultimate objects at which the statesman ought to aim. The tranquility of his administration, and the immediate success of his measures, depend on his good sense and his practical skill; and his theoretical principles only enable him to direct his measures steadily and wisely, to promote the improvement and happiness of mankind, and prevent him from being led astray from these important ends, by more limited views of temporary expedience (*Account IV.21*).

These are important qualifications which have been neglected by many modern economists who profess to follow Adam Smith. The revisionists, however, tend to exaggerate the extent of Smith's departures from the principle of free trade.⁴

The revisionists also stress the extent of the role that Smith gave to the state in political, economic, and even moral affairs.⁵ As Winch sums things up, Smith, if correctly understood, was the proponent of a science of law and politics in which "political economy occupied a crucial but by no means dominant role."⁶ Haakonsen stresses Smith's jurisprudence as the organizing principle of this political science. In his account, this is the crucial distinction between Smith and the nineteenth century utilitarians.⁷ Both men point to the broad range of concerns which occupied Smith even in his great work on political economy.

Emblematic of the revisionist approach is the prominence they give to Smith's account of the "legislator." Winch's and Haakonsen's accounts, at times, seem almost Plutarchian in the stress on the role of Smith's legislator. They portray Smith's legislator as a latter day Solon who balances the demands of (presumably Smithian) theory and political practice, rather than as a Lycurgus. Moderation is, perhaps, the chief virtue of the Smithian legislator. Above all, he

⁴See Chapter Four.

⁵On this and the preceding point, see Jacob Viner "Adam Smith and *Laissez-Faire*," in *The Long View and the Short* (Glencoe: Free Press, 1958), pp.213-45, and Cropsey, *Polity and Economy*, pp.10-11, who was well aware of Smith's caution, despite his overall categorization of Smith.

⁶"Adam Smith's 'Enduring Particular Result,'" in *Wealth and Virtue: The Shaping of Political Economy in the Scottish Enlightenment*, ed. Michael Ignatieff and Istvan Hont, (Cambridge: Cambridge University Press, 1983), p.257.

⁷ *Science of a Legislator*, pp.94-8, 135.

eschews violent measures of policy that force society onto a new course. This account of Smith's legislator is, to a large extent, true. We suggest, however, that, at a practical level, it may not address the most important consideration. More important, we think, is the character or substance of the theory which guides the legislator in his consideration of practical questions, however varied. What is the substance and source of the legislator's moderation? A treatment of Smith's political economy is necessary to give a full answer to this question. In this chapter, we will, somewhat artificially, confine our discussion to his political science. Recent scholarship has closely linked the question of the legislator to the question of Smith's understanding of the relationship between commerce and civilization. The center-piece of the revisionist argument in this regard is a rejection of the notion that Smith saw a necessary connection between the progress of civilization and the progress of commerce. The revisionists claim that such a connection was not part of his "philosophy of history."⁸ Absent such a connection, there exists a decisive role for a legislator. To establish whether or not Smith saw such a connection is important because it would clarify the presuppositions a Smithian statesman would bring to bear on practical problems.

We consider Smith's political science under three headings: natural justice and politics; commerce, politics, and history; and, finally, Smith's constitutionalism and the idea of progress. In the first two sections, our procedure follows what would have been the likely plan of Smith's projected work on politics, which was to give an account of the principles of natural justice and a history of law and government in the different ages of society.⁹ This study was never completed, but the most important elements of it may be gleaned from his published works and from the *Lectures on Jurisprudence*. In the third section, we consider the principles which he drew from this study.

⁸ As claimed, for example, by Cropsey. See *Polity and Economy*, Ch.3.

⁹ See TMS VII.iv.36.

B. Natural Justice and Politics

Justice is, for Smith, *the* political and social virtue. It does not, however, have a part in Smith's thought comparable to that played by justice in Plato's *Republic*, the necessary and sufficient condition of the best life for an individual and a city. Nor does it have the expansive meaning it had for Aristotle when he spoke in the *Ethics* of justice as "complete virtue or excellence."¹⁰ Justice, for Smith, is the political and social virtue for the following reasons:

Society may subsist among different men, as among different merchants, from a sense of its utility, without any mutual love or affection; and though no man in it should owe any obligation, or be bound in gratitude to any other, it may still be upheld by a mercenary exchange of good offices according to an agreed valuation (TMS II.ii.3.2).

Justice . . . is the main pillar that upholds the whole edifice [of society]. If it is removed, the great, the immense fabric of human society, that fabric, which to raise and support, seems, in this world, if I may say so, to have been the peculiar care and darling of nature, must in a moment crumble into atoms (TMS II.ii.3.4).

Justice is, then, the necessary condition of society. A study of Smith's complex understanding of justice is, therefore, at the heart of any account of his political science. We believe the most important element in his understanding to be the tension between *natural* justice and politics.

As we noted earlier, Smith thought that the virtues have a natural basis in the human passions, and he regarded justice as the virtue having the strongest foundation in the human "constitution." The foundation for justice is the "sacred and necessary law of retaliation" which "nature has stamped upon the human heart, in the strongest and most indelible characters" and for which we have an "immediate and instinctive approbation" (TMS II.i.2).

Among equals¹¹ each individual is naturally, and antecedent to the institution of civil government, regarded as having a right both to defend himself from injuries, and to extract a certain degree of punishment. Every generous spectator not only approves of his conduct when he does this, but enters so far into his sentiments as to be willing to assist him (TMS II.ii.1.7).

By the phrase "antecedent to the institution of civil government," Smith means not the state of nature, but that primitive state of society which existed before the acquisition of personal property.

¹⁰ *Republic* Bk II; *Nicomachean Ethics* 1129b30.

¹¹ This is an important qualification. See below.

It was a state of general equality. In a way reminiscent of the state of nature doctrines of Hobbes and Locke, this primitive state is an important point of reference for Smith's account of natural justice. It is not, however, the sole point of reference because of his awareness of history. This "great law" of our nature which prompts our "resentment" when we suffer injury is a sign of the "economy of nature," that is, of nature's reliance on the passions, and not reason. Nature's end of preserving individual human beings is guaranteed by one of their strongest passions. In addition, we are able to sympathize fully with the justified resentment of others. It is important to stress again that it is not an interest in the preservation of society which originally arouses our indignation at injuries done to others.¹² "We are no more concerned for the destruction or loss of a single man, because this man is a member or part of society, and because we should be concerned for the destruction of society, than we are concerned for the loss of a single guinea because this guinea is part of a thousand guineas, and because we should be concerned for the whole sum" (TMS II.ii.10). We feel for "individuals" because they are our "fellow creatures," and not, originally, because they are our fellow citizens.¹³

Smith's idea of justice is, for all practical purposes, restricted to commutative justice. The restriction of justice to this limited sphere is made possible by his distinction between the positive and negative virtues. There exists a "remarkable distinction" between justice and all other virtues. Smith distinguishes between those virtues which others may demand of us by force and those which cannot be exacted by force even though failure to practice them is blamable. Justice is the only virtue which may be "extorted by force" because "the violation of justice is injury: it does real

¹²Resentment and our sympathetic experience of it may properly be called "indignation." Smith often presents indignation as partaking somewhat in the irrational, e.g., when we imagine the sufferings of someone who has died even though they feel nothing. With it, he sees a potential for excess. This realization leads him to recommend that the desire to punish be held in check and that individuals and societies observe a count-to-ten rule. Indignation, however, serves a purpose. "The want of proper indignation is a most essential defect in the manly character, and, upon many occasions, renders a man incapable of protecting either himself or his friends from insult and injustice" (TMS VI.iii.16).

¹³We, of course, feel more for our "particular friends and acquaintances."

and positive hurt to some particular persons, from motives which are naturally disapproved of. It is, therefore, the proper object of resentment, and of punishment, which is the natural consequence of resentment" (TMS II.ii.1.5). Resentment is the desire to punish in proportion to the particular wrong. An excess of resentment is "revenge." On the other hand, breaches of the positive virtues do not lead to "a real positive hurt." They deserve only "blame" or "hatred." Smith's account of justice has a negative orientation in that justice comes to light through our experience of injustice.

Why did Smith perceive such a "remarkable distinction"? An answer to this question would reveal why Smith confined justice in the political realm to commutative justice and, therewith, the basis of his liberal principles. Haakonsen has made a helpful suggestion which draws on Smith's psychology.¹⁴ He argues that Smith saw a staggering asymmetry between the happy life and the unhappy life. Little can be added to the happy life, but the depths to which one might sink in misery are "immense and prodigious." It follows that the denial of a positive good, e.g., honor, in no way compares with the infliction of an injury, e.g., from a robbery. The psychological basis is the greater sensitivity of human beings to pain than to pleasure. One might supplement this explanation by noting the role of the imagination in producing this great disparity. Fear is, according to Smith, one of the most easily amplified and communicated of all the human emotions. The infliction of pain creates the anticipation of more pain, quickly reducing a man to misery. One must, however, go further than either of these suggestions. If human psychology is the basis of our sense of justice what accounts for the variety of conceptions of justice which have prevailed in the world at different times? What would account for the priority of the type of justice which prevails in commercial societies? Why, for example, did other societies so cherish honor? We suspect it was Smith's study of history which led him to this view. The study of history showed the naturalness and immanence of commercial society and, hence, the priority of

¹⁴*Science of a Legislator*, pp.83-7.

commutative justice. What precisely led him to accept the judgement of history is a difficult question which we will defer until we have considered more fully the connection between history, commerce, and civilization.

Not only does nature ensure that human beings resent injustice and sympathize with those who suffer injustice, it further supports it by placing in the human heart a strong sense of "remorse." A man who has committed an injustice soon reflects on his act and begins to regret it. "He is grieved at the thought of it; regrets the unhappy effects of his own conduct, and feels at the same time that they have rendered him the proper object of the resentment and indignation of mankind, and of what is the natural consequence of resentment, vengeance and punishment. . . .

. . . Such is the nature of that sentiment, which is properly called remorse; *of all the human sentiments which can ever enter the human breast the most dreadful*" (TMS II.ii.2.3, emphasis added). The feeling of remorse holds in check man's self-love. Without it, men would, "like wild beasts, be at all times ready to fly upon him; and a man would enter an assembly of men as he enters a den of lions" (TMS II.ii.3.4).¹⁵ One might conclude that this is an important part of Smith's rejoinder to those early modern thinkers who doubted men's ability to live peaceably together without a common superior.

In light of the above, it should be clear that nature has taken advance steps to guarantee the strength of the essential political and social virtue. That said, Smith did not think that the coercive force of government could be done away with. He envisaged neither the complete bourgeoisification of life, nor the withering away of the state. "The wisdom of every state or commonwealth endeavours, as well as it can, to employ the force of the society to restrain those who are subject to its authority from hurting or disturbing the happiness of one another" (TMS VI.ii.Introduction). If justice were to cease then society would be at an end. Smith observes that

¹⁵Cf. TMS I.ii.4.3 with John Locke, *Two Treatises of Government*, ed. Peter Laslett, New American Library, (New York: Mentor Book, 1963), II.11 (cf. II.123,131), and Hobbes, *Leviathan*, ed. C.B.Macpherson, (Harmondsworth: Penguin Books, 1968), Ch.13.

society

cannot subsist among those who are at all times ready to hurt and injure one another. The moment that injury begins, the moment that mutual resentment and animosity takes place, all the bands of it are broken asunder, and the different members of which it consisted, are, as it were, dissipated and scattered abroad by the violence and opposition of their discordant affections (TMS II.ii.3).

To establish an "exact administration of justice" is listed in the *Wealth of Nations* as the second duty, after defense, of a sovereign and, in the 1762-63 lectures on jurisprudence, it is said to be the "first and chief design of civil government" (WN IV.ix.50; LJ(A) I.1,9). These two statements are not necessarily contradictory if we regard, as Smith seems to have, the priority of defense as an exception which, while it might over-ride the demands of justice in some circumstances, was not the "naturally" first priority. It might be that the seeming overwhelming importance of defense throughout the history of actual societies had been due to a perversion of the natural course of things. While Smith granted the primacy of foreign policy, he nevertheless proceeded in most cases to reason as though it was not primary. Whatever might hold in exceptional circumstances, Smith thought that justice is or, at least, could be the focus of politics.

Smith distinguished justice from the other virtues in another way which is of considerable political significance. As noted earlier, in any actual society the "bulk of mankind" will rely for moral guidance on certain "general rules" which have been established and refined over a long period of time. Society's adherence to these rules fortifies individual consciences against the temptations of the selfish passions and, more generally, against the natural tendency to indulge the particular passion immediately felt. A general rule is a rule of thumb indicating a reasonably certain path to gaining the approbation of others. Smith is of the opinion that as regards most of the virtues the general rules are "in many respects loose and inaccurate, admit of many exceptions, and require so many modifications, that it is scarce possible to regulate our conduct entirely by a regard to them" (TMS III.6.9). Justice is the exception. "The rules of justice are accurate in the highest degree, and admit of no exceptions or modifications but such as may be ascertained as accurately as the rules themselves, and which generally, indeed, flow from the

very same principles with them" (TMS III.6.10). The contrast between the two levels of precision is analogous to the contrast between the rules of composition and the rules of grammar (TMS III.5.11). A "sacred regard" is due to the strict rules of justice which Smith believes can be stated in a precise and noncontroversial manner.

Smith's rules of justice point towards a society where liberty is bounded only by the need to prevent "real and positive hurt" to others. Consider the following formulations:

In the race for wealth, and honours, and preferments, he may run as hard as he can, and strain every nerve and muscle, in order to outstrip all his competitors. But if he should jostle, or throw down any of them, the indulgence of the spectators is at an end. It is a violation of fair play, which they cannot admit of (TMS II.ii.2.1).

The most sacred laws of justice, therefore, those whose violation seems to call loudest for vengeance and punishment, are the laws which guard the life and person of our neighbour; the next which guard his property and possessions; and last of all come those which guard what are called his personal rights, or what is due to him from the promises of others (TMS II.ii.2).

These formulations are eminently compatible with a commercial society and, as such, are a clear indication of the coherence of the *Theory of Moral Sentiments* with the *Wealth of Nations*. They also point towards Smith's account of "rights" in the *Lectures on Jurisprudence* which, as Haakonsen observes, is the "specific link between the general theory of moral sentiments and the jurisprudence" of the *Lectures*.¹⁶ Smith's account of rights has many points of similarity with the natural rights teachings of Hobbes and Locke. In the summary of that account which follows, it is, however, important to remember that Smith's "rights" are founded on the theory of the impartial spectator, and that Smith adapts, rather than adopts, the earlier notions.

¹⁶*Science of a Legislator*, p.99. Haakonsen believes that Smith is best understood in terms of the jurisprudential tradition of Pufendorf, Grotius, and Hutcheson. See also Teichgraeber, *Free Trade and Moral Philosophy*. For the purposes of this essay, however, it is more important to stress the contrast with the natural rights teachings of Hobbes and Locke. The point of contrast is roughly the same, namely, the reconstruction of rights on the basis of the impartial spectator theory. It is important to observe that Smith does not speak of "natural rights" in his published works. Haakonsen's account may overlook the impact of the thought of John Locke on the "jurisprudential tradition." Haakonsen understates the extent to which Locke turned that tradition in an economic direction and, hence, the centrality of economics to Smith's thought. See Haakonsen's "Hugo Grotius and the History of Political Thought," *Political Theory* 13 No.2, (May 1985):239-265, especially at p.164 n.48. Locke (and Hobbes) altered the tradition almost beyond recognition. It was then reconstructed by the likes of Smith and Hume, but not without taking on board many of Locke's innovations.

In both sets of the lectures on jurisprudence, Smith treats justice under a three-part classification of the various senses in which a man might be hurt: as a man; as a citizen; and, as a member of a family. He makes a further distinction between natural rights and "adventitious" or acquired rights. A man may be injured in his person or in his reputation. These constitute infringements of his "natural rights" and are, according to Smith, "generally most simple and easily understood and can be considered without respect to any other condition" (LJ(A) I.11). In fact, "the original of the greatest part of what are called natural rights . . . need not be explained" (LJ(A) I.24). "The origin of natural rights is quite evident" and even "evident to reason"(LJ(B)11; LJ(A) I.24). Property rights, however, which Smith includes under acquired rights, require more and, perhaps, considerable explanation.¹⁷ By "evident to reason" Smith seems to mean that any impartial spectator would sympathize fully with the resentment of the injured party. This approbation by the spectator is what Smith means by the "origin" of those rights. It will become clear in what follows that Smith does not make as sharp a distinction between natural and acquired rights as his terminology might seem to imply. *All* rights have their basis in the judgments of the impartial spectator. Haakonsen provides a helpful summing up when he observes that

both classes of rights have the same foundation, namely, the sympathetic resentment of the impartial spectator at the injury against which the rights are a protection. This resentment, however, is proportional to the severity of the injury done, and accordingly we get rights and the corresponding rules of justice ordered into a scale of importance. The stronger the resentment of the impartial spectator, the more important are the rules of justice that arise from it.¹⁸

Two rights in particular deserve our attention: the right to economic liberty, and the right to property.

The right to economic liberty is an important element of Smith's thought. He treats it as a self-evident right. A man may be injured in his person in two respects: his body may be injured or

¹⁷Note that there appears almost certainly to be a transcription error in the 1762-63 set of notes where property rights are at one point included under natural rights (LJ(A) I.24).

¹⁸*Science of a Legislator*, p.101.

his liberty may be restrained. As regards the latter, "the right to free commerce, and the right to freedom in marriage, etc. when infringed are all evidently encroachments on the right one has to the free use of his person and in a word to do what he has a mind to do when it does not prove detrimental to any other person" (LJ(A) I.13). The right to "*liberi commercii*" is "a right of trafficking with those who are willing to deal with him" (LJ(A) I.12). What we have here is, of course, the normative basis of Smith's attacks in the *Wealth of Nations* on the restraints imposed by the mercantile system. The "system of natural liberty" is both effective and just. It is "just" because it does not, without cause, restrain natural liberty.¹⁹

By contrast, Smith believes the right to property requires some explanation. While the spectator's reaction to injury to a man's property is natural, property itself is a concept which has an historical development. As a result, the spectator's reaction to similar events will vary according to the level of social development. This historical dimension of property rights is easily illustrated. Take the case of a man in a hunting society, at which time there would be very little private property of any sort. In such a society, theft would not be noticed since "there are but few opportunities of committing it, and these too cannot hurt the injured person in any considerable degree" (LJ(A) I.33). As society develops, so do notions of property. The crucial event in the history of property, as Smith recounts it, is the move from the hunting to the shepherding way of life. This transition introduces inequality of property into society and, with it, the need to protect the wealthy. In the most advanced stages of society refined notions of property, such as personal rights, develop.²⁰ A man in a civilized society, by contrast, would be rightfully angry at the nonperformance of a contract he had made with another, even if he had never met that other person.²¹ Smith's account of property is squarely based on the concept of the impartial

¹⁹The sense in which liberty of commerce is "natural liberty" is explored in the next chapter.

²⁰According to Smith, personal rights are rights acquired by contract or promise. They are distinguished from "real rights" which pertain to possessions. The two make up property rights as a whole.

²¹The factors behind this development are: the increasing volume and variety of commerce; the increasing political means of supporting property rights; the increasing sensitivity

spectator. Consider also his account of the way in which a right to property accrues by way of occupation.²² A man who picks up a previously unclaimed apple, and takes it into his possession would have a reasonable *expectation* that he will be able to enjoy the use of the thing. If someone then takes the apple, those expectations would be disappointed and the hurt, disappointed expectations as much as actual loss, would issue in resentment with which an impartial spectator could fully sympathize.²³

Thus far we have traced in Smith's account the emergence of the sacred rules of justice from our *natural* sense of justice. We have seen that there is a rough correspondence between the two. It appears, however, that when justice is considered in a political sense it is not so "natural."²⁴ In this regard, Smith's consideration of those cases where laws are made and punishments set solely with reference to the general interest of society is important. The most extreme cases are those of "civil police" or "military discipline." For example, Smith describes the fate of a sentinel put to death for falling asleep on duty. The sentinel "suffers death by the laws of war." This is a "just and proper" fate because when "the preservation of an individual is inconsistent with the safety of a multitude, nothing can be more just than that the many should be preferred to the one." Yet the "natural atrocity" of the act itself does not excite in us "any such resentment that would prompt us to take such dreadful revenge" (TMS II.ii.3.11). Smith says that it is clear from this example that our approbation is founded on a different principle from that on which is based our approval of the punishment of, e.g., a murderer. While the former requires an act of "firmness and resolution" to acknowledge the "interest of the many," the latter requires only

of people to injury; and, the increasing sophistication of language (which is necessary to deal with complex transactions).

²²Smith describes five ways in which property might be acquired: occupation; accession; prescription; testamentary succession; and voluntary transfer.

²³See Haakonsen, *The Science of a Legislator*, pp.104-107, for a helpful discussion.

²⁴One is tempted to say that *natural* justice is equivalent to *social* justice where the society referred to is "the great society of mankind" and that political justice is confined to actual societies. But this goes too far because it seems that even the great society of mankind would at times have to sacrifice the interests of the individual to those of society.

that our natural sentiments run their course. Thus, when placed in a political context acts otherwise blameless may sometimes become objects of disapprobation.²⁵

Three further examples indicate the way in which the impartial spectator always prefers the interest of society over that of the individual. They are taken from a class of laws which Smith terms "laws of police," as distinct from "laws of justice."²⁶ This is an important distinction for Smith's political science as a whole, and also because it brings to light the full significance of his system of natural liberty which reconciles justice and police.

First, take the case of the institution of primogeniture which Smith describes as "contrary to nature, to reason, and to justice" (LJ(A) I.116). The "natural law of succession," he contends, is to divide family property equally among all the children (WN III.ii.3). The "right" of primogeniture, however, once had a "reasonable" basis. After the fall of the Roman empire, the lands of Europe were engrossed making each of the great lords "a sort of petty prince." The lack of a central authority meant that "the security of a landed estate, . . . the protection which its owner could afford those who dwelt on it, depended upon its greatness. To divide it was to ruin it, and to expose every part of it to be oppressed and swallowed up by the incursions of its neighbours" (WN III.ii.4). The same "reason" which gives rise to the "right" of primogeniture in all monarchies led to the extension of that institution in feudal times. With the progress of society, however, this institution ceases to be "reasonable," although the "pride" of families might lead to its continuance, perhaps, for several centuries. This is a good example of Smith's political science at work. By the standard of natural justice (and good political economy)²⁷ primogeniture

²⁵In a discussion of smuggling, Smith gives an illuminating twist to the issues addressed here: ". . . the hope of evading such taxes by smuggling gives frequent occasion to forfeitures and other penalties, which entirely ruin the smuggler; a person who, though no doubt highly blameable, for violating the laws of his country, is frequently incapable of violating those of natural justice, and would have been in every respect, an excellent citizen, had not *the laws of his country made that a crime which nature never meant to be so*" (WN V.ii.k.64, emphasis added).

²⁶The distinction is well brought out by Haakonsen, *Science of a Legislator*, pp.95ff.

²⁷Elsewhere, Smith points out at length the economic disadvantages of primogeniture and entails. See, for example, WN III.ii.

cannot be justified. Extraordinary circumstances had made it reasonable for a time, but this time had passed. There remained, of course, the political obstacle of "pride" which would have to be prudentially handled. Smith speaks as though this, too, would in time disappear. The utility and justice of the right of primogeniture is, then, historically contingent.

Although we have suggested that the exceptions to the rules of justice might all fall under the term "police", our second and third examples fall within that particular category of "laws of police" which seem to be at all times necessary, that is to say, they are at all times, in some sense, "just."²⁸ Consider the case of those laws which regulate marriage and divorce. According to Smith, neither polygamy, nor divorce, in their nature, violate natural justice because neither inflicts any harm. There are, however, very good reasons from the point of view of "police" or "policy" that there should be laws which strictly regulate these activities (LJ(B)111-12). Polygamy, for example, introduces many bitter rivalries of interest and love into society, and it is invariably found in despotic states (LJ(B)112-115). It also precludes the possibility of an hereditary nobility which Smith sees as sometimes important to the defense of the state (LJ(B) 116). He grants that if the ratio of men to women is particularly low then polygamy might be necessary. But in responding to an argument of Montesquieu's, Smith makes the following highly illuminating remark:

We see that the laws of nature with respect to gravity, impulse, etc. are the same in all parts of the globe; the laws of generation in other animals are also the same in all countries, and it is not at all probable that with regard to that of men there should be so wide a difference in the eastern and in the northern parts (LJ(A) III.35).

The remark is revealing because of the light it throws on the transition from the particularism of Montesquieu to the universalism of Hume and Smith. This is a point of considerable significance because it provides compelling evidence that Smith's assessment of the obstacles to the

²⁸The necessity of such laws is, perhaps, the deepest reason which led Smith to observe that in "no country do the decisions of positive law coincide exactly, in every case, with the rules which the *natural sense of justice* would dictate. Systems of positive law, therefore, though they deserve the greatest authority, as records of the sentiments of mankind in different ages and nations, yet can never be regarded as accurate systems of the rules of justice" (TMS VII.iv.36, emphasis added).

emergence of liberal societies was much more optimistic than Montesquieu's.

The rationale for this type of law sheds light on a neglected, but rather surprising, passage in the *Theory of Moral Sentiments* concerning the duties of a "law-giver." The context is his argument that "among equals" there is no right to enforce the positive virtues. But when discussing unequals he remarks:

A superior, may indeed, sometimes, with universal approbation, oblige those under his jurisdiction to behave, in this respect, with a certain degree of propriety to one another. The laws of all civilized nations oblige parents to maintain their children, and children to maintain their parents, and impose upon men many other duties of beneficence. The civil magistrate is entrusted with the power not only of preserving the public peace by restraining injustice, but of promoting the prosperity of the commonwealth, by establishing good discipline, and by discouraging every sort of vice and impropriety; he may prescribe rules therefore which not only prohibit mutual injuries among fellow citizens, but *command mutual good offices to a certain degree*. . . . Of all the duties of a lawgiver, however, this, perhaps, is that which requires the greatest delicacy and reserve to execute with propriety and judgement. To neglect it altogether exposes the state to many disorders and shocking enormities, and to push it too far is destructive of all liberty, security and justice (TMS II.ii.1.8, emphasis added).

This statement must, of course, be interpreted in light of Smith's whole teaching and, especially, in view of the kind of society advocated in the *Wealth of Nations*.²⁹ The meaning of the phrase "prosperity of the commonwealth" is the key. There is little reason to think Smith meant more than the continued progress of society towards wealth and freedom. That said, Smith's position is easily distinguishable from that of his libertarian followers on the one hand, and on the other, from those who would make Smith a thinker in the "civic humanist" tradition. This point must be borne in mind when Smith's sometimes very strong criticisms of commercial society in the *Wealth of Nations* are considered. His criticisms are of its moral failings, but he views morality as in the service of society. Thus, he limits intervention at the point where it threatens "liberty, security and justice."

Our third example illustrates a type of law of police which has considerable bearing on our understanding of the *Wealth of Nations*. We take one of a number of examples which make clear that Smith was not a doctrinaire free-trader. Consider Smith's discussion of banking in

²⁹There he indicates that a free society may be characterized by a degree of "licentiousness" (V.i.a.41).

Wealth of Nations, Book Two, Chapter Two. There Smith argues that some restraint on the issuing of paper money is necessary to curtail certain human proclivities towards "imprudent and unprofitable undertakings." To deal with the problem he recommends a prohibition on the issue of notes for small sums. This would prevent small-scale and unstable banking institutions from flourishing. Smith comments that such regulations might be regarded as "a manifest violation of that natural liberty which it is the proper business of the law, not to infringe but to support." He responds that those "exertions of the natural liberty of a few individuals, which might endanger the security of the whole of society, are, and ought to be, restrained by the laws of all governments; of the most free, as well as of the most despotal" (WN II.ii.94).

All three examples illustrate the priority of the many over the few, or, in other words, of society over the individual. This priority clearly follows from Smith's account of society as the "peculiar and darling care of nature" because it is the instrument for effecting the great ends of nature which are the preservation of individuals and the propagation of the species. For this reason, at times the impartial spectator will approve of seeming violations of our natural sense of justice.

To conclude this section, it is helpful to draw a general comparison between Smith and the natural rights teachings of Hobbes and Locke. Hobbes and Locke began with free and equal individuals in a state of nature and went on to elaborate theories of society and government which preserve the essential freedom and equality of that initial state of while guarding against its inconveniences. That said, only in the state of nature is there "natural liberty" strictly speaking. According to the Lockean version, in society natural rights are modified according to circumstances and are, to that extent, replaced by civil rights. These modifications are the result of the deliberation of the community and are governed by the doctrine of majority rule. Natural rights are, however, inalienable, and, hence, the social contract is contingent on the continuing protection of those rights. Natural rights remain the standard. Smith, by contrast, takes a two

track approach. On the one hand, he adopts a moral standard which is fundamentally cosmopolitan and which provides general guidance for regulating relations between equal individuals. On the other hand, he avers the supremacy of the needs of society in the eyes of the impartial spectator who must at times brace himself and recognize the need for laws which seem to violate natural justice.³⁰ Smith is, in short, an uneasy utilitarian. It is in light of this uneasy utilitarianism that Smith's view of history and, ultimately, his system of natural liberty take on their full significance. In both cases, Smith shows that the gap between natural justice and the needs of society can be substantially narrowed if the right laws and policies are followed. In the next section, we turn to Smith's view of history.

C. Commerce, Politics, and History

Before considering Smith's theory of government proper, we must take up the question of the relation between politics and commerce. The relationship between commerce and politics is at the center of much of the debate over both Smith's politics and political economy. The concept which forms the most important connection between the two is the notion of history. Our thesis is that Smith, observing the interaction of commerce and politics over time, came to a view of history

³⁰In the extreme case, this may involve the sacrifice of one's life. Smith has no hesitation in affirming the duty of any citizen to sacrifice his life for his country when called upon. In fact, he downplays the difficulty of such a sacrifice, even and, perhaps, especially for a "wise man" (TMS VI.ii.3.4). It is a real question whether Smith has given a ground for such an affirmation. Consider his account of human nature. Man has a strong desire for preservation and an indefeasible fear of death. This is the origin of his strongest selfish desires. Moreover, Smith claimed that reason holds so little sway over the passions that a man could not hold out against them. Against this, Smith saw the counter-balancing desire for approbation and the fear of remorse. One is forced to wonder how a man could be blamed for giving way to one of his strongest passions--the fear of death--when faced with a choice between death and ostracism. For to do so could be regarded as acting naturally. Smith might respond that his study concerns matters of "fact" and not of "right." From time immemorial men have sacrificed their lives for their countries and this has universally been regarded as just. This is a proof that the fear of death is not irresistible, even though it might be ever-present. Yet does this response meet the charge? Would not Smith have to move to some higher plane and discuss questions of "right" directly?

which led him to believe that commercial society was the natural form of social organization. It is the form of social organization to which all societies tend and which completes the process of history.

The focal point of Smith's view of history is his account of the progress of society through various stages of economic organization which culminate in the emergence of a fully commercial society. This is generally referred to in the literature as the "four-stages theory," and it forms the basis of what Cropsey terms Smith's "philosophy of history."³¹ This concept of historical progress is clearly present in the *Wealth of Nations*, but it is even more pronounced in the *Lectures on Jurisprudence*. The four stages are: hunting; pasturage; agriculture; and commerce. In Smith's account of progress through these various stages, we see a complex interaction between commerce and politics. To understand the precise nature of this relationship, we must consider his account in some detail.

The hunting stage is the most primitive. At this time, men live in small groups. They have no property of any account and no formal government. The legislative, executive, and judicial powers, such as there are, reside in society as a whole. They are banded together to satisfy mutual needs, chiefly that of security. This state of affairs is viable, according to Smith, because of the absence of property. "Men who have no property can injure one another only in their persons and reputations." The passions which prompt a man to such actions are "envy malice and resentment;" however, "the greater part of men are not frequently under the influence of those passions; and the very worst are so only occasionally." "Men may live together in society with some tolerable degree of security, though there is no civil magistrate to protect them from the injustice of those passions." (WN V.i.b.2). In the *Lectures*, Smith describes what government there is in this state as "democratical" and, in a phrase which he very seldom uses, he says that

³¹ *Polity and Economy*, pp.56-64 & Ch.3. See also Ronald Meek, *Social Science and the Ignoble Savage* (Cambridge: Cambridge University Press, 1975) and Andrew Skinner, "Adam Smith: An Economic Interpretation of History," *Essays on Adam Smith*, pp.154-178, for discussion of the large body of commentary on this aspect of Smith's thought.

the members of these societies live according to the "laws of nature" (LJ(A) IV.6; LJ(B) 19).

Smith's account of the beginning differs dramatically from the social contract theories of Hobbes and Locke in that the fears and concerns they associated with the state of nature do not seem to be as immediate.³² The unsocial passions do not govern most men, and when they do, as "their gratification is not attended with any real or permanent advantage, it is in the greater part of men restrained by prudential considerations" (WN V.i.b.2). The "laws of nature" do not, then, need the support of the coercive power of the state. When one considers its peacefulness and seemingly uncorrupted character, one is surely reminded of Rousseau's doctrine of the state of nature. There are, however, important differences. Smith did not make any assumptions about the natural goodness of man. Nor did he believe that men ever lived in complete isolation from one another. Moreover, he regarded living in the eyes of others, in society, as a positive influence on men. Smith did not regret, as Rousseau did, the march of progress. On the question of the penury of the first ages Smith is, however, in complete agreement with Hobbes and Locke. Primitive nations are so "miserably poor" that "they must, on occasions, sacrifice their young, their old, and their sick" (WN Introduction.4).

The next stage is "shepherding" or "pasturage." Smith remarks in the *Lectures on Jurisprudence* that the transition to this stage of society "is of all others the greatest in the progression of society, for by it the notion of property is ext(ended) beyond possession, to which in the former state it was confined" (LJ(A) II.97). The dramatic consequences which flow from the introduction of property could, perhaps, be said to be the subject of Smith's entire historical inquiry. Smith does not explicitly state what it is that causes men to make the transition to this next stage. We might surmise that the relative security coupled with the penury of the hunting stage encourages some men to begin to raise animals for use and exchange or, in other words, to indulge that restless desire to improve one's condition which Smith saw as characteristic, to a

³²We shall deal with their differences as to the basis of legitimate government in the next section.

greater or lesser degree, of all ages of human life. ³³

The appropriation of flocks and herds makes the procuring of a subsistence difficult for those who do not possess them (LJ(A) IV 7-8). The propertyless become the dependents of the rich and the "democracy" of the first ages is destroyed. The introduction of property arouses passions previously dormant. In contrast to malice, envy, and resentment,

avarice and ambition in the rich, in the poor love of present ease and enjoyment, are the passions which prompt to invade property, passions much more steady in their operation, and much more universal in their influence. . . . The acquisition of valuable and extensive property, therefore, requires the establishment of civil government (WN V.i.b.3).

Unlike injuries to person and reputation, injury to property yields a tangible advantage to the perpetrator. At first, there is property only in animals, but the concept is easily extended to other goods. Property introduces inequality of wealth and makes government necessary. "Civil government, so far as it is instituted for the security of property, is in reality instituted for the defence of the rich against the poor, or of all those who have some property against all those who have none at all" (WN V.i.b.13). Moreover, with the introduction of property there arise many more occasions for dispute than in hunting societies (LJ(A) IV.9). In this earliest age, where there is extensive property, the authority of the chief, the individual who has reduced all the others to a state of complete dependency, is extreme. The "authority of fortune" is at its peak in this age of society.³⁴ "There is no period . . . in which authority and subordination are more perfectly established. The authority of an Arabian scherif is very great; that of a Tartar khan altogether despotical" (WN V.i.b.7).³⁵ To the authority of fortune is, in time, added the authority of birth, as wealth is passed on from generation to generation (LJ(A) IV.43-6).

As Smith describes it, the transition to the next stage, namely, agriculture, is less inevitable than that from hunting to pasturage. This is due to the fact that a number of factors must

³³See Chapter Four.

³⁴Smith identifies four qualities which account for the distinction between ranks: personal ability; age; wealth; and, birth. These are discussed in the next section.

³⁵In the *Lectures on Jurisprudence*, the Tartars are the archetype for this sort of society.

converge for society to advance, chiefly, geography and climate. The Tartars, for example, inhabited a terrain as unsuitable for farming as it was barren of natural fortifications. The Tartars, and nations like them, spend their lives ranging across the open plains in search of plunder and preparing for war. Smith puts it in almost mechanical terms when he says that they "have nothing to interrupt them in their progress" across the plains (LJ(A) IV.47). There is little prospect that they will ever move beyond this state (LJ(B) 30-31). The case is otherwise where geographic conditions are more favorable. Thus, we see that "in Greece all the necessary circumstances for the improvement of the arts concurred" and "Attica was the country which first began to be civilized and put into a regular form of government." This is the case even though the "first inhabitants of Greece, as we find by the accounts of the historians, were much of the same sort with the Tartars" (LJ(A) IV.62,57,56). The gap between countries which are a little civilized and those which are not at all is great (LJ(B) 29). Once a more settled way of life is adopted, rapid progress on many fronts takes place. Where the land is suitable and sufficiently protected agriculture will arise. Nomadism will cease as *amor patrie* takes hold. It is the need for security which, Smith says, gives rise to cities and towns.

A people inhabiting such a country, when the division of land came to take place and the cultivation of it to be generally practiced, would naturally dispose of the surplus among their neighbours, and this would be a spur to their industry. But at the same time it would be a temptation to their neighbours to make inroads upon them. They must therefore fall upon some method to secure themselves from such danger, and to preserve what it formerly cost them so much trouble to procure. It would be more easy to fortify a town in a convenient place than to fortify the frontiers of a whole country, and accordingly this was the method they fell upon (LJ(B) 32; cf. WN III.i).

At first, a form of weak monarchy prevails such as that of Theseus at Athens. This phase is, however, shortlived since the leading men of the various clans challenge the chief for preeminence and their wealth and status carry the day in any struggle. The government of all cities is "republican" (LJ(A) IV.66).³⁶ At Athens and Rome, "republican" government was established, first, of an aristocratic sort and, then, of a democratic sort. Smith explains how in "the natural and ordinary progress of things" the aristocracies of Athens and Rome lost their

³⁶See next section for a discussion of Smith's definition of "republican."

power. The nobles, initially, are able to exercise power over the people because of their monopoly on wealth. They influence or "manage" their dependents. Their influence begins to wane with the progress of commerce and luxury, which is what Smith seems to mean by the "natural and ordinary progress of things."³⁷ Where luxury is not present, there is no alternative for a man except to spend his fortune on preserving his following. Within the towns, the arts begin to flourish and luxury provides an alternative use for wealth which human vanity finds irresistible. As the nobles dissipate their wealth on private pursuits their public influence declines. At the same time, the poorer sort of people find their independence increasing with their participation in commerce. Instead of one master, they serve many but are subject to none. Smith's explanation of the decline in the power of the nobles is, to use Haakonsen's term, a "set-piece" which recurs frequently. Other crucial examples are the decline of the power of the nobles of feudal Europe and the decline in the power of the Roman Catholic clergy. The political consequences of these declines, however, vary considerably with circumstances. Such declines need not necessarily lead to democratic republican government. Before attempting to draw out the general rule, we need to complete Smith's history of the ancient republics.

Smith makes a distinction between defensive and conquering republics.³⁸ Each suffers "that fated dissolution that awaits every state and constitution whatever," but their downfalls come in different ways (LJ(B) 46). The Greek states were defensive republics. Smith notes how the progress of commerce softens a people and makes them less interested in war and politics. In Greece, this led to the hiring of mercenaries who were less effective than the old militias. Also, there were advances in the art of war which made defense more difficult. The combination of

³⁷Smith's account seems to reinforce Hume's claim that commerce first flourishes in republics. See "Of Civil Liberty" in *Essays*, Eugene F. Miller editor, (Indianapolis: Liberty Classics, 1985) p.92. He reasons that only here is there the respect for law which gives security to property. This is an historical fact though and not something in the nature of things.

³⁸The distinction seems to follow Machiavelli's. See *The Discourses*, ed. Bernard Crick, (Harmondsworth: Penguin Classics, 1985), Bk I Chs4-6.

these two developments led to the conquest of Greece by Phillip. Smith saw these developments as natural: the one flowing from the necessary effects of commerce on the people, and the other from the necessary progress of the arts which accompany commerce.³⁹ Rome, by contrast, was a conquering republic which relied on a standing army. It lost its republican government when the republic ceased to control the army. Again, the natural progress of things was the important factor. "When the armies are fighting abroad the conquering state enjoys great tranquillity at home. This length of peace and quiet gives great room for the cultivation of the arts, and opulence which follows it. *Commerce too will naturally introduce itself, tho' not, as now, particularly studied and a theory laid down. The industry of individuals will occasion it*" (LJ(A) IV.93, emphasis added).⁴⁰ The better sort of people became disinclined to serve in the army and, as a result, the army became "a mercenary one and of the lowest sort of people" (LJ(A) IV.93). Power shifted to the generals who had little or no interest in maintaining the republic.

Smith's account of the government that succeeded the Roman republic is one which sheds considerable light on his political science. Smith describes it as a "military monarchy." This is an important case since, as Smith describes it, the natural course of things seems to lead in this direction. Rome under the emperors spelled the end of political liberties for the Roman people but, for most, it did not mean the end of civil liberties. While faction and intrigue sometimes reached frenzied proportions within the inner circle, beyond this life went on much the same as before. The laws and courts of justice were left unchanged by the emperors who, realizing their worth, had no "interest" in changing them. In fact, justice in "private affairs" was never better administered than under the worst emperors, Nero and Domitian (LJ(B) 45). Smith explains next that even "this government, as all others, seems to have a certain and fixed end which concludes it" (LJ(A) IV.99). Commerce continued to progress, but again with problematic effects.

³⁹Smith stresses the superiority of standing armies over militias (WN V.i.a).

⁴⁰This is a particularly revealing remark which shows the naturalness of the commercial disposition and which in turn is Smith's evidence for its naturalness.

The provinces were all rich and had a considerable degree of commerce, the city was rich and luxurious, and the whole people unwilling to go to war. Besides the public revenues would have been greatly diminished as it, in all commercial nations, is levied by tax or excise on different manufactures. It was then no longer in the interest of the government to press the people into war (LJ(A) IV.99).

Instead, the Empire relied almost completely on mercenary armies under contract to Rome. As with the republic, power shifted to the military commanders who this time were foreigners. This was the cause of the fall of the Western Empire.

In both sets of the *Lectures on Jurisprudence*, Smith goes on to give an account of the rise of modern Europe. This account is virtually identical with that which figures so prominently in the *Wealth of Nations*. Rather than simply continuing with the account of this rise, we intend to take stock and attempt to formulate the lessons which Smith drew from his study of political and economic history. We will use the case of modern Europe to illustrate specific points. From the account so far, it is clear that Smith saw commerce, or at least its elemental form, the desire to improve one's condition, as, what Winch terms, a "constant cause."⁴¹ Winch characterizes Smith's study in the following way:

No less than Hume, Smith is engaged in an experimental inquiry into the science of politics, making use of ordinary (i.e. not conjectural) historical material to provide evidence of regularity, or constant contingency, in a world of apparent diversity and change.⁴²

In the *Lectures on Rhetoric* Smith gave a "history of the historians." He there disclosed his preference for Thucydides above all others, and for Machiavelli among the moderns. He considered them as far superior to contemporary historians because of their ability to get to the "causes" of events.⁴³ In particular, they did not idly speculate on the motives of the historical

⁴¹ *Adam Smith's Politics*, p.64.

⁴² *Ibid.* Cf. the following comment of Smith's: "In all the courts of Europe the power of the nobility declined from the *common causes*, the improvement of the arts and commerce" (LJ(B) 59, emphasis added).

⁴³ Consider the following remarks: "There is no author who has more distinctly explained the causes of events than Thucydides" (LRBL II.25); and, "Machiavel is of all the modern historians the only one who has contented himself with that which is the chief purpose of History, to relate events and connect them with their causes without becoming a party on either side" (LRBL II.70). Smith was an astute reader, as his remarks on Xenophon's histories show (LRBL II.51-53). Hume was just beginning to make his mark. There is one very favorable remark about him in the *Lectures on Rhetoric*, II.72-3. There are, of course, many references to Hume's

actors, but, rather, discovered the true motives indirectly by considering the circumstances which surrounded a particular action. In this way, they were able to establish with some accuracy the causes of events. It is easy to see the complementarity of this outlook with the new science of the mind pioneered by Hume. What lessons did Smith draw about the relation between commerce and civilization from his study? Specifically, to what extent is it correct to speak of a "law" of progress which links commerce and civilization?

Cropsey has suggested that there is, indeed, such a law to be found in Smith. In *Polity and Economy*, he argued that Smith regarded "free government" as the naturally best society. Cropsey suggests that this entails a form of republicanism. In a chapter entitled "The Problem of Smith's Intention," he contends that Smith endorsed commercial society, despite its moral shortcomings because of his belief that commerce "generates freedom and civilization."⁴⁴ In a sense, then, Smith's "philosophy of history . . . dictated his general philosophy to him."⁴⁵ Cropsey's crucial evidence is Smith's account of the destruction of the power of the great barons and the clergy which made way for "order and good government, and with them, the liberty and security of individuals."⁴⁶ After the fall of the Roman empire, Europe had only weak central governments (weak monarchies), powerful regional lords, and a dependent peasantry. With respect to the nobles the crucial passages of Smith's are the following:⁴⁷

commerce and manufactures gradually introduced order and good government, and with them, the liberty and security of individuals, among the inhabitants of the country, who had before lived almost in a continual state of war with their neighbours, and of servile dependency upon their superiors. *This, though it has been least observed, is by far the most important of all their effects.* Mr Hume is the only writer who, so far as I know, has hitherto taken notice of it (III.iv.4, emphasis added).

This change came about in the following, already familiar, way:

The introduction of the feudal law, so far from extending, may be regarded as an attempt to
histories in the *Wealth of Nations* which was written well after the lectures.

⁴⁴p.95

⁴⁵p.94

⁴⁶p.95 & WN III.iv.4.

⁴⁷Smith treats the Roman catholic clergy as another species of nobility, though more powerful and more dangerous (WN V.i.f).

moderate the authority of the feudal lords . . . But what all the violence of the feudal institutions could never have effected, the silent and insensible operation of foreign commerce and manufactures gradually brought about. These gradually furnished the great proprietors with something for which they could exchange the whole surplus of their lands, and which they could consume themselves without sharing it either with the tenants or retainers. . . . Thus for the gratification of the most childish, the meanest of all vanities, they gradually bartered away their whole power and authority (III.iv.9,10).

The tenants having in this manner become independent, and the retainers being dismissed, the great proprietors were no longer capable of interrupting the regular execution of justice, or of disturbing the peace of the country . . . A regular government was established in the country as well as in the city, nobody having sufficient power to disturb its operations in the one, any more than in the other (III.iv.16).

This shift in the balance of power among the various "orders" of society strengthened the central government and, at the same time, raising up the common people. Cropsey was led to look for "Smith's intention" because of a deep tension he perceived in Smith's thought between the moral order to which human beings aspire and the natural order which their passions drive them to create. Smith made a choice in favor of the natural order and Cropsey, we believe, is suggesting that the grounds for that choice was Smith's preference for liberty.

In response to this argument, Duncan Forbes, in an important essay, makes the following points (which are accepted by Winch and Haakonsen).⁴⁸ It is not clear that Smith thought that commerce, or even justice, required the "freest republican government." Forbes suggests that Smith is closer to Hume in his scepticism towards both the Whig and Tory positions. Forbes contends that for Smith "free government" implies civil rather than political liberty. Absolute monarchy is not, therefore, necessarily incompatible with "free government." Furthermore, as Haakonsen notes, the English system of government with its representative institutions was not in Smith's account the necessary result of commerce but of a great variety of accidents.⁴⁹ The

⁴⁸"Sceptical Whiggism, Commerce and Liberty." Therein Forbes refined the position on Smith he had argued in an earlier essay "Scientific Whiggism: Adam Smith and John Millar," *Cambridge Journal*, No.7 (Aug. 1954), pp.643-70. There he provided a very helpful formulation of Smith's contribution to the study of history. He spoke of Smith's two laws of history: the law of progress and the law of the heterogeneity of ends. The former refers to Smith's notion of "the natural course of things" or economic progress and the latter refers to the secondary, but to an extent predictable, consequences of this natural course, the "unintended consequences," as we might say today. Forbes' recent argument represents a denial that the law of progress gives rise to the unintended consequences civilization and freedom.

usual or natural course is towards absolute monarchies fortified by standing armies, as occurred in the rest of Europe.

Forbes's most important claim is that for Smith there is no *necessary* connection between commerce and civilization and freedom. He concludes that: "One cannot have freedom without commerce and manufactures, but opulence without freedom is the norm rather than the exception."⁵⁰ The real question he states as (and we think correctly) whether "liberty in the broader sense of the rule of law is the natural and necessary result of economic progress."⁵¹ He notes the examples of China and India which Smith presents as economically advanced, but as quite backward with respect to liberty and justice. His main argument turns on Smith's account of the persistence of slavery in the world. Smith had noted that even in his own time slavery "is almost universal. A small part of the West of Europe is the only portion of the globe that is free from it, and is nothing in comparison to the vast continents where it still prevails" (LJ(B) 134). Forbes regards this state of affairs as natural for Smith because of what he saw as a fundamental duality in Smith's account of man: on the one hand, there is man's peaceful desire to improve his condition and, on the other, "man's desire to dominate others and enforce his will."⁵² Forbes believes that in Smith's account the "Hobbesian" side of man is very strong. In the *Lectures on Jurisprudence*, Smith treated the subject of slavery in some detail. He explains how slavery is likely to establish itself early in the life of almost every society. Moreover, it is likely to be very difficult to remove. The natural course of things seems to entrench it.

The more society is improved the greater is the misery of the slavish condition; they tend to be treated much better in the rude periods of mankind than in the more improved. . . . The more

⁴⁹*Science of a Legislator*, pp.168-170 cf.184-5 and Forbes, "Sceptical Whiggism," p.198-9.

⁵⁰"Sceptical Whiggism," p.201.

⁵¹*Ibid.*, p.199.

⁵²*Ibid.* This second strand is more prominent in the *Wealth of Nations* and the *Lectures on Jurisprudence* than in the *Theory of Moral Sentiments*. In the next chapter we discuss why Smith thought it legitimate to abstract from this fact of human life when he constructed his science of political economy.

arbitrary the government is in like manner the slaves are in a better condition, and the freer the people the more miserable are the slaves. . . . Opulence and freedom, the two greatest blessings men can possess, tend greatly to the misery of this body of men, which in most countries where slavery is allowed makes by far the greatest part (LJ(A) III.110).

Smith observes that no humane man could wish this state of affairs. The European example is also of questionable significance since "the time and manner . . . in which so important a revolution was brought about, is one of the most obscure points in modern history" (WN III.ii.12). The events which Smith says contributed to the abolition of slavery seem to be accidents.

These are, indeed, important and persuasive points. Haakonsen, following to a large extent in the footsteps of Forbes and Winch, concludes that it "was a mistake to call Smith's view of society and history 'economic' or 'materialist' " and that it is really "pluralistic and open-ended."⁵³ He stresses the roles which remain for political and social factors and even that which remains for the "legislator." We must arrive at some judgment on this debate before we can come to an understanding of Smith's political science. Cropsey, we think, exaggerates the intensity of Smith's "republicanism." In addition to the above remarks, the discussion of justice in the previous section should suffice to indicate that Smith did not think that justice required republican government. The real issue is whether government can establish an exact administration of justice. Smith's account of Rome under the emperors is, perhaps, an indication of just how open he was to various forms of government.⁵⁴ Also, it does not seem to us that Cropsey's account of Smith's "philosophy of history," as presented, is sufficient to justify the claim that "commerce generates freedom and civilization." That said, we consider it to be much closer to the truth than the opposing position. After all, Smith, in the *Wealth of Nations*, does refer explicitly to the "natural *progress of law and government*" (IV.vii.b.2, *emphasis added*). Two considerations support our claim. First, it seems that the revisionists underestimate the extent to which Smith saw commerce as a progressive force in history. Second, the argument that the

⁵³ibid., pp.182-3,188.

⁵⁴The example of England under Cromwell also illustrates the point (LJ(A) IV.97).

actual course of history has not in most cases resulted in civilized society misses the mark in an important sense. Indeed, we might have expected just such a failure. Instead, we must ask, first, what did Smith think to be the strictly natural course of history? and, second, in what way knowledge of the natural course of things might be utilized to further the cause of civilization? We suggest, in what follows, that from his study of the actual course of history Smith conceived of a positive relationship between commerce and civilization and that he thought this knowledge could be used for the furtherance of civilization.

Smith's account shows that commerce is a progressive force in history in at least three respects. These provide the basis for a positive generalization about the relationship of commerce and civilization, including liberty.⁵⁵ First, commerce establishes what might be called the psychological basis for moral improvement. We have noted already the changes in human behavior which come about with changes in "employment." It is also helpful to remember that Smith's moral theory is based on our sympathetic intercourse with our fellow human beings. The condition of equality which to some extent must prevail in commercial societies facilitates this intercourse to the greatest extent. Concretely, and echoing Montesquieu, Smith spoke of the cultivation of certain virtues which are associated with commercial life itself.⁵⁶ Among these are an exact sense of punctuality, justice, and probity. "Nothing tends so much to corrupt and enervate and debase the mind as dependency, and nothing gives such noble and generous notions of probity as freedom and independency." Commerce is the "great preventive of this custom," i.e., of dependency (LJ(A) VI.6). The effects of foreign commerce in particular should be noted. Smith generally refers to as "barbarous" those nations which treat foreigners as enemies

⁵⁵One clarifying remark needs to be made on the subject of Smith's understanding of "civilization." There appear to be various degrees of civilization. For example, Smith does speak of the civilized states of Asia, presumably meaning China and India, and of the classical world (WN V.i.a.35,39). (Cf. Forbes "Sceptical Whiggism," p.199 and Cropsey, *Polity and Economy*, p.57n.6.) This must, of course, prompt us to ask in what does the highest level of civilization consist?

⁵⁶This claim must be qualified somewhat in light of the harmful effects of the division of labor.

(LJ(A) V.91; LJ(B) 88). "The history of commerce is," as Montesquieu says, "that of the communication of peoples."⁵⁷ It wears down those habitual attachments to one's country and advances the notion of the unity of mankind. Merchants, Smith says, are not really citizens (WN V.ii.f.6). Commerce "ought naturally to be, among nations, as among individuals, a bond of union and friendship" (WNIV.iii.c.9). In addition, commerce results in the communication and spread of knowledge.⁵⁸ It is notable that the examples of India and China given by Forbes are both of countries that despised foreign commerce. Thus, a society that has reached a degree of complexity, whatever its form of political organization, reaps certain moral rewards.⁵⁹ "Among civilized nations, the virtues which are founded upon humanity are more cultivated than those which are founded upon self-denial and the command of the passions . . . The abstinence from pleasures becomes less necessary, and *the mind is more at liberty to unbend itself, and to indulge its natural inclinations in all those particular respects*" (TMS V.2.8, emphasis added). Civilization is characterized by a greater "naturalness" in the sense that the passions operate under fewer restraints. The superior "sensibility" of men in civilized nations makes them more humane and more attentive to even slight breaches of the virtues. With respect to justice, Smith observes that in "some countries, the rudeness and barbarism of the people hinder the natural sentiments of justice from arriving at the accuracy and precision which, in more civilized nations they *naturally* attain to" (TMS VII.iv.36, emphasis added).⁶⁰ Commerce can be seen as an

⁵⁷*The Spirit of the Laws*, trans Thomas Nugent, (New York: Hafner Press, 1949), Bk XXI Ch. 5. Hereafter cited by book, chapter, and where necessary page number.

⁵⁸This idea is given a very interesting twist in Smith's essay on the "First Formation of Languages." (Reprinted in LRBL, and cited hereafter as *Languages*.) There Smith points to the role of the "mixture of several languages with one another, occasioned by the mixture of different nations" as a factor in the development of language (33). Cf. *Spirit of the Laws*, XXI.6.

⁵⁹See also Montesquieu, *Spirit of the Laws*, XVIII.15, p.277: "Aristippus being cast away, swam and got safely to the next shore, where, beholding geometrical figures traced in the sand, he was seized in a transport of joy, judging that he was among Greeks, and not in a nation of barbarians. Should you ever happen to be cast by some adventure amongst an unknown people; upon seeing a piece of money you may be assured that you have arrived in a well policed (*policee*) country." Nugent's translation has been altered to read "well policed" rather than "civilized."

important precondition for bringing about this greater naturalness because it is founded on one of the most natural of all passions, namely, the desire to better our condition.

The centralization of power which the natural course of things seems invariably to give rise is also beneficial. Smith's *Lectures on Jurisprudence* make clear that one of the great obstacles to the enforcement of a regular administration of justice is the absence of a powerful centralized government.⁶¹ This difficulty plagues all societies once they have passed from the shepherding to the agricultural stage and beyond. The chief reason appears to be the power of the nobles which Smith seems to have thought of as always oppressive.

Thus far, we have not emphasized the way in which the progress of commerce helps to bring about an improvement in the administration of justice. This is perhaps the most significant way in which commerce acts as progressive force in history. The political (in contrast to economic) benefits of an exact administration of justice are illustrated by Smith's comparison of Greece and Rome in Book V of the *Wealth of Nations*. The context is a discussion of the form of education appropriate to a civilized society. Smith severely criticizes the Greek moral education in music and gymnastics. The music education was supposed to "humanize the mind, to soften the temper, and to dispose it for performing all the social and moral duties both of public and private life" (WN V.i.f.39). Smith believed it to be a complete failure. He contrasted the Greeks unfavorably with the Romans who had no such education, but whose public and private morality of the Romans seemed to him to be clearly superior. Smith thought that the "good temper and

⁶⁰John Danford takes a similar view of Smith in this respect, "Adam Smith, Equality, and the Wealth of Sympathy," *American Journal of Political Science* 24, No.4 (Nov. 1980):674-695. Danford may exaggerate the extent to which Smith envisaged the diminution of the public passions.

⁶¹The point is well made by Haakonsen. See *Science of a Legislator*, pp.170-1. Cf. the following remark of Hume's in the essay "Of Civil Liberty," *Essays*, p.94: "But though all kinds of government be improved in modern times, yet monarchical government seems to have made the greatest advances toward perfection." and cf. "Of the Rise and Progress of the Arts and Sciences," *Essays*, p.122 n.13. We suggest that Smith was impressed by the possibilities of monarchical, perhaps even, absolute, governments. This comes at a time when the American Founders saw the new science of politics to be moving in a different direction, namely, towards republicanism.

moderation of contending factions seems to be the most essential circumstance in the public morals of a free people" (WN V.i.f.40). The factions of the Greeks were "almost always violent and sanguinary" when compared to the Romans. Smith attributes the superiority of the Romans "to the better constitution of their courts of justice" (WN V.i.f.44). The key difference was that the Roman courts consisted of one, or a few men, who took full responsibility for any decisions, whereas at Athens a large assembly always adjudicated. At Rome, the discipline of personal accountability forced judges to rely on precedents. "This attention to practice and precedent, necessarily formed the Roman law into that regular and orderly system in which it has been delivered down to us; and the like attention has had the like effects wherever such attention has ever taken place" (WN V.i.f.44).⁶² In contrast to Greece, at Rome the law "became a science very early" (WN V.i.f.44).

Modern England was another case where the courts were organized in a particularly effective way. It also provides the clearest example of the way in which commerce is a cause of the development of the law and the enacting of an exact administration of justice.⁶³ A basic tenet of Smith's political science is that an exact administration of justice requires a separation of the judicial from the executive power. In the rudest ages, the first judicial acts come in the form of the interposition of a third party between two disputants. At such a time, there are no laws or legislative power. Primitive peoples, Smith claims, have no tolerance for such restraints. Once government was established, it was natural for one man to be "Judge, General and Legislator"

⁶²There is something of a conflict here with the *Lectures on Rhetoric* where Smith claims that attention to precedent is a characteristic of modern English courts only. Haakonsen, *Science of a Legislator*, p.220n.61, suggests a likely resolution stressing the later published account as authoritative. To this, we would add that the key fact seems to be that law became a science to which systematic attention was given, rather than the procedure of actual judges in the courtroom.

⁶³A point similar to the following is made by Nathan Rosenberg in "Another Advantage of the Division of Labour," *Journal of Political Economy* 84, No.4 Pt 1 (August 1976):861-68. As mentioned earlier, we take the matter a step further and consider the integration of science, moral and natural, into the realm of society.

(LRBL II.198-99). This state of affairs continues only as long as society remains at a fairly rudimentary stage. When society has increased in complexity, it becomes necessary to separate off the judicial power .

The separation of the judicial from the executive power seems originally to have arisen from the increasing business of the society, in consequence of its increasing improvement. The administration of justice became so laborious and so complicated a duty as to require the undivided attention of those to whom it was entrusted (WN V.i.b.24).

This same process of separation occurred at Rome and under the modern European monarchies.

In the *Lectures on Rhetoric*, Smith made the same point, but with more force.

This separation of the province of distributing Justice between man and man from that of conducting the public affairs and leading Armies is *the great advantage* which modern times have over antient, and the foundation of that greater Security which we now enjoy both with regard to Liberty, property and Life. It was introduced only by chance and to ease the Supreme Magistrate of this the most Laborious and least Glorious part of his Power, and has never taken place until the increase in Refinement and the Growth of Society have multiplied business immensely (II.203, emphasis added).⁶⁴

Smith again echoes Montesquieu in his argument for the separation of judicial and executive power.⁶⁵

When the judicial is united with the executive power, it is scarce possible that justice should not frequently be sacrificed to, what is vulgarly called, politics (WN V.i.b.25).

According to Smith, the legislative power is a very late arrival on the political scene. "At the first establishment of judges there are no laws; every one trusts to the natural feeling of justice he has in his own breast and expects to find in others. . . . The growth of the judicial power was what gave occasion to the institution of a legislative power, as that first made them think of restraining the power of judicial officers" (LJ(A) V 110-11). Thus, the legislative power, and therefore laws, come into existence only when a need is felt to limit the power of the judiciary. This is one of the real peculiarities of Smith's political science. It raises the possibility that a society might exist without a separate legislative power, and where questions of justice were settled by judges trained in a science of law.⁶⁶

⁶⁴There is some difficulty in establishing exactly which "antient" times he is referring to. The general point stands on its own.

⁶⁵See *Spirit of the Laws*, XI.6.

⁶⁶Smith showed a preference for the common law over statute law. Case law develops slowly and in response to specific needs. The "common law" is "found to be much more equitable

The case of England is, Smith remarks, "well worth the study of a speculative man" (LJ(A) V.43). It could be said to have grown up naturally in response to the needs of society. The separation of judiciary and executive, described above, occurred as society progressed in complexity. As Smith relates the history in the *Lectures on Jurisprudence*, it was not the legislative power which held the judiciary in check, but rather the action of Edward I who divided and, as a result, weakened the burgeoning power of the judiciary. The reformed judiciary, characterized by a variety of courts, was the basis of the arrangement current in Smith's time. The weakness of the courts forced them to be particularly careful to support their decisions with precedents. This habit gave the English law its characteristic exactitude and stability (LJ(A) V 20,23-25). Moreover, the competition which ensued among the courts for the public's business and confidence considerably improved the scope and flexibility of the law. "The present admirable constitution of the courts of justice in England was, perhaps, originally in a great measure, formed by this emulation, which anciently took place between their respective judges; each judge endeavouring to give, in his own court, the speediest and most effectual remedy, which the law would admit, for every sort of injustice" (WN V.i.b.21)⁶⁷ Thus, the increasing complexity of society interacted with the constitution of the courts to improve the system of justice.

Nathan Rosenberg has observed that an awareness of this source of progress adds a further, very important, dimension to our understanding of Smith's claim that "commerce and manufactures gradually introduced order and good government" into the countryside throughout Europe (WN III.iv.4,11,18).⁶⁸ Rosenberg emphasizes that the separation of powers, or division than that which is founded on statute only, for the same reason as what is founded on practise and experience must be better adapted to particular cases than that which is derived from theory only" (LRBL II.200). This does not necessarily conflict with his praise of a science of law. The common law provides the best way of putting the theory into practice.

⁶⁷See Rosenberg, "Another Advantage of the Division of Labour," *Journal of Political Economy* 84, No.4, Pt1 (Aug. 1976):861-8.

⁶⁸Note that Smith says "Europe," not just Great Britain. The effect described is of more

of labor, and the consequent competition among judges improved the system of justice. We can, however, go a step further if we consider Smith's own activity of investigating the "science" of the law. This investigation removes whatever conflict there might seem to be between his praise of English case law and his praise of a science of law. The English case law is an ideal object for study because it grew naturally. In the *Theory of Moral Sentiments*, Smith notes that it

might have been expected that the reasonings of lawyers, upon the different imperfections and improvements of the laws of different countries, should have given occasion to an inquiry into what were the natural rules of justice, independent of all positive institutions. It might have been expected that these reasonings should have led them to aim at establishing a system of what might properly be called natural jurisprudence, or a theory of the general principles which ought to run through, and be the foundation of, the laws of all nations (TMS VII.iv.37).

It was, however, "very late in the world" before "the philosophy of law was treated by itself, and without regard to the particular institutions of one nation" (TMS VII.iv.37). We might speculate that this late appearance had something to do with the necessity of, first, an historical record of the rise and fall of societies and, second, the great "variety of objects" which a civilized society provides as objects of contemplation. A civilized society, we should recall, also provides some with the opportunity to engage in contemplation of these phenomena. A remark of Hume's sheds considerable light on Smith's idea. Machiavelli, he notes, was "certainly a great genius" but he made many errors which proceeded, in great part, "from his having lived in too early an age of the world, to be a good judge of political truth." Hume observed, in particular, that trade "was never esteemed an affair of state till the last century . . . though it now engages the chief attention, as well of ministers of state, as of speculative reasoners. The great opulence, grandeur, and military achievements of the two maritime powers seem first to have instructed mankind in the importance of an extensive commerce."⁶⁹

To this idea, Smith adds his own which is derived from the principle of the division of labor.

widespread relevance than the contribution of representative institutions to civil liberty. Smith's most telling remark on the peculiarity of the English case is as follows: "In England alone a different government has been established from the natural course of things" (LJ(A) IV.168).

⁶⁹"Of Civil Liberty," *Essays*, pp.88-89. The two maritime powers were England and Holland.

Every society holds in esteem those sciences which it deems to be useful. At Athens, rhetoric and dialectic were the fashionable sciences for reasons which should be clear from our discussion of the Athenian courts. In a commercial society, such as England, sciences that contribute to business are held in high esteem, which, in turn, means that there will be a demand for them; included among these are not only the natural sciences, but also the science of law or jurisprudence. It becomes necessary and possible because of the level of development society has reached.⁷⁰ Thus, to a large degree Smith understood his own activity as part of a system, the "economic system" broadly conceived, and, to this extent, commerce is certainly necessarily connected with the level of civilization. In the so called "Early Draft" of the *Wealth of Nations*, Smith observed that a member of a civilized society will find that only a small part of his knowledge "has been the produce of his own observations or reflections. All the rest has been purchased, in the same manner as his shoes or his stockings, from those whose business it is to make up and prepare for the market that particular species of goods. It is in this manner that he has acquired all his ideas concerning the great subjects of religion, morals, and government, concerning his own happiness or that of his country" (ED 30-31).⁷¹

On the basis of the foregoing, we believe there are persuasive reasons for attributing to Smith the view that there is a positive relationship between economic progress and civilization. What does the knowledge of this relationship mean for society and, indeed, for mankind? It does not matter that in the course of previous history the progress of civilization was halted at various times. Smith shows how war, religion, slavery, and sheer ignorance have at times put a stop to commerce and to the progress of civilization. These events are facts to be utilized in a study of society aimed at discovering the natural course of things. The more important point, then, stems from the fact that Smith was a believer in the possibility of enlightenment. How might an

⁷⁰See LRBL II.213-14 & WN I.i.9 & V.i.f.

⁷¹The "Early Draft" deals for the most part with the principle of the division of labor. It appears in the Glasgow edition of Smith's *Lectures on Jurisprudence*. Hereafter cited as ED followed by paragraph number.

enlightenment borne of the study of history affect history? Once the results of the study of the history of society become known, they can be used. As we have suggested, the *sine qua non* of government is an exact administration of justice. Smith's account indicates that this can be achieved irrespective of the specific form of government (although not of its internal structure). The example of Rome under the Emperors indicates that, even under a tyranny, justice might be administered very well. "A military government allows the strictest administration of government. Nobody indeed can have a fair trial where the emperor is immediately concerned, then he will do as he pleases. It is his interest to adhere to the ancient laws" (LJ(B) 45). There are, however, very great differences among "military governments."

At Rome the conquerors and the conquered were the same people. The conquerors were themselves sensible of the good effects of these laws, and were so far from being willing to abrogate them that they made improvements upon them. It is not so with the Asiatic governments, tho' they are purely military. Turkey, Persia, and the other countries were conquered by Tartars, Arabians, and other barbarous nations, who had no regular system of laws and were entirely ignorant of their good effects. . . . A more miserable and oppressive government cannot be imagined (LJ(B) 45-46).

The difference between the Asian and the Roman governments arose from the Roman's knowledge of the benefits of the rule of law. These laws were in the sovereigns interest because they contributed to the prosperity of the state.⁷² Smith's political science is a more refined form of this knowledge of the benefits of laws. The question then becomes what are the obstacles to "enlightenment"?

The matter of slavery, raised by Forbes, is central. Remember that Smith had said that a "humane man would wish . . . if slavery has to be generally established that (freedom and opulence), being incompatible with the happiness of the greater part of mankind, were never to take place" (LJ(A) III.111). Forbes is not correct when he says that, for Smith, slavery is "more natural" than for Montesquieu.⁷³ Montesquieu, on the contrary, thought that despotism and even slavery were likely to prevail in many parts of the world. "Physical causes" had so shaped the

⁷²This knowledge was, of course, due to Rome's republican experience.

⁷³"Sceptical Whiggism," p.200.

souls of the inhabitants of those parts of the world that there was no alternative. There are, it is true, "moral causes" which might be deployed, but Montesquieu does not give much cause for optimism. Smith, on the other hand, points to the natural desire to dominate over others as the cause of slavery. This is not such an intractable problem. It is conceivable that the introduction of the right institutions could make slavery unnecessary. It is also a question whether Smith saw the "Hobbesian" side of man as truly fundamental. "Humanity," he says, "does not desire to be great but to be beloved" (TMS III.5.8). Smith's political economy shows that it is in no one's interest, especially the state's, to maintain slavery because it severely restrains the natural growth of opulence. We do not mean to understate the obstacles to the removal of slavery, which Smith himself identifies with great clarity. These obstacles are an extreme form of those which Smith thought prevented the immediate abolition of primogeniture. In this regard, the centralization of power which Smith saw as accompanying the progress of commerce might be conducive to the abolition of slavery by an enlightened state. There is nothing in the nature of things, as there was for Montesquieu, which stands in the way. If there is an intractable obstacle to the emergence of "civilized" society it is religion, which has the greatest powers over men. Where "superstition" prevails there is little hope that the liberty and security essential for commerce will exist.⁷⁴ Our point, to recapitulate, is that in addition to considering the relationship between commerce and civil liberty, attention must be paid to the relationship between commerce and science which, as Smith presents it, is also a product of the progressive force of commerce in history.

We turn now to discuss Smith's theory of government. The relation to the foregoing should be clear. We are interested in what we have called Smith's "political science." We have established what he regards to be the ends of government or political life. We have also seen the extent to which nature through the agency of history brings about these ends. Now we turn to

⁷⁴Cf. Smith's assessment of the Catholic church in the Middle Ages at WN V.i.g.24.

the specifically human means. What are Smith's political recommendations? In specifying the relation between ends and means we hope to indicate the character of Smith's political science and, therewith, his understanding of statecraft.

D. The Constitutional-Administrative

State and the Idea of Progress

The most conspicuous feature of Smith's theory of government is his constitutionalism. He is not a constitutionalist in the manner of the American Founders who advocated respect for a written constitution established by reflection and choice. He is, however, a constitutionalist in two other senses. First, he advocates respect for the *established* constitution of the state and, second, he emphasizes internal structure of government as the key to good government. For the sake of clarity, and for reasons which we hope will become apparent, we will label these two concerns the "formal" and the "effectual" elements of his constitutionalism.⁷⁵

Smith followed Hume in rejecting the contractualist account of the origin of society. His *Lectures on Jurisprudence* utilize Hume's arguments, and even his examples, although he gives them a distinctively Smithian formulation. He rejects the doctrines of the state of nature and the contractual basis of society as unempirical.⁷⁶ Instead, Smith looks at the variety of governments which have appeared throughout history in order to find their common principles. As with his moral theory, the prescriptive element emerges from the descriptive or historical treatment of the

⁷⁵This distinction bears some resemblance to that Walter Bagehot made between the "dignified" and the "efficient" parts of the English Constitution. See his *The English Constitution* (1867) (Ithaca, N.Y.: Cornell University Press, 1963), p.61.

⁷⁶"In the first place, the doctrine of an original contract is peculiar to Great Britain, yet government takes place where it was never thought of, which is even the case with the greater part of the people of this country" (LJ(B) 15). Second, whatever contracts were, in fact, entered into at the beginning of society are always considered binding on their posterity even though they had no part of it. Finally, the actual conduct of all governments belies the existence of such a contract. For example, treason is a crime of extreme proportions, whereas the breach of any sort of contract is never deemed to be so (LJ(B) 15-18).

issue. He begins his lectures on jurisprudence by observing that: "To acquire proper notions of government it is necessary to consider the first form of it, and how the other forms arose out of it" (LJ(B) 19). To use the liberal terminology, this involves a study of both legitimate and illegitimate governments. There are, he argues, two principles or "opinions" which lie at the basis of all governments: authority and utility.⁷⁷ Smith explains the principle of authority in terms of the sympathy mechanism. There is a natural disposition in men "to go along with all the passions of the rich and powerful" and upon this "is founded the distinction of ranks and orders of society" (TMS I.iii.2.3). Sympathy with the rich and the powerful creates a natural deference before those of superior age, and, in particular, before those of superior birth and fortune. This deference is so essential to the stability of society that nature seems to have given it a greater power over men's minds than "enlightened" reason.

Even when the order of society seems to require that we should oppose them we can hardly bring ourselves to do it. That kings are the servants of the people, to be obeyed, resisted, or punished, as the public conveniency may require, is the doctrine of reason and philosophy; but it is not the doctrine of nature (TMS I.iii.3).

The arts of ruling are, to a large degree, those of image-making, and not of the actual business of government. This principle, however, may lead to a debased state of political life since the bulk of mankind are struck by success, however it is achieved.

Utility is the second opinion "which induces men to obey the magistrate." Smith does not have private utility in mind. "It is," he explains, "the sense of public utility, more than of private, which influences men to obedience. It may sometimes be for my interest to disobey, and to wish government over-turned. But I am sensible that other men are of a different opinion from me and would not assist me in the enterprize. I therefore submit to its decision for the good of the whole" (LJ(B) 14).

The two opinions manifest themselves differently under different forms of government. The principle of authority prevails in monarchies and the principle of utility in republics. Each of the

⁷⁷Cf. TMS VI.ii.2.11 where the two principles are discussed briefly in a way identical to that of the *Lectures on Jurisprudence*.

opinions is, however, present to some degree in all governments. Even in a despotism there must be some sense among some people, the mercenary guard for example, that the government is for their collective benefit. To take a less extreme case, the two will manifest themselves in the various parties which naturally form under free governments. In Great Britain, Smith writes, the principle of authority is at the basis of the Tory party and the principle of utility is at the basis of the Whig party. It is important to note that both of these principles are opinions and do not provide a true ground for political action. The Tories, for example, "pretend" the monarchy is a divine institution and the Whigs believe in the notion of an original contract that "can hardly be supposed to have ever been the case" (LJ(A) V.114,123-4). The parties are manifestations of two natural dispositions.

The bustling spirited active folks, who can't brook oppression and are constantly trying to advance themselves, naturally join in with the democratical part of the constitution and favour the principle of utility . . . The calm, contented folks of no great spirit and abundant fortunes which they want to enjoy at their own ease . . . found their obedience on the less generous principle of [authority]" (LJ(A) V.124).⁷⁸

It could be said that these are the "natural" parties which form in any free society.

The genius of the English constitution is that it balances these parties in such a way as to maintain a stable society. In the *Theory of Moral Sentiments*, Smith observes that every society is made up of various "orders and societies, each of which has its own powers, privileges and immunities. Every individual is naturally more attached to his own particular order, or society, than to any other. His own interest, his own vanity, the interest and vanity of many of his friends and companions, are commonly a good deal connected with it: he is ambitious to extend its privileges and immunities - he is zealous to defend them against the encroachments of every other order of society" (TMS VI.ii.2.7). Every society is, then, a composite of various orders and "little societies." In normal times, the forces or sentiments of attraction between the classes hold society together. In times of public disorder, the forces of attraction, so to speak, seem to operate

⁷⁸There appears to be a transcription error in this passage. In the manuscript the last word is "utility" when clearly it should be "authority." We have made the correction in the quotation.

more strongly in these subsidiary groupings than in the society as a whole. The various little systems exhibit a tendency to break away from the controlling galaxy. Faction does much more than destroy the natural deference between orders. It has the capacity to drive out all the natural moral sentiments which unite human beings. "Of all the corrupters of the moral sentiments . . . faction and fanaticism have always been by far the greatest" (TMS III.iv.43). Smith is somewhat coy about the chief causes of this great disordering of society. When discussing the sense of duty, he does, however, make the following revealing remark.

False notions of religion are almost the only causes which can occasion any gross perversion of our natural sentiments in this way; and that principle which gives the greatest authority to the rules of duty, is alone capable of distorting our ideas of them in any considerable degree" (TMS III.6.12).⁷⁹

Smith regarded an exact administration of justice as the best palliative for most kinds of factional conflict. This recommendation might be understood in terms of his analysis of the social and unsocial passions. That normal partiality which each group has for its own is magnified enormously when it perceives that it is not receiving justice. The prevalence of injustice releases those unsocial passions which shut out the humanizing influence of the social passions. One must remember here that the perception of injustice will have a great deal to do with the stage of development a society has reached. Thus, what, from the point of view of a civilized society, might seem the most extreme inhumanity might be regarded as the normal state of affairs in an earlier stage of society.⁸⁰

What we have termed the "formal" constitution of a state is the particular division of the "powers, privileges and immunities" of the various orders (TMS VI.ii.2.8). In the *Wealth of Nations*, Smith identified the three great constituent classes of every "civilized" society on the basis of whether their source of income derives from profits, rent, or wages (WN I.xi.p.7). These three classes are not all present in the early stages of society. The character of the various

⁷⁹The revisionists who place a great deal of emphasis on the dangers of a spirit of system do not, perhaps, do justice to the fact that Smith's greatest fears were in regard to the powers of religion. For him, the spirit of system seems to be a lesser danger.

⁸⁰See Smith's discussion of infanticide in TMS V.2.15-16.

classes and the relationships between them change over time as society becomes more and more commercialized. The stability of the constitution at any particular time depends on the ability of each of the orders to protect its place within the whole. Smith believed that the partiality of the various orders is beneficial because it checks "the spirit of innovation." As he explained matters, the stability of a state resembles in some degree the stability of a balance of power among various independent nations. The difference is that the various orders of society are subordinate to and dependent upon the sovereign, whereas independent nations have no common superior (TMS VI.ii.2.10).

Smith did not give much guidance as to the optimal arrangement of "powers, privileges and immunities" in a civilized society. Most of his political remarks are directed towards Great Britain which, as we have suggested, may not have been the typical case. It is, therefore, difficult to infer what he might have had to say about societies where representative institutions did not arise. He rejected democracy because of the incapacity of the bulk of the people. As regards the public interest

the labourer . . . is incapable either of comprehending that interest, or of understanding its connection with his own. His condition leaves him no time to receive the necessary information and his education and habits are commonly such as to render him unfit to judge even though he was fully informed (WN I.xi.p.9).

Smith had grave doubts about the future of the American colonies should they separate from Great Britain.

No oppressive aristocracy has ever prevailed in the colonies. Even they [the colonies], however, would in point of happiness and tranquillity, gain considerably by a union with Great Britain. It would, at least, deliver them from those rancorous and virulent factions which are inseparable from small democracies, and which have so frequently divided the affections of their people, and disturbed the tranquillity of their governments, in their form so nearly demeritocratical. In the case of a total separation

. . . those factions would be ten times more virulent than ever (WN V.iii.90).⁸¹

The absence of a coercive central power of sufficient strength would, he thought, probably lead to their breakup. Nor did Smith think the mercantile class is a suitable ruler of mankind. They are a

⁸¹The context is his proposal for an imperial union.

class whose specific interest is opposed to that of society as a whole.⁸² Moreover, according to Smith, their presence is not such as would overawe the other members of society.⁸³ Despite their spendthrift ways, Smith does not display any antipathy towards the English landed-gentlemen. We might infer that he saw a role for them in preserving the stability of the state in Great Britain at least. Smith saw the sovereign as providing an essential unifying element to the society, not only because of his interest in maintaining the state, but also because of his ability to "manage" the various factions in society.⁸⁴ For Smith, the power of the sovereign would seem to be an essential feature of every state. Given the changeableness of circumstances, we are led to suspect that there may not be a single optimal political arrangement, but rather a number of optimal arrangements, each linked to a specific set of historical circumstances.

While Smith rejects the notion of a general right of revolution, his conservatism does admit of exceptions. The end of any society is the happiness of its members. To secure this happiness, Smith grants, it will at times be necessary to effect a change in the formal constitution of the state. At such times, the constitution "in its actual condition" "appears plainly unable to maintain the public tranquility." A decision must then be made whether to attempt to reestablish the old constitution or to give way to a "daring, but often dangerous, spirit of innovation" (TMS VI.ii.2.13). It is in this context that Smith makes his oft-quoted remark that the "greatest and noblest of all characters" is the "reformer and legislator" of a great state. Such a man must rise above the clashing parties and "re-establish and improve" the constitution (TMS VI.ii.2.14). He must act as a non-partisan among partisans. The interpretation of this remark is crucial for establishing the character of Smith's political science. Soon after, he warns of the dangers of a "spirit of system" which degenerates into a fanatical pursuit of an "ideal system." As we noted

⁸²See WN I.xi.

⁸³Cropsey, *Polity and Economy*, pp.66-68.

⁸⁴On the first point, see WN V.ii.k.74. On the second, consider the discussion of how the "high-spirited" men in the American colonies could be "managed" at WN IV.vii.c.78 and context. See also Hume's essay "Of the Independency of Parliament" where he argues that "corruption" is necessary for the maintenance of the constitution, *Essays*, pp.42-6.

earlier, Smith believes a reformer should not use "violence" against his country. He advocates the wisdom of Solon: "when he cannot establish the best system of laws, he will endeavour to establish the best that the people can bear." Smith even minimizes the extent to which a "general, and even systematical, idea of the perfection of policy and law" is necessary for "directing the views of the statesman" in this task (TMS VI.ii.2.16-18).

The revisionists have interpreted these passages as indicating the wide scope Smith left to the discretion of the statesman and as further evidence of his lack of dogmatism.⁸⁵ Before arriving at any conclusions about the Smithian statesman, it is necessary to state precisely in what this discretion consists. To accomplish this one must consider the historical character of Smith's political science. Discretion seems to be limited to the task of establishing a new balance of power between the various orders. The statesmen must rise above his own party to make an nonpartisan decision. This decision must, of course, be made on the basis of a set of specific historical circumstances. In this sense, each decision is unique. But in light of what is this decision made? We have sketched what appears to be Smith's idea of the natural progress of law and government. When the circumstances are propitious, there is a natural tendency towards civilized society. What does this mean for the statesman? Surely, it means that he must act in accord with this natural tendency, and that his moderation is determined by a notion of progress. An indication of Smith's view is that, in the passage under consideration, he refers to "reformers

⁸⁵See Haakonsen, *Science of a Legislator*, pp.97-98. Winch, *Adam Smith's Politics*, p.159, in a revealing slip, speaks of "the legislator and great founders of states" (emphasis added). It may be true that these passages were added in response to the French Revolution, but this does not immediately clarify how they should be interpreted. On the basis of our argument, one might speculate that Smith's reaction may not have been that different from Burke's: "the French Revolution is the most astonishing [thing] that has hitherto happened in the world." *Reflections on the Revolution in France*, (New York: Library of Liberal Arts, 1955), p.10. But this does not mean that the French Revolution brought to light an entirely new problem. Smith had discussed the spirit of system in earlier editions of the *Theory of Moral Sentiments*. The French Revolution was the most extreme expression of the difficulty implicit in all abstract and universal theories of politics. Consider also Hume's remark that: "Parties from principle, especially abstract speculative principles, are known only to modern times, and are, perhaps, the most extraordinary and unaccountable phaenomenon, that has yet appeared in human affairs." "Of Parties in General," *Essays*, p.60.

and legislators" rather than "founders and legislators." Even Hume, Smith's most immediate and influential predecessor, had written that "the first place of honour seems due to LEGISLATORS and founders of states."⁸⁶ A statesman in possession of the Smithian political science would be aware of the manifold inter-relationships between polity, economy, and society and of the laws which govern their progress. Such a statesman is in a fundamental sense a "reformer" and not a "founder." For these reasons, Smith's historical political science cuts across the grain of all universalistic theories of government. It does not lend itself easily to partisanship or extremism. It is a system which avoids the dangers of systems.

The "formal" constitution of the state, while it is concerned with "ruling," does not seem to have much to do with the actual business of government. Behind the formal constitution of every state lies what we have termed the "effectual" constitution or, perhaps, the administration. This is particularly the case in societies that have reached a degree of complexity. To consider this suggestion we must discuss Smith's understanding of the separation of powers and the "natural aristocracy."

Smith discusses the separation of powers using categories derived from Locke and Montesquieu. We have already indicated the chief features of his account. He describes the growth of the various powers (legislative, judicial, executive, and federal) from their first manifestations in primitive societies to their developed forms in a civilized society. His most forceful recommendation is for the separation of the judicial and executive power. The legislative power is, as we have noted, a late arrival on the scene which holds the judicial branch in check. Smith does not make a similar case for the absolute necessity of it being a separate branch of government. One of the remarkable features of Smith's thought is the degree to which he

⁸⁶"Of Parties in General," *Essays*, p.55. See Machiavelli, *Discourses*, I.10, opening sentences, and *The Prince*, trans. Harvey C. Mansfield Jr, (Chicago: University of Chicago Press, 1985), Ch.6, which provide the starting points for reflections on this question. See also Duncan Forbes, *Hume's Philosophical Politics* (Cambridge: Cambridge University Press, 1975), Ch. 9, on the subject of the "legislator" in Hume.

believed law could be removed from the arena of political contention and placed in the realm of administration. Law seems to lose its political or deliberative character as it comes to be associated closely with a science of law.

The other aspect of the effectual constitution concerns those who actually exercise these powers in the daily administration of government—the "natural aristocracy."⁸⁷ This is not an aristocracy in any ordinary sense of the word. Smith believed that, in general, those who were members of the "ruling" classes by birth or fortune were unsuitable for political office. Louis XIV was regarded as "the most perfect model of a great prince" but he had not a jot of political skill (TMS I.iii.2.4).⁸⁸ As a result,

In all governments . . . even in monarchies, the highest offices are generally possessed, and the whole detail of administration conducted, by men who were educated in the middle and inferior ranks of life, who have been carried forward by their own industry and abilities, though with the jealousy, and opposed with the resentment, of all those who were born their superiors, and to whom the great, after having regarded them, first with contempt and afterwards with envy, are at last contented to truckle with the same abject meanness with which they desire the rest of mankind should behave to themselves (TMS I.iii.2.5).

It is this class of men Smith refers to as the "natural aristocracy" (WN IV.vii.c.74; V.i.a.41). Such men, he believes, are interested in public affairs "chiefly on account of the importance which it gives them." In a democracy, what we have called the formal and the effectual parts of the constitution will most nearly coincide as government will be, to a large extent, by the people. The natural aristocracy, we might infer is the most likely recipient of the education to "the business of the world" which Smith proposed as the center of university education.

⁸⁷See Cropsey, *Polity and Economy*, pp.68-70, for a discussion of the natural aristocracy and the parallels between Smith's thought and American political thought.

⁸⁸Louis XIV had a number of advisors during his long life, but it should not escape our attention that one was the mighty Jean Baptiste Colbert. One aspect of the passages that deal with the "spirit of system" in the *Theory of Moral Sentiments* which seems to have escaped commentators is that Smith's remarks seem directed, for the most part, against "imperial and royal reformers" (VI.ii.18). Colbert's modernization program is sharply criticized in the *Wealth of Nations* (IV.ix.3).

E. Adam Smith's Political Science

Following in the tradition of the modern natural rights teachings, Smith makes a case for limited government which emphasizes the rights and interests of citizens, not their duties. Whatever concern he shows for morality is, perhaps, exclusively in the interest of society at large and not for morality as such. He departs from the earlier formulations of the modern doctrine both on the grounds of the argument and on the means for implementing limited government. Smith makes his case for "rights" on the basis of his spectator theory of morality. For this reason, his teaching is more flexible than Locke's universalist natural rights teaching. Rights have an historical development. His theory is fundamentally based on his view of history and what amounts to an affirmation of the rightness of the judgment of history, at least insofar as it concurred with what he conceived to be the natural course of things.

The focus of his political science is an understanding of commutative justice, and the preferred means of establishing an exact administration of justice is the constitutional-administrative state. This does not necessarily imply a need for republican government or even representative institutions. The solution to the political problem is a product of the natural course of things.⁸⁹ At first, in the sense that there is a positive relationship between commerce and civilization. Beyond this, a new stage is reached when civilization itself, through the necessary principle of the extension of the division of labor, gives rise to a "political science." The legislator is the natural recipient of this science. Smith reconciles, in the idea of progress, the theoretical approach and the need for moderation.

Some remarks by Smith's contemporaries bear out our interpretation of Smith's political science. John Millar remarked that, on the subject of the history of civil society, the "great

⁸⁹Stewart regarded one of the basic premises of the *Wealth of Nations* to be that "what we call the Political Order, is much less the effect of human contrivance than is commonly imagined." *Philosophy of the Human Mind*, II.1.4.5, *The Collected Works of Dugald Stewart*, ed. William Hamilton, 11 Vols, (Edinburgh: Thomas Constable, 1854-61), Vol. III, p.333.

Montesquieu pointed out the road. He was the Lord Bacon in this branch of philosophy. Dr Smith is the Newton.⁹⁰ We surmise that it was Smith's elaboration of the natural course or laws of progress from primitivism to civilization which earned the accolade of the "Newton" of this study. We have from Stewart some sweeping remarks apparently made by Smith on the subject of progress. "Little else," said Smith, "is required to carry a state to the highest degree of opulence from the lowest barbarism, but peace, easy taxes, and a tolerable administration of justice, all the rest being brought about by the natural course of things."⁹¹ Smith's legislator, we might conclude, practices a quiescent art; he is passive and reformist, rather than active and transforming.

It is open to question whether Smith regarded his discoveries as constituting a permanent or open-ended solution to the political problem. In other words, did Smith believe civilization might progress indefinitely? In his lectures on jurisprudence, Smith seemed to be of the opinion that all states must eventually perish.⁹² The issue is not as clear cut with the contemporary states of the civilized world. Smith indicates in many places how the wisdom of the state (which is, of course, founded upon a particular understanding of the wisdom of nature) might intervene in order to preserve and extend civilization. There are, however, reasons to believe that Smith may have harbored reservations. The early stages of any society are characterized by a certain animal vitality. In the later, more advanced, stages this vitality diminishes. For example, with the commercialization of society, most people become less able and less willing to defend their societies. At this stage the "wisdom of the state" must intervene to supplement the "wisdom of nature" by establishing a standing army of professional soldiers. As society develops, it begins to lose its organic unity and become more and more an artifice dependent on human wisdom. Given Smith's view of the relative power of reason over and against the passions, there is room to

⁹⁰*Historical View of the English Government* (1812) quoted in Forbes, "Scientific Whiggism", p.646.

⁹¹Stewart, *Account*, IV.25.

⁹²Cf. WN V.ii.c.6: "empires, like all the other works of men, have all hitherto proved mortal."

wonder whether he believed his program represented a permanent solution to the political problem.

We have suggested that Smith accepted the judgement of history. This needs to be explained. We have seen that Smith elevated the passions above reason. One implication of this is that he placed moral virtue above intellectual virtue. "The most sublime speculation of the contemplative philosopher can scarce compensate for the neglect of the smallest active duty" (TMS VI.ii.3.6). A further implication is that, while reason can find its proper place in society, it cannot act as the master of society. Paradoxically though, Smith shows that the natural course of things does not support the demands of strict morality.⁹³ Neither in the polity, nor in the economy, are the highest standards of morality established. Civilization seems, from a human point of view, to be radically defective. Why then preserve civilized society? That this is the best *possible* society is an inadequate answer. Reflection would, then, lead one to question the goodness of nature and, perhaps, even of morality itself. Smith's full answer seems to be that civilization is part of the natural course of things to which it is "right" for us to submit and even assist in its course. When we have reached the limits set by natural necessity on human endeavor and choice, we must defer to a higher morality in order to establish what is in our "final interest."⁹⁴ This higher morality takes its content from our attempt to enter into the sentiments of the author of the system of nature, and seems inseparable from a belief in the providence of nature. Philosophy is, for Smith, a form of "consolation" for the defectiveness of life (TMS VII.ii.1.45). This answer is connected with Smith's view of the relation of reason to the passions. We suspect that the basis of Smith's position is to be found in his critique and reformulation of the Stoic idea of "apathy."⁹⁵ This is one aspect of the *Theory of Moral Sentiments* which he seems

⁹³See Cropsey, *Polity and Economy*, Ch.3.

⁹⁴The term "final interest" is used at least twice in the *Theory of Moral Sentiments*: VI.ii.3.20 and VII.ii.3.20

⁹⁵Cf. TMS VI.ii.3, which summarizes Smith's position, with the summary and criticism of the Stoics at TMS VII.ii.1.15-47. This suggestion would seem to contradict that of Cropsey in

to have had at the forefront of his mind from its first publication in 1759 to his death in 1790.⁹⁶ A consideration of it would, however, take us far from our present purpose.

In the next chapter, we turn to a detailed consideration of Smith's political economy. We will see that Smith's political economy and political science have a common root in his understanding of the historical progress.

Polity and Economy, Ch.3, but it is roughly consistent with his later essay "The Invisible Hand: Moral and Political Considerations," in *Political Philosophy and the Issues of Politics*, pp.76-89, especially at p.88. John Danford suggests that Smith chose commercial society because of its superior humanity. "Adam Smith, Equality, and the Wealth of Sympathy," *American Journal of Political Science* 24, No.4 (Nov. 1980):674-95. This argument fails to take into account Smith's moral critique of commercial society.

⁹⁶See the Introduction by Raphael and Macfie to the Glasgow Edition of the *Theory of Moral Sentiments*, pp.5-10, for a discussion of the relation of Smith to the Stoics. Smith continually revised and refined the Stoic sections of the *Theory of Moral Sentiments*.

CHAPTER FOUR
POLITICAL ECONOMY AND STATESMANSHIP
IN THE *WEALTH OF NATIONS*

*A. The Theme of Political Economy
and Statesmanship*

The theme of this chapter is political economy and statesmanship in the *Wealth of Nations*. This is, perhaps, the theme of the work. Smith attempts to show the relevance of a knowledge of the natural course of things, as revealed by a science of political economy, for the statesman's art. The chief practical conclusion of Smith's political economy is that it is mere "folly" and "presumption" on the part of the statesman to attempt to direct the economic activities of society for the public good in any but the most general way. The *Wealth of Nations* is, in essence, a warning to statesmen.

We will proceed by summarizing the basic teachings of the *Wealth of Nations*. This might seem a simply antiquarian endeavor since many of Smith's arguments are patently ridiculous or at least irrelevant to our situation today. Yet there is, we believe, a sound reason for taking a sympathetic approach. On the basis of the last chapter, it should become clear that Smith did not begin his study in political economy without first reflecting deeply on man, society, and nature. We will see shortly that these reflections establish the conceptual framework for Smith's political economy and are inseparable from it. Thus he did not begin, as do most present day economists, by assuming that a science of political economy is both possible and relevant. We will seek to make clear the assumptions that are the foundations of Smith's scientific political economy. Our approach differs from that of many other commentators who profess sympathy with Smith in that

we are not so much interested in the extent to which Smith anticipated the doctrines of twentieth century economics, as in the way in which Smith himself conceived a science of political economy to be possible.¹

Notwithstanding the above, our discussion of Smith's system has some bearing on his place in the history of economic thought. Until very recently, the dominant view has been that nineteenth century commentators were mistaken in regarding Smith as the founder of scientific political economy.² We believe, however, that there are sufficient reasons for regarding the *Wealth of Nations* as a pivotal work in the history of economic thought. Arguments which suggest a large degree of incoherence, incompleteness, or simple confusion in the work seem to us exaggerations. In the exposition which follows, we hope to show the degree to which Smith's political economy is both internally consistent and consistent with the *Theory of Moral Sentiments*.

In the last chapter, we saw that Smith's reflections on the divergent characters of philosophers and political men were extremely useful in illuminating the potential significance for human life of the discovery of an historical political science which taught moderation. These reflections are just as important when we consider Smith's political economy. The *Wealth of Nations* makes clear only in passing whom Smith regarded to be his intended audience. These scattered remarks show that he was somehow speaking to both practical and speculative men.³ The work as a whole is sometimes described as "speculative," but Smith on occasions goes so far as to apologize for certain abstract arguments which he fears will be alien, presumably to readers with a more practical orientation. The practical character of the work is attested to by the practical advice with which it abounds. We might distinguish two kinds of practical men as

¹For a comprehensive and subtle account of Smith's many anticipations of present day economic theory, see Samuel Hollander, *The Economics of Adam Smith* (Toronto: University of Toronto Press, 1973).

²For an influential example of the twentieth century view, see Joseph Schumpeter, *History of Economic Analysis* (Oxford University Press: New York, 1954), pp. 181-86.

³See WN I.v.22; II.ii.66; V.iii.68.

addressees: first, country gentlemen, who, as Smith makes clear, generally do not know their own interest, and, second, political men, the natural aristocracy to be precise, who seek to make a name for themselves advising the state. The latter is, of course, the most politically significant class. Because of its divergent audiences—speculative and practical—the work has a dual character.⁴ A consideration of the title and the organization of the work indicates the intimate connection between the issue of Smith's dual audience and the theme of statesmanship and political economy.

Most obviously, the *Wealth of Nations* is a work on "political economy." According to Smith, the proper title of the work, *An Inquiry into the Nature and Causes of the Wealth of Nations*, corresponds to one sense of "political economy" which he describes as "a very important science" (IV.ix.38). This use of the term political economy, which occurs in Smith's discussion of the Physiocrats, bears a close resemblance to the "economics" of today, which implies the existence of an independent science of economic affairs.⁵ Throughout the *Wealth of Nations*, Smith, however, mixes older and newer usages of the term, a practice we must discuss in order to grasp the significance of the work. The term political economy has, for

⁴In *The Annual Register* of 1776 a review, probably written by Edmund Burke, described the *Wealth of Nations* as a "didactic" work (pp.241-3). This perhaps means that the author of the review saw the work more as an effort to inculcate right opinion than to explain all the subtleties of the argument. In this regard, we should observe that Smith writes the *Wealth of Nations* making many assumptions which he leaves unsupported. For example, there is no explicit discussion of the "method" of scientific political economy. Bagehot regarded the *Wealth of Nations* as primarily addressed to practical men and, therefore, primarily as a work which began a great "practical movement" and not a theoretical revolution. See "Adam Smith and Our Modern Economy," reprinted in *Economic Studies*, ed. Richard Holt Hutton, (Stanford: Academic Reprints, 1953), pp.108-110. William Letwin, *The Origins of Scientific Economics* (Garden City, N.Y.: Anchor Books, 1965), p.226, perhaps more astutely, argues that Smith covered the more scientific aspects of his work with a "veil" in order to make it accessible to practical men.

⁵Despite their practical insignificance, Smith recommends the writings of the Physiocrats to all those who wish to examine the principles of political economy "with attention." A thoughtful discussion of the relation between the specialized science of economics and the general science of human things can be found in Alfred Marshall, *Principles of Economics*, Eighth Edition, 1920, (London: Macmillan, 1974), Appendix C, pp.636-43. Marshall believed that progress in economic science was possible without having first established a unified science of human things. He remarks that the "impatient Greek genius" for a unified science held up progress in certain areas for many centuries (Sec.1, p.636).

the most part, fallen out of use. Only among Marxian economists does the term have any real currency. For most, though, it has been replaced by "economics" which signifies the social science which inquires into the "economics" of things. The evident circularity requires some further explanation. Economics is derived from the Greek *oikonomikos* meaning the art of household management which was conceived by ancient thinkers such as Aristotle and Xenophon to be the province of the gentleman and to be inseparably connected with considerations of the best way of living. Only by the middle of the eighteenth century does economy or political economy come to bear any resemblance to the present meaning of economics. This change is closely connected with the change in philosophic outlook originated by thinkers such as Bacon, Hobbes, and Locke who legitimated unlimited acquisition as a goal for individuals and societies, thus severing the link between household management and considerations of the best way of life. The economics of such and such a thing could then be understood solely in terms of more or less. The circularity of our definition of the social science of economics disappears once we realize that the new philosophic outlook is its foundation.⁶ This change, however, did not of itself establish an independent science of political economy. The prevailing usage of political economy in the eighteenth century still meant simply a transfer of the concern with the management of the household to the level of the state.⁷ It was the

⁶On the general issue see Leo Strauss, *What is Political Philosophy?* (New York: Free Press, 1959; Westport, Ct: Greenwood Press, 1973), pp.47-50, and Cropsey, "On the Relation of Political Science and Economics," reprinted in *Political Philosophy and the Issues of Politics* (Chicago: University of Chicago Press, 1977), pp.32-43. Much could be said on this development, but here we can only note that an understanding of mercantilism is deficient to the extent that it fails to recognize this linkage. The question of whether mercantilism aimed at "power or plenty" is best considered in light of the understanding of power and plenty in philosophers such as Hobbes and Locke. Smith is in no small measure responsible for obscuring this connection. Hiram Caton, "The Preindustrial Economics of Adam Smith," *Journal of Economic History* 45, No. 4, (Dec. 1985): 842, n.4, correctly draws attention to Smith's "striking" "silence" on the "mercantilist program for liberty, enlightenment, and progress." Jacob Viner's important and otherwise insightful essay "Power versus Plenty as Objectives of Foreign Policy in the Seventeenth and Eighteenth Centuries," reprinted in *The Long View and the Short: Studies in Economic Theory and Policy* (Glencoe, Ill.; Free Press, 1958), suffers from a neglect of this connection.

Physiocrats and Adam Smith who transformed political economy into something close to the contemporary "economics."⁸ We would suggest provisionally two reasons for what appears to be a studied ambiguity in Smith's language. First, it appears that a political presentation of the science of political economy was necessary so that it might become accessible to practical men. A second and more important reason was that this political presentation required an account of how this science is relevant to practical political decisions. Smith seems to use "political economy" in two ways: the first denotes the way in which political economy is a science in a strict or speculative sense, and the second, the way in which it is a practical science, that is, in the sense that it is part of the science of the legislator or statesman. These two senses correspond roughly to the contemporary division in the economics profession between theoretical and applied economics, between theory and policy.

A glance at the very organization of the *Wealth of Nations* itself supports our suggestion. Book One deals with the issues of value, exchange, and distribution. For the most part, the argument assumes a given annual produce. Book Two deals with the process of accumulation and the determinants of the rate of increase in the annual produce.⁹ The first chapter of Book Three summarizes the principles of Books One and Two by presenting an account of the natural progress of opulence, and, in the final three chapters, Smith chronicles the way the "policy of Europe" had distorted the natural progress of opulence.

⁷See Jean Jacques Rousseau, "Discourse on Political Economy," *The Social Contract*, ed. Roger D. Masters trans. Judith R. Masters, (New York: St Martin's Press, 1978), p.209. Palgrave's *Dictionary of Political Economy*, 3 Vols. (London: Macmillan 1899), entry under "Political Economy" by Henry Sidgwick, Vol. 3, pp.129-33, contains an insightful discussion of the development of the term from signifying an aspect of the art of government to signifying an independent science. Sidgwick stresses Smith's ability to mix theory and policy as a factor in his enormous success.

⁸The Physiocrats went by the name *Œconomistes*, the term Physiocracy coming into general use only when the older term ceased to be distinctive.

⁹"Annual produce" is roughly equivalent to today's gross domestic product. Smith, however, only counted income generated by the "productive" sector of society as being part of the annual produce. On the peculiarities of Smith's national income accounting, see Hollander, *Economics of Adam Smith*, pp.144-47.

Books Four and Five deal with the practical application of these principles. The "Introduction" to Book Four signals the change. Smith there states that political economy "considered as a branch of the science of a statesman or a legislator, proposes two distinct objects; first, to provide a plentiful revenue or subsistence to 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" (IV.Introduction, emphasis added). This implies that political economy may be considered in more than one sense and that these other senses are in some way distinct from that in which it is relevant to the science of a legislator. Prior to Book Four, little attention is given to the connection between the science of political economy and political life. Specifically, there is no discussion of the way in which this theory is to serve political men who must make their decisions in light of the circumstances which confront independent nations. In the fourth book, Smith attempts to show the superiority of his own system of natural liberty to that of its chief rivals, the mercantile system and the agricultural policy of the Physiocrats. Here, Smith discusses the implementation of the system of natural liberty in a world where reason and humanity do not prevail. Book Five deals with the expenses and revenues of the state. Smith goes beyond simply discussing the most efficient way of raising revenue to set down, sometimes in great detail, the *proper* objects of state expenditure. The organization and relation of these two books is quite clear. Book Four deals with the enrichment of the people, who are in modern times the chief source of the revenues the state requires to carry out its duties. The transition from the concerns of the first three books to those of the last two is that from "science" to "applied science," or from theory to policy. The chief practical recommendation of the *Wealth of Nations* is that the interests of the state are best served by a policy of free trade at home and with other nations. Smith believed he had presented a decisive refutation of the mercantile approach which advocated a significant role for the state in the management of economic affairs. In what follows,

we suggest that the science of political economy in the strict or speculative sense is founded upon Smith's understanding of the general principles which govern the emergence of nations out of barbarism and their progress towards civilization. As a rule, we will follow the order of the *Wealth of Nations* itself. The next section is devoted to Smith's discussion of self-interest and the division of labor. The discussion of self-interest may appear to be somewhat of a digression, but it is of fundamental importance to the *Wealth of Nations* as a whole and arises naturally out of a consideration of the division of labor.

*B. The Very Important Science
of Political Economy*

1. The Division of Labor and the Principle of Self-Interest

The *Wealth of Nations* opens with Smith asking as to the cause of the relative prosperity of civilized nations. Echoing a famous passage in Locke, Smith, in an equally famous passage, observes that

the accommodation of a European prince does not always so much exceed that of an industrious and frugal peasant, as the accommodation of the latter exceeds that of many an African king, the absolute master of the lives and liberties of ten thousand naked savages (WN I.i.2).¹⁰

In civilized societies a general plenty diffuses itself through all ranks of society despite a general inequality and the fact that significant sections of those societies do not labor at all.¹¹ Primitive societies are, by contrast, "so miserably poor, that from mere want, they are frequently reduced, or, at least, think themselves reduced, to the necessity of sometimes directly destroying, and

¹⁰See Locke, *Two Treatises of Government*, ed. Peter Laslett, New American Library, (New York: Mentor Book, 1963), II.41.

¹¹In the "Early Draft" of the *Wealth of Nations* Smith spoke of the "oppressive inequality" of such societies (ED 5).

sometimes abandoning their infants, their old people, and those afflicted with lingering diseases to perish from hunger, or to be devoured by wild beasts" (WN Introduction.4).¹² This is universally the case even though there is a general equality of possessions and effort in such societies. What is the cause of the enormous disparity in wealth between primitive and advanced societies? Smith thought the answer lay in the division of labor. He describes three ways in which the division of labor adds to "the productive powers of labor":

first, to the increase in dexterity in every particular workman; secondly, to the saving in 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 (WN I.i.5).¹³

The division of labor does not arise from natural differences among human beings. Smith believed that the natural differences between individuals are small and, perhaps, negligible.

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 (WN I.ii.4).

Smith's denial of natural differences is of great importance. It allows him to discount particular causes, such as the talents of outstanding individuals and, instead, to base his analysis on general causes.¹⁴ As a result, Smith believed that dislocations brought about by economic

¹²Smith discusses the issue of infanticide at TMS V.ii.15.

¹³The question of the extent to which Smith was aware of the profound changes which the Industrial Revolution would bring is a difficult one to settle. Smith's emphasis on the division of labor has been interpreted as revealing a lack of appreciation of the role technological change would play in future economic progress. For a recent statement of this view, see Hiram Caton, "The Pre-industrial Economics of Adam Smith." This seems to us an exaggeration. Smith indicates that he is aware of the way in which technology utilizes the powers of nature. See WN I.i.9; ED 2.11; and LJ(A) VI.42-43. The last stage of the division of labor seems to be that where invention itself becomes a trade. Smith concludes that under conditions of free trade there will be the greatest incentives for the adoption of all measures which increase the productive powers of labor, including the adoption of new technologies. According to Smith, no scheme of *government* encouragement could provide equal incentives. Caton replaces what he (correctly) perceives to be Smith's commercial determinism with a kind of technological determinism. For a balanced account of the extent of Smith's appreciation of technology, see Hollander, *The Economics of Adam Smith*, pp.208-41, and especially at pp.236-41. Vincent Bladen, *From Adam Smith to Maynard Keynes* (Toronto: University of Toronto Press, 1973), pp.14-15, places Smith's case for the division of labor in the proper perspective: "The subject of the book is wealth not equilibrium; discussion of the growth in productivity takes precedence over operations of exchange in the market. . . . I believe that the whole tone of the book makes it clear that Adam Smith would agree with enthusiasm if one said to him: is not freedom to innovate and to reap the rewards of successful innovation the basis of your expectation of increasing wealth?"

¹⁴See Hollander's understatement in his *Economics of Adam Smith*, p.239: "Change is

changes are small because, in general, individuals will be able to move from employment to employment with little difficulty, acquiring the appropriate talents as they go. This belief in the malleability of the human character underpins Smith's view of the history of civilization as a process of smooth and incremental change. That said, we must make clear that while Smith believed that men acquired new talents and characters in different ages, he still believed that the underlying human propensities remained the same.¹⁵

The division of labor is, then, for Smith, the fundamental cause of the increase in the productive powers of labor which characterizes progress from the barbarous to the civilized state. In the first three chapters of Book One, Smith gives what could be called an economic history of the world. The economic history of the world, as he describes it, is essentially that of the extension of the division of labor. The division of labor is limited only by the extent of the market, that is, by the number of potential producers and consumers. Smith agreed with Montesquieu that the history of commerce is a history of the communication of peoples, and hence on the great importance of navigation for progress (WN I.iii.4-8).¹⁶ Smith's account of the progress of society seems, however, to be deliberately simplified or abstract in that it neglects political matters. His account assumes, for example, a kind of equality which in his own account of actual history is present only in the early stages of society and in its advanced stages.

What is the cause of the division of labor? The following remark gives us the beginnings of Smith's answer:

The division of labour, from which so many advantages are derived, is not originally the effect of any human wisdom, that foresees and intends that general opulence to which it gives occasion. It is the necessary, though very slow and gradual consequence of a certain
not, on the whole, generated in Smith's system by a minority of creative 'entrepreneurs'. This is not perhaps too surprising, given Smith's characteristic eighteenth century downplaying of innate differences from person to person."

¹⁵See Cropsey, "Capitalist' Liberalism," in *Political Philosophy and the Issues of Politics*, p.74.

¹⁶See the previous chapter for a discussion of the relationship between political and economic progress.

propensity in human nature which has in view no such extensive utility; the propensity to truck, barter, and exchange one thing for another (WN I.ii.1).

The "original" cause is the propensity to exchange. In primitive times, men were led to specialize in one form of productive activity because they found it in their "interest" to produce a surplus of a particular good which could be traded for other goods. Specialization, of course, increases the total supply of goods and, as a result, both the individual and the society are better off. In an advanced society, managers imitate the wisdom of nature by dividing labor in particular enterprises. Smith does not, however, go on to recommend that that human wisdom be allowed to superintend the organization of the whole of economic society. Rather, he recommends that the propensity to exchange be given free reign and, for the most part, to operate as the organizing principle of society.

The propensity to exchange is, however, given only a brief treatment in the *Wealth of Nations*. Smith leaves it open whether "this propensity be one of the original principles in human nature, of which no further account can be given; or whether, as seems more probable, it be the necessary consequence of the faculties of reason and speech"¹⁷ (WN I.ii.2). He believes that this propensity distinguishes man from other animals who, unlike man, have no other means of "persuasion" at their disposal than to gain the favor of the other animal. By contrast, human beings, because of their ability to make contracts, to understand "mine" and "yours," may choose a different means of persuasion.

It is not from the benevolence of the butcher, the brewer, or the baker, that we expect our dinner, but from their regard to their own interest. We address ourselves, not to their humanity but to their self-love, and never talk to them of our own necessities but of their own advantages. Nobody but a beggar chuses to depend chiefly upon the benevolence of his fellow citizens" (WN I.ii.2).

The propensity to exchange is then a means to an end, namely, satisfying our "wants" or, as Smith usually puts it, our "interest."¹⁸ In primitive society our wants are confined to procuring the bare

¹⁷Smith's account of the origins of languages suggests that language arises so that we might communicate our wants. The first words are nouns that describe "species" which Smith defines as groups of objects which bear "a certain degree of resemblance to one another" (*Languages* 1-2).

necessities of life. But, as Smith emphasizes in both his major works, there is no limit to the human desires in a civilized society, and hence no limit to what might constitute our "interest." Smith does not, however, deny that a true distinction can be made between luxuries and necessities.¹⁹ Moreover, as we saw in the *Theory of Moral Sentiments*, he makes abundantly clear that when considered in an "abstract and philosophical light" all the hustle and bustle devoted to the acquisition of wealth is of little if any worth. "In ease of body and peace of mind, all the different ranks of life are on a level, and the beggar who suns himself on the side of the highway, possesses that security which kings are fighting for" (TMS IV.i.10). How are we to make sense of this divergence between what could be regarded as our true interest and what Smith claims we generally understand as our interest? His clearest statement about self-interest in the *Wealth of Nations* occurs in a discussion of the motives for saving.²⁰

The principle which prompts us to save, is the desire of bettering our condition, a desire which, though generally calm and dispassionate, comes with us from the womb, and never leaves us until we go into the grave. In the whole interval which separates those two moments, there is scarce perhaps a single instant in which any man is so perfectly and completely satisfied with his situation, as to be without any wish of alteration or improvement, of any kind. An augmentation of fortune is the means which the greater part of men propose and wish to better their condition. It is the means the most vulgar and the most obvious; and the most likely way of augmenting their fortune, is to save and accumulate some part of what they acquire, either regularly or annually, or upon some extraordinary occasions (WN II.iii.28).

With few exceptions, interest and self-interest in the *Wealth of Nations* refer to whatever satisfies the desire to better our material condition.²¹

In the *Theory of Moral Sentiments*, "interest" is, however, only sometimes directly

¹⁸Bladen notes that in Smith's "explanation of the origin of the division of labour, is found a first statement of one of the principal themes of the book, the importance of incentives and getting things done by appeal to self-interest." *From Adam Smith to Maynard Keynes*, p.16.

¹⁹Smith makes use of this distinction in his discussion of taxation. His definition of "necessaries" has a natural and a conventional element. There are certain biological needs which must be met for the continuance of the species. But, in addition, there are also certain necessities which arise from custom, e.g., the wearing of a shirt in public (WN V.ii.k.3).

²⁰Smith did not regard the rate of interest as an equilibrating factor between present and future consumption. Smith believed it was self-regard which led individuals to save.

²¹The chief exceptions are his discussions of national interest, of the role of honor in providing a reward in some professions, and of the interests of politically ambitious men.

connected with our self-love, and even more rarely is it used in an economic sense. Generally, it simply refers to an object or happening which acts on our passions so that we are in some way connected to that object or happening. Imagination provides the link between event and observer. We can, for example, be "interested" in the plight of a just man treated unjustly. We enter into his suffering by placing ourselves in his shoes. The narrow use of interest to refer to economic interest seems, then, to be a particular usage of a more general term. For our present purposes, it is important to note that the desire to better our condition itself seems capable of several manifestations.

It is because mankind are disposed to sympathize more entirely with our joy than with our sorrow, that we make a parade of our riches, and conceal our poverty. . . . [I]t is chiefly from regard to the sentiments of mankind, that we pursue riches and avoid poverty. For to what purpose is all the toil and bustle of this world? What is the end of avarice and ambition, of power, and preeminence? . . . To be observed, to be attended to, to be taken notice of with sympathy, complacency, and approbation, are all the advantages which we can propose to derive from it. It is the vanity and not the ease which interests us (TMS I.iii.2.1).

Thus, it is a concern with the opinion of others which drives us on in the bettering of our condition. Here, Smith reveals, however, that augmenting our fortune is only one way of bettering our condition. Smith seems to believe that some men will always seek preeminence in other ways, for example, public life.

With respect to material betterment, Smith's view is explained further in Part Four, Chapter One of the *Theory of Moral Sentiments* which, the reader will recall, deals with the degree to which utility is an original principle of approbation. Smith observes that human beings often come to value objects quite independently of the intrinsic value or utility of those objects. Forgetting that the end of such objects is utility, they devote themselves, often relentlessly, to the acquisition of the means to utility or happiness.²² In other words, they engage in an endless

²²See Hobbes, *Leviathan*, ed. C.B. Macpherson, (Harmondsworth: Penguin Books, 1968), Ch.11, p.161: "So that in the first place, I put for a generall inclination of all mankind, a perpetual and restlesse desire of Power after power, that ceaseth only in death. And the cause of this, is not alwayes that a man hopes for a more intensive delight, than he has already attained to; or that he cannot be content with a moderate power: but because he cannot assure the power and means to live well, which he hath present, without the acquisition of more." On Hobbes, see Harvey C. Mansfield Jr, *Taming the Prince: The Ambivalence of Modern Executive Power*, (New York: Free Press, 1989), pp.170-75. On Locke's economic development of this idea, see

pursuit of the means to happiness, which, in a commercial society, is the same as an endless pursuit of purchasing power. When viewed in an "abstract and philosophical light," or during moments of despair, "power and riches" those "enormous and operose machines" may lose their appeal, but

we rarely view [them] in this . . . light. We naturally confound [them] in our imagination with the order, the regular harmonious movement of the system, the machine or economy by means of which it is produced. The pleasure of wealth and greatness, when considered in this complex view, strike the imagination as something grand and beautiful, and noble, of which the attainment is well worth the toil and anxiety which we are so apt to bestow upon it (TMS IV.i.9).

Smith continues that it is well that nature "imposes" upon men in this way because the deception "arouses and keeps in continual *motion* the industry of mankind" (TMS IV.i.10, emphasis added).

The "spirit of system" which promotes industry is parallel to that which is often the "secret motive" of public endeavors. The "motion" evoked by the spirit of system which underpins economic endeavor raises men out of poverty and barbarism and carries them forward into civilization and opulence. ²³

There is a clear parallel between Smith and Hobbes and Locke on the question of power and acquisition. Yet, there are also important differences. Hobbes and Locke recommended the acquisition of power as a means of overcoming the fundamental uncertainty of life. Smith, by contrast, dilutes the prescriptive aspect of their analysis since he believes he is describing the true psychological basis for the acquisitiveness which characterizes commercial societies. The analysis of human life in terms of "motion" has its origins in the thought of Hobbes, Spinoza, and Locke. Smith adds a further dimension by considering the motion of society as a whole. In so doing, Smith rejected the idea of the law of nature that taught that self-preservation is every man's natural right in favor of an understanding of society as nature's "peculiar care and darling" to which

Thomas L. Pangle, *The Spirit of Modern Republicanism: The Moral Vision of the American Founders and the Philosophy of Locke* (Chicago: University of Chicago Press, 1988), pp.166-168.

²³ See Cropsey, *Polity and Economy: An Interpretation of the Principles of Adam Smith* (The Hague: Martinus Nijhoff, 1957), pp.4-5.

is entrusted the furtherance of nature's ends. This, of course, does not imply a rejection of the view that nature has implanted in each of us strong passions which direct us towards the preservation of our being.

To a reader familiar with the contemporary concept of "rational economic man," it is perhaps easy to envisage the way in which a calm and dispassionate desire could function as the principle of motion of a science of political economy modelled after Newtonian natural science. Yet, Smith did not consider his description of most men to be a construct or assumption which abstracts from other aspects of human nature. He thought he was describing real men. Abstraction plays a significant role in Smith's political economy, but his description of the "prudent man" is not an abstraction.²⁴ We observed earlier that Smith's economic history of the progress of society seemed deliberately to abstract from political concerns. How can he take such a view? What about benevolence, or pride, or the love of present ease? Once the psychological basis of the desire to better our condition has been laid bare, it is even more pressing to ask just how this desire could form the basis of a scientific analysis. Is not the human imagination a fickle thing? How could a desire founded upon it be of sufficient constancy for a scientific analysis? In what follows, we will consider the three alternative passions just mentioned--benevolence, domination, and indolence--and, then, consider the precise way in which Smith establishes the desire to better our condition as the principle of motion in his system of natural liberty.

As we have seen, Smith was far from denying that benevolence has a power over human beings. Indeed, his work on moral philosophy can be seen as a response to those philosophers who reduced all questions of morality to considerations of rational self-interest. Yet, this important

²⁴ The Smithian approach persisted into the Twentieth Century. See, for example, Alfred Marshall's *Principles*, I.ii.7, p.22: "(Economists) deal with man as he is: but being concerned chiefly with those aspects of his life in which the action of the motive is so regular that it can be predicted, and the estimate of the motive-forces can be verified by results, they have established their work on a scientific basis" (emphasis added). Smith did not possess Marshall's confidence that economics could be a predictive science in any but the most general way. There is, however, a substantial similarity of approach. Economics today is, consciously or unconsciously, a hypothetical science which must rely on prediction to establish its scientific status.

fact should not blind us to Smith's final assessment of the relative power of the amiable virtues when set against the power of self-interest. Smith thought that the natural course of things diverged from the path human sentiments would have wished. In a civilized society, men will have dealings with many other men in the course of their daily routine. Since it is humanly impossible to be on intimate terms with so many individuals, relations with them will be governed, at best, by considerations of justice. Moreover, as the characters of men are formed chiefly in their various employments, the manners and morals of a society will reflect the types of productive activity with which it is engaged. In a civilized society where most men live by exchanging, the habits of that way of life will predominate to the exclusion of other, perhaps more lofty, habits.²⁵

According to Smith, the "pride of man makes him love to domineer, and nothing mortifies him so much as to be obliged to condescend to persuade his inferiors" (WN III.ii.10). Just how this love of domination comes to be tamed is, as we have seen, a difficult question which, perhaps, ultimately turns on the question of slavery. The problem is obscured in Smith's account of the rise of civilization in the opening chapters which deals with only one aspect of progress, namely, the extension of the division of labor. We need not go over the ground of the previous chapter, but we should state our chief conclusion: whatever were the actual reasons for the abolition of slavery in the West, the experience revealed the enormous benefits which result from its abolition. An enlightened legislator would, circumstances permitting, abolish slavery because of his concern for the riches and power of his state.

That said, the love of domination does not entirely disappear in a commercial society; it merely takes a more moderate form.²⁶ This is not surprising since the love of domination, as

²⁵On this point, Marshall also followed Smith. Marshall believed that the two most important human motivations were the religious and the economic. While he thought the religious motive was more "intense," he reasoned that its "direct action seldom extends over so large a part of life" as the economic because the "business by which a person earns his livelihood generally fills his thoughts during by far the greater part of those hours in which his mind is at its best." *Principles*, Bk I Ch.1 Sec.1, p.1.

²⁶There are also certain sectors of society in which precommercial norms of honor (and dishonor) and play a significant role, e.g., the military and the honorable professions, not to

Smith understands it, has the same basis as the desire for distinction which is also the basis of acquisitiveness. Acquisitiveness might then rightly be seen as a substitute for more violent forms of competition.²⁷ Wealth, says Smith, confers purchasing power, not direct power over others (WN I.v.3).²⁸ This is the essential difference between commercial society and pre-commercial society. Commercial society, however, establishes only a certain degree of equality between its members. There remain considerable inequalities of bargaining power or "force." In all transactions, the stronger party takes as much as he can.²⁹ The wage bargain is an example.

What are the common wages of labour depends every where upon the contract usually made between those two parties, whose interests are by no means the same. . . . It is not, however, difficult to foresee which of the two parties must, upon all ordinary occasions, have the advantage of the dispute, and force the other into compliance (WN I.viii.11-12).

Smith was sure that it would be the owners and not the workers who would possess the advantage. The most dramatic case, or at least the one which Smith focusses on, is the area of monopolies which are in some way supported by government regulation.³⁰ Smith describes monopolists of all sorts as grasping and rapacious. The remedy Smith offers is to allow the force of competition to operate by removing legislative restraints on trade which support monopolies. Competition is the factor which mitigates the effects of the less than perfect morality which a commercial society encourages.³¹

mention the public executioner "who is, in proportion to the quantity of work done, better paid than any common trade whatever" in order to compensate for the odious character of his profession (WN I.x.b.3).

²⁷Keynes summed up the idea: "It is better that a man should tyrannize over his bank balance than over his fellow-citizens; and whilst the former is denounced as being but a means to the latter, sometimes at least it is an alternative." *The General Theory of Employment, Interest, and Money* (1936) (London: Macmillan, 1973), p.374. For a deeper reflection, see Strauss, *What is Political Philosophy?* pp.49-50.

²⁸Smith here refers explicitly to Hobbes. Cf. Hobbes, *Leviathan*, Ch.10, p.150:"Riches joyned with liberality, is power."

²⁹See Cropsey, *Polity and Economy*, pp.70-9, where the link between Smith's idea of freedom as freedom from restraint and his understanding of nature as motion is explained. Cropsey shows how the natural ordering of society is achieved at the expense of perfect virtue. The wage bargain is discussed at pp.77-8.

³⁰It was, perhaps, the one area in which something positive could be done.

³¹Cropsey observes that competition is the Smithian substitute for virtue. *Polity and Economy*, p.72.

Idleness, or the love of present ease, is a third plausible alternative to the desire to better our condition. Of the three motivations we are considering, idleness receives the most explicit and extensive attention in the *Wealth of Nations*. Smith realized, for example, that landlords as a class are far from industrious. This is a result of their way of life.³² Their income is quite literally unearned because it is derived from the productive powers of the land and the labor of others. Their positive contribution to society is small because they seldom even invest in the improvement of their own land. At the same time, Smith saw their negative contribution as similarly slight. He believed that the interest of the landlords, in contrast to that of merchants, was the same as that of society as a whole. Most important, though, is that Smith denied that the habits of landlords exert a profound influence on the other classes in society.³³ With respect to the laboring classes, Smith took a novel view of the relation between wages and industry. Instead of seeing high wages as a threat to industry as had many of the mercantilists, in the *Wealth of Nations* Smith argued that industry does not suffer when labor is liberally rewarded.³⁴

The wages of labour are the encouragement to industry, which, like every other human quality, improves in proportion to the encouragement it receives. A plentiful subsistence increases the bodily strength of the labourer, and the comfortable hope of bettering his condition, and of ending his days in ease and plenty, animates him to exert that strength to the utmost (WN I.viii.84).

Smith did not believe that "luxury" can ever penetrate the lower classes of society. The liberal reward of labor, he argued, actually leads to a decline in the infant mortality and, eventually, to an

³²On the other hand, merchants turned country gentleman are the best of all improvers, according to Smith (WN III.iv.3). On the connection between the public interest and that of the landlords, see WN I.xi.p.9-11.

³³Smith observed that it was the country gentleman who preserved within commercial society the old virtues of generosity and liberality. See, e.g., WN II.iii.42. But he does not voice any alarm at the possibility that they might eventually disappear. Contrast the attitude of Burke, *Reflections on the Revolution in France* (New York: Library of Liberal Arts, 1955), p.86, when discussing the end of the age of chivalry and the spirit of the gentleman: "If it should ever be totally extinguished, the loss I fear will be great. It is this which has given its character to modern Europe."

³⁴See Bladen, *From Adam Smith to Maynard Keynes*, p.38-9. For a general discussion of the often neglected "egalitarianism" of the classical economists, see Thomas Sowell, *Classical Economics Reconsidered* (Princeton: Princeton University Press, 1974), p.32.

increase in the supply of laborers.

Those who live by profits constitute the third of the great orders of every civilized society.

Here there seems to be a real danger that luxury might unwind the springs of endeavor. Smith observed that a

high rate of profit seems every where to destroy the parsimony which is natural to the character of the merchant. When profits are high, that sober virtue seems to be superfluous, and expensive luxury to suit better the affluence of his situation. But the owners of the great mercantile capitals are necessarily the leaders and conductors of the whole of industry of every nation, and their example has a much greater influence on the manners of the whole industrial part of it than any other order of men (WN IV.vii.c.61).

He recommends that taxes on luxury goods be used as a kind of sumptuary law, but he relies chiefly on the discipline of competition to maintain habits of industry and frugality.³⁵

Competition forces owners to adopt good management practices and eats away at extraordinary profits. In this way, competition helps to maintain a spirit of industry and frugality throughout the whole of society.

Smith believes that in a commercial society the prudent man will predominate. In the prudent man, the desire to better our condition is a calm and steady desire to increase his fortune. He claims that most men are prudent in the management of their own affairs and certainly more prudent than anyone else would be in the management of those same affairs. The individual's proximity to any particular undertaking gives him special insight, and his personal concern with the outcome gives him an unmatched stake in the activity. According to Smith, it could, then, only be "folly and presumption" on the part of the legislator to think that he could manage the private concerns of individuals better than those individuals themselves. The prudent man pursues wealth in a sober and cautious way. He is industrious in the sense of hardworking, frugal in the sense of abstaining from present consumption, and prudent in the management of his own affairs. Smith grants that there will be exceptions; some men are lazy, some prodigal, and some

³⁵He does recommend that luxuries be taxed more heavily than necessities if at all possible and observes that such taxes act as sumptuary laws. Smith in this way made some limited concessions to the mercantile view. See also WN IV.5.b.3. See below for a full discussion of his tax policy.

imprudent. He observes, however, that

[t]hough some particular men may sometimes increase their expence though their revenue does not increase at all, we may be assured that no class or order of men ever do so; though the principles of common prudence do not govern every individual, they always influence the majority of every class or order" (WN II.ii.36).³⁶

The notion that the majority is the determinant of the behavior of any particular class is utilized in many different places in the *Wealth of Nations*. Having disposed of natural differences as a material factor in society in the section on the division of labor, this last claim is the final nail in the coffin of the view that in any important sense society requires the talents of outstanding individuals.

A parallel may be drawn here with the philosophical-rhetorical strategy we attributed to Smith in the previous chapter. Smith's approach to politics sought to appeal to a class of men who are "chiefly" motivated by ambition and not chiefly by concern for the public good. In a similar manner, Smith believes economic society to be moved by the beliefs and actions of large classes of individuals. The analysis of society in terms of groups is the essence of the sociological approach to politics and economics.

In what follows, we will attempt to elaborate the precise way in which the free reign of self-interest organizes society in such a way as to achieve the public good.

2. Value, Exchange, and Distribution.

Smith's consideration of value, distribution, and exchange occupies the greater part of Book One. He apologizes for the character of his discussion which he fears will tax the patience of readers. The difficulty of this Book is due partly to the complexity of the subject matter and partly to the fact that it deals with abstractions, such as the measure of real exchangeable value, which are unfamiliar to readers. We will endeavor to make clear why Smith thought that such an

³⁶An important corollary to this view is that a state can never be ruined by private prodigality. There is, however, a real possibility that it might be ruined by public prodigality (WN II.iii.30-36).

approach was necessary.

(a) Money and Value

Smith moves without explanation from the discussion of the division of labor to a consideration of the origins and use of money. He explains that for exchange to take place, each party must have something the other party wants. Now it may not always happen that what one party has produced in surplus is desired by the other party at a particular time. It would soon become a practice to keep some one commodity which was in wide and constant demand for the purpose of facilitating exchange. While many commodities might at times be used as money, where trade is extensive metals are for "irresistible reasons" adopted as money. Metallic money is easily divisible, easily transportable, and extremely durable. Money exchanges are, then, a species of barter: one commodity is exchanged for another which, because of its special characteristics, is commonly used as the medium of exchange. Prior to its use as the medium of exchange, the commodity used as money had an intrinsic value. In all "rich and commercial" nations gold and silver have been adopted as money. A commercial society is one in which most men live by exchanging, which means that, with respect to money, every man is in some degree a merchant.³⁷

We believe Smith expended so much labor explaining these apparently trivial points for an important reason: they are the foundations of his response to the mercantilists. Such an intention would account for the transition from the discussion of the division of labor to a concern with the nature of money. Having identified the true cause of the wealth of nations as the extension of the division of labor, Smith's first step in explaining the mechanism by which the division of labor is extended is to correct the understanding of money which led the mercantilists into the error of

³⁷For the arguments of this paragraph, see WN I.iv.1-10; I.v.18-21,23-41; I.xi.21-31; IV.i.18; IV.vi.27.

identifying money and wealth. This error grew out of the confusion of money and wealth which permeates ordinary speech. Smith observes that we commonly estimate an individual's wealth in terms of the money value of his estate and income. We also speak of the value of commodities in terms of the quantity of money for which they exchange. Smith thinks this way of speaking defective because what we really mean by wealth is not a quantity of money but the purchasing power over goods and labor which the commodity confers. The mercantilist fallacy was to infer from the common business practice of piling up money that this was also the appropriate policy for the state as a whole.³⁸ In its most sophisticated formulation, mercantilism resulted in a preoccupation with the balance of trade, that is, with the excess (or deficiency) of exports over imports. Smith claims the mercantilists advocated a favorable balance of trade in order to increase the nation's stock of precious metals which, according to Smith, they identified with the national wealth.³⁹

Mercantilism was, however, not a delusion of the simple minded only. Such luminaries as Locke, whom Smith singles out for mention, had fallen into its errors. In his 1762-63 lectures on jurisprudence, Smith remarked that it was Thomas Mun who first arranged the mercantile views into a system, and that Locke, while following Mun, "made it indeed have somewhat more of a philosophical air and the appearance of probability by some amendments" (LJ(A) VI.135).⁴⁰

³⁸Smith is quick to point out that his inquiry has little to teach merchants. Specifically, he has nothing to add to their chief maxim: buy cheap and sell dear. This is another way of saying that most transactions in the market-place are money transactions which depend on the current value of money. Smith does believe, however, that he has something significant to teach others. The starting point of his inquiry is to reach beyond the ordinary understanding of things.

³⁹One of the perennial questions of Smith scholarship concerns the accuracy of his presentation of the mercantile position. We will not address this question directly because an answer would require an historical inquiry beyond the scope of the present study. Our efforts will be confined to a comparison with Locke's mercantilism and, later, to a comparison with the neomercantilist Hamilton.

⁴⁰Thomas Mun, *England's Treasure by Foreign Trade*, published in 1664, but written around 1630. The idea of a mercantile naval empire was proposed by Francis Bacon. See especially *Essays or Councils: Civil and Moral*, #29, and *New Atlantis*, in *Francis Bacon: A Selection of His Works.*, ed. Sidney Warsahft, (Indianapolis: Odyssey Press, 1981), pp.120-9,417-59. Bacon was among the first to use the term "balance of trade." See Jacob Viner,

Locke explains the origins of money in his *Second Treatise*. It was, Locke argues, first introduced as a means of circumventing the law of nature which prohibited the accumulation of goods in excess of what could be consumed before these goods perished. This circumvention was necessitated by "the desire of having more than [Man] needed."⁴¹ By consent, a value was placed on gold or silver, things perhaps appealing but without intrinsic value, for the purposes of trade and accumulation. Money, in the form of the precious metals, can serve as the "universal commodity." Most other "portable commodities" soon perish either through consumption or wastage. In addition, money is of a steady value. In the language of Locke's political economy, its "quantity" in proportion to its "vent" is roughly constant.⁴² The vent of money is always "sufficient, or more than enough" because it "answers all things" and, therefore, everybody is "ready to receive money without bounds." It was, therefore, appropriate as a "pledge" for future purchasing power, that is to say, one can always find someone ready to exchange goods for money. Finally, the value of money, as distinct from jewels, varies directly with its quantity and is

Studies in the Theory of International Trade, (1937) (Clifton, N.J.: Augustus M. Kelley, 1965), p.8. Bacon's thought is crucial to understanding the emergence of the modern technological and commercial outlook. See Caton, *The Politics of Progress: Origins and Development of the Commercial Republic 1600-1835*, (Gainesville, Fl.; University of Florida Press, 1988), pp.32-41, 321-406.

⁴¹II.37. Peter Laslett's, *Two Treatises of Government*, New American Library, (New York: Mentor Book, 1963) choice of "Men" rather than "Man" has been corrected in light of Nathan Tarcov, *Locke's Education For Liberty* (University of Chicago Press: Chicago, 1984), p.253 n.187. For the arguments of this paragraph, see Locke, *Two Treatises*, II, Ch.5 and *Some Considerations of the Consequences of the Lowering of Interest, and Raising the Value of Money*, which is reprinted in James R. McCulloch, *Principles of Political Economy*, (London: Ward, Lock & Co., 1878), pp.220-360, especially at pp.232-34, 245-253.

⁴²Karen Iverson Vaughn, *John Locke: Economist and Social Scientist* (Chicago: University of Chicago Press, 1980), p.17, stresses the consistency and scientific character of Locke's treatment of price and value. Locke's theory of value may be summarized as follows: Exchange value is distinct from intrinsic value (i.e. usefulness to life) and depends solely on the proportion between quantity and vent. "Vent" refers to the passing of the commodity from one man to another through exchange, and the "quickness" of the vent depends on the rate at which the commodity is removed from circulation by consumption, exportation, or hoarding. The vent for money is both steady and intense since it is both in constant demand and seldom removed from circulation. Its price is therefore regulated by its quantity (i.e., the total money supply) which in normal times does not vary. Money is a stable measure and pledge of value and therefore a suitable object for unlimited acquisition.

therefore suitable as a "counter." Money is the great object of trade and where it is scarce trade will decay. Locke did not regard paper money as a suitable substitute for species money because of the uncertainties attached to its value. As much as Smith, Locke was aware that those countries which possessed great mines were generally poor. In his economic papers, he remarked as follows.

It is death in Spain to export money; and yet they, who furnish all the world with gold and silver, have least of it amongst themselves. Trade fetches it away from that lazy and indigent people, notwithstanding all their artificial and forced contrivances to keep it there.⁴³

This underlines the fact that it is the "invention" *and* "use" of money which are the crucial considerations, not mere possession of gold and silver. Where money is not an incentive to industry, its good effects will not be seen. Moreover, what is important is the quantity of money in the nation relative to the total supply of money in the world. An absolute increase in the quantity of money, say by the discovery of mines elsewhere in the world, affects all nations equally. It would also result in a decline in the value of money.⁴⁴ For industry to go on increasing, there must be a continual increase in the supply of money, and this requires the maintenance of a favorable balance of trade. International trade is, for Locke, a "zero-sum game." In view of what he saw as the crucial role of money in the economy, Locke recommended policies to increase the supply of active money by reducing hoarding and by maintaining a favorable balance of trade.

The abstract character of Smith's political economy is best understood as an attempt to correct for the defects of the ordinary understanding of money. To grasp this, the appropriate place to begin is his account of the distinction between real and nominal value which he offered as an alternative to the mercantilist understanding of money and wealth.

⁴³*Some Considerations*, p.269. See the reference to the poverty of Spain in *Two Treatises*, II.36. Spain seems to be as poor as the American wilderness.

⁴⁴Because of the peculiar character of the demand for money, the value of money is regulated solely by its quantity. An increase in its quantity will lead to a fall in its value. This will affect all nations equally. Also, more money will be necessary to drive trade.

(b) Exchangeable Value

After discussing the origins of money, Smith makes a distinction between use value and exchange value which in some unexplained way seems to be preliminary to his discussions of value, exchange, and distribution.

The word VALUE, it is to be observed, has two different meanings, and sometimes expresses the utility of some particular object, and sometimes the power of purchasing other goods which the possession of that object conveys. The one may be called "value in use;" the other, "value in exchange" (WN I.iv.13).

Without suggesting a resolution, Smith next mentions the time-honored "paradox of value," which asks why, for example, gold is useless but dear, and water is cheap but vital to life.⁴⁵ This short discussion is generally regarded as one of the great blunders of the *Wealth of Nations*. Schumpeter, for example, argues that this discussion turned political economy into a dead end which culminated in Marx's labor theory of value.⁴⁶ This unkind verdict may, however, be the product of insufficient reflection upon the question of why Smith might have prefaced his consideration of real and nominal value with such a discussion. We believe it is likely that Smith thought it essential to his project of establishing political economy on a scientific basis. One possibility is that to establish his inquiry on a scientific footing it was necessary for him to abstract from considerations of the usefulness of things which might have led, perhaps quickly, to the charge that it was impossible to speak of value without importing political or moral considerations.⁴⁷ Let us see.

⁴⁵The editorial note to this passage in the Glasgow edition edited by Roy Campbell and Andrew Skinner notes to the appearance of the paradox of value in Plato, Grotius, Putendorf, Mandeville, and Hutcheson WN I.iv.13, n.31.

⁴⁶*History of Economic Analysis*, p. 309.

⁴⁷Cf. J.S. Mill, *Principles of Political Economy*, Edition of 1848, (New York: Augustus M. Kelly, 1965), BK III Ch.I Sec.2, p.437: "Political economy has nothing to do with the comparative estimation of different uses in the judgement of a philosopher or a moralist. The use of a thing, in political economy, means its capacity to satisfy a desire, or serve a purpose." And contrast the Socratic view that possessions only constitute wealth for one who knows how to use them. See, e.g., the beginning of Xenophon's *Oeconomicus*.

Smith begins by defining riches in such a way as to avoid any reference to money: "Every man must be rich or poor according to the degree in which he can afford to enjoy the necessaries, conveniences, and amusements of human life." This uncontroversial statement is followed by what has turned out to be one of Smith's most controversial assertions.

after the division of labour has once thoroughly taken place, it is but a very small part of these goods with which a man's own labour can supply him. The greater part of them he must derive from the labour of other people, and he must be rich or poor according to the quantity of that labour which he can command, or which he can afford to purchase. The value of any commodity, therefore, to the person who possesses it, and who means not to use or consume it himself, but to exchange it for other commodities, is equal to the quantity of labour which it enables him to purchase or command. *Labour, therefore, is the real measure of the exchangeable value of all commodities* (WN I.v.1, emphasis added).

This seemingly categorical statement that labor is the real measure of exchangeable value, which is reaffirmed in many other places, has been the source of extensive scholarly debate. The classical economists thought Smith was on to something very important, but for that various reasons he got it wrong.⁴⁸ The consensus today, however, has reduced Smith's account of the real measure of exchangeable value to something of a toothless tiger, largely irrelevant to his more important innovations.⁴⁹ We will attempt to make clear what Smith had in mind. Here, again, a comparison with Locke is useful.

The statement just quoted implies the following: The value of any commodity for someone who does not intend to use it or, in other words, for someone who intends to sell it, is the amount of labor which it would enable him to purchase. Smith is making a simple point. The value is equal to the amount of homogeneous or ordinary labor which possession of the commodity allows one to *avoid*. Conversely, the "real price of everything, what everything really costs to the man who wants to acquire it, is the toil and trouble of acquiring it" (WN I.v.2). There is no implication here

⁴⁸For classical views on Smith, see Ricardo, *The Principles of Political Economy and Taxation*, Edition of 1821, (London: Everyman's Library, 1984), Ch. I, Sec. 1, pp.5-13, and especially Marx, *Grundrisse*, in *The Marx-Engels Reader*, Robert C. Tucker ed., (New York: Norton, 1978), p.240, who describes Smith's shift to labor in its "abstract universality" as "an immense step forward."

⁴⁹See Schumpeter, *History of Economic Analysis*, p.309-311 for the dominant view. A more sympathetic view, but which perhaps succeeds only in damming with faint praise, is Hollander, *Economics of Adam Smith*, pp.116-17.

that cost is equal to the quantity of labor *embodied* in the commodity. In what sense is labor the "ultimate and real standard by which the value of all commodities can at all times and places be estimated and compared"? Smith's answer is given in almost biological terms.⁵⁰

Equal quantities of labour, at all times and places, may be said to be of equal value to the labourer. In his ordinary state of health, strength, and spirits; in the ordinary degree of his skill and dexterity, he must always lay down the same portion of his ease, his liberty, and his happiness. The price which he pays must always be the same, whatever may be the quantity of goods which he receives in return for it (WN I.v.7).

In short, the pain of labor is a true constant in a world of flux. Smith speaks of "ordinary labour" by which he has in mind some elemental form of expenditure of effort. Smith adds that there are various kinds of labor of varying degrees of ingenuity and hardship, but he maintains these may be reduced to quantities of ordinary labor by the "higgling and bargaining of the market" (WN I.v.4). This understanding of labor is a further extension of the notion that all talents are acquired or, in other words, that there are no natural differences among human beings.

Smith is quick to admit that valuation in terms of labor commanded is an "abstract notion," not "so natural and so obvious" as valuation in terms of some other commodity, which would be to value it in terms of a "a plain and palpable object." In what does the superiority of the labor commanded measure consist? The values of all commodities in terms of each other are constantly changing. Thus, when the prices of two commodities are compared at two different times it is impossible to tell in which particular commodity there has been a change unless there is some other commodity of fixed value in terms of which these two might be compared. As it turns out out, money is the commodity by which the value of all other commodities is commonly measured. Money values, which are equivalent to the quantity or weight of the coin, are also in flux because gold and silver, "like every other commodity, vary in their value, are sometimes cheaper and sometimes dearer, sometimes of easier and sometimes of more difficult purchase" (WN I.v.7).⁵¹

⁵⁰This statement has ruffled later commentators because it assumes that interpersonal comparisons of utility, the pain of labor in this case, are legitimate. The biological interpretation removes the need for engaging in this debate. Caton correctly renders Smith's understanding of homogeneous labor as the "expenditure of animal energy." "The Preindustrial Economics of Adam Smith," p.850.

At a *particular* time and place, money values will be in a certain proportion to real values because the supply and demand conditions for the precious metals may be assumed constant. This is not, however, true at *different* times and/or places.

What role does the real measure of exchangeable value play in the *Wealth of Nations*? Most clearly, an invariable measure allows the comparison of the values of commodities at different times and places. Smith's long discussion of the changing real price of silver in Book One, Chapter Eleven, is a *tour de force* of this type of analysis. This use of a real measure of value has something in common with modern commentators who interpret Smith in light of the "index number problem." One can say, as they do, that Smith chose labor as his *numeraire*, that is, the commodity in terms of which the value of other commodities will be expressed⁵² In addition, labor commanded might be used to construct a "welfare index" which would yield the effort/cost equivalent of the national output, thus making welfare a simple function of population.⁵³ Certainly, there is also something to this. Smith believed that a country is rich or poor according to the ease with which it can acquire the necessaries and conveniences of life. Moreover, the "natural progress of opulence" is really a progressive cheapening, in terms of labor, of most goods, and all manufactured goods, due to the effects of the extension of the division of labor (WN I.viii.4). The measure of this cheapening is the ease with which these goods are acquired. Yet, even if all of this is true, we are left with something of a hollow feeling. Why did Smith proclaim so loudly his discovery if these are its only fruits?

Smith's only explicitly stated purpose in formulating a real measure of exchangeable value is that such a measure is necessary for the purposes of comparing the values of different

⁵¹Locke was aware of the effects of changes in the world supply of precious metals, e.g., from the discovery of the Americas, but this did not shake his view that money is the measure of all commerce.

⁵²For these arguments, see Mark Blaug, *Economic Theory in Retrospect* (Homewood, Ill.: Richard D. Irwin Inc., 1968), pp.41-42, 51-54, Schumpeter, *History of Economic Analysis*, pp.309-311, and Hollander, *Economics of Adam Smith*, pp.127-130.

⁵³*Ibid.*, pp.128-9, and Blaug, *Economic Theory in Retrospect*, pp.51-4.

commodities at different times and places. This much is clear. Furthermore, such comparisons are used in Smith's refutation of the mercantile position that increases in the quantity of money are equivalent to increases the wealth of the nation. We believe that the deepest significance of a real measure of exchangeable value may be brought to light through a consideration of Smith's refutation of the mercantile position. Consider again Locke's argument for money as the real measure of exchangeable value. Smith's revision of Locke begins with his redefinition of the origins and use of money. It is completed by his formulation of the notion that labor commanded is the real measure of exchangeable value. Recall that, for Smith, money exchanges are a species of barter in which one commodity is exchanged for another commodity, money, which is also the accepted instrument of commerce. The real value of money is measured by the amount of labor it can purchase. Money is not desired because it is a safe port in a storm, but simply because it is useful for facilitating *current* transactions. One exchanges goods for money simply for the sake of purchasing other goods in the near future. Smith abstracts from a problem which Locke confronted, namely, the variability of the value (purchasing power) of different commodities, and the consequent need for a safe haven for one's wealth.

Smith believed (as did Locke) that the market for the precious metals was smooth, efficient, and global. The peculiar qualities of the precious metals made this inevitable once global trade routes had opened. Since they were in comparison to other commodities so easy to transport, they would necessarily seek out the best price they could get in the world market (WN I.xi.m.18-19,IV.i.12-15). Given the total supply of money (as determined by the fertility or barrenness of the mines), an equilibrium position or distribution of the precious metals would be reached reflecting the demand for the precious metals in each nation, and the capacity of each nation to pay for the precious metals.⁵⁴ Demand will depend on the type of currency the nation uses, species or paper, on the nation's business practices, chiefly the amount of cash it needs to have on hand to

⁵⁴On Smith's version of the "species distribution mechanism," see Hollander, *Economics of Adam Smith*, pp.174-76,205-7.

transact its daily affairs, and, lastly, on the demand for the precious metals for the sake of use and ornament. Capacity to pay depends on what it has to exchange which is equivalent to the annual produce of the nation. Thus supply would be suited to "effectual demand," and with a greater degree of precision and speed than in most other markets (WN IV.i.18).

For Smith, obtaining an adequate supply of species money for the nation was not the burning issue it was for Locke. Implied in the discussion of the last paragraph, is a notion that the supply of species money in a nation will reflect the real distribution of wealth or buying power in the world. Any nation which has a large and increasing stock of wealth will be able to purchase quantities of the precious metals sufficient for the purposes of trade. The most likely reason that a nation would have a small supply of species money relative to the rest of the world is that it is poor. The only remedy for this kind of poverty is a combination of industry and frugality. Smith does not take seriously the complaint of a "scarcity of money" which so concerned Locke (WN IV.i.16). Those who lack the means to secure credit could always be found complaining of a scarcity or dearness of money. Where the complaint is general throughout an entire neighborhood, it is always the result of what Smith calls "over-trading," by which he means the imprudent extension of credit. This is the result of high spirits which at times infect not only "projectors," but also sober men. When the inevitable bust hits, many men, sober and otherwise, are left chasing after money, but lacking the means to command it, hence, a general complaint of a scarcity of money (WN IV.i.16).

Smith's friendliness towards a "well regulated" paper money is a further reason for his lack of concern for the supply of the precious metals. He believed that where for some reason a nation experiences an excess of effectual demand over the supply of the precious metals there is little cause for alarm because, if the nation is frugal and industrious, the purposes of species money can be answered by paper money to a large degree. A business must, Smith argued, always keep on hand a certain quantity of cash for the purposes of meeting its day-to-day commitments. This

quantity of money is "dead stock" because it cannot be put to work. The problem was analogous for the nation as a whole. Smith thought that paper money could serve the purposes of this money, which after all was a commodity and which had to be purchased like any other (though by the society as a whole), and, therefore, required the expenditure of a certain part of the annual produce. Substitution of paper for *this* part of the money supply would liberate a certain part of the annual produce for more productive activities. If the paper money were, however, extended beyond the amount necessary to substitute for cash on hand there would be harmful consequences. Smith states emphatically that the expansion of the supply of paper money does not constitute an addition to the capital of the nation (WN II.ii.86). If the supply of money is expanded beyond that required to satisfy the day-to-day needs of business then the excess, lacking a profitable use, will be returned to the banks to be exchanged for silver and gold which can then be sent abroad to make purchases.⁵⁵ "There would immediately, therefore, be a run upon the banks to the whole extent of this superfluous paper, and, if they showed any difficulty or backwardness in payment, to a much greater extent; the alarm which this would occasion, necessarily increasing the run" (WN II.ii.48). Moreover, where the paper money consists of bank notes businesses would then be in the position of using bank funds to finance their fixed capital investments (as distinct from their circulating capital necessary for conducting day-to-day business). The usual degree of prudence which accompanies the expenditure of one's own money in long term projects would in these cases be forsaken. Such investments are so risky, according to Smith, that they should be financed by individuals with a precise knowledge of the borrower's credit worthiness.⁵⁶ Smith attributes the excessive issue of paper in his own time to

⁵⁵Where the paper is not convertible, Smith believes there will be a depreciation to the extent necessary to reduce the total quantity of money to the appropriate level.

⁵⁶Smith provides a rule for bankers to secure their own interest: lend only to the extent which debtors are able to meet their repayments promptly and regularly. This will prevent the use of the funds for fixed capital investments which generally only pay off after a long period of time (WN II.ii.58-64).

the over-trading of some "bold projectors" in Scotland and England who had led the banks away from their "true interest."

Here we hit upon an important difference between Smith and Locke on the question of exchange. For Locke, the money transaction is the essence of exchange. The unlimited acquisition of money is our defense against the changeability of circumstances, our *power* over those circumstances, and therefore the acquisition of money is the essence of any exchange. We part with money only so that we may get more.⁵⁷ Smith, by contrast, makes money of instrumental importance only. We acquire money so that we can acquire other goods in the near future. Now it is a question whether Smith's analysis is superior to Locke's or *vice versa*. There is a common sense appeal to Smith's idea that what we desire are goods not money. But Locke's claim also has some appeal. Do we not desire security? Locke's approach takes into account the need for a stable measure of value by finding it in money, the commonly accepted measure of value. Smith regarded money as he did any other commodity. In the short period, money values reflect real values (i.e., real exchangeable value in terms of labor commanded), but over time money, like all other commodities, varies in value. This much Smith shared with Locke. The prospect of alterations in the value of money did not enter into Smith's calculations because transactions are made with the short-term only in mind.⁵⁸ We purchase money with goods for the sake of future transactions. Moreover, Smith maintains that while a particular merchant may have trouble in selling his produce in the market because of a scarcity of money, this "accident" cannot happen to an entire society because exchange can take place without money (WN IV.i.18).⁵⁹

⁵⁷See Pangle, *Spirit of Modern Republicanism*, pp.166-168, for an account of the role of money in Locke's theory of acquisition.

⁵⁸Smith notes that the distinction between real and nominal value is relevant in establishing "perpetual rents," but it is of no relevance "in buying and selling, the more common and ordinary transactions of life" (WN I.iv.18).

⁵⁹"Though goods do not always draw money so readily as money draws goods, in the long run they draw it more necessarily than even it draws them. Goods can serve many other purposes besides purchasing money, but money can serve no other purpose besides purchasing goods. Money therefore necessarily runs after goods, but goods do not always or

Smith's and Locke's accounts have in common the idea that economic society is a mechanism governed by what Locke termed "natural laws of value" and what Smith termed the "natural progress of opulence." In Locke's account money plays the crucial role by providing the object which can be pursued without limit. The desire for money elicits people's industry and frugality and leads nations out of poverty and into opulence. A scarcity of money will lead to a decline in trade. What replaces money in Smith's account? We believe it is the "desire to better our condition" which serves the purposes of money. The desire to better our condition is a constant and steady force which prompts individuals to industry and frugality. In the process of "augmenting our fortune" the acquisition of money is instrumental only. It remains true that all the common transactions of economic life utilize money, but these values, though the money values of goods are in proportion to their real values in the short run, are nominal only. This nominal level is only a reflection of a deeper level of significance which is represented by their real values. The idea of a real exchangeable value implies that this measure of value is in some way more relevant than nominal exchangeable value. Locke had to contend with the uncertainty of life and found stability in money. Smith assumed away the problem with his notion of real exchangeable value; the accumulation of money is replaced by the accumulation of real exchangeable values. This may not be what we see, but it is, according to Smith, what takes place.

In what way is labor commanded more *real* than money? Throughout the *Wealth of Nations* Smith maintains that labor is the source of value almost as rigidly as he maintains that it is the measure of value. With respect to manufactures, he always speaks of *labor* adding value. He does not attribute any value added to fixed capital such as machinery. When Smith speaks of the benefits of the division of labor, which include improvements in machinery, he always speaks of improvements in the "productive powers of *labour*." It is true that with respect to agriculture, necessarily run after money. . . . It is not for its own sake that men desire money, but for the sake of what they can purchase with it (WN IV.i.18).

Smith sometimes speaks of the "spontaneous products of nature," but he makes clear that these are so insignificant that societies forced to rely on them are "miserably poor."⁶⁰ Smith also argues for the superior productivity of agriculture on the ground that nature "labours" along with man and, as a result, produces a greater surplus than in any other activity. Here, however, Smith makes clear that it is labor which unlocks the powers of nature by directing its fertility "towards the production of plants most profitable to man."⁶¹ When discussing rent, the form of income derived from the natural powers of the land, Smith describes it as a deduction from what otherwise would have gone to the laborer.

There is an important connection between labor as the source of value and labor as the measure of value. The link between the two is Smith's assertion that real value is equivalent to "cost" or "price," and not, for example, "use." For Smith, the real value of anything is, as we have seen, the "toil or trouble of acquiring it." Labor is the "first price" or "the original purchase money of all things." Smith's language is distinctive and surely not accidental in view of his attack on mercantilism. Labor is the transforming agent which converts the useless products of nature into things somehow useful to man. The labor commanded measure of real value measures the ability of a particular commodity to put labor into "motion," i.e., to sustain the "toil and trouble" of an ordinary laborer for a period of time.⁶² Thus, the quantity of the transforming agent which any commodity is capable of putting into motion is the appropriate measure of value. Ordinary labor is the basic building block of the more complex forms of labor and, of course, of machines which represent the accumulated efforts of past labor. It is in this way that Smith replaces Locke's use of

⁶⁰Locke also uses the term "spontaneous products of nature" and seems to agree that they are so puny as to be almost worthless, *Two Treatises*, II.37. There is a deep agreement between the two men on the need to subjugate nature for the purposes of improving man's condition.

⁶¹This is analogous to the way in which machines utilize the powers of wind and water. The powers of the land are so much greater because of their capacity to support labor, that is, in their capacity to put labor into motion by providing for its subsistence. Smith's criterion for measuring power is the ability to sustain life, directly or indirectly through exchange.

⁶²This is the sense in which Smith's use of corn as a proxy for labor as a measure of value is best viewed. Corn being the chief subsistence of the laborer, the money price of labor will vary closely with the money price of corn (WN I.v.16).

money as the measure of value. For Locke, the value of money varied with its quantity, whereas for Smith, the value of labor varies with its quantity.

Being able to speak of the annual produce, or parts of it, in terms of fixed quantities is essential for Smith's project of establishing a science of political economy. To speak of quantities is to abstract from the evident truth that the annual produce is composed of different kinds of things which have different uses and, therefore, different use values. Without such a measure it would be impossible to speak of the economy as a mechanism. If the economic society is not a mechanism, then, there is room for indeterminacy and, therefore, scope for choice and judgment. The mechanistic view is made plausible by Smith's belief that it is possible to speak in a precise and determinate way about the "motion" which is communicated to the economy. In Smith's system, the real value of any commodity is fixed in terms of labor commanded (which its nominal value reflects), and when this commodity is exchanged, it will (if put to a productive use) communicate a fixed quantity of motion (measured by labor commanded) to the economy. Labor commanded adds a unit of measurement to the analytical tools of the *Wealth of Nations*. Smith's unit of measurement complements the principle of motion in his system which is the desire to better our condition. Smith's analysis of the real economy is offered as a substitute for analysis of the economic society which we immediately perceive. Analysis in terms of the "real," aims at revealing the underlying order. The next step in Smith's argument is to show that this is a benevolent mechanism.⁶³ This is the subject of the next sub-section. Here we must stress that, despite the attempt to ascend, or rather descend, to the level of the real, Smith's description is fundamentally verbal or abstract. It is a "system," a chain of reasoning on the basis of certain premises.

What is the character of the economic society Smith is describing? We have already

⁶³Of course, if economic society was, strictly speaking, a mechanism then it would not matter if it was humane or otherwise.

glimpsed its essential feature in our discussion of self-interest. A sober and cautious individualism is the moving force of Smith's system. The elaboration of the real economy should be seen as an important accompaniment to this initial insight. The world Smith is describing is not so much a riskless world, since there are some who fail, but it is a world where risks can be appraised and where success is, on the average, virtually guaranteed. For example, the notion of the real measure of exchangeable value excludes from economic analysis the great uncertainty which surrounds the role of money in the economy. Consider the decision whether to invest in stocks, bonds, real assets or simply to hold cash. Smith assumes money values to be fixed and, as a result, there is no reason for hoarding of money, say in anticipation of price falls or of a rise in interest rates, or in the face of a general uncertainty as to the future.⁶⁴ Smith, in short, was able to construct a system of economic analysis which made money irrelevant.

(c) Price, Competition, and Distribution

Smith's discussion of natural and market price is widely regarded as one of his great achievements because of its sophisticated analysis of supply and demand (WN I.vii). This is undoubtedly the case, but our account will give a slightly different emphasis to the role of Smith's landmark discussion. It is in this account that Smith gives the most explicit indications that he is borrowing from Newtonian physics. There is, however, another analogy, that of the physiology of the human body, which plays a great role in the *Wealth of Nations*. This analogy figures prominently in Smith's discussions of economic growth and economic policy. Thus, in addition to speaking of "forces," and of prices "gravitating towards," and of "constant tendencies," Smith also speaks of economic society in terms of the "unknown principle of animal life" and of the health and recuperative powers of the human body.⁶⁵ Our discussion will attempt to show Smith's

⁶⁴In the terminology of later economics, Smith allows room for a "transactions" demand for money, but not a "precautionary" demand. Locke also assumed that money values are fixed. But it is clear that he saw money as serving both the precautionary and transactions demands.

understanding of the relationship between these two analogies.

Smith's transition from discussing the primitive state of society to that of an advanced state has been the source of a great deal of confusion. To contemporary eyes, it mixes discussions of the theory of value or price, with discussions of the measure of value. This confusion has arisen from a failure to distinguish between primitive and advanced societies in Smith's account. In the earliest stages of society, every man was, so to speak, self-employed. As a result, when one commodity was exchanged for another, the exchange could only take place on the basis of the quantities of labor *embodied* in the commodities. This proportion served as the "rule" for exchange. In this state of society, the quantity of labor *embodied* in the commodity corresponded to the quantity of labor *commanded* (WN I.vi.1-4). But once society reaches a more advanced stage, this coincidence of labor commanded or "price" and labor embodied no longer holds. When stock has been accumulated by some individuals, they will seek to use it by employing others. The wages of those they employ are really advances or loans of subsistence goods which must be repaid with interest, that is, profit, to the owner of the stock once the commodity has been sold. Smith describes profits as a deduction from the value added by the laborer. Similarly, once land has been engrossed, a similar "deduction" from the value added by the laborer must be made for the payment of rent to the landlord. In an advanced society, the natural price of commodities is the sum of the components parts of price—wages, rent, and profits—when those component parts are at their natural rates (WN I.vi.7-8).

The natural wage level is set by a wage contract which is the outcome of bargaining between owners and employees. Wages will be higher when society is advancing rapidly, and lower when society is stationary or declining. In the advancing stage, labor will be more scarce because demand will be greater and in the stationary or declining stages the reverse will take place. Smith adopted an elastic definition of "subsistence" which could at times include more and for examples of the analogy with the human body, see WN II.iii.31; IV.ix.31.

than what is required biologically to sustain the laborer and his family (WN V.ii.k.3). That said, he believed that when wages rose above the biologically set minimum there would be a tendency for the population to increase because of a declining infant mortality rate. The supply of laborers, or more precisely, the production of laborers, is, then, not the result of a deliberate calculation on the part of the lower classes to increase their birth rates, but rather the effect of an increase in the quantity of available subsistence. This is in accord with Smith's belief that every animal multiplies in proportion to the available quantity of subsistence (WN I.xi.b.1). When society is in a declining state, wages will for a time fall below that required to maintain the race of laborers. It will continue at this lower level until the population is brought into proportion with the quantity of available subsistence.

Profits are determined as a percentage of the total stock invested. In every neighborhood or society there exists an average or ordinary rate of profit. This rate, according to Smith, corresponds to the natural rate. Smith is quite clear that profits have nothing to do with the entrepreneurial functions of the owner or even the management of the workplace (WN I.vi.6). Smith does not enquire into the determinants of this natural rate. We might surmise that it is historically determined at a level which reflects the bargaining power of the various relevant parties. One of the striking features of Smith's analysis is his prediction of a secular decline in profit rates as a result of a drying up of investment opportunities as society becomes more highly capitalized and competition for resources squeeze profit margins. Thus, "the rate of profit does not, like rent and wages, rise with the prosperity, and fall with the declension of the society. On the contrary, it is naturally low in rich, and high in poor countries, and it is always highest in countries which are going fastest to ruin" (WN I.xi.p.10). It is always in the interest of merchants and manufacturers, but not of society as a whole to widen the market and to narrow competition.

Smith's presentation of rent is peculiarly difficult. Its chief complications, the analysis of rents in alternative uses of land and the determination of the rent of corn land, need not, however,

concern us here.⁶⁶ Smith presents the landlord as a kind of monopolist, reaping where he has not sown, who will extract from his tenants whatever they can afford to give. The activities of the landlord, unlike those of the merchant, are not, however, in conflict with the general interest of society. The progressive improvement in the productive powers of labor in agriculture and manufactures benefits the landlord directly, by increasing the real value of his rents, and indirectly, by decreasing the real price of the manufactures which the landlord purchases from his revenue (WN I.xi.p.2-6).

Where there is free competition, that is, where there is complete freedom to enter the market and no natural barriers to entry, the market price will be "continually gravitating" towards the "central" or "natural" price. If there is an excess of "effectual demand" and, as a result, profits are above their natural rates, producers will be encouraged to produce this product, and the resulting increase in competition will drive the market price down towards the natural price. Where there is an excess of supply over effectual demand the reverse will take place. Thus the "quantity of every commodity brought to market naturally suits itself to the effectual demand. It is the interest of all those who employ their land, labor, and stock, in bringing any commodity to the market, that the quantity should never exceed the effectual demand; and it is the interest of all other people that it never should fall short of that demand" (WN I.vii.12). In any society or neighborhood there will be a tendency for wages, profits and rents to equalize in the various productive activities as individuals, following their interest, seek out the best uses for their land, labor, or capital.

Smith's analysis resembles what is today termed partial (as opposed to general) equilibrium analysis.⁶⁷ Smith describes the adjustments which follow a disturbance of the equilibrium, "the center of repose and continuance," in a *particular* market (WN I.vii.15). He does not discuss the adjustments which might take place in *all* markets. Our belief is that Smith, while pointing to the

⁶⁶These subjects are discussed by Hollander, *Economics of Adam Smith*, pp.171-79.

⁶⁷See Blaug, *Economic Theory in Retrospect*, pp.42-46. Hollander, *Economics of Adam Smith*, p.114, argues that there is a concept of general equilibrium in the *Wealth of Nations* as a whole. The debate need not detain us since we are arguing that growth, not equilibrium, is the central idea in Smith's analysis.

parallel between Newton's law of gravity and the principle of self-interest, did not consider it necessary to enquire into the furthest implications of such disturbances of equilibrium. This was due to the fact that he had a more important concern in mind than the distribution of a given annual produce, namely, the "natural progress of opulence" or, as we would say, economic growth. It would be wrong to see the role of competition exclusively as a mechanism for maximizing and distributing output at a given level of resources and technology. Competition, we believe, plays another vital role in Smith's analysis. The constant striving engendered by free competition maintains those habits which extend the division of labor, especially good management and frugality.

3. The Natural Progress of Opulence

The *Wealth of Nations* is best regarded as an inquiry into the causes of economic growth. Smith was more interested in the way in which the annual produce is *increased* than with the way in which any given annual produce is *distributed*. In this section, we will attempt to show how Smith's discussion of distribution dovetails with his discussion of growth. After Smith, mainstream political economy took the growth issue as settled. Beginning with Ricardo, the classical economists became preoccupied with the question of the distribution of a given output. This preoccupation was to last until the Great Depression and the Second World War.⁶⁸

In the Introduction, Smith set down the proposition that the *per capita* wealth of a nation is

⁶⁸Cf. Ricardo, *Principles*, p.3.: "To determine the laws which regulate . . . distribution is the principal problem in political economy: much as the science has been improved by the writings of Turgot, Stuart, Smith, Say, Sismondi, and others, they afford very little satisfactory information respecting the natural course of rent, profit, and wages." The history of the idea of economic growth is summarized by H. W. Arndt, *The Rise and Fall of Economic Growth* (Chicago: University of Chicago Press, 1984). Arndt observes that after J. S. Mill in particular "the economics profession turned to other problems, the theory of value and distribution, welfare economics, monetary and trade cycle theory, all these treated almost entirely on static assumptions" (p.13).

regulated by two different circumstances:

first, by the skill, dexterity, and judgement with which its labour is generally applied; and, secondly, by the proportion between the number of those engaged in useful labour, and that of those who are not so employed. Whatever be the soil, climate, or extent of territory, of any particular nation, the abundance or scantiness of its annual supply, in that particular nation depends on those two circumstances (WN Introduction.3).

He goes on to explain that *per capita* wealth seems to depend more on the first than on the second of these circumstances. The historical record shows that among primitive peoples there is little wealth even though most people work. By contrast, among civilized and opulent nations there is great wealth even though large segments of those societies do not labor at all. From this disparity he infers that whatever increases the skill, dexterity and judgement of the labor force is the crucial element in the process of economic growth.⁶⁹ We have seen that the extension of the division of labor is the key to increasing the productive powers of labor. Whatever extends the division of labor is, then, the key to economic growth.

Smith observes that for the division of labor to become in any way extensive there must be some *prior* accumulation of stock or capital. Without this accumulation the owner would be unable to purchase the machines and materials and to sustain the labor necessary for the production of a commodity. Thus, "the accumulation of stock must, in the nature of things, be previous to the division of labour, so labour can be more subdivided in proportion only as stock is previously more and more accumulated" (WN II.Introduction.3). Accumulation is, then, the driving force behind the increasing productive powers of labor. The measure of the *potential* for accumulation is the surplus of annual produce over the part of it which goes to the reward of labor, namely, rent and profits.⁷⁰ "If the society was to employ all the labour which it can annually purchase, as the quantity of labour would increase greatly every year, so the produce of every

⁶⁹Note that Smith means all forms of productive labor, including philosophical/inventive labor.

⁷⁰Smith does not offer an opinion as to whether economic growth would be possible under some other form of social arrangement, for example, one where the whole produce of labor belonged to the laborer as in the primitive state of society.

succeeding year would be of vastly greater value than that of the foregoing" (WN I.vi.24). This does not happen because "everywhere" much of the annual produce goes to the support of the "idle."

Accumulation is the result of parsimony. "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." This same idea can be extended to society as a whole because 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" (WN II.iii.15). Parsimony "puts into motion an additional quantity of industry, which gives an additional value to the annual produce" (WN II.iii.17). Every frugal man is a "public benefactor," in the same way as, but perhaps even moreso than "the founder of a public workhouse." His savings are used by himself, or by someone else, to establish a "perpetual fund" for the maintenance of productive labor "in all times to come" (WN II.iii.19). This use of the funds is guarded not by law or tradition, but instead by a "very powerful principle, the plain and evident interest of every man to whom any share of it shall ever belong. No part of it can ever afterwards be employed to maintain any but productive hands, without an evident loss to the person who diverts it from its proper destination" (WN II.iii.19). The funds devoted to public workhouses are, by contrast, guaranteed only by the charity of individuals.

Again one can see the automatic character of economic society as it was conceived by Smith. The essence of what came to be known as Say's Law--"supply creates its own demand"--is implied in the following.

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 profit it is immediately employed as 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 (WN I.iii.18).

Smith's understanding of money is crucial here. The purpose of money is simply to facilitate current transactions: "What is annually saved is as regularly consumed as what is annually spent, and nearly at the same time too." This implies that saving does not result in any reduction in the purchasing power of the community and, as a result, there will be purchasing power sufficient to provide a market for current output.⁷¹ It also means that hoarding is not a significant problem. Since money "will not be allowed to lie idle," because the "interest of whoever possesses it, requires that it should be employed," savings will automatically give rise to investment (WN I.iii.23). The problem of hoarding and resulting scarcity of money which so concerned Locke is not a concern for Smith. He sees no need to take measures that would ensure an adequate circulation of money.

The motive which prompts individuals to save is "the desire of bettering our condition." Smith believes, as we noted earlier, that in "the greater part of men, taking the whole course of their life at an average, the principle of frugality seems not only to predominate, but to predominate very greatly" (WN II.iii.28). For similar reasons he also believed that common prudence would prevail in the majority of men. Prodigality and imprudence, however, have been known to prevail in governments and sometimes to bring about their downfall. The mismanagement by governments is, though, not always fatal. The effects of the desire to better our condition are not easily stifled.

The uniform, constant, and uninterrupted effort of every man to better his condition, the principle from which public and national, as well as private opulence is originally derived, is frequently powerful enough to maintain the natural course of things towards improvement, in spite of the extravagance of government, and of the greatest errors of administration. Like the unknown principle of animal life, it frequently restores health and vigour to the constitution, in spite, not only of the disease, but of the absurd prescriptions of the doctor" (WN II.iii.31)⁷²

⁷¹Sowell remarks that Smith anticipates Say's Law which states that supply creates its own demand, *Classical Economics Reconsidered*, pp.38-9,54-5. See also Hollander, *Economics of Adam Smith*, pp.188-91,314-5. For a general discussion of Say's Law, see Schumpeter, *History of Economic Analysis*, pp.620-5.

⁷²As Smith was familiar with the developments in biology of his day, this may be more than simply a metaphor. The late eighteenth century gave rise to the germ of modern evolutionary theory.

In light of this statement, one can see how the analogies of the Newtonian world view and that of the human body dovetail nicely to present a compelling image of the process of economic growth. Smith is not so much interested in the precise specification of equilibrium, but rather how the forces acting towards equilibrium contribute to the process of economic growth. The principle of motion on which Smith bases his system is the desire of bettering our condition which is channelled in the direction of frugality and good management by the discipline of competition. The habits of frugality and good management which competition gives rise to in the capitalist class, and which emulation spreads to other classes of society, in turn ensure that resources will be used efficiently and that saving will predominate over prodigality.

While the case of Spain indicates that the natural recuperative powers of society may not always be enough, Smith's understanding of the process of economic growth has an important bearing on the political teaching of the *Wealth of Nations*. If imperfections in the political and economic society can be tolerated, it becomes less of an imperative for society's economic program to include a radical political agenda. Here we should note the extravagant claim which Smith's statement conceals. Smith is arguing that all the policies of the previous centuries to encourage economic growth had, in fact, had the opposite effect. The real cause was the generally unhindered operation of the desire to better our condition. This claim was a stunning challenge to the conventional view, even when the liberal trends of the eighteenth century are taken into account.⁷³ The truth of this claim depends on the accuracy of Smith's account of the natural progress of opulence.

Book Three describes the way in which the policy of Europe had distorted the natural progress of opulence. This distortion acted as a brake on economic progress, but not to such a degree as to stifle completely the effects of the desire to better our condition. The policy chiefly responsible for this distortion was the encouragement of manufactures (and implicit

⁷³Caton, "The Preindustrial Economics of Adam Smith," especially pp.839,842. Caton contrasts the Encyclopedists' belief in "the omniscience of reason" with Smith's "egalitarian denial" of "technocracy."

discouragement of agriculture) which was made programmatic by men like Colbert. Smith's account has two steps: first, the setting down of the relative social advantages of various forms of investment and, second, an account of how private investment decisions naturally follow this societal scale of investment priorities.

Smith ranks the relative advantages for society of what he considers to be the four productive uses of capital--agriculture, manufacturing, wholesale and retail trades-- partly, on the basis of the amount of labor they immediately employ and partly, on the basis of the value the particular employment adds to the annual produce of the nation. The value added to the annual produce is a measure of the potential for putting productive labor into motion in the future. The retailer employs only himself, and his contribution to the annual produce is measured by his profits. The wholesaler employs more men in his trade and adds to the annual produce the value of his profits and the wages of his workmen. The manufacturer often employs a great many men and their labor adds to the value of the annual produce an amount equal to their wages plus the profits on the "wages, materials, and instruments" used in production. It is agriculture which puts *immediately* into motion the greatest quantity of labor and, in addition, adds the greatest value to the annual produce of the nation; "of all the ways which a capital can be employed, it is by far the most advantageous to society" (WN II.v.12). The capital of the farmer puts into motion the labor of his servants and also that of his "labouring cattle." In addition, "nature labours along with man" and, as a result, investment in agriculture yields not only the wages of the servants and the profits of the master, but almost always yields a rent to the landlord which is greater or smaller according to the fertility of the land. "No equal quantity of productive labour employed in manufactures can ever occasion so great a reproduction. In them nature does nothing; man does all; and the reproduction must always be in proportion to the strength of the agents that occasion it" (WN II.v.12).⁷⁴

⁷⁴These statements reveal the residual Physiocracy in Smith's thought. A crucial premise of Smith's argument is that rent is a component of price. His argument was immediately

Having established a scale of investment priorities for society, Smith's next step is to show how the natural course of things follows this scale. The natural course of things is the aggregate of individual decisions to invest. These decisions are not made with the interests of society in view.

The consideration of his own private profit is the sole motive which determines the owner of any capital to employ it either in agriculture, in manufactures, or in some particular branch of the wholesale or retail trades. The different quantities of productive labour which it may put into motion and the different values which it may add to the annual produce of the land and labour of society, according as it is employed in one or other of those different ways, never enter into his thoughts (WN II.v.37).

Book Three contains Smith's description of the "natural progress of opulence." Chapter One argues that

[a]ccording to the natural course of things . . . the greater part of the capital of every growing society is, first, directed to agriculture, afterwards to manufactures, and last of all to foreign commerce. This order is so very natural, that in every society that had any territory, it has always in some degree been observed" (WN III.i.8, emphasis added).

This order is natural because it is supported by the "natural inclinations of man" (WN III.i.3). Let us consider the "natural inclinations" upon which Smith relies.

We must recall Smith's claim that in a competitive market there will be a tendency for profits to equalize themselves among the various uses of capital. "Upon equal or nearly equal profits," Smith argues, "most men will chuse to employ their capitals in the improvement and cultivation of the land, than either in manufactures or in foreign trade" (WN III.i.3). Given equal profits, what determines the choice in favor of agriculture? Investments in agriculture are more secure than those in foreign trade where the owner's capital is at the mercy not only of "the winds and the waves" but also to "the more uncertain elements of human folly and injustice, by giving great credits in distant countries to men, with whose character and situation he can seldom be thoroughly acquainted" (WN II.i.3). Smith does not say that agriculture necessarily provides a

challenged by Hume and the issue figured prominently in Ricardo's criticisms of Smith. See Hume to Smith, Apr.1,1776, Corr., Letter 150, and Ricardo, *Principles*, Ch.2. Without this assumption, it is not self-evidently clear which activity is socially the most advantageous. Smith departed from the physiocrats by including wholesalers, retailers, and manufacturers among the productive classes. He describes the term "unproductive" as a "humiliating appellation," but nevertheless continues to use it. Cf. WN II.iii with IV.ix.

more secure investment than manufactures. The agricultural life has, however, other attractions.

The beauty of the country . . . the pleasures of a country life, the tranquility of mind which it promises, and wherever the injustice of human laws does not disturb it, the independence which it really affords, have charms that more or less attract everybody; and as to cultivate the ground was the original destination of man, so in every stage of his existence he seems to retain a predilection for this primitive employment" (WN III.i.3).

Smith also remarks on the moral superiority of the agricultural way of life. The agricultural life keeps men independent, enlivens their minds, keeps their bodies vigorous, and protects them from the immorality of the great cities.⁷⁵ In the next section, we take up Smith's reservations as to the effects of the full commercialization of society.

Smith also argues for the priority of agriculture from an historical point of view. In a country with any significant extent of arable lands, it is natural that the subsistence of the people is the first object of industry. Once this subsistence is obtained, any surplus can be exchanged for other goods. Some manufactures are, however, necessary for conducting even the most rudimentary forms of agriculture. Smith conjectures that towns naturally have their origins in the grouping together of these manufacturers. The growth in the surplus of agricultural production makes it possible for the towns to increase their output of manufactured goods. "The great commerce of every civilized society, is that carried on between the inhabitants of the town and those of the country. . . . The country supplies the town with the means of subsistence, and the materials of manufacture. The town repays this supply by sending back a part of the manufactured produce to the inhabitants of the country" (WN III.i.1). "Had human institutions, therefore, never interfered with the natural course of things, the progressive wealth and increase of the towns would, in every political society, be consequential, and in proportion to the improvement and cultivation of the territory or country" (WN III.i.4).

⁷⁵See, e.g., WN I.x.c.24; III.i.5; III.iv.19; IV.ii.21; V.i.g.12. Smith observes that human beings retain certain primitive yearnings which attract them not only to agriculture, but also to hunting and fishing. In contrast to Rousseau, Smith did not elevate these yearnings to a position of preeminence. Smith replaces Rousseau's longing for the state of nature with a desire to establish a tranquility in the mind. To accomplish this, he believed the institutional apparatus of commercial society was both necessary and natural.

Manufactures are in turn to be preferred, upon equal or nearly equal profits, to foreign trade because the capital of the manufacturer "being at all times within his view and command, is more secure than that of the foreign merchant" (WN III.i.7). Citing the example of North America, Smith adds that it is not, economically speaking, desirable for a nation to use its own capital in the carrying trade if there are other uses to which it could be put; better to allow other nations to carry the nation's exports.

This account of the natural progress of opulence is, in many respects, the centerpiece of the *Wealth of Nations*. The three chapters which follow consider the way the natural course of things was distorted in modern Europe. These chapters contain Smith's vindication of the proposition that it had been the effects of the desire to better our condition, and not government policy, which were responsible for the great commercial progress of Europe. Smith's discussion is deceptive because the almost bucolic simplicity of his description of the natural progress of opulence obscures its technical basis. As we noted earlier, the type of individualism which Smith identifies as the cause of economic progress is a sober and cautious kind. This sobriety and caution are also evident in his description of the natural progress of opulence. The desire for security plays a significant role in determining the shape of the natural progress. Individuals count, but only in aggregate. One finds in Smith nothing which might be comparable, for example, to de Tocqueville's description of the daring American trader.⁷⁶

Furthermore, the assumption of the superior productivity of agriculture is crucial to the argument. Without it, Smith's entire account of the natural workings of economic society becomes questionable. Might not a preference for agriculture or any sluggishness in taking up manufactures then be interpreted as backwardness? In addition, Smith abstracts more or less completely from politics. The great commerce of every civilized society is that conducted between the "town" and the "country." The distinction between town and country is an economic

⁷⁶*Democracy in America*, J. P. Mayer ed., (Garden City, N.Y.: Anchor Books, 1969), pp.402-3. See also pp.622-3.

one, which is applicable to the world as a whole, "the great society of mankind," and perhaps more so than to any independent nation. The prescription for international free trade is implicit in Smith's account of the natural progress of opulence. The abstraction from politics is also evident in his description of the rise of cities. Cities arise from economic necessity. The account makes no mention of the multitude of other factors which might be thought central to the emergence of cities, such as defense or even the attractiveness of political life itself.

Related to this, is Smith's assumption of the naturalness of economic progress. The most important claim, for our present purposes, is that the desire to better our condition is a spontaneous growth. In the three chapters which follow Book Three, Chapter One, Smith describes how commerce brought about a revolution in the political and economic affairs of Europe. Smith's account of the natural progress of opulence assumes that only liberty and security are necessary for the desire to better our condition to exert itself. Now the aim of this desire is, as we have seen, something more than "necessary subsistence" (WN III.iii.12). Yet, in Smith's *actual* history of the rise of modern Europe, he stresses the crucial role which foreign trade had played in spreading a taste for finer and more improved manufactures (WN III.iii.16). In other words, the flowering of the desire seems to have required what must be considered an artificial stimulus, that is, one which appears outside the natural course of things. In this case, the accuracy of Smith's conclusion, namely, that there has been a distortion of the natural progress of opulence, is dependent upon the validity of his premise that the desire to better our condition is natural.⁷⁷

Smith's description of the natural progress of opulence may be described as a "conjectural" or "theoretical" history, as distinct from an actual history.⁷⁸ The account begins with certain

⁷⁷Smith's account might be compared to Hume's "Of Commerce," *Essays: Moral, Political, and Literary*, (Indianapolis: Liberty Classics, 1985), pp.263-4. Hume's account remains closer to the complexity of actual history.

⁷⁸Dugald Stewart originated this terminology, *Account*, II.48.

assumptions about human nature, and moves by deduction to establish a set of propositions which describe the course of the natural progress of opulence. The accuracy of these assumptions is never a theme in the *Wealth of Nations*. Instead, Smith refers to past and present events for "proofs" and "demonstrations" of his propositions. For example, the prosperity of the North American colonies is evidence of the superior productivity of agriculture, as well as of the potential for the use of paper money. These facts, Smith might respond, provide a confirmation of the premises. This is to an extent true, but the case of the rise of modern Europe indicates that this is problematic. How do we know that some alternative explanation, perhaps the mercantilist interpretation, of the rise of modern Europe is not correct? Does not Smith interpret the "facts" in light of his premises? The issue must be settled by a consideration of the premises. We can, however, in light of the discussions of the previous chapter, glean some idea of the grounds for his assumptions. There we saw that Smith had discerned in the history of previous civilizations certain "common causes" which had acted on those societies producing similar effects in similar situations. These causes, Smith must have believed, were sufficiently powerful to exert themselves to some degree in every society. We might characterize Smith's procedure as a movement from the study of the actual course of history, to a speculation about the forces shaping history, which in turn gives rise to a theory of economic progress more or less applicable everywhere. It is, of course, a question whether his study of history is not liable to the same objection which we raised in regard to the *Wealth of Nations*.

4. The Moral and the Philosophical Significance of the Natural Progress of Opulence

We will divide our consideration of the significance of the natural progress of opulence into its political, moral, and philosophical aspects. Such a division is made necessary by Smith's

practice of viewing man and society from different vantage points. The next section of this chapter takes up in detail the political significance of the natural progress of opulence.

The question of the moral significance of the *Wealth of Nations* returns us to the themes of the last chapter. As we observed there, raising the question of the goodness of commercial society takes us to the inner sanctum of Smith's mind. Here we will confine our discussion to the matters most relevant to our general purpose, which is to pave the way for the comparison with Hamilton.

First, and most clearly, the natural progress of opulence is consistent with natural liberty, hence the nomenclature, "system of natural liberty."⁷⁹ The mercantile system, on the other hand, is a system of "restraint." Much of the immense polemical force of the *Wealth of Nations* lies in this contrast. For example, Smith described the mercantile restrictions on the North American colonies as "impertinent badges of slavery" while, at the same time, he believes that they had done little if any injury to the colonies. In general, Smith will brook no violations of natural liberty. The justice of natural liberty comes to sight negatively in light of the injustice which restraint inflicts on individuals. In what precisely this harm consists is difficult to ascertain. There is the obvious and measurable pecuniary damage of restraints which prevent an individual pursuing a particular trade. This, however, would fall under the category, described in the last chapter, of a denial of a positive good, rather than the infliction of an injury which is the most severe form of harming according to Smith. Restraint does, however, inflict an injury by impeding or preventing the natural motion of an individual or, what for most people is the same thing, the desire to better their condition by increasing their wealth. In addition to any physical restraint, there is, in Smith's account, the psychological damage or disruption to the mind's tranquility which results from impeding the desire to better our condition. As Joseph Cropsey observes, "every animal persistently desires its own uninterrupted being."⁸⁰

⁷⁹The way in which the natural progress of opulence reconciles liberty and the needs of the state is dealt with in the next section.

⁸⁰"Capitalist' Liberalism," p.64.

There are other moral benefits which flow from the commercialization of society, but they are less clear cut. As we noted earlier, throughout the *Wealth of Nations* there is a sustained praise of the agrarian way of life. Those who make their living off the land are, where there is liberty and security, superior morally and intellectually to those who live in the cities. They are, perhaps, also better citizens. Smith's animadversions on commercial society, have attracted the attention of many commentators, but his praise of agrarianism has often been neglected. In the natural progress of opulence the most productive form of economic activity coincides with the form which is most attractive from a moral point of view.

The natural progress of opulence is also attractive from the point of view of the "morality" of the system as whole. Smith indicates in various places that the commercialization of society involves a form of moral decline or corruption. In particular, the gentlemanly virtues of liberality and generosity give way to a mean-spirited quest for creature comforts. Yet these virtues live on in the system as a whole which Smith often describes as not only "just" but also as "generous" and "liberal." Its liberality and generosity seem to lie in its openness; in the opportunity it gives to all for at least modest success. This opportunity is extended not only to fellow citizens, but to the whole world. The generosity and liberality of this system stands in contrast to what Smith considered to be the narrow-minded national perspective of the mercantilists.

Justice and generosity enter into Smith's system in another way. We have noted Smith's difference with the mercantilists on the question of wages. The natural progress of opulence, by maximizing the rate of increase in the annual produce, ensures that demand for labor will be high and with it wages. Smith insists that it would be impossible to consider a society flourishing and happy when the great body of its people were miserable. The spectre of the stationary state looms in the future, but Smith seems to counsel us to make the best of the growth phase by extending it as long as possible. Moreover, Smith claims that the system of natural liberty secures the basic needs of *all* people. Absent from the *Wealth of Nations* is any suggestion that there

should be organized public or private support for the subsistence for the poor. Smith argues in his discussion of the corn laws that dearths only become famines where there is mismanagement on the part of the state (WN IV.v.b.5). He seems to suggest that a society will only enter a declining phase if there is gross incompetence on the part of the state, as happened in India under the management of the East India Company (WN I.viii.26).⁸¹

We must also reflect on the philosophical meaning of the natural progress of opulence. By this we mean only the perspective which Smith himself often adopts when he stops to consider things in an "abstract" or "philosophical" light. We might also call it the perspective of nature. Smith styles his system the "system of *natural* liberty." One might then expect a close connection between the ends of his system and the ends of nature simply. The great end of nature we are frequently told is the preservation and propagation of the species. It is helpful here to recall Smith's statement in the *Theory of Moral Sentiments* which introduces the idea of the "invisible hand." The context is Smith's discussion of the way nature deceives us into pursuing worldly comfort.

. . . it is well that nature imposes on us in this manner. It is this deception which rouses the industry of mankind. It is this which first prompted them to cultivate the ground, to build houses, to found cities and commonwealths, and to invent and improve all the sciences and the arts, which ennoble and embellish human life; which have entirely changed the face of the globe, have turned the rude forests of nature into fertile plains, and have made the trackless and barren ocean a new fund of subsistence, and the great high road of communication to the different nations of the earth. The earth by these labours of mankind has been able to redouble her fertility, and to maintain a greater multitudes of inhabitants. It is to no purpose that the proud and unfeeling landlord views his exhaustive fields, and without a thought for the wants of his brethren, in imagination consumes the whole harvest that grows upon them. The homely and vulgar proverb, that the eye is bigger than the belly, never was more fully verified than with regard to him. . . . The produce of the soil maintains at all times the number of inhabitants which it is capable of maintaining. The rich select from the heap only what is most precious and agreeable. They consume little more than the poor; and in spite of their natural selfishness and rapacity, though they mean only their own conveniency, though the sole end they propose from the thousands they employ be the gratification of their own vain and

⁸¹On this question see Istvan Hont and Michael Ignatieff, "Justice and Needs in the *Wealth of Nations*," in *Wealth and Virtue: The Shaping of Political Economy in the Scottish Enlightenment*, ed. Istvan Hont and Michael Ignatieff, (Cambridge: Cambridge University Press, 1983), pp.1-44, who interpret Smith's treatment of needs and justice in light of the jurisprudential tradition of Grotius and Pufendorf. Smith found a way to satisfy both concerns.

insatiable desires, they divide with the poor the produce of all their improvements. *They are led by an invisible hand to make nearly the same distribution of the necessaries of life which would have been made had the earth been divided into equal portions among all its inhabitants; and thus, without intending it, advance the interest of society, and afford the means of the multiplication of the species* (TMS IV.i.10, emphasis added).

We can divine here a view that nature operates on several levels, each of which is consistent with, and subordinate to, nature's deepest purposes. The hurried pursuit of wealth which dominates our lives, and generates civilization, also serves the, at first sight, more mundane purpose of distributing the *necessaries* of life more or less equally among the populace as a whole. Yet nature's unequivocal end is the preservation and propagation of the species. Perhaps only in the rapture of the philosopher's contemplation can the true beauty of this end be perceived.

Whatever the case, there is a deep connection between Smith's procedure in the *Wealth of Nations* and his realization that nature operates on several levels. We have already indicated that Smith's approach implies that there is a substratum to human life which is in some way more real than the world we immediately perceive, and seem to understand. This is the implication of his distinction between real and nominal value, which he admits is practically worthless in the ordinary transactions of life, but which somehow holds the key to revealing the true operations of the economic society. How might this be?

Recall that Smith located the real in the "toil and trouble" or "cost" of acquisition. Thus the real measure of exchangeable value is expressed in terms of the power to put labor into motion or, in other words, to sustain laborers while they work. The system of natural liberty, as it is the system which maximizes the rate of increase in the real exchangeable value of the annual produce, is also that which maximizes the demand for labor. The maximum demand for labor results in the fastest rate of growth of the population. Population growth, to repeat, is not the outcome of the deliberate actions of the state or of individuals but of the passion which unites the sexes and a plentiful subsistence. "The most decisive mark of prosperity of any country is the increase in the number of its inhabitants" (WN I.viii.23). No state program to increase the population could

improve upon this outcome. It is when viewed in this light that the naturalness of the system of natural liberty becomes most manifest. The human animal is not so different from the other animals; all multiply in proportion to the quantity of available subsistence. In the case of the human, though, the spontaneous productions of nature can provide only a miserable existence, and as a result it requires the entire edifice of civilization to call forth the production of an easy subsistence.

*C. Political Economy Considered as a Branch
of the Science of a Legislator*

1. Political Science and Political Economy

Our contention is that the *Wealth of Nations* has both a theoretical and a practical dimension. The theoretical purposes are to set down the general principles which operate in a fully commercial society and to point to the force which raises men out of barbarism and poverty and takes them to civilization and opulence. The practical purpose of the work is to indicate the relevance of a science of political economy for practical men, particularly statesmen. Smith begins this task in the Fourth Book of the *Wealth of Nations* when he observes that political economy "considered as a branch of the science of a legislator" proposes two distinct objects: to enrich the people and to enrich the sovereign (WN IV.Introduction).⁸² Political economy in this sense is concerned not with the wealth of nations, but with the wealth of independent nations. The former is a global or cosmopolitan concern, the latter a national or political concern.⁸³

⁸²There are a number of variants of this political sense. One has it that "the great object of the political œconomy of every country, is to encrease the riches and power of that country" (WN II.v.31). Another that "the cheapness of consumption and the encouragement given to production" are "the two effects which it is the great business of political economy to promote" (WN V.i.e.26). Cf. what is "properly" called political economy, that is, "the nature and causes of the wealth of nations" (WN IV.ix.38).

⁸³Although List made very clear the cosmopolitical aspect of Smith's thought, he was,

Our initial concern is to indicate the connections between Smith's political science and his political economy, especially insofar as it highlights the differences between Smith's political and economic recommendations and those of his predecessors. Only when this is done will it be possible to see clearly the distinctiveness of Smith's position, for, in this regard, the *Wealth of Nations* is interesting for what it does not say. Smith's distinctiveness is revealed in the statement with which he introduces the subject matter of Book Five which deals with the duties of the state.⁸⁴ This statement is not one which concerns the workings of an abstract system, but concerns the operations of economic society which participates in the world. Notwithstanding the exceptions made necessary by the transition from theory to practice, Smith remarks as follows.

All systems either of preference or restraint . . . being thus completely taken away, the obvious and simple system of natural liberty establishes itself of its own accord. Everyman, as long as he does not violate the laws of justice, is left perfectly free to pursue his own interest in his own way, and to bring both his industry and his capital into competition with those of any other man, or order of men. The sovereign is completely discharged from a duty, in attempting to perform which he must always be exposed to innumerable delusions, and for the proper performance of which no human wisdom or knowledge could ever be sufficient; the duty of superintending the industry of private people, and of directing it towards the employments most suitable to the interests of the society. According to the system of natural liberty, the sovereign has only three duties to attend to; duties of great importance, indeed, but plain and intelligible to common understandings: first, the duty of protecting the society from the violence and invasion of other independent societies; secondly, the duty of protecting, as far as possible, every member of the society from the injustice or oppression of every other member of it, or the duty of establishing an exact administration of justice; and, thirdly, the duty of erecting and maintaining certain public works and 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 (WN IV.ix.52).

We will see that there is some slight exaggeration in this statement, but, nevertheless, it is a fair

perhaps, not sufficiently attentive to this aspect of the *Wealth of Nations*. See *The National System of Political Economy*, trans. Sampson S. Lloyd, (1841) (New York: Longmans Green and Co., 1928), pp.97-107. When discussing the economic condition of the disunited German states, List makes the following telling observation on the use of the term "society" in political and economic discourse: "The true conception and the real character of the national economy could not be recognized because no economically united nation was in existence, and because for the distinct and definite term '*nation*' men had every where substituted the general and vague term '*society*,' an idea which is as applicable to entire humanity, to a small country, or to a single town, as to the nation" (p.158).

⁸⁴For the most part, Smith uses sovereign and state interchangeably.

representation of Smith's position.⁸⁵ The statement is deceptive because it is aimed at the *economic* aspects of the mercantile (and Physiocratic) program, and says very little about its accompanying *political* agenda. Smith's silence reflects his belief that he has discovered an independent science of political economy. We are reminded of Stewart's assessment that Smith aimed at enlightening legislators "not by delineating new constitutions, but by enlightening the policy of actual legislators."⁸⁶ For the sake of brevity, we will make mention of only three of Smith's more important predecessors: John Locke, Sir James Steuart, and the French Physiocrats.

Locke is correctly regarded as one of the founders of the modern science of political economy. He was among the first to attempt to describe the "natural laws" which govern the economic society, but he stopped short of claiming either that these laws were fully operative in civil society, or that they governed the economic society of mankind as a whole. As a result, his political economy retained a significant role for the state. We have already observed Locke's emphasis on the need for a favorable balance of trade which required the encouragement of domestic industries and the discouragement of imports. Locke also proposed plans for the support of the poor.⁸⁷ These recommendations reflect his political philosophy as much as they do his political economy. In the very important Chapter Five of the *Second Treatise*, Locke establishes the proposition that under the law of nature there is a right to property which antedates civil society, and in the sequel he explains that the preservation of property is the reason for entering civil society. The economic orientation of Locke's account has been stressed by various commentators who have made clear the extent to which Locke thought that

⁸⁵Stewart, *Account*, IV.25, reports Smith as saying: "Little else is requisite to carry a state to the highest degree of opulence, from the lowest barbarism, but peace, easy taxes, and a tolerable administration of justice."

⁸⁶*Account* IV.6.

⁸⁷Locke proposed plans for the employment of the poor, the establishment of industrial schools for children, and the equalization of poor rates across parishes. Locke's welfarism aimed at increasing the labor and industry of the poor. See Vaughn, *John Locke: Economist and Social Scientist*, pp.121-22. Smith does not mention poor relief at all.

"economics" could provide a solution to the political problem.⁸⁸ The law of nature operative in the state of nature is, however, only a partial guide for the operations of civil society. In civil society, property is "settled," "determined," and "regulated" by laws duly made for the "public good."⁸⁹ As the constitution of the government is the result of a majority decision it will reflect the fact that *all* men enter civil society for the purposes of protecting their "property," the definition of which Locke soon expands to include life and liberty. The laws of civil society must to an extent reflect its essentially popular basis.

Moreover, as the various nations of the earth remain in a "state of nature" even a Lockean society must be prepared to meet external threats. Locke's political teaching distinguished the federative power as that which was charged with the responsibility for using the force of the community to counter such threats. The federative power is the collective analog of the executive power possessed by every individual in the state of nature. Locke regarded "economics" as of decisive importance for enhancing national security.⁹⁰ In his papers on money, Locke identifies commerce and conquest as the two possible ways to increase the wealth of the nation. He rejected conquest, the method of the Romans, at least in part because it was impractical: "nobody is vain enough to entertain a thought of our reaping the profits of the world with our swords." He observes, by contrast, that geography, "as well as the industry and inclination of our people, bold and skilful at sea," fitted England for commerce.⁹¹ Locke's mercantilism sought to utilize these natural advantages for the benefit of the nation. He recommended the expansion of naval power to complement commercial expansion. Commerce, for Locke, is a moderate form of warfare which

⁸⁸See, e.g., Leo Strauss, *Natural Right and History* (Chicago: University of Chicago Press, 1953), pp.234-51.

⁸⁹See *Two Treatises*, II.3,38,43,50. At II.239 Locke remarks that the end of government is "the public good and the preservation of Property." On the general issue see Harvey C. Mansfield Jr, "On the Political Character of Property in Locke," in *Essays in Honor of C.B. Macpherson*, ed. A. Kontos, (Toronto: University of Toronto Press,1979).

⁹⁰See Richard Cox, *Locke on War and Peace* (Oxford: Oxford University Press,1960), pp.175-183.

⁹¹*Some Considerations*, p.227.

aims at securing a favorable balance of power through a favorable balance of economic power. A prosperous commerce made the nation powerful. Commerce thus understood is the means to both "plenty and power."

There is a further connection between Locke's politics and his economics which concerns his revision of the scale of virtues. The populist thrust of this teaching is almost openly anti-aristocratic. We must not forget the most stunning aspect of Lockean politics, the right to revolution. One might say that Locke sought to mark out a new hierarchy for society which gave preeminence to the "Industrious and Rational."⁹² Locke economic writings contain a sustained attack on the spendthrift habits of the "landed-gentleman" which culminates in the following exhortation.

It is with a kingdom as with a family. Spending less than than our own commodities will pay for, is the sure and only way for the nation to grow rich. And when that again begins once seriously to be considered, and our faces and steps are in earnest turned that way, we may hope to have our rents rise, and the public thrive again. Till then, we in vain, endeavour with noise and with weapons of law, to drive the wolf from our own to one another's door: *the breed ought to be extirpated out of the island*. For want, brought in by ill-management, and nursed up by expensive vanity, will make the nation poor and spare nobody.⁹³

Now such a change might be accomplished peacefully, especially by an enlightened leadership fearful of a popular revolt. Yet it need not be so.

Sir James Steuart's *An Inquiry into the Principles of Political Oeconomy*, which was published in 1767, also provides an important point of contrast with Smith.⁹⁴ Steuart is sometimes described as the last of the great mercantilists, and it is possible that Smith, while he never mentions Steuart, had him in mind when writing the *Wealth of Nations*.⁹⁵ Steuart had taken to heart many of Montesquieu's and Hume's reservations about the natural rights teaching and his politics was regarded as suspect by many Englishmen.⁹⁶ He did acknowledge,

⁹²See *Two Treatises*, II.34 and. Pangle, *The Spirit of Modern Republicanism*, p.168.

⁹³*Some Considerations*, p.268 (emphasis added).

⁹⁴It is quite likely that Steuart had an influence on Hamilton's political economy.

⁹⁵Smith remarked as follows to Pulteney, Corr. Letter 132, Sept. 3, 1772: "I have the same opinion of Sir James Stewarts Book that you have. Without once mentioning it, I flatter myself, that every false principle in it, will meet with a clear and distinct confutation in mine."

however, the spirit of liberty as the dominant "spirit" of modern Europe.⁹⁷ Steuart's work was addressed specifically to the statesman, and although he attempted to establish political economy as a "regular science," Steuart was sceptical as to whether any general rules could be laid down in political matters.⁹⁸ He regarded as "mere conceits" *systemes* constructed from long chains of deduction.⁹⁹ In the *Principles*, Steuart outlines an extensive role for the state in the political and economic affairs of the nation. He recommended the state supervision of trade, finance, and industry for the securing the objects of political economy which he defined as the securing of subsistence and employment for the people and providing for the wants of society. Steuart dealt at length with the problem of establishing a fully commercial society. The statesman, he argued, must first understand the "spirit" of the nation before he can introduce a new spirit more appropriate to the times. This is a complex task because of the multitude of social, economic, and political factors which must to be taken into account. The statesman introduces a new spirit by carefully managing the tastes and actions of individuals. Steuart's political economy, while it lacks a direct connection to a revolutionary doctrine of rights, nevertheless envisages the transformation of society in a commercial direction accomplished by the conscious action of the statesman.

Lastly, a comparison to the Physiocrats provides a most illuminating perspective on Smith. While aware of their eccentricities, Smith entertained a very high opinion of the Physiocrats: their doctrines were, "perhaps, the nearest approximation to the truth that has yet been published on the subject of political economy" and Smith recommends their views as "well worth the consideration of every man who wishes to examine with attention the principles of that very important science" (WN IV.ix.38). Despite its sometimes gross theoretical errors, the Physiocratic

⁹⁶Not without reason given his Jacobite allegiances.

⁹⁷*An Inquiry into the Principles of Political Economy*, ed. Andrew S. Skinner, 2 Vols, (Edinburgh: Oliver Boyd, 1966), p.24.

⁹⁸*Ibid.*, pp.4-5.

⁹⁹*Ibid.*, pp.7-8.

system was just, generous, and liberal because it advocated the most perfect freedom of trade at home and with other nations. In practice it corresponded almost exactly to the policies of the system of natural liberty.¹⁰⁰ The political program of the Physiocrats was, however, at odds with the proposals of the *Wealth of Nations*.¹⁰¹ The Physiocrats are best considered as successors to Hobbes in that they proposed a "legal despotism" which was charged with the implementation by positive law of the natural laws which ought to govern society. These natural laws they believed to be "self-evident" to all men who had been freed from prejudice and superstition. A combination of popular enlightenment and enlightened despotism was thought to be the only way of avoiding the calamities which inevitably follow departures from the natural law. For society to be perfectly free, it must be perfectly regimented. The Physiocratic position might be considered as an aberration in the progress of liberal thought, but it is more correct to regard it as a reflection of one strand of eighteenth century thought which pushed in the direction of enlightened despotism as the preferred political model. A model for which Frederick the Great was the archetype.¹⁰²

There are economic and political reasons which account for Smith's departures from the views of his predecessors. Smith focuses on the productive sector in the *Wealth of Nations* because he regarded it as the key to economic progress. The dynamic power of this sector is apparently sufficient to carry a nation to substantial opulence even though large parts of the society are engaged in nonproductive pursuits. Moreover, the force which moves the productive sector, "the desire to better our condition," is believed by Smith to be a spontaneous growth which requires only freedom and security to exert itself. These positions led him to take a moderate attitude towards imperfections in society. With respect to the aristocracy, for example, Smith was always quick to point out their lack of commercial sense, but, as we have noted, on

¹⁰⁰Smith did, however, reject their controversial single tax proposal (WN V.ii.c.7).

¹⁰¹This discussion draws heavily on Caton, *Politics of Progress*, pp.410-421.

¹⁰²*Ibid.*, pp.424,431.

Smith's reasoning they did not constitute a significant drag on economic progress. Smith certainly would have recoiled at the Physiocratic demand that society be completely refashioned by an enlightened absolute ruler.¹⁰³ Of Quesnai, Smith observes that

[h]e seems not to have considered that in the political body, the natural effort which every man is continually making to better his own condition, is a principle of preservation which is capable of preventing and correcting, in many respects the bad effects of a political economy, in some degree, both partial and oppressive. . . . In the political body, . . . 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 sloth and intemperance (WN IV.ix.28).¹⁰⁴

Finally, Smith would have thought unnecessary and presumptuous any attempt by a statesman to introduce a new "spirit" into the nation. In these respects, Smith's political economy gives him the political latitude to avoid the need for a revolutionary reshaping of society.

In the previous chapter, we characterized Smith's political science as historical. The chief lesson of this historical political science is moderation. Smith stresses the need for social cohesiveness, while at the same time indicating the likely course of political, social, and economic progress. His historical political science was, as we have seen, a response to the doctrinairism and universalism of the natural rights teachings of Hobbes and Locke. Moreover, Smith's belief in the naturalness of progress dispensed with the need for the interventions of a statesman along the lines advocated by Steuart. In this respect, Smith's political economy neatly complements his political science.

With the contrast between Smith and his predecessors in mind, we turn now to consider the proper role of the state as it is described in the *Wealth of Nations*. We will consider this subject under two heads: first, those aspects of the role of the state which can be regarded as complements to or supports of the system of natural liberty and, second, those which may properly be regarded as exceptions to the system which are necessitated by particular circumstances. In both cases, we are interested in understanding the political significance of

¹⁰³Cf. TMS VI.ii.2.16-18.

¹⁰⁴He notes that the Physiocrats did not write on political economy as a separate subject (WN IV.ix.38).

knowledge of the natural course of things as revealed by a science of political economy. Smith's view of the role of the state has been the subject of considerable controversy. Some commentators, noting the many activities which Smith regarded as legitimate state functions, have stressed the differences between Smith and those nineteenth and twentieth century economists whose faith in the market knew no bounds.¹⁰⁵ While true and important, this argument should not be extended, as it has been recently, to what comes close to a denial that Smith thought free trade to be a practical possibility.¹⁰⁶

2 The Duties of the Sovereign

Book Five deals with the duties of the sovereign; duties which Smith insists are "plain and intelligible to common understandings." Here we will depart from Smith's order for the purpose of leading into our discussion of the exceptions to free trade.

(a) Taxation

The chief source of the revenue of modern states is the income of the subjects of those states. Smith's analysis of taxation was a major effort to establish rational principles on which to base taxation policy. The science of political economy is crucial because it indicates the way revenues can be raised with the greatest ease and the least possible detriment to economic progress. Smith's basic contention is that taxes should be levied in such a way as to cause the least possible deviation from the natural progress of opulence. Equal treatment is the basic

¹⁰⁵One of the earliest and most balanced of these discussions is Viner, "Adam Smith and Laissez Faire," (1927), in *The Long View and the Short*, (Glencoe, Ill.: Free Press, 1958), pp.213-45. We have found Viner's catalogue of state functions very helpful.

¹⁰⁶See, e.g., Teichgraeber, *Free Trade and Moral Philosophy: Rethinking the Sources of Adam Smith's Wealth of Nations*, (Durham, N.C.; Duke University Press, 1986), p.174.

principle of justice and ought to extend to the field of taxation (WN V.ii.b.3;V.ii.c.7). Equality of taxation across different industries and income groups involves the least possible distortion because it imposes an equal discouragement on all activities. Smith wished to focus discussions of taxation on revenue questions--which taxes raise the most revenue with the fewest possible inconveniences?--rather than on designing a tax system which might stimulate particular enterprises (WN V.ii.k.32). Smith's discussion of taxation extended to the practical aspects of taxation, including the costs of collection and the implications for civil liberties, but our main interest is the extent to which, if at all, Smith regarded the tax system as a means to stimulate industry.

In general, he believed that the tax system should not be used to stimulate particular forms of economic activity. There are, however, a number of exceptions which we should note. Smith recommends some small tax incentives and tax penalties to encourage (or discourage) certain forms of activity in the agricultural sector. Rents in kind should be taxed at a higher rate, as should rents on land where the lease prescribes the mode of cultivation (WN V.ii.c.13-14). Both these proposals aim at preserving the freedom and security of the tenant farmer. Landlords who, rather than increase rents, charge a fee for the renewal of their leases should also be penalized (WN v.ii.c.12). The capitalization of future rents is an imposition on the tenant, and an enticement to prodigality for the landlord, both of which should be avoided. Most interesting is Smith's proposal that landlords be given a "moderate abatement" of taxes if they cultivate a certain portion of their own land (WN V.ii.c.15). Smith reasons that the landlord's greater capital would give him an opportunity to conduct "experiments" in cultivation. He warns, however, that landlords should only be encouraged to cultivate a small portion of their land because more would be outside the range of their attention and, therefore, likely to be mismanaged. This is one of the few occasions where Smith shows any interest in encouraging "projectors." We note the modesty of the proposal.

Smith also recommends that taxes be used as a substitute for sumptuary laws even though such taxes usually involve some distortion of "the natural direction of industry" (WN V.ii.k.63). Excise taxes, for example, can be used to check the excessive consumption of alcohol (WN V.ii.k.50). More important, though, is the general role which Smith saw for taxation as a means of checking the consumption of luxuries. "Upon the sober and industrious poor, taxes upon [luxuries] act as sumptuary laws, and dispose them either to moderate, or refrain altogether from superfluities which they can no longer easily afford" (WN V.ii.k.7). Smith is not concerned with the effect of the consumption of luxuries on the balance of trade, but with the support of frugality in general. Smith also gives a mild endorsement to the principle of progressive taxation. He proposes, for example, that luxury carriages be subjected to higher highway tolls than ordinary or business carriages. House rents are also a suitable object of taxation because they fall most heavily on the rich. "It is not unreasonable," says Smith, "that the rich should contribute to the public expence, not only in proportion to their revenue, but something more than in that proportion" (WN V.ii.e.6). In addition, he argues, without spelling out just how, that the profits of industries which have a monopoly position in the market are more suitable targets for taxation than industries which must compete (WN V.ii.k.54).

Smith's departures from the principle of equality are extremely limited and do nothing to call into question his basic adherence to the principle. Moreover, the exceptions he makes for the most part apply to sectors of society that in a sense fall outside of the system of natural liberty. Smith never claims, for example, that monopoly industries or country gentlemen feel the effects of the competitive system. Smith's most striking use of taxation as a policy instrument is his effort to use it as a means to encourage frugality. This must, however, be weighed against Smith's claim that the system of natural liberty is the generous and liberal system. He is not recommending that the people be subjected to the sharp pinch of necessity. The liberal reward of labor is the great incentive for ordinary laborers to increase their industry. The chief support for industry and

frugality comes from the discipline of competition which is part of the system of natural liberty itself.

(b) Public Works and Public Institutions

Smith also charges the state with the maintenance of certain public works and public institutions. We have already considered in some detail Smith's far reaching proposals for the reform of education. These recommendations are important examples of the "wisdom of the state." As is Smith's recommendation that religion be de-regulated to allow the churches to compete for souls. Two points should be noted. First, many of these proposals do not involve active government intervention. At the most, they involve reforms which simply do away with ancient practices. Second, it is important to see the extent to which these proposals draw on the system of natural liberty. The university, for example, provides a kind of market for the exchange of useful knowledge between philosophers and political men.

The maintenance of public works which either facilitate specific branches of commerce or which facilitate commerce in general involves the state in a much more active way. With respect to the first Smith recommends that the state give support to "hazardous trades." He has in mind here the protection of commerce in "barbarous and uncivilized nations." He proposes that the state give military support and temporary monopolies to merchants engaged in "dangerous and expensive experiments" (WN V.i.e.1-5,30). Such encouragement is warranted because the community as a whole gains greatly from these activities which otherwise might not be undertaken. It would be wrong to see this as an endorsement of commercial imperialism. The *Wealth of Nations* is one of the great anti-imperial tracts.¹⁰⁷ Smith's account of the Spanish conquest of the Americas is the highpoint. Spain exhibited the evils of both religious zealotry and mercantilism. In addition, Smith's recommendation must be considered in light of his severe

¹⁰⁷See Caton, "The Preindustrial Economics of Adam Smith," p.837.

criticisms of English commercial imperialism. The mercantile system was also a system of exploitation which created international discord. In the Chapter under consideration, Smith calls into question the value of the forts at Gibraltar and Minorca (WN V.i.e.14).¹⁰⁸ Smith's recommendation for the support of hazardous trades is not made in light of a belief that political and commercial rivalries are inseparably intertwined as they were for Steuart and Locke. What he seems to have in mind is the encouragement by civilized nations of the gradual globalization of commerce, which Smith was prepared to defend with force against the barbarians. Finally, we should note that this is, perhaps, the only occasion where Smith advocates any significant support for "adventurers."¹⁰⁹

Certain public works which facilitate commerce in general but which would not be profitable for any single individual to undertake are properly the responsibility of the state. This is a very important function. Roads, canals, bridges, and so forth, are, says Smith, "the greatest of all improvements" (WN I.xi.b.5).¹¹⁰ The greater part of Smith's discussion concerns how such such projects should be financed. Where possible, Smith recommends that they be self-financing and administered by the local and provincial governments. These represent an area where the state makes an important contribution to economic growth.

(c)Justice

The administration of justice is essential for the operation of commerce because it secures for individuals the fruits of their own labor. This extends to certain laws guaranteeing fair trading practices. As Viner notes, Smith was not an extreme advocate of *caveat emptor*. He spoke favorably of laws which protected slaves and of certain laws which protected workers.¹¹¹

¹⁰⁸See also Smith to Sinclair, Oct.14,1782, Corr. Letter 221.

¹⁰⁹Smith, in passing, gives his support to patents and copyrights for limited terms (WN V.i.e.30).

¹¹⁰Smith also seems to acknowledge a role for the state in public health (WN V.i.f.60).

The *Wealth of Nations* makes clear that Smith supported various industry regulations where there is an over-riding social interest. In new colonies, he recommended laws which prevented the engrossment of land (WN IV.vii.b.18). In times of urgent necessity, a temporary halt on corn exportation might be proper (WN IV.v.b.39). More interesting are those regulations Smith thought of as being at all times necessary. Banking, for example, must be regulated in certain important respects (WN II.ii.106). We have already had occasion to mention Smith's account of the Ayr Bank which collapsed as a result of an imprudent extension of credit. Smith observed that there should be a restriction on the issuing of paper for small sums so as to discourage the entry of small lenders into the market. In addition, Bank notes should be immediately convertible so as to discourage the extension of credit beyond what is prudent. Smith endorsed paper money issued by the state if it was issued with "moderation." He also made a case for a *maximum* rate of interest on the grounds that without such a provision lending would be skewed towards those "prodigals and projectors" who erroneously believed, or fraudulently asserted, that they could afford to pay a higher rate of interest. Such lending directs funds away from sober and cautious men who have a better appreciation of their ability to pay (WN II.iv.15). These are significant exceptions to the system of natural liberty and, as Smith himself says, are in some cases manifest violations of natural liberty. Two considerations, however, cast these regulations in a slightly different light, more in keeping with Smith's political economy as a whole. First, with respect to the Ayr Bank, the discussion is as much a caution about commercial ventures undertaken for "public spirited purposes" as it is a caution on the dangers of financial imprudence (WN II.ii.73). The Ayr Bank was established to remedy a problem which Smith denied could ever exist, namely, a scarcity of money. Second, it is again striking the degree to which Smith seeks to discourage "projectors" and those engaged in "spirited undertakings."¹¹² Human nature,

¹¹¹"Adam Smith and Laissez Faire," p.237.

¹¹²Smith at one point seems to imply that North Americans were "too eager to become excessively rich" and engage in "unnecessary and excessive enterprize" (WN V.iii.87).

according to Smith, was prone to over-rate its chances, especially when the prospective prizes were outside the normal run of things (WN I.x.b.27). The paradigmatic case is gold exploration which has an enormous, but utterly irrational appeal, for most men (IV.vii.a.18). As we have noted, the system of natural liberty is founded upon the sober and cautious pursuit of wealth by large classes of individuals. Smith views economic progress as a cumulative process of aggregating the gains made by many individuals, and through the frugal management of those gains, repeating the process at a higher level of wealth.

(d) Defense

Defense is said in the *Wealth of Nations* to be the first duty of the state (V.i.a.1). Smith's discussion of defense in Book Five focuses on the necessity in modern times of a standing army. The "wisdom of the state" must see to it that a class of men continue to devote themselves to military careers because in the natural course of things most men will become unfit for such a life (WN V.i.a.14). The importance of this responsibility should not be underestimated. Yet the overall message of the *Wealth of Nations* is that the system of natural liberty is also the path to military strength. Wealth and technical sophistication are key elements in the defense of any modern nation (WN V.i.a.42-44). Here, Smith's response to the mercantilists is that the twin objectives of power and plenty are best achieved through a system of free trade at home and with other nations. There are exceptions to this rule, and Smith gives a novel formulation to the issues involved, to which we now turn.

3. The Wisdom of Future Legislators

Smith granted that there are a number of exceptions to his system of natural liberty which could not be seen as simply complimentary. In this area, Smith seems to leave a degree of discretion to the statesman. That said, while Smith recognizes the need for statesman to act on the basis of the prevailing circumstances, he recommends they do this in light of the understanding of the natural course of things established in the *Wealth of Nations*. Now this might be regarded as an unexceptionable approach: a general rule subject to exceptions. In what follows, we will assume that it is legitimate to describe commercial society as a benevolent mechanism. The issue, then, turns on whether the exceptions Smith marks out really have the character of exceptions, or whether they might more properly be regarded as the general rule. In particular, we wish to draw attention to the way in which Smith deals with the problem of implementing his system of natural liberty in a world which is not characterized by universal freedom of trade and perpetual peace. The situation of a new nation which is weak and inexperienced is a particular case of this general problem

Let us consider Smith's position on free trade a little more closely. Wealth consists not in money but in goods, and the measure of wealth is the purchasing power of the annual produce. The exchangeable value of the annual produce increases most rapidly where there is the most perfect freedom of trade. This recommendation extends to foreign trade since the only economic effect of foreign trade is the beneficial one of extending the market for the surplus produce of the nation. By so doing, foreign trade also removes the limit on the division of labor set by the size of the national market. The mercantile system's restraints constricted production by raising the price of domestic and imported goods, and diverting resources from more productive into less productive pursuits. The only beneficiaries of this policy were the merchants and manufacturers.

International free trade promises benefits beyond an increase in the rate of economic

progress. "The wealth of neighbouring nations," he observes, "though dangerous in war and politicks, is certainly advantageous in trade." In "a state of peace and commerce" the wealth of a neighbouring nation allows them to purchase more of the surplus produce and at a greater price. The maxims of the mercantile system had, by obscuring this fact, sown dissension among the nations. "Commerce," Smith observes, "which ought naturally to be, among nations as among individuals, a bond of union and friendship, has become the most fertile source of discord and animosity" (WN IV.iii.c.9). Furthermore, the progressive expansion of commerce throughout the globe is the surest means of bringing the various nations of the world into that state of equality which could establish a global balance of power. It is a means of stabilizing the global balance of power by making the weak strong.

If men, or their leaders, were reasonable, global peace and prosperity could be had through the expansion of commerce. In the *Theory of Moral Sentiments*, Smith points out that it was nature herself that had divided mankind into independent societies and, indeed, had prejudiced the inhabitants towards their own societies. The wisdom of nature is not so inscrutable that we might not surmise the reason. In the early stages of society, these deep prejudices are necessary for survival. Every man must be willing and able to fight. Clearly, they are not so necessary when society reaches a more advanced stage because of the power which wealth brings.¹¹³ The defense of the nation can and to a large extent must be turned over to a professional military. Commerce to an extent also undermines these attachments. Smith points out that merchants, for example, are not properly the citizens of any particular nation (WN III.iv.24). Smith indicates, however, that these prejudices are never eradicated. Here we can see the profound implication of the system of natural liberty. It provides a way of reconciling the selfish concern for one's own society with the good of other nations. The statesman, whose generosity can only extend so far as the maintenance of the balance of power, should be able to see the benefit of free trade, if his

¹¹³See WN V.i.a as a whole.

understanding is not clouded by the maxims of the mercantile system.¹¹⁴ The question then becomes-how should enlightened nations conduct themselves in the absence, if only temporary, of universal free trade?

In Book Four Smith sets down a number of exceptions to the doctrine of free trade. There are two sorts of exception: those which constitute automatic exceptions and those cases where it is a matter for deliberation. We will follow his order in dealing with them.

Smith's oft-quoted maxim, "defence . . . is of much more importance than opulence," occurs in his discussion of the first automatic exception (WN IV.ii.30). Where a particular commodity is necessary for defense, it must be protected from foreign competition so that it will be available in emergencies. Smith's main example is the Navigation Act which gave an "artificial" stimulus to the shipping industry, or "carrying trade," by giving it a monopoly in certain trades, including the North American trade.¹¹⁵ Here Smith makes what appears to be a very broad exception. Yet a closer look at the specific example reveals that it might not be so sweeping. Smith indicates that many provisions of the Act were unwise and, in particular, stemmed from a misunderstanding of the principles of political economy. The monopoly of the colony trade was in reality an economic burden, because it had drawn trade away from more productive endeavors, such as trade with less distant Europe (WN IV.vii.c.22). Dutch preeminence in the European carrying trade had not declined at all, even though its decline was one of the main objectives of the Act (WN IV.ii.26). Since the monopoly on the colony trade retarded English commerce it acted to decrease trade and therefore shipping. The advocates of the colony trade did not understand what was in Great Britain's security interests in part because they did not understand what was in her economic interests. Smith notes that England was a great naval power before the

¹¹⁴The limits of the statesman's generosity are discussed at TMS VI.ii.2.6.

¹¹⁵He suggests that bounties on gunpowder and sailcloth "perhaps" might be vindicated under this principle (WN IV.v.36). Smith also notes that fine manufactures might be useful during the conduct of a war because they are valuable and easily transportable goods for exchange (WN IV.i.30).

advent of the Navigation Act (WN IV.vii.c.23). Moreover, the coastal trade of Great Britain, especially in coal, was the nation's largest employer of sailors and ships (WN II.v.30).¹¹⁶ Despite these qualifications, we must grant that the needs of defense represents an important and potentially far-reaching exception to the rule of free trade. Although Smith does not mention it, we should add that on this basis, the problem for a new nation must often be particularly acute. While it would have the same security needs as any nation, it would have a smaller stock of wealth to draw on.

Smith's views must be considered as responses to the mercantilists' twin preoccupations with power and plenty. Smith does not deny that these must be the objects of the nation's political economy. The mercantilists regarded the two as so interconnected as to be hardly ever in conflict. This general exception should not be looked upon as a concession by Smith to the mercantilists. His position was quite novel. Viner observes that

it was the anti-mercantilist, Adam Smith, who laid down the maxim that 'defense is more important than opulence.' A typical mercantilist might well have replied that defense is necessary to opulence and opulence to effective defense, even if momentarily the two ends might appear to be in conflict."¹¹⁷

The point of difference between Smith and the mercantilists seems to center on a different assessment of the future. Smith believes that increases in the annual produce, i.e., in purchasing power, which is the means of acquiring military power, is the most certain way of securing the nation. A mercantilist might respond that it is only so if war is a possibility only in the indefinite future. If it is more likely than this, a judgment must be made about the appropriate level and type of military expenditure. Moreover, defense and opulence would no longer be in conflict. Locke rejected the Roman model of opulence through conquest, but he saw clearly the advantages of a naval empire for commercial expansion.¹¹⁸ One must add that this expansion

¹¹⁶Cf. WN V.ii.k.12.

¹¹⁷Viner, "Power versus Plenty as Objectives of Foreign Policy in the Seventeenth and Eighteenth Centuries," (1948), in *The Long View and the Short*, (Glencoe, Ill.: Free Press, 1958), p.293.

¹¹⁸See Cox, *Locke on War and Peace*, p.179: "In so far as the particular kinds of power are concerned, Locke argues that sea power is preferable to land power, both from the viewpoint

was conceived of as taking place in a context of political and commercial rivalry which was to an important extent a "zero-sum game." Whether Smith thought there was a sharp conflict between wealth and power in the case of Great Britain is open to question. It is, however, significant that he posed the defense versus opulence trade-off so sharply. Commercial expansion of the sort advocated by mercantilists such as Locke does not appear to be part of Smith's scheme. Commercial expansion, according to Smith, takes place in a smooth and incremental process beginning at home, and only in its last phase extending to foreign trade. The diversion of expenditures into the carrying trade and defense necessarily retards this process, hence the sharp trade-off between defense and opulence.

The second automatic exception to the rule of free trade is the case where a tax is levied on a domestically produced good which must compete against imports. In this case it is proper that a comparable duty be placed on the imported good (WN IV.ii.31). The tax on the imported good would restore the proportion between the price of domestic and foreign goods, thereby maintaining the natural balance of industry in the nation.

Those exceptions which are matters for deliberation constitute a second class (WN IV.ii.37). In the first case Smith discusses, the nation's exports are faced with discriminatory treatment in a foreign country. Here it is a matter of deliberation whether this treatment should be met with retaliatory measures. Smith observes that while "revenge" necessarily dictates retaliation it may not be the wisest course. Only if the retaliation is likely to result in the removal of the restrictions is it the correct course. When it is unlikely to have this effect, to retaliate is to respond to an injury by injuring oneself.

With respect to such decisions, Smith remarks as follows:

To judge whether such retaliations are likely to have such an effect, does not, perhaps, belong so much to the science of the legislator, whose deliberations ought to be governed by general principles that are always the same, as to the skill of that insidious and crafty animal, vulgarly of its use in commerce and in warfare. Sea power is more flexible and far-ranging than land power. It affords direct access to raw materials, finished goods, deposits of gold and silver and unclaimed territories in all parts of the globe."

called a statesman or politician, whose councils are governed by the momentary fluctuations of affairs (WN IV.ii.39).

By "momentary fluctuations of affairs" Smith clearly means considerations of war and politics. In light of our argument, it should be clear that we consider this a paradigmatic statement which provides a general insight into Smith's understanding of the way in which the science of political economy is relevant to political men. Smith believed that some aspects of human affairs are governed by general principles in a manner similar to the laws which govern the natural world. These social laws, summarized in the description of the natural progress of opulence, require, however, to be fully operative, a legal framework established by positive law. In the absence of the universal adoption of this legal framework, there would be a need to make adjustments according to circumstances; adjustments for which the science of political economy itself provides little guidance.¹¹⁹ The hierarchy implicit in Smith's analysis places the "legislator" guided by knowledge of the general course of things above the "politician" who operates only in the exceptions to the general course of things. One must ask whether this hierarchy can be maintained without assuming that there is in the historical process some general tendency towards the universal adoption of the system of natural liberty. Leaving aside for the moment our provisional acceptance of Smith's view of the domestic economy as a benevolent mechanism, if this is not the case then we must wonder about Smith's suggestion of a general rule subject to exceptions. In other words, if it is for some reason found that the world always operates within the exceptions marked out by Smith then we must question the relevance of the system of natural liberty.

Deliberation is also required when free trade is to be restored to an industry or, perhaps, even an entire society, where it has never existed, or has not existed for a long time (WN IV.ii.40).

Of such cases, Smith observes that equity with respect to those who have made large

¹¹⁹It is, perhaps, significant that Smith speaks of the "natural course of things" and not of, e.g., economic laws of nature. The former is a softer term which leaves a certain scope for random events.

investments under the existing laws and humanity towards those who might be thrown out of work requires that free trade be restored slowly with adequate warnings (WN IV.ii.44). When discussing the trade with the colonies of North America, Smith argues that it must be left to the "wisdom of future statesmen and legislators" to decide the way in which perfect liberty of trade should be restored (WN IV.vii.c.44). Now it would be a mistake to exaggerate the extent to which Smith regarded this as a major obstacle to the introduction of free trade. In the case of Great Britain, he noted that many of her major exports were profitable without artificial incentives (WN IV.ii.41). Moreover, recent experience had suggested that large numbers of men who had become unemployed could be quite easily absorbed by other sectors of industry. Smith mentions that after the most recent war, one hundred thousand men, all "accustomed to the use of arms" and "many to rapine and plunder," were without convulsion or disorder absorbed into the workforce (WN IV.ii.42). Smith concludes that, if there is perfect liberty of trade, then, the dislocations caused by large-scale retrenchments are not likely to be great.

The greatest obstacle to the restoration of free trade in Great Britain was political not economic. As a result of the overgrown colony trade there had arisen a large number of powerful vested interests. These had grown to such a size that they resembled a large standing army which could topple the government if their interests were not met. "To expect," he concluded, "freedom of trade should ever be entirely restored *in Great Britain*, is as absurd as to expect an Oceana or Utopia should ever be established" (WN IV.ii.43, emphasis added). This remark has been interpreted as a general statement of Smith's doubts as to the possibility of establishing free trade.¹²⁰ There is, however, little reason for this interpretation. As we saw in the last chapter, the political situation of Great Britain was unusual because of its representative institutions. The general tendency of the natural course of things is towards absolute monarchies fortified by standing armies. Under such governments, the "clamour and sophistry" of merchants could not

¹²⁰ See, e.g., Teichgraeber, *Free Trade and Moral Philosophy*, pp.166-169.

constitute an important obstacle. Smith's political science sheds an important light on this passage. The colony trade monopoly had introduced a disorder into the constitution of Great Britain which could only be removed at the risk of creating a further disorder. The correct approach, which follows from Smith's historical political science, was to take cautious remedial measures which would gradually reestablish the natural course of things. Perhaps, this is why Smith leaves this matter is left to the wisdom of future "legislators," artful reformers to be precise, and not to the sneaking arts of the politician.

Smith's view of the role of the state surely differs from that of later free trade political economists. Less optimistic and more open-minded, Smith was willing to tolerate, and even encourage, considerable activity by the state in certain areas of society. This important fact should not distract us from his central claim: the natural progress of opulence is the surest path to riches and power. Within the area which might properly be included in the competitive system Smith allows little room for state action. When confronting the reality that universal free trade and perpetual peace do not yet exist, Smith advocates a strategy based on general rules and limited exceptions. The economic difficulties of implementing free trade are minimized, and the political difficulties seem to apply chiefly to those nations with representative institutions. On all counts, Smith's political economy points in the direction of inactivity on the part of the state. In the following two chapters, we consider the political and economic statesmanship of Alexander Hamilton. Hamilton presented a powerful case for active government. In our conclusion, we will compare each man's views on the role of the state.

CHAPTER FIVE
ALEXANDER HAMILTON'S POLITICS

A. Political Moderation and Energetic Government

In this chapter, rather than simply discussing Hamilton's remarks on Smith and free trade, we will consider Hamilton's policies as Secretary of the Treasury. Our purpose for this broader inquiry is to show the way in which Hamilton approached the political and economic problems of the early Republic. Before turning to Hamilton's economic program, we take up the subject of his political principles.¹ Hamilton is now remembered chiefly as an advocate of energetic government, even "big government." What is often neglected is that Hamilton combined this stance with a call for political moderation. Above all, for Hamilton this meant a healthy scepticism of the views of theoretical politicians. It was this scepticism which, he believed, separated him from men like Jefferson. Hamilton's scepticism is relevant to our present inquiry in two ways. First, we suspect that Hamilton's scepticism entered into his consideration of economic issues, including his reception of the new science of political economy. Moreover, Hamilton's economic program was not conceived in abstraction from the political situation of the early Republic. Hamilton's political goals and his economic goals form a coherent whole which displays his understanding of the relationship between politics and economics. Our consideration of Hamilton's political principles

¹The study of Hamilton has received great improvement in recent decades. We have made use of four notable studies: Harvey Flaumenhaft, "Hamilton on the Foundation of Government." *The Political Science Reviewer* 6 (Fall 1976):143-214; Forrest McDonald, *Alexander Hamilton: A Biography*, (New York: W.W. Norton, 1979); Mackubin Thomas Owens, "The Surest Guardian of Liberty: Hamiltonian Statesmanship and the Creation of the American Union." Ph.D. Dissertation, University of Dallas, 1982; and Gerald Stourzh, *Alexander Hamilton and the Idea of Republican Government*, (Stanford: Stanford University Press, 1970). To these must be added Hiram Catton's *The Politics of Progress: The Origins and Development of the Commercial Republic 1600-1835* (Gainesville, Fl.: University of Florida Press, 1988), which contains a number of penetrating reflections on Smith and Hamilton. We will comment on these interpretations as the need arises.

in the next section is roughly parallel to our discussion of Smith on philosophy and politics in Chapter Two.

Hamilton's earliest political writings argued the American cause on the basis of the principles of modern natural right. Although some have questioned his continued adherence to these principles, there is little reason to believe that he ever abandoned them.² Hamilton would, again and again, have recourse to these principles for guidance on practical issues. Hamilton believed the circumstances of the American Revolution required a discussion of politics in terms of first principles. Tradition, whether in the form of positive laws or conventions, was insufficient for dealing with the crisis. While Hamilton affirmed the revolutionary and universal nature of those principles, it is also true that he held a moderate form of the natural rights teaching. Hamilton was particularly attracted to those thinkers who attempted to moderate the more doctrinaire and universalistic elements of the natural rights teaching. He supplemented his core belief in natural rights with the legalism of Blackstone and with the historical perspective and institutional emphasis of the new science of politics as it was developed by Montesquieu and Hume. It is important that we consider this further since it was against doctrinaire universalism which Smith also reacted.

B. Human Nature, Natural Law, and Society

The "clear voice of natural justice," wrote the young Hamilton in his first political pamphlet, tells us that

[a]ll men have one common original: They participate in one common nature, and consequently have one common right. No reason can be assigned why one man should exercise any power or preeminence over his fellow creatures more than another; unless they voluntarily vested him with it.³

²McDonald, e.g., argues that Hamilton converted from a Humean position of government by interests to a natural law position grounded on virtue and derived from Vattel, *Alexander Hamilton*, pp.52-56. Owens follows Stourzh in responding that Blackstone was Hamilton's constant guide, "The Surest Guardian of Liberty," pp.45,99 n.26.

³"A Full Vindication of the Measures of Congress," *The Papers of Alexander Hamilton*,

An "eternal and immutable" law of nature governs mankind in their relations with each other. This law is available to man through reason. Man is

endowed him with rational faculties, by the help of which, to discern and pursue such things, as were consistent with his duty and interest, and invested him with an inviolable right to personal liberty, and to personal safety.

Hence, in a state of nature, no man had any moral power to deprive another of his life, limbs, property or liberty; nor the least authority to command, or exact obedience from him; except that which arose from ties of consanguinity.

The inconveniences which dominate the state of nature force men into society and governments are established for the purpose of securing men's natural rights. On the basis of these premises, Hamilton set down the conditions of legitimate government.

Hence also, the origin of all civil government, justly established, must be voluntary compact, between the rulers and the ruled; and must be liable to such limitations as are necessary for the security of the absolute rights of the latter.⁴

These are revolutionary and universal principles, applicable everywhere and at all times. He noted that Turkey, France, Russia, France, and Spain have an "inherent right . . . to shake of the yoke of servitude . . . though sanctified by the immemorial usage of their ancestors."⁵ When "the first principles of society are violated" "the common forms of municipal law are not to be regarded." "Men may then betake themselves to the law of nature; and, if they but conform their actions to that standard, all cavils against them, betray either ignorance or dishonesty."⁶ Hamilton gave the natural rights teaching a more conservative cast by stressing the dangers involved in revolutions and the consequent need for prudence.⁷

Although he is often compared to Hobbes, Hamilton distinguished his position on the

ed. Harold C. Syrett, 27 Vols., (New York: Columbia University Press, 1961-87), Vol. I p.47. (Hereafter cited as Hamilton, *Papers*, volume and page number), References to *The Federalist* are to the edition of Edward Mead Earle, (New York: Modern Library, no date), paper number and page number. References to Hamilton's major Reports are to the collection edited by Jacob Cooke, *The Reports of Alexander Hamilton*, (New York: Harper-Torchbooks, 1964).

⁴"The Farmer Refuted," *Papers*, I.87-88.

⁵ *Ibid.*, p.122.

⁶ *Ibid.*, *Papers*, I.136.

⁷Owens emphasizes the influence of Blackstone in Hamilton's moderate version of the natural rights teaching. "Alexander Hamilton on Natural Rights and Prudence," *Interpretation* 14, Nos 2&3 (May & Sept. 1986):344.

grounds that Hobbes had denied there were any moral obligations in the state of nature. This denial implied that all justice is conventional. Hamilton argued that Hobbes had fallen into this "absurd and impious doctrine" because he "disbelieved the existence of an intelligent superintending principle, who is the governor, and will be the final judge of the universe."⁸

Hamilton's clearest statements on the extent of moral obligations in the state of nature occur in his discussions of international relations. Nations, as much as individuals, Hamilton contended, are bound, in all but the most extreme circumstances, to follow the established rules of morality and justice, that is to say,

to keep their promises, to fulfil their engagements, to respect the rights of property which others have acquired under contracts with them. . . . Without this, there is an end to all distinct ideas of right and wrong justice or injustice in relation to Society or Government. Everything must float on the variable and vague opinions of the Governing party of whomsoever composed.⁹

From this statement we can infer the moral obligations which Hamilton believed antedate civil society. The obligation to keep one's promises is, perhaps, the most fundamental moral principle. While a case could be made that Hamilton was the most tough minded of the Founders,¹⁰ it is important to realize that Hamilton's view of the world is characterized by a certain optimism. Hamilton allowed that in extreme circumstances one may break one's promises, but he did not believe that human life generally exists in such extremes.¹¹ For Hamilton, contracts seem to retain their moral character and are distinguishable from mere prudential calculations.

For a succinct formulation of what appears to have been Hamilton's view of human nature, we might simply quote from Alexander Pope's "An Essay on Man."

Two Principles in human nature reign;

⁸"A Full Vindication." *Papers*, I.87.

⁹"The Vindication No. III." May-August, 1792, *Papers*, XI.470.

¹⁰Ralph Lerner notes that Hamilton was almost alone in not regarding the spirit of commercial republics as pacific. "Commerce and Character: The Anglo-American as New Model Man" *William and Mary Quarterly*, 3rd ser., 36 No.1, (Jan. 1979):15.

¹¹Cf. Churchill when discussing the painful dilemmas of foreign affairs which challenge precise morality: "There is however one helpful guide, namely, for a nation to keep its word and to act in accord with its treaty obligations to allies. This guide is called honour." *The Second World War Volume I: The Gathering Storm* (Boston: Houghton Mifflin, 1948), p.288.

Self-love to urge, and Reason, to restrain.¹²

According to Pope, the passions (which are "modes of self-love") direct us to our good if they are governed by reason. In themselves, they are neither good nor bad. "The same ambition can destroy or save/And makes a patriot as it makes a knave."¹³ Roughly speaking, this seems also to have been Hamilton's view. Hamilton gives no indication that the passions can be extinguished, only that they may be governed in accordance with our true happiness.¹⁴ The passions, whether it be the love of gain or the love of fame, must be governed by principles in order to be good. Hamilton's famous discussion of the characters of Aron Burr and Thomas Jefferson provide a clear illustration of his position. Hamilton observed that Jefferson and Burr were both men of extreme ambition. He regarded Jefferson, though, as the clear superior because his ambition was governed by principles, whereas Burr was totally without principle.¹⁵

That said, Hamilton entertained no thought that the "rational faculties" by which we discern our "duty and interest" are equally distributed among mankind. One might say that, for Hamilton, the political problem consisted chiefly in this disparity. Even his early writings make significant use of a distinction between the few wise and the many unwise.¹⁶ Furthermore, and perhaps more than any of the other Founders, Hamilton stressed the inconstancy of human nature. The passions, even the powerful passion for self-preservation, are short-sighted and unless men place them under the governance of reason or reasonable habits, they are unlikely to find their true interest.¹⁷ Hamilton drew attention to the more violent passions which he saw as a constant

¹²II.53-4. Hamilton was fond of Pope and we will have occasion to point to several other points of similarity.

¹³Ibid., II.201-2.

¹⁴Hamilton's description of Aron Burr is strikingly similar to Pope's description of a man in whom reason does not govern: "Or meteor like to flame lawless thro' the void,/Destroying others, by himself destroyed." "An Essay on Man," II.65-6.

¹⁵H to Bayard, Dec. 27, 1800 and Jan. 16, 1801.

¹⁶See, e.g. H. to John Jay, Nov. 26, 1775, *Papers*, I.176-178, where he warns that the "political pilots" must guide the "multitude" in times of crisis. Hamilton refers to the people's representatives during the Revolution as their "guardians" in "A Full Vindication." *Papers*, I.48.

feature of human affairs. These might be subdued in a civilized society, but they could not be exorcized from political life. Hamilton's career gave him many occasions to lament that men "are reasoning rather than reasonable animals for the most part governed by the impulse of passion." Government by "mere reason" is impossible.¹⁸ This understanding of the relative power of the passions and reason in human affairs is central to his political thought. Hamilton's remarks must, however, be understood in their proper light. When Hamilton speaks of establishing a government powerful enough to "direct the passions of so large a society to the public good" he is, for the most part, speaking not of the raw passions, but of the passions somehow brought under the sway of reason.¹⁹ While Hamilton feared the power of the passions in a way reminiscent of Hobbes, he does not recommend the fear of the sovereign as the solution to the political problem. Instead, he recommended a mixed constitution along the lines of the British Constitution as the best form of government. In the case of the United States, as we will see, where such a regime was not possible, he advocated a republican analogue to a mixed constitution.

Hamilton's thinking on these matters should be placed in the context of the reaction to the universalist political teachings of Locke and Hobbes by Montesquieu and the thinkers of the Scottish enlightenment. As we saw, thinkers such as Smith and Hume raised as an empirical question whether society had ever or could ever be established on a rational basis such as that described by Hobbes and Locke. They were extremely doubtful on both questions and, instead, pointed to the role of nonrational factors, such as sympathy, which they thought to be fundamental to society. It seems that Hamilton learned from Hume, in particular, those things which supplement human reason in the day-to-day operations of any society. "Man," he once observed, "is very much a creature of habit."²⁰ Hamilton's stress on opinion as fundamental to

¹⁷See, e.g., Hamilton's discussion of self-preservation in *The Federalist*, No.29.181-2.

¹⁸H. to James Bayard, April, 16-21, 1802, *Papers*, XXV.605.

¹⁹*The Federalist* No.13.77.

society accounts for his aversion to proposals that would keep society in a perpetual state of upheaval, e.g., Jefferson's call for frequent constitutional conventions. Along the same lines, Hamilton was extremely anxious to see new habits and opinions firmly established in the Republic following the upheaval of the Revolution.

Hamilton borrows more from the Scots than simply a stress on the role of habit and opinion. He also seems to have imbibed a certain understanding of the moral passions or sentiments. Consider Hamilton's account of the benefits of civil society, the "sweets of liberty" as he called them. First and foremost, he was referring to the secure enjoyment of rights. But there seems to be more. "The spirit of Whiggism," said Hamilton, "is generous, humane, beneficent and just."²¹ This spirit is, though, closely connected with the secure enjoyment of rights. Hamilton referred, for example, to the "obligation to a mutual intercourse by way of trade" as an "imperfect obligation" or a "dictate of humanity," that is, an obligation that could not be exacted by force. In other words, consenting to trade is an act of humanity or liberality.²² Still, Hamilton does seem to have had an understanding of "virtue" independent of rights. Implied in his characterization of "the spirit of Whiggism" is the idea that liberal society may be judged on the basis of principles other than the security of rights. Hamilton was not a philosopher, and he wrote no moral treatises, but it is possible to gain some insight into the basis for his judgments. We do not mean to imply that this discussion provides an adequate account of the grounds, in a philosophical sense, for

²⁰Ibid., 27.168. Caton understates the influence of Hume and Montesquieu on Hamilton, *Politics of Progress*, pp.459-478.

²¹"A letter from Phocion." Jan. 1-27, 1784, *Papers*, III.484. The description "sweets of liberty" is used in "A Full Vindication." *Papers*, I.53. Hamilton describes the effects of slavery thus: "I might shew that it is fatal to religion and morality; that it tends to debase the mind, and corrupt its noblest springs of action. I might shew that it relaxes the sinews of industry, clips the wings of commerce, and introduces misery and indigence in every shape." Ibid. For discussions of the liberal and humane spirit in America see, e.g., on trade "The Defence No. X." Aug. 26, 1795, *Papers*, XIX.175 and on capital punishment, H to James McHenry, July 23, 1799, *Papers*, XXIII.293-4. Note that Smith uses very similar language when describing the spirit of his *system* of natural liberty.

²²"A Full Vindication." *Papers*, I.51.

Hamilton's extraordinary life. At a very early age Hamilton declared that he was not a philosopher. And he was right.²³

To begin, Hamilton observed on a number of occasions that in addition to concern for our rights, there are "certain social principles in our nature," the "human affections," which attach us to other human beings.²⁴ These sentiments are naturally directed towards those who are closest to us, beginning with family and friends. The security of civil society allows these affections to achieve their maturity and full strength.²⁵ That these sentiments play a significant role in civil society seems to be assumed by Hamilton in many of his appeals to sacrifice for the general good and for posterity. Something in addition to reason and enlightened self-interest is at work in the operations of society. It was probably from considerations such as these that Hamilton singled out for special criticism the liberalization of the French divorce laws on the grounds that it threatened "the dissolution of those ties, which are the chief links of domestic and ultimately of social attachment."²⁶ It is on the basis of these remarks that one must begin to understand Hamilton's understanding of the virtues of beneficence, generosity, etc., that is to say, those concerns that cannot be reduced to the prudential care of one's own interest. Hamilton's discussions of gratitude and beneficence evince a belief that such virtues yield a particular pleasure to those who practice them.²⁷

²³H to Stevens, Nov. 11, 1769, *Papers*, I.4. It has been suggested that, while Hamilton's "psychology" is modern, he should be understood in light of the classical notion of statesmanship. See Owens, "The Surest Guardian of Liberty," p.1. In the study of a man of such lofty ambition and great accomplishments there is great merit in this approach. Yet, it also has its dangers. This approach tends to neglect or obscure the end of Hamilton's actions, namely, the creation of a liberal state. For this reason, perhaps, Owens tends to neglect the problematic character of Hamilton's statesmanship.

²⁴"New York Ratifying Convention. Remarks." June 27, 1788, *Papers*, V.102. See also, *The Federalist*, No.17.102-103.

²⁵Owens terms the dictates of humanity the "weak" injunction of the law of nature, as opposed to the "strong" injunction which is to preserve oneself. "Natural Rights and Prudence," pp.336-37. As he points out, in the state of nature the strong injunction will overwhelm the soft.

²⁶"The Stand No. III." April 7, 1798, *Papers*, XXI.404.

²⁷See, e.g., "Pacifcus No. IV." July 10, 1793, *Papers*, XV.82-6.

What of the more refined virtues? A reader of Hamilton's account of the "singularly interesting character and fortunes" of Major André will find a keen appreciation of the perfect gentleman. André was an English officer executed as a spy for his part in Benedict Arnold's treason. Hamilton wrote to his intimate friend John Laurens that André possessed an "excellent understanding," "candor and firmness," "peculiar elegance of mind and manners," "a taste for the fine arts," a handsome elocution, courage, and "military rank and reputation."²⁸ Hamilton confessed to his wife-to-be, Elizabeth Schuyler, that he was inferior to André. He wished for "leisure" so that he might "possess every acquirement that can embellish human nature."²⁹ This leads us to the question of Hamilton's view of the best or finest character. Many have remarked that Hamilton's over-riding motivation was the quest for fame. It was in politics that Hamilton thought the greatest fame could be earned.³⁰ There is little reason to doubt that he meant what he said in *The Federalist*: the love of fame is "the ruling passion of the noblest minds."³¹ For Hamilton, the love of fame while related to ambition, was distinct from it. We have noted already, Hamilton's grounds for distinguishing Jefferson from Burr. Hamilton did not equate fame with popular applause. During the Whiskey Rebellion, and though subject to widespread vilification, he remarked to Washington that

it is long since I have learnt to hold popular opinion of no value. I hope to derive from the esteem of the discerning and the internal consciousness of zealous endeavours for the public good the reward of those endeavours. ³²

Hamilton seems to have regarded his desire for fame as a fixed principle of his nature, his "ruling

²⁸Oct. 11, 1780, *Papers*, II.465-8.

²⁹Oct. 2, 1780, *Papers*, II.448-9. Cf. *The Federalist* No.35.213 where Hamilton speaks of the "acquired endowments" of the wealthy which are necessary for public life.

³⁰See Hamilton's "Publius Letter No. III," Nov. 16, 1778, *Papers*, II.580: "The station of a member of [Congress] is the most illustrious and important of any I am able to conceive. He is to be regarded not only as a legislator, but as the founder of a great empire." Cf. Hume, "Of Parties in General," *Essays: Moral, Political, and Literary*, Eugene F. Miller ed., (Indianapolis: Liberty Classics, 1985), p.54: "Of all men, that distinguish themselves by memorable achievements, the first place of honour seems due to the LEGISLATORS and founders of states."

³¹No.72.470.

³²Nov. 11, 1794, *Papers*, XVII.366.

passion" and, as such, something which he could not be talked out of. Whether his understanding is accurate or not, it goes far to explain Hamilton's dedication to public life even when it might have seemed futile to others. Hamilton's understanding of the relationship between fame and virtue is difficult to discern. But he seems to have regarded virtue and fame as in some sense distinct, as the passage just quoted implies. Virtue, he once remarked, is the only "unmixed good." By implication, it would seem that fame is not an unmixed good.³³

Notwithstanding his esteem for the gentleman, Hamilton shows an awareness of the limits of the gentleman's powers. This is evident when he comes to discuss André's capture and execution as a spy. If examined in light of "the sober rules of philosophy and moral rectitude," André could not but be condemned. Speaking, though, as a "man of the world" he would acquit André. A man of "nice honor" would have scrupled "but the temptation was great." "The maxims and practices of war are a satire on human nature."³⁴ We might infer a more general principle from these remarks. The dictates of humanity are passions or sentiments which at times must be made to yield to the voice of enlightened reason. A most revealing discussion of this issue occurs in Hamilton's advice to Washington on the Nootka Sound crisis. A question had arisen as to the extent of America's debt to France and Spain for their support during the Revolutionary War. Gratitude, Hamilton argued, would be the "natural impulse of every good heart . . . 'till reason has taught it, that refinements of this kind are to be indulged with caution in the affairs of Nations." "It is necessary," he continued, "to reflect, however painful the reflection, that gratitude is a duty or sentiment which between nations can rarely have any solid foundation."³⁵ Hamilton does not deny that there is a "noble and refined sentiment" of gratitude, but he makes clear that the proper

³³Helpful discussions of Hamilton and fame may be found in Pangle, *The Spirit of Modern Republicanism* (Chicago: University of Chicago Press, 1988), pp.110-1, and Owens, "The Surest Guardian of Liberty," pp.247-89. Hamilton's understanding of fame and virtue may be usefully contrasted with Aristotle's discussion of honor and virtue in the *Nicomachean Ethics*. Aristotle's gentleman seems to discount even the esteem of the discerning as a reward for virtue (1124a5-10).

³⁴H to Laurens, Oct. 11, 1780, *Papers*, II.468.

³⁵H to George Washington, Sept. 15, 1790, *Papers*, VII.43.

place for this sentiment is within civil society where it might be "indulged" with safety.³⁶ As he noted in his first pamphlet the limits on the humane sentiments are set by the principles of the natural law:

humanity does not require us to sacrifice our own security and welfare to the convenience, or advantage of others. Self-preservation is the first principle of our nature. When our lives and properties are at stake, it would be foolish and unnatural to refrain from such measures as might preserve them, because they would be detrimental to others.³⁷

Hamilton believed there was a particular need to remind a commercial and liberal people of these harsh necessities and it is clear that he often saw himself fulfilling this function.³⁸

Hamilton once said that while in France Jefferson "drank deeply of the French Philosophy."³⁹ Of Hamilton, it could be said that he drank deeply of the Scottish philosophy. In the area of morality the Scottish influence is discernible in his comments on the natural moral sentiments. His discussion of the André's character, for example, makes use of terms such as "esteem," merit," "spectators," and "amiable." In politics, Hamilton's Scottish influence is evident in his doubts as to whether enlightened self-interest prevails in human affairs. He did not, however, elevate the sentiments above reason in either area. That Hamilton maintained reason as his standard is a further indication of his fundamental attachment to the natural rights teaching as it was stated by Hobbes, Locke, and Blackstone.

C. Hamilton's Republicanism

Here we wish to describe Hamilton's understanding of the form of republican government established by the Constitution of the United States. Along the way, we will discuss Hamilton's response to what he saw as the chief political problems facing the new nation: an intemperate zeal

³⁶Remarks in Hamilton's "Pacifcus" essays are substantially similar. See "Pacifcus No. IV," July 10, 1793, *Papers*, XV.82-6.

³⁷"A Full Vindication." *Papers*, I.51.

³⁸See, e.g., *The Federalist*, Nos 6 & 24-29.

³⁹H to Edward Carrington, May 26, 1792, *Papers*, XI.439.

for liberty and the power of the States. The former is inherent in the nature of all popular governments, but the latter was peculiar to the federal nature of the United States. These two problems are closely related to the two sides of Hamilton's republicanism, which we shall provisionally characterize as an effort to blend the advantages of a monarchy and the advantages of a republic.

What set Hamilton apart from most other Founders, and what has cast doubt on his belief in equal rights, were his doubts as to whether the republican form of government could secure individual rights. At the Constitutional Convention, Hamilton, with characteristic frankness, said that, while he would be a martyr for liberty, he had little confidence in the republican form of government and doubted whether it would meet the needs of the United States.⁴⁰ As we noted earlier, he regarded the British mixed constitution as the best form of government. Moreover, he did not believe that one form of government was applicable everywhere. To Lafayette, he wrote:

I hold with Montesquieu that a government must be fitted to a nation as much as a Coat to the individual, and consequently that what may be good at Philadelphia may be bad at Paris and ridiculous at Petersburg.⁴¹

As Publius, he observed that the history of popular governments had provided the advocates of despotism with arguments against liberty itself.⁴²

That said, Hamilton was not blind to the attractiveness of an "equality of political rights exclusive of any *hereditary* distinctions."⁴³ As Publius, he captured the great issue of the day in a memorable formulation:

it seems to have been reserved to the people of this country, by their conduct and example, to decide the important question, whether societies of men are really capable of establishing good government from reflection and choice, or whether they are forever destined to depend for their political constitutions on accident and force.⁴⁴

⁴⁰June 26, 1787, *Papers*, IV.218.

⁴¹January 6, 1799, *Papers*, XXII.404.

⁴²*The Federalist* No.9.48.

⁴³H to Edward Carrington, May 26, 1792, *Papers*, XI.439.

⁴⁴Hume's denial is in "Of Original Contract," *Essays*, p.474. Hume granted that where

This was not mere rhetorical flourish. No less an authority for Hamilton than David Hume had judged such a founding beyond human nature. It was Hume's position that governments must first be founded and then civilized. Human beings are too unjust and too irrational to permit any other sort of beginning.⁴⁵ Such a founding would, of course, necessitate departures from republican equality, not to speak of more blatant injustices. Nor was this a passing theme on Hamilton's part. A challenge to Americans to live up to their Constitution became a constant feature of Hamilton's rhetoric. At the time of Jefferson's attempt to repeal the Judiciary Act, Hamilton asked if the American people would risk the fame acquired when they had, "as a deliberate act of national reason," conquered their prejudices and established a constitution which "bid fair to immortalize their glory and their happiness"?⁴⁶

The Constitutional Convention did not decide on a government as "high-toned" as that Hamilton wished for. In his June 18 Speech, he recommended a Senate and Executive to hold office during good behavior. While it is unclear whether this was Hamilton's final position, it is clear that the June 18 plan represents the direction in which Hamilton would have preferred the Convention to take. Nevertheless, after 1787 Hamilton set about the business of government with the intention of setting the "tone" as high as the Constitution would permit. By "tone" he meant the way in which the government conducts itself given its basic institutions and powers on paper. An example will make the idea clearer. Washington asked Hamilton for advice on how he, as chief executive, should conduct himself. Hamilton recommended that he adopt a public demeanor that would invest the office of President with the maximum gravity and dignity.⁴⁷ The Constitution, he thought, encouraged and intended the National government to exert a profound

the people are consulted this is "the best and most sacred of any" possible foundation (Ibid).

⁴⁵*The Federalist*, No. 1.3

⁴⁶"The Examination No. XVII," Mar. 20, 1802, *Papers*, XXV.576.

⁴⁷H to Washington, May 5, 1789, *Papers*, V.335-7. "Men's minds are prepared for a pretty high tone in the demeanour of the executive; but I doubt whether for so high a tone as in the abstract might be desirable." Ibid., V.335.

influence on society. This would be necessary in any society, but it was particularly necessary in the early Republic because of the unsettled state of public affairs. This activity, too, would be part of establishing the tone of the government. Would the National government be a retiring and weak element in society or would it be assertive and strong? Hamilton's policies reflected his assessments of the problems inherent in republican governments and of the particular problems which confronted the nation. Madison would later accuse Hamilton of trying to "administer" the Constitution into a new form. Hamilton, rightly or wrongly, did not see it this way; he was merely governing in the way public officials must always govern.

At the outset we drew attention to Hamilton's belief that an intemperate zeal for liberty was a danger inherent to all popular governments. It was especially so in the United States because of the Revolution which had inflamed popular passions. Popular governments mirror the inconstancies of human nature because they allow the passions of the people to flow freely without direction or restraint. This thought lies behind Hamilton's criticism of small republics. Hamilton applauded what he termed a "rational" spirit of liberty. Civil society requires that natural liberty be restrained for the purposes of obtaining the rational ends of liberty. These restraints take the form of laws and institutions which conduce to the achievement of those rational ends. A rational spirit of liberty will support necessary laws and institutions. Hamilton granted there was a "noble enthusiasm" for liberty which might carry a people above their natures and elicit great sacrifices for the public good as in the Revolutionary War.⁴⁸ The enthusiasm for liberty was not, however, a *reliable* support. In the case of the American Revolution, he observed that it began to wane soon after the beginning of the war. After the Revolution, a jealousy of power and an ignorance of the "practical business of government" prevented the Continental Congress from adopting essential measures.⁴⁹ In his "Continentalist" essays, Hamilton describes a people

⁴⁸"The Farmer Refuted." *Papers*, I.156.

⁴⁹Hamilton made this argument frequently. See, e.g., "The Continentalist No. I." July 12, 1781, *Papers*, II.649-52.

unfit for independence: irrationally jealous of government power; prone to speculation, but ignorant of the practical business of government; and of a narrow colonial temperament which prevented them from thinking "continentally," as he put it.

Hamilton believed that the Constitution called upon the people to put aside their prejudices and submit to a greater degree of restraint than that to which they were accustomed. What precisely did he have in mind? The idea of the extended republic has by tradition come down as the most impressive element of the Framers' plan as interpreted by Publius. There is, however, reason to believe that Hamilton would have questioned this emphasis. Hamilton's Convention notes on "Madison's Theory" state precisely his points of disagreement. There was, he granted, truth in both its main principles--representation and a multiplicity of interests--"but they do not conclude so strongly as he supposes." Hamilton noted, first, that an assembly of representatives would be subject to all the passions of "popular assemblies" and, second, that demagogues might still play a role in even quite large marginal electorates. With respect to Madison's principal weapon, a multiplicity of interests, he questioned whether majority factions might not *easily* form around regional interests, "imaginary lines" of difference, or measures generally popular, such as paper money.⁵⁰ These reservations amount to a questioning of the efficacy of what Madison termed a "republican remedy for the diseases most incident to republican government" outlined in *The Federalist* No.10.⁵¹ In these differences, one might detect the beginnings of the rift that would soon divide Hamilton and Madison.

An early letter of Hamilton's provides an important insight into his understanding of the Constitution in this regard. The letter was concerned chiefly with financial matters, but Hamilton included the following recommendation.

We want a Minister of War, a Minister of foreign Affairs, a minister of Finance and a Minister of marine. There is always more decision, more dispatch, more secrecy, more responsibility where single men, than when bodies are concerned. By a plan of this kind, we should blend the advantages of a Monarchy with those of a republic in a happy and beneficial Union. Men will

⁵⁰"Notes for June 6,1787." *Papers*, IV.165-6.

⁵¹*The Federalist*, No.10.62.

only devote their lives and attentions to the mastering of a profession on which they can build reputation and consequence which they do not share with others.⁵²

This was admittedly a war time recommendation, but he repeated the gist of the suggestion in the *The Federalist*. There Hamilton uses the language of energy, secrecy, decision, and so on, to describe the benefits of a unitary executive. In *The Federalist* No. 9, Hamilton, citing Montesquieu as authority, spoke of blending the advantages of a monarchy and a republic, but with the exception of his remarks on suppressing domestic faction, his discussion contains little that would shock republican sentiments. When he comes to speak of the executive, he uses the neutral technical language of "energetic" government, rather than of the advantages of a monarchy. We pay so much attention to this early statement because of the light it sheds on Hamilton's view of republican government or, more precisely, on how its defects might be remedied. Institutions which correct for the inconstancy of human nature by providing wisdom, energy, and stability must be added to the republican form. One can see the development of this idea in Publius' treatment of the Senate, the Judiciary, and the Executive.⁵³

Hamilton believed the honors attached to these offices would attract, and the modes of election or appointment select, men of talent who were moved by a "love of power" or, in the best cases, a "love of fame."⁵⁴ There is no reason to see these motives as stark alternatives. More than likely, Hamilton believed that there existed a spectrum of characters. When he was called upon to specify what he regarded as the qualifications for high political office he usually mentioned character, fortune, and ability; qualities which we would usually associate with the idea of the gentleman.⁵⁵ In a free society, where the door was "equally open to all," there would be a

⁵²H to unknown addressee, Dec. 1779, *Papers*, II. 246.

⁵³See, e.g., *The Federalist*, Nos 62-63, 70-72, & 78. There are persuasive reasons for attributing the disputed Nos 62-63 to Hamilton. See McDonald, *Hamilton*, 387n.29.

⁵⁴The phrase "love of power" occurs in *The Federalist* No. 17.101 and "love of fame" in No.72.470.

⁵⁵See, e.g., H to Robert Morris, April 30, 1781, *Papers*, II.605; *The Federalist*, No. 36.217. Francis Corbin, a Southern Federalist, wrote to Hamilton complaining about Republican attacks on wealth, independence, and talent: "In short, with few Exceptions everything that appertains to the character of a gentleman is *ostracised*. That yourself and Mr Jay should be no

few "strong minds" whose natures would carry them to the top, but these would be exceptions.⁵⁶ It is apposite to note that, according to Montesquieu, the "principle" of monarchies is honor, or the concern for place and reputation.⁵⁷ Hamilton noted on many occasions the role which reputation is to play in the government of the Republic. In many cases, he seems to have regarded it as the most effective check or balance on public officials.⁵⁸ In Hamilton's view, the Constitution of the United States established a compound system of government which, while strictly republican at its base, contained elements which were at odds with republican or democratic manners.

Hamilton's view of the responsibility of the national government is intimately connected with his theory of constitutional interpretation.⁵⁹ His understanding of constitutional government is in turn a reflection of his first principles. Legitimate government derives its powers from the consent of the governed. The United States Constitution was, he noted, an act of "national reason": a decision on the part of the people to relinquish part of their natural liberty for the purpose of achieving the rational ends of liberty. The extent of this delegated authority in the United States was set down in the Constitution. Hamilton believed that the text of the Constitution is the chief source for determining the meaning of the document. As Publius, he observed that the judiciary possesses only the power of "judgement" and none of "force" or "will."⁶⁰

Favourites in Virginia then is not to be wondered at." July 20, 1794, *Papers*, XVI.611-2.

⁵⁶ *The Federalist*, No. 36.217.

⁵⁷ *The Spirit of the Laws*, trans. Thomas Nugent, (New York: Hafner Press, 1949), Bk III. Ch.vii.

⁵⁸ Stourzh provides a highly illuminating discussion of Hamilton's views on power and responsibility. *Alexander Hamilton*, pp.180-86.

⁵⁹ Hamilton's advocacy of a liberal construction of the national government's powers has led to a false impression of Hamilton's assessment of the importance of a written constitution. The importance of the Constitution, indeed, seemed to rise in Hamilton's estimation as the character of American political life became more and more clear to him.

⁶⁰ *The Federalist*, No.78.504.

While all constitutional authority is in Hamilton's view delegated authority, this does not imply any want of authority on the part of government. It did not imply, as Jefferson suggested, any need to frequently return to the people for guidance. Hamilton thought the Constitution's language was broad and general to reflect the essential nature of the instrument.

Constitutions of civil government are not to be framed upon a calculation of existing exigencies, but upon a combination of these with the probable exigencies of ages, according to the natural and tried course of human affairs. Nothing, therefore, could be more fallacious than to infer the extent of any power, proper to be lodged in the national government, from an estimate of its immediate necessities.⁶¹

Hamilton's assessment of the "probable exigencies of the ages" stressed two considerations: first, the impossibility of predicting the type and scope of national emergencies and, second, the necessity that all governments undertake "liberal and enlarged plans for the public good."⁶²

Both factors figured prominently in Hamilton's arguments for a liberal construction of constitutional powers.

The great rhetorical power of Hamilton's Bank Opinion is in large part derived from his opening argument that

every power vested in a government is in its nature *sovereign*, and includes by *force* of the *term*, a right to employ all the *means* requisite, and fairly *applicable* to the attainment of the *ends* of such power; and which are not precluded by restrictions and exceptions specified in the constitution, or not immoral, or not contrary to the essential ends of political society.

This rule, Hamilton continued, "is in the general system of things . . . essential to the preservation of the social order."⁶³ Once one accepts the priority of this concern, which is a natural consequence of Hamilton's first principles, then one is, more or less, forced to go along with him. Moreover, "the nature and objects of government itself" recommend that constitutional powers, especially those which concern the "general administration" be liberally construed.

The means by which national exigencies are to be provided for, national inconveniences obviated, national prosperity promoted, are of such infinite variety, extent and complexity that there must, of necessity be great latitude of discretion in the selection and application of those means. Hence consequently, the necessity and propriety of exercising the authorities entrusted to a government on the basis of a liberal construction.⁶⁴

⁶¹ Ibid., 34.204-5.

⁶² See *The Federalist*, No.30.186.

⁶³ "Opinion on the Constitutionality of the Bank," *Reports*, p.84 (hereafter cited as "Bank Opinion").

Hamilton's view stands in clear contrast to Smith's opinion that the duties of the sovereign are "plain and intelligible to common understandings" (WN IV.ix.51). Hamilton's interpretation of the financial and commercial powers granted by the Constitution follow in the spirit of these remarks. He argued the case for the constitutionality of a national bank on the grounds that it bore a "natural and direct" relation to several of the enumerated powers of the national government and, therefore, came within the ambit of the necessary and proper clause.⁶⁵ Furthermore, Hamilton saw in the Constitution a design "to vest in congress all the powers requisite to the effectual administration of the finances of the United States." "As far as concerns this object," he continued, "there appears to be no parsimony of power."⁶⁶ Hamilton understood the power to regulate commerce among the states and foreign commerce in a similarly broad way.⁶⁷ Hamilton understood by "commerce" all forms of trade, manufacturing, and agriculture and by "regulation" he envisaged much more than what Smith termed "an exact administration of justice." Legitimate regulations of trade may involve the active encouragement of commerce. Hamilton thought it natural that the laws of the United States "give encouragement to the enterprise of our own merchants and to advance our navigation and manufactures." Thus, a national bank established for the purpose of providing "facilities to circulation and a convenient medium of exchange and alienation . . . is to be regarded as a regulation of trade."⁶⁸ Hamilton granted that such regulation would have of necessity an impact on state and local commerce, but he believed a meaningful distinction could be drawn between interstate and state commerce. He observed that

⁶⁴Ibid., p.90.

⁶⁵Hamilton cited the following powers: to raise taxes; to raise loans; to regulate commerce; to provide for the common defense; and to make provisions for the property of the United States (Ibid., p.110).

⁶⁶Ibid., p.112.

⁶⁷Hamilton's interpretations are in keeping with the common usages of commerce and regulation at the time. See William Letwin, "The Economic Policy of the Constitution," *Liberty, Property, and the Foundations of the American Constitution*, ed. Ellen Frankel Paul and Howard Dickman, (Albany: State University Press, 1989), pp.124-5.

⁶⁸"Bank Opinion," p.107.

regulations which relate to the "details" of buying and selling fall "more aptly within of the local jurisdiction than within that of the general government, whose care must be presumed to have been directed to those general political arrangements concerning trade on which its aggregate interests depend."⁶⁹ It is also clear from various remarks that Hamilton thought the Constitution manifested a design to involve the National government deeply in the protection of property rights. This was above all evident to him from the prohibitions on the state governments from interfering in the rights of property.⁷⁰

Hamilton emphasized the text of the Constitution itself in its ordinary meaning as the chief guide to interpreting the document. He did not, however, believe that this method would remove all grounds of controversy. Some controversy over the actual meaning of the Constitution would remain. In such cases, "a reasonable latitude of judgement must be allowed."⁷¹ Beyond the issue of constitutional interpretation a, perhaps, more important level of controversy concerned laws which were constitutional, but imprudent. The nature of the objects of federal power require that the powers granted to the national government be construed liberally. Against Madison's claim that liberal construction was more appropriate when applied to the State constitutions, Hamilton responded that the national government's powers concern "the variety and extent of public exigencies, a far greater proportion of which and of a far more critical kind are the objects of national than of state administration." Hamilton continued that the "greater danger of error, as far as is supposable, may be a prudential reason for caution in practice, but it cannot be a rule of restrictive interpretation."⁷²

The expediency of exercising a particular power, at a particular time, must indeed depend on the circumstances; but the constitutional right of exercising it must be uniform and invariable - the same today as tomorrow.⁷³

⁶⁹ Ibid.

⁷⁰ See below.

⁷¹ Ibid., p.91.

⁷² Ibid., p.90.

⁷³ Ibid., p.88.

When discussing the question of whether the constitution gave the national government the power to establish companies with exclusive privileges or monopolies, he observed that, while grave doubts were justified as to the utility of such companies, he could not find any reason which would question the constitutional authority of the United States to establish them.⁷⁴ Hamilton's understanding of constitutional government left room for constitutional, but bad, government.⁷⁵ There is in Hamilton scheme of government no substitute for a "wise administration."⁷⁶

As we noted earlier, Hamilton thought the National government faced one over-riding political problem in the strong attachments of the people to the State governments. Hamilton's handling of this issue brings us to consider the other half of his republicanism. What place did Hamilton see for republican virtue in his compound scheme? This is particularly pertinent because, not only did Hamilton seek to win the allegiance of the people by a wise administration, he also sought through active measures to weaken the power of the States. How could republican virtue survive if the most republican institutions in the nation were weakened? Was Hamilton even concerned that it might not?

Hamilton analysed the nature of state power in *The Federalist*. The "terrors and benefits" of the State governments were immediately before the eyes of the people. As a result, the States were the natural objects of the people's "affections." The States directed significant channels of interest and influence and, in addition, they retained one "transcendent advantage," namely, "the ordinary administration of civil and criminal justice." The States would remain the "immediate and

⁷⁴ibid., p.112. See Ibid., p.104, for another example.

⁷⁵In *The Federalist* No.78, Hamilton argues that the courts have a role in mitigating the severity of bad laws. Here, however, he seems to have in mind laws which infringe on private rights. We have in mind laws which affect the public good. On the importance of the distinction between public good and private rights in *The Federalist*, see David Epstein, *The Political Theory of The Federalist* (Chicago: The University of Chicago Press, 1984), p.64.

⁷⁶Note that Hamilton began the series of essays on the executive in *The Federalist* with a quotation from Pope's "An Essay on Man." Hume began his essay "That Politics May be Reduced to Science" with this same quotation. Viewed in terms of Hume's essay, Hamilton remarks may be expressed as a claim that there is no scientific solution, i.e., institutional solution, to the political problem.

visible guardians of life and property" and so control the "great cement of society." The objects possessed by the National government were, by contrast, "general interests" which would be perceived only by "speculative men." There was a way out for the National government. The "force" of the principle which attached men to their local governments might be "destroyed" by a much better administration on the part of the National government. And there was every reason to believe that the National government would be better administered because of both the superior manner in which it was constructed and the greater allurements it offered to talented individuals.⁷⁷ In addition, the National government would be strengthened, Hamilton thought, if it could extend its influence into the "internal concerns" of the States that might "interest the sensations of the people."⁷⁸

Many commentators draw a dichotomy between government based on the management of interests or passions and government based on virtue. Hamilton is usually placed in the interest or passions camp, and his attitude towards the States is seen as a consequence. Yet, Hamilton did not draw as sharp a dichotomy as some imagine. He was aware of that kind of "virtue," that all consuming devotion to the public good, which Montesquieu had said is the principle of republics. He rejected this all consuming virtue on the grounds that it was unsuited to modern conditions and, more fundamentally, that it was unnatural. That said, Hamilton spoke of the need for virtue in politics on many occasions, perhaps more often even than those of the Founding generation who are often, rightly or wrongly, associated with the virtue camp. As we have already indicated, Hamilton was aware of the gentlemanly virtues and saw a place for them in politics. He did not, however, propose that the state foster these virtues directly, perhaps expecting they would flourish on their own in the right kind of society. Hamilton took up the issue of republics and virtue explicitly in his draft of Washington's "Farewell Address." His remarks can be seen as an attempt

⁷⁷ *The Federalist*, Nos 17.101-2 and 27.167.

⁷⁸ *Ibid.*, No. 17.102-4 & No. 27.168.

to clarify one of the great debates of his day. Hamilton observed that it was indeed true that "virtue or morality" is a "main & necessary spring of popular and republican governments." Hamilton's equation of virtue and morality is significant because it implies something different from a statement that "virtue" is the principle of republics. This inference is confirmed in the immediate sequel where Hamilton notes that "the rule extends with more or less force to all free Governments." What did Hamilton mean by "virtue or morality"? The most likely meaning would encompass law abidingness, keeping one's promises, and, perhaps, what de Tocqueville would later call "self-interest rightly understood."⁷⁹ Hamilton's Convention notes record his belief that free governments is preferable to monarchy because of its tendency "to interest the sensations of the community in its favour" and to "beget public spirit and public confidence."⁸⁰ Nor did Hamilton see a fatal contradiction between commerce and virtue. Commerce when properly managed might foster virtue. He refers to "industry and frugality" as "auxiliaries" to "good morals" in his draft of Washington's "Farewell Address."⁸¹ It is in this truncated sense of virtue that Hamilton regarded it as essential to the support of free governments.⁸² And it was this sort of virtue that Hamilton sought to foster directly, as we shall see when we consider his economic program.

Hamilton's attitude towards the States is generally taken as a sign of his rejection of virtue as

⁷⁹Montesquieu's description of English public spiritedness deserves mentioning. See *Spirit of the Laws*, XIX.27. Cf. H to James Duane, Sept., 3, 1780, *Papers*, II.413: "I contend where the public good is evidently the object more may be effected in governments like ours than in any other. It has been a constant remark that free countries have ever paid the heaviest taxes. The obedience of a free people to general laws however hard they bear is ever more perfect than that of slaves to the arbitrary will of a prince."

⁸⁰June 1, 1787, *Papers*, IV.163.

⁸¹Hume remarks that indolence encourages the growth of unnatural appetites. "Of Refinement in the Arts," *Essays*, p.270.

⁸²In the "Defense of the Funding System," Hamilton annotated the section dealing with the issue of government by interests with the thought that "nothing should be appealed to but the virtue and good sense of the people." As Hamilton was dealing with the National Government's relationship with its creditors, there is little reason to believe that the virtue he had in mind was anything more (or less) than self-interest rightly understood. Cf. McDonald, *Hamilton*, p.48, who builds a great deal around this one piece of marginalia.

fundamental to good government. Hamilton's neglect of republican virtue may not, however, have been as complete as many imagine. In *The Federalist* No. 9, Hamilton observed that the actual states were many times larger than the small republics Montesquieu had in mind when he spoke of virtue and democratic republics. They were, for this reason, mongrel entities which, though they did little good, threatened the stability of the entire nation. Hamilton proposed several times the abolition of the States as they then existed, but it is not clear that he wished to see the establishment of a unitary system. In one of his last statements on the subject he recommended that the "subdivision" of the large states ought to be a "cardinal point" of Federal policy. He did not, however, see this as the abolition of states, noting that "small states are doubtless best adapted to the purposes of local regulation and to the *preservation of the republican spirit*."⁸³ On the basis of this remark, it seems Hamilton did see a role for old-style republican virtue.

What of the long term? Would this mix of qualities give rise to a new form of society? Hamilton foresaw an assimilation of manners and interests taking place throughout the country.⁸⁴ The final destination of the nation in Hamilton's scheme is difficult to discern. We might draw guidance from Montesquieu's discussion of the manners, morals, and institutions of Great Britain for an indication of the direction in which the nation would *tend*: "Their laws not being made for one individual more than another, each considers himself a monarch; and men in this nation are rather confederates than fellow citizens (*concitoyens*)."⁸⁵

⁸³H to Jonathan Dayton, Oct.-Nov. 1799, *Papers*, XXIII.604.

⁸⁴"New York Ratifying Convention, Third Speech of June 21," 1788, *Papers*, V.58.

⁸⁵*Spirit of the Laws*, XIX.27.

D. Progress and Corruption

This last point is of particular relevance to Hamilton's assessment of the so-called "luxury debate." The "luxury debate" concerned the possible harmful effects of commerce on society and, in particular, the implications of commerce for a republican citizenry.⁸⁶ This issue is of considerable significance for our consideration of Hamilton's economic program because it was his opinion on this issue that divided him from many of his opponents.

Concern about the effects of commerce came from many quarters. Even Adam Smith went some distance in this direction, for example, with his criticism of the effects of manufacturing on the character of ordinary laborers. In the United States, Jefferson and Madison questioned the wisdom of introducing certain forms of commerce. They resisted the introduction of a sophisticated financial system into the United States on the grounds that it would have a corrupting influence on the people and the government. Jefferson and Madison saw Hamilton's plan as a conspiracy to subvert the republican system. In his *Anas*, Jefferson wrote that Hamilton's whole fiscal scheme had but two objects: first, "as a puzzle, to exclude popular understanding and inquiry" and second, "as a machine for the corruption of the legislature." Each step of the plan threw "pabulum to the stock jobbing herd" thereby adding new recruits to the "phalanx of the Treasury." The National Bank was, Jefferson believed, the means of perpetuating the entire system which would eventually result in an English style monarchy.⁸⁷ He and Madison saw banks and high finance as un-republican because they gave rise to a taste for luxury and provided a fund for the corruption of the government. For similar reasons, they opposed the state encouragement of manufacturing. Hamilton's mercantilism threatened to corrupt the republican form by creating a class of government pensioners and subjecting a large

⁸⁶This debate is reviewed by Drew McCoy, *The Elusive Republic* (Chapel Hill: University of North Carolina Press, 1980), pp.14-47.

⁸⁷*The Life and Selected Writings of Thomas Jefferson*, ed. Adrienne Koch and William Peden, (New York: Modern Library, 1944), pp.121-124.

section of society to a degrading form of labor. On both these issues, Madison and Jefferson maintained complex and, perhaps, not entirely consistent positions. While they were opposed to Hamilton's program, they were not opposed to economic liberty. As a result, it appears they were willing to accept the long run consequences of economic development. As Drew McCoy has noted, both Madison and Jefferson were intimately acquainted with Smithian political economy. Both men seem to have accepted something like Smith's idea of a natural progress of opulence. One might say that Jefferson and Madison attempted to find a republican niche within Smith's account of the natural progress of opulence by prolonging as long as possible the agrarian phase of development. McCoy observes that Madison especially anticipated a problem - a "crisis" in fact - arising from the long term implications of economic development for republican government.⁸⁸ There is certainly something to this argument, but it may understate the degree to which both Madison and Jefferson thought these problems could be reduced by establishing the correct institutions and by spreading the doctrine of the rights of man.

Hamilton was acquainted with the the "luxury" issue and seems to have given it considerable thought. Before considering Hamilton's opinions, though, we must first say something about David Hume's judgment on this issue. Hume took up the luxury question directly in an essay entitled "Of Refinement in the Arts" which has so many resonances in Hamilton that it demands our attention. Hume set out to prove, first, that ages of luxury were "both the happiest and most virtuous" and, second, that although luxury might be carried too far it was not the most pernicious vice which could beset political societies.

Hume began by defining the terms of the argument. Luxury is, he argued, a word of

⁸⁸*The Elusive Republic*, pp.236-259. Appleby rejects McCoy's linking of the Republicans with the classical republican tradition and argues that they embraced a progressive commercial vision of the future. But her reconsideration of Jeffersonian political economy also ends on a pessimistic note. Capitalism, she believes, is no longer compatible with a republican vision. *Capitalism and a New Social Order: The Republican Vision of the 1790s* (New York: New York University Press, 1984), pp.104-5. A consideration of Hamilton's more optimistic outlook would seem to be warranted.

"uncertain signification" which "may be taken in a good and bad sense."

In general, it means great refinement in the gratification of the senses; and any degree of it must be innocent or blameable, according to the age, or country, or condition of the person. The bounds between virtue or vice cannot be exactly fixed, more than in any other moral subjects. To imagine, that the gratifying of any sense, or the indulging in any delicacy in meat, drink, or apparel is itself a vice, can never enter into a head, that is not disordered by the frenzies of enthusiasm.⁸⁹

Here Hume mentions explicitly religious enthusiasm, but one might also mention his judgement of Sparta as unnatural because of the demands it made on its citizens. Hume thought that to indulge in luxuries is natural and that where such indulgence does not conflict with the other legitimate demands of morality it is "free from every shadow of blame and reproach."⁹⁰

In addition, Hume argued that luxury is the great incentive to activity of all kinds, and it was in "action," "the quick march of the spirits," that he located the chief sources of human satisfaction as well as the chief source of the progress of society. In "the more luxurious ages" "*industry, knowledge, and humanity* are linked together by an indissoluble chain." Where industry and the arts flourish "men are kept in perpetual occupation."

The mind acquires new vigour; enlarges its powers and faculties; and by an assiduity of honest industry, both satisfies its natural appetites, and prevents the growth of unnatural ones, which commonly spring up, when nourished by ease and idleness.⁹¹

This improvement is not limited to commerce. "The spirit of the age affects all the arts: and the minds of men, being once roused from their lethargy, and put into a fermentation, turn themselves on all sides, and carry improvements into every art and science." "Profound ignorance" and "superstition" are banished and men enjoy "the privilege of rational creatures, to think as well as to act, to cultivate the pleasures of the mind as well as those of the body." Progress brings city life into a flourishing state, along with all the arts of society and politeness. Knowledge of government proceeds at a pace with improvement in the other arts, and enlightened government, Hume contends, is moderate and humane. Finally, progress is crucial

⁸⁹"Of Refinement in the Arts," *Essays*, p.268.

⁹⁰*Ibid.*, p.269.

⁹¹*Ibid.*, p.270.

to the accumulation of the wealth and power necessary for any state. Hume concluded that the "same age, which produces great philosophers and politicians, renowned generals and poets, usually abounds with skilful weavers, and ship carpenters." And, we might add, the most advanced industry and finance. He admitted that at times luxury might become pernicious, but insisted that the dangers had been exaggerated. Nor is progress harmful to liberty. He rejected the common opinion of his day which attributed the downfall of Rome to corruption. The real causes, he thought, were "ill-modelled governments" and "the unlimited extent of conquests." The progress of the arts had been favorable to English liberty because it had "drawn authority and consideration to that middling rank of men, who are the firmest basis of public liberty."⁹²

Hume thought it impossible for a legislator to remove every vice and replace it with a virtue. When faced with a choice, he would be wise to choose luxury over indolence, because luxury is accompanied by many goods and indolence by none. As he remarked elsewhere: "No advantages in this world are pure and unmixed."⁹³ Hume's economic essays argue that the "infallible and universal" "method" for rousing men from their lethargy is to excite other forms of industry which afford the agricultural laborers a ready market for their surplus produce.⁹⁴ Many elements of this general argument in favor of progress appear in Hamilton's consideration of these same issues. Furthermore, as we will see, Hamilton agreed with Hume on the means of promoting progress.

In his Valedictory Report on public credit, Hamilton briefly mentioned the objections which some "speculative men urge against national and individual opulence" and remarked that "perhaps upon careful analysis of facts they would have much less support in them than is imagined, inasmuch as they attribute to those systems effects which are ascribed more truly to the passions of men and perhaps to the genius of particular governments."⁹⁵ His clearest

⁹²Ibid., pp.270,271,273,276,277.

⁹³"Of the Rise and Progress of the Arts and Sciences," *Essays*, p.130.

⁹⁴"Of the Populousness of Ancient Nations," *Essays*, p.420. See also: "Of Commerce," pp.260-4; "Of Taxes," pp.344-5; and "Of Interest," pp.299-301.

statement on the problem of luxury occurs in the Defense of the Funding System. Hamilton followed Hume and Montesquieu in believing that there was something unnatural about the military discipline of the ancient republics. A modern republic will rely on a more realistic assessment of man's capacity for virtue. The "true politician," he remarked, will not attempt "to travel out of human nature and introduce projects for which man is not fitted."⁹⁶ Like Hume, Hamilton saw that progress is something of a two edged sword. Science, opulence, national strength, public credit, even liberty itself give rise to certain abuses. Opulence, for example, may promote "luxury extravagance dissipation and effeminacy." Echoing Hume, but adding a touch of his own, he observes that

Tis the portion of man assigned to him by the eternal allotment of Providence that every good he enjoys, shall be alloyed with ills, that every source of his bliss shall be a source of his affliction -- except Virtue alone, the only unmixed good which is permitted to his temporal Condition.⁹⁷

The "true politician," he concluded,

takes human nature (and human society its aggregate) as he finds it, a compound of good and ill qualities of good and ill tendencies -- endued with powers and actuated by passions and propensities which blend enjoyment with suffering and make the causes of welfare the causes of misfortune. . . . [H]e will favour those institutions and plans which tend to make men happy according to their natural bent, which multiply the sources of individual enjoyment and national resource and strength -- taking care to infuse in each case all the ingredients which can be devised as preventives and correctives of the evil which is the eternal concomitant of temporal blessing.⁹⁸

Hamilton's thinking provides a rule of prudence for the liberal statesman dealing with the question of progress. Hamilton emphasized again and again that in public affairs there are few courses of action which do not entail some disadvantages.⁹⁹ With respect to Hamilton's republicanism, his advocacy of moderation and energetic government were but the two sides of the same coin. The zeal for liberty must be moderated in order to permit the energy which all

⁹⁵Jan. 16, 1795, *Papers*, XVIII.108.

⁹⁶July 1795, *Papers*, XIX.59. The old republics and the new revolutionaries made similar mistakes.

⁹⁷Cf. Pope, "An Essay on Man," IV.310: "Virtue alone is happiness below."

⁹⁸July 1795, *Papers*, XIX.60-1.

⁹⁹See, e.g., *Reports*, "Bank Opinion", pp.55-6, "Manufactures,"154.

governments require. Here, his moderation points to a prudent regard to the mixed character of public life.¹⁰⁰

Hamilton did not view progress with what Ralph Lerner has termed Hume's "breezy equanimity."¹⁰¹ He stressed that even beneficial progress must be managed and its unwholesome side-effects mitigated; and, to this extent, it might be said that Hamilton was concerned with corruption. His political economy, as we will see, consciously strove to confine acquisitiveness to useful ends and to cultivate certain virtues. Several other features of his attitude to progress deserve mention. He departs from Hume, for example, on the implications of opulence for national security. Hume had argued that resources, including human resources, can be shifted easily from civilian to military uses when emergencies arise.¹⁰² Hamilton, by contrast, insisted on the utility of standing armies. A favorite project of Hamilton's (and Washington's) was a military college for the purposes of keeping alive "military *spirit* and military knowledge."¹⁰³ We suspect Hamilton also balked at Hume's notorious free-thinking. He certainly did at Jefferson's. Particularly after the French Revolution, Hamilton showed a considerable eagerness to bolster religious views among the people. With reference to the French Revolution's assault on Christianity, he remarked that the "politician, who loves liberty . . . knows that morality overthrown (and morality *must* fall with religion) the terrors of despotism can alone curb the imperious passions of man, and confine him within the bounds of social duty."¹⁰⁴ In his draft of Washington's Farewell Address, a speech which Hamilton hoped to render "*importantly* and

¹⁰⁰See Owens, "The Surest Guardian of Liberty," pp.69-77,152-58,290-4. Cf. Pangle's remarks on Montesquieu and moderation, *Spirit of Modern Republicanism*, pp.89-94. Others have stressed that implicitly Hamilton seems to have accepted a lower standard of virtue as the price of progress. See, e.g., Flaumenhaft, "Alexander Hamilton," p.169.

¹⁰¹"Commerce and Character," p.13.

¹⁰²"Of Commerce" p.261.

¹⁰³"Draft of Washington's Eighth Annual Message to Congress." November 10, 1796, *Papers*, XX.385. See also H to Jonathan Dayton, Oct.-Nov. 1799, *ibid.*, XXIII.603.

¹⁰⁴"The Stand No. III." April 7, 1798, *ibid.*, XXI.405.

lastingly useful," he wrote that morality needs the aid of "generally received and divinely authoritative religion."¹⁰⁵ The question of Hamilton's own beliefs is impossible for us to answer. For our purposes, it is, however, sufficient to note that Hamilton provided a coherent argument for the political utility of religion.

In conclusion, it is useful to categorize Smith's and Hamilton's political principles as responses to the problems created by the universalist principles of natural right established by Hobbes and Locke. Smith's solution, as we have seen, proposed a theory of politics and of political economy which minimized the role of the state in society and which, therefore, secured for the subjects of such states a liberal way of life. Smith pointed to the way in which private ambition, public interest, and moderate politics could be reconciled. Despite his distrust of universal principles, Smith advanced a system of his own. In place of a system, Hamilton believed that a "wise administration" was the only solution to the political problem. The success of Hamilton's solution to the political problem would seem to depend on at least two things. First, society must produce the appropriate kind of men to fill the high offices of state and, second, these men must be respected in the society. Otherwise, there would be little chance that such characters would be consistently placed in high office. In short, the form of government requires a particular kind of society. Montesquieu observed that in monarchies censors are unnecessary because "the nature of honour is to have the whole world as its censor."¹⁰⁶ Here is where Hamilton's political economy becomes so important. In what follows, we suggest that through his economic program Hamilton sought to create a society, a "world," which complemented his political program. In this light, Hamilton's dispute with Jefferson can be seen as a dispute over the way of life appropriate for a republican society.

¹⁰⁵"Draft of Washington's Farewell Address." July 30, 1796, *Ibid.*, XX.265,280.

¹⁰⁶*Spirit of the Laws*, V.19, p.70. The thought was repeated by Hume who stressed the role of honor in the conduct of individuals in contrast to the irresponsible behavior of assemblies. "Of the Independency of Parliament," *Essays*, pp.42-3.

CHAPTER SIX
ALEXANDER HAMILTON AND THE FOUNDATION
OF THE COMMERCIAL REPUBLIC

A. The New Science of Political Economy

Hamilton was, as we have noted, deeply sceptical of the possibility of theorizing about human affairs. One might infer from his remarks that there is something in the nature of human affairs which defies theorizing beyond a certain point. While Hamilton presents no systematic discussion of this idea, there are several discussions of specific issues which are highly illuminating. Hamilton thought of the exigencies of foreign affairs as incalculable and, therefore, not liable to prediction. His constitutional theory reflects this awareness by placing responsibility for this function in the executive branch which is by its nature suited to dealing with unexpected events. The uniform course of human events, as revealed to us by experience, shows that war is a constant in human affairs, and that, moreover, the commercial revolution of the preceding centuries had done nothing to change this fact. This view lies behind Hamilton's dismissal of the "apostles of perpetual peace" as "visionary or designing men."¹ Hamilton's scepticism is also evident in his response to the French Revolution. Hamilton wrote to Lafayette in the early stages of the Revolution.² He wished the French well in their bid for liberty, but gave three reasons for caution: the vehemence of the French people; the arrogance of their aristocrats; and the "reveries" of France's "philosophic politicians." Hamilton's criticism of the French Revolution increasingly came to center on the role of philosophical speculation in politics. He stressed repeatedly that the theory of the French revolution was founded on a false idea of the nature of

¹"Defense of the Funding System," July 1795, *Papers*, XIX.24 and *The Federalist* No.6.29.

²Oct. 6, 1789, *Papers*, V.425-7.

the human passions and, therefore, of the foundations of society. As a result, the Revolution constituted a threat to civilization and, rightly or wrongly, he perceived it as a direct threat to the stability of the United States.³ Hamilton's distrust was not reserved for republican theorizing only. He expressed similar reservations about the conduct and character of Federalist President John Adams, Jefferson's intellectual companion in his later years.⁴

We suggest that similar distrust of theorizing may be seen in Hamilton's economic views. This distrust, we believe, dictated his response to the new science of political economy as it was formulated by men like Smith. This response is clear in Hamilton's early writings such as the *Continentalist* essays. In what follows, we point out the continuities between these early comments and Hamilton's later views. It is uncertain when Hamilton first read Smith, but in the "*Continentalist*" he does take up the "cant phrase" that "trade must regulate itself." "This is," he remarked, "one of those wild speculative paradoxes, which have grown into credit among us, contrary to the uniform practice and sense of the most enlightened nations." Any man acquainted with "commercial history" would, he thought, reject this argument. Hamilton's reference to "commercial history" is significant. In the immediate sequel, he describes how the legislators of Europe had promoted commerce by judicious laws and policies. Trade in England, Hamilton contended, first expanded under the auspices of Elizabeth I and "its rapid progress there is in great measure to be ascribed to the fostering care of government in that and succeeding reigns." In France, under a different "spirit" of government, Colbert "laid the foundation of the French commerce, and taught the way to his successors to enlarge and improve it." The Dutch, to whom Hamilton granted "pre-eminence in the knowledge of trade," by a "judicious and unremitted vigilance of government" had been "able to extend their traffic so much beyond their natural and

³Hamilton's dire assessment bears a remarkable similarity to Burke's, as do his criticisms of the role of theorizing in politics. Burke, however, went much further than Hamilton and questioned the value of theorizing itself.

⁴See H to Rufus King, Oct. 2, 1798, *Papers*, XXII.192, "Letter on the Character and Conduct of John Adams," Oct.24, 1800, *Ibid.*, XXV.186-90.

comparative [*sic*] advantages."⁵ Hamilton's reference to the "spirit" of the nation is important. Like Montesquieu and Steuart, he thought that commercial policy must be tailored to the particular character of the nation. Furthermore, these remarks have significant implications for our understanding of Hamilton's belief that commerce had improved international relations. Smith held a similar view. Hamilton did not, however, see the spread of commerce as part of a process, but rather as the result of deliberate policy and enlightened practices of the day.⁶

Hamilton traced the opinion that trade must regulate itself to a misunderstanding of Hume's essay "Of the Jealousy of Trade." Hamilton's comments deserve extensive quotation.

The scope of [Hume's] argument is not, as is by some supposed, that trade will hold a certain invariable course independent on aid, protection, care or concern of government; but that it will, in the main, depend on the comparative industry moral and physical advantages of nations; and that though, for a while, from extraordinary causes, there may be a wrong balance against one of them, this will work its own cure, and things will ultimately return to their proper level. His object was to combat that excessive jealousy on this head, which has been productive of so many unnecessary wars, and with which the British nation is particularly interested; but it was no part of his design to insinuate that the regulating hand of government was either useless, or hurtful. The nature of government, its spirit, maxims and laws, with respect to trade, are among those constant moral causes, which influence its general results, and when it has by accident taken a wrong direction, assist in bringing it back to its natural course.⁷

It is important to stress Hamilton's understanding of the natural course of trade: trade does not take an "invariable" course independent of the active encouragement of government. The natural course of things is, to a large extent, a product of the "moral causes" which act on the nation and over which the government through its laws and institutions has a significant influence. Thus, to a significant degree, the "comparative advantages" of a nation, that is, those things in which it would be wise for the nation to specialize, are created rather than natural.⁸ The natural course of trade was not, for Hamilton, the necessary result of the workings of the desire to better

⁵"The Continentalist No.V" April 18, 1782, *Papers*, III.77-8.

⁶Hamilton's belief that commerce has a humanizing influence on international affairs is discussed by Flaumenhaft, "Alexander Hamilton," pp.149-74. Of course, Hamilton did not go so far as Smith and Montesquieu in this regard.

⁷*Papers*, III.77.

⁸Robert Gilpin notes Hamilton's anticipation of recent international trade theory challenging the classical description of comparative advantages as "natural." *The Political Economy of International Relations* (Princeton, N.J.: Princeton University Press, 1987), p.220.

our condition as it was for Smith. Hence, trade does not take an "invariable" course. The maxim "trade must regulate itself" is "reasonable" if it is extended only to the idea that "violent attempts" in opposition to the natural course of trade, in Hamilton's sense, are likely to miscarry.⁹

In this same essay, Hamilton discussed some matters of taxation policy. Here, he stressed a general principle which he would repeat time and again. The specific question at hand concerned on whom certain duties ultimately fall: consumer; producer; or middleman. The importance of the question stemmed from the competing claims of coastal and inland states. "Theory" suggested that the consumer pays the duty, but Hamilton argued that experience suggested otherwise. His discussion concludes with the following remark.

General principles in subjects of this nature ought always to be advanced with caution; in an experimental analysis there are to be found such a number of exceptions as to render them very doubtful; and in questions which affect the existence and collective happiness of these states, all nice and abstract distinctions should give way to plainer interests and to more obvious and simple rules of conduct.¹⁰

The gist of Hamilton's argument is very significant in view of the economic methodology which Smith popularized. Smith, we recall, attempted to look for the underlying continuities and forces which shape economic life. He moved from the surface phenomenon to the purportedly more real but unseen phenomenon, for example, money price to real price. Hamilton, by contrast, stayed closer to the surface of things. Partly as a result, the designation "theorist in political economy" is a neutral and sometimes an unkind one for Hamilton. It is of more than passing interest that Hamilton generally refers to Hume as "sound," "solid," "sensible," "ingenious," or simply as "one of the ablest politicians," but to our knowledge never as a "theorist of political economy."¹¹

Hamilton also drew attention to the problem of extended chains of reasoning. "I am aware," he said, "how apt the imagination is to be heated in projects of this nature and to overlook the

⁹"The Continentalist No.V" April 18, 1782, *Papers*, III.76.

¹⁰*Ibid.*, p.81.

¹¹"Remarks at the Constitutional Convention," June 22, 1787, *Papers*, IV.217; *The Federalist*, No.85.574; "Defense of Funding System," July 1795, *Papers*, XIX.67.

fallacies which often lurk in first principles."¹² An early letter provides a clear statement of his position.

A great source of error in disquisitions of this nature is the judging of events by abstract calculations, which though geometrically true are practically false as they relate to the concerns of beings governed more by passion and prejudice than by an enlightened sense of their interests. A degree of illusion mixes itself in all the affairs of society.

This general point is made in a discussion of the depreciation of government paper during the revolution. Hamilton's remarks here are a highly illuminating illustration of the general principle.

The quantity of money is certainly a chief cause of its decline; but we find that it has depreciated more than five times as much as it ought by this rule. The excess is derived from opinion, a want of confidence. In like manner we deceive ourselves when we suppose the value will increase in proportion as the quantity is lessened. Opinion will operate here also; and a thousand and one circumstances may promote or counteract the principle.¹³

Hamilton would, on numerous occasions, stress the dependence of economic and, especially, financial matters on considerations of opinion and confidence.

According to Hamilton, Human affairs display a variability which defies mathematical reasoning. What he relies on in its place is difficult to state precisely. Although he sometimes speaks of the science of finance or political economy, he seems to have in mind something different from Smith and which is closer to the art of political economy as it was conceived by practitioners before Smith.¹⁴ Two things might be said. First, Hamilton did not deny that it is possible to reason usefully about such matters. Reasoning must, however, take into account the unpredictable nature of human affairs. Second, Hamilton placed great stress on experience, especially the practice of nations and statesmen.¹⁵ It is generally the "enlightened statesman" and not the "theorists of political economy" to whom he turns for his final opinions. Where there is a conflict, Hamilton usually defers to the general policy of nations.

¹²H to _____, Dec. 1779, *Ibid.*, II.248.

¹³*Ibid.*, II.242.

¹⁴Perhaps also to the unsystematic elements of Hume's political economy.

¹⁵In his "Bank Opinion," Hamilton concluded his discussion saying that in "all questions of this nature the practice of mankind ought to have great weight against the theories of individuals." *Reports*, p.112.

A final point from "The Continentalist No.V" deserves our attention. At the end of the paper Hamilton remarked on what he regarded as a unfortunate element of the "national temper," namely, that it was "too much of a characteristic of our national temper to be ingenious in finding out and magnifying the minutest disadvantages, and to reject measures of the most evident utility even of necessity to avoid trivial and sometimes imaginary evils." He continued as follows:

We seem not to reflect, that in human society, there is scarce any plan, however salutary to the whole and to every part, by the share, each has in the common prosperity, but in one way, or another, and under particular circumstances, will operate more to the benefit of some parts, than of others. Unless we can overcome this narrow disposition and learn to estimate measures, by their general tendency, we shall never be a great or a happy people, if we remain a people at all. ¹⁶

Hamilton's statement would seem to imply a rejection of Smith's notion that there is a natural harmony of interests which arises from commerce and which links a people and even nations together. It is important to note Hamilton's conviction that "scarce any plan" is immediately in the interests of all. Because there is a gap between short term and long term outcomes, decisions have to be made with respect to the public good. Hamilton's understanding substitutes in its place a politic awareness of the long term interests of the nation, its greatness and happiness, and a consequent willingness to defer to the public good.¹⁷ Such an awareness obviously must characterize both leaders and led in a republican system. It is significant that Hamilton frames the issue as a matter of national character.

It has been argued that Hamilton underwent a change of heart on the question of free trade after reading Smith and that this change is reflected in the differences between his early pamphlets, including "The Continentalist," and his later reports.¹⁸ We do not see any such recantation. This is not to say that Hamilton's views did not change on some points.¹⁹ It is clear

¹⁶April 18, 1782, *Papers*, III.82. Cf. Madison, *The Federalist*, No.10.56, when he refers to these as so many "judicial determinations."

¹⁷Stourzh observes that Hamilton had an idea of an independent common good, as distinct from a simple aggregation of individual interests. *Alexander Hamilton*, pp.186-9.

¹⁸Louis M. Hacker argues that Hamilton changed his mind on the subject of free trade. *Alexander Hamilton in the American Tradition* (New York: McGraw-Hill, 1957), p.166. For a similar view of Hamilton as a Smithian, see W.D. Grampp, "Adam Smith and the American Revolutionists," *History of Political Economy*, 11 (1979), p.180.

that Hamilton moderated the simple mercantilism of his earliest pamphlets, perhaps in light of his reading of Hume. We believe that the mature Hamilton arrives around 1779 with the first of a series of financial letters. After this time, Hamilton changed his mind on specific questions, but his basic approach remained the same. We will show this in our comments on Hamilton's reports. For confirmation of our view, we might simply quote from a later piece by Hamilton on Jefferson's administration. Against the "adepts of the new-school" who argue that "*Industry will succeed and prosper in proportion as it is left to the exertions of individual enterprise,*" Hamilton responded that

[t]his favourite dogma, when taken as a general rule, is true; but as an exclusive one, it is false, and leads to error in the administration of public affairs. In matters of industry, human enterprize ought, doubtless, to be left free in the main, not fettered by too much regulation; but practical politicians know that it may be beneficially stimulated by prudent aids and encouragements on the part of Government. This is proved by numerous examples too tedious to be cited; examples which will be neglected by indolent and temporizing rulers who love to loll in the lap of epicurean ease, and seem to imagine that to govern well, is to amuse the wondering multitude with sagacious aphorisms and oracular sayings.²⁰

The first object of government, wrote Madison in *The Federalist* No.10, is the protection of the diverse and unequal faculties of acquiring property. Hamilton agreed. He and Madison also agreed that the first object of government was insecure under the Articles of Confederation. Among the causes that had brought the United States close to the "last stage of national humiliation" were the collapse of public and, in its wake, private credit. In Hamilton's view, the States had played a large role in the decay of public credit by their irresponsible policies. The Constitution took significant steps to curtail the activities of the States by prohibiting them from coining money, emitting bills of credit (paper money), passing *ex-post-facto* laws, and laws impairing the obligations of contracts. The Constitution also armed the National government with significant economic powers. The question soon arose as to how these powers were to be utilized. As we have indicated, this question went beyond mere economics and involved a

¹⁹McDonald, e.g., notes a gradual refinement in Hamilton's views on banking. *Hamilton*, pp.39-41.

²⁰"The Examination No.III," Dec. 24,1801, *Papers*, XXV.467.

debate about the kind of society which the United States would become. We will proceed by considering the two main elements of Hamilton's economic program: the restoration of public credit and the encouragement of manufactures.

B. Public Credit

The first element of Hamilton's plan, and the element to which he accorded first priority, was the restoration of public credit. Unlike his Report on Manufactures, the plan for the restoration of public credit was for the most part implemented. His first Report on Public Credit was a far-ranging plan for a total revision of the nation's financial system.

The Report adopts a very high tone; nothing short of the character and reputation of the nation are at stake in this seemingly limited question of public finance. The gravity of the debt situation is the clearest reason for such a tone. By the time Hamilton took office payment of the interest on much of the domestic debt and on portions of the foreign debt had been suspended. Prior to Ratification there seemed little chance payments would be resumed. Default was a real possibility.²¹ With the Constitution in place a glimmer of hope appeared. This unsettled situation, however, provided an opportunity for local and foreign speculators. The economic consequences of a default would have been enormous. Hamilton feared something in addition to economic disaster. He repeatedly stressed that the modern system of war made a sound public credit essential to national defense. Easy access to loans allowed nations to sustain and pay for their wars without devastating their national wealth.²² A further reason for the high tone of the

²¹ See editor's Introduction to the "Report on Public Credit." *Ibid.*, VI.61.

²² A constant theme of critics of public credit was the extent to which it facilitated wars. See, e.g., Smith WN V.iii. Hamilton did not grant that wars were more frequent, only that they were longer. Moreover, he thought they exhibited less barbarity. "Defense of the Funding System" July 1795, *Papers*, XIX.56-7. Hamilton's stress on the importance of public credit for national security is confirmed by Paul Kennedy's recent consideration of war and finance in the eighteenth century, *The Rise and Fall of the Great Powers* (London: Fontana Press, 1988), pp.98-111.

Report was his belief that the actions of the "infant government" on this matter would set the tone for the future activities of the government. The plan would establish habits for the people and the government. Hamilton told Washington that while it might appear the Report's proposals were tainted by an unnecessary "rigor," the times demanded a "peculiar strictness and circumspection."²³

We will consider Hamilton's plan by discussing five of the major issues it dealt with: discrimination; assumption; revenues; funding; and the National Bank. We will make substantial use of Hamilton's unpublished *Defense of the Funding System*, written around July of 1795, soon after he left the Treasury. The *Defense* provides key insights into Hamilton's deepest thoughts on the issue of public credit.

1. Discrimination

The first great issue to arise in the debate over Hamilton's plan was that of "discrimination." Hamilton's plan made no distinction between the current and the original holders of the public debt. This was criticized by many, James Madison included, on the grounds that it involved an injustice to those original holders of the debt who had parted with their securities for prices far below par.²⁴ Without measures to compensate these original holders, there would be at least the impression that the original holders had been sacrificed for the benefit of speculators in the debt. Hamilton replied that honoring the precise terms of the contracts was dictated by reasons of policy, justice, the obligation of contracts, and constitutional obligation. He granted that there

²³H to Washington, May 28, 1790, *Papers*, VI.438. This aspect of Hamilton's program is discussed by Owens, "The Surest Guardian of Liberty," pp.113-39.

²⁴The Congressional debate is reviewed by McDonald, *Hamilton*, pp.171-188. E.A.J. Johnson discusses the broader opposition to Hamilton's plan, *The Foundations of American Economic Freedom: Government and Enterprise in the Age of Washington* (Minneapolis: University of Minnesota Press, 1973), pp.101-119.

might be cases of hardship or inequity, but perhaps not as many as the advocates of discrimination contended. He noted that the original holders might have sold their holdings for good reasons or bad, and that a similar uncertainty applied to the buyers. Moreover, to discriminate would be to penalize those who had shown faith in the government's ability to meet its commitments.²⁵ Hamilton argued the Constitution prohibited discrimination by stating that "all debts contracted and engagements entered into before the adoption of the Constitution shall be as valid against the United States under it, as under the confederation."²⁶

Hamilton's chief argument against discrimination centered on the obligation of the government to meet the precise terms of the contract. The public debt was, he argued, issued on the basis of a contract between the government and the original owners of the debt, or their assignees.²⁷ In making such an agreement, he would explain in his last official report, the government "exchanges the Character of Legislator for that of a moral Agent, with the same rights and obligations as an individual. Its promises may be Justly considered as excepted out of its *power to legislate*, unless in aid of them." This "great principle" governed the case and prevented interference with the obligation of contracts in any way whether by discrimination or, as Congress later suggested, by taxing stock transfers. Where there were reasons to believe that the original contracts were invalid, this was a judicial matter and not the proper object of legislation. Any violation of this principle was "in the nature of a resort to first principles."²⁸ By "first principles" Hamilton appears to have meant the principles applicable in the state of nature. Such measures would, he thought, alarm an important class of citizens who had hoped for relief under the Constitution.²⁹ The rejection of discrimination, on the other hand, would be an

²⁵"Public Credit," *Reports*, pp.8-10.

²⁶*Ibid.*, p.11; Art VI, First Para.

²⁷"Public Credit," *Reports*, p.8.

²⁸"Valedictory Report" Jan. 16, 1795, *Papers*, XVIII.119; H to Washington, May 28, 1790, *Ibid.*, VI.436.

²⁹"Conjectures about the new Constitution" Sept. 17-30, 1787, *Papers*, IV.175. Discrimination would have alienated one of the government's few firm sources of support.

important signal to the monied interest that the national government could now be regarded as the chief guardian of an important species of property.

Hamilton's use of first principles to understand the nature of contracts is of peculiar significance. It bears out Marshall's remark in *Ogden v Saunders* that "we must suppose that the framers of our constitution were intimately acquainted with the writings of those wise and learned men whose treatises on the laws of nature and nations have guided public opinion on the subject of obligation and contract."³⁰ Hamilton's wide interpretation of the nature of contract foreshadows Marshall's great judicial decisions which insulated a large section of economic life from State interference.³¹ Forrest McDonald has even speculated that it was Hamilton who was responsible for placing the contracts clause in the Constitution.³² While this speculation is no more than a possibility, there is every reason to believe Hamilton heartily endorsed the provision and thought it wise that the National government should follow its spirit. With respect to the constitutional prohibition on interference with the obligation of contracts by the States, Hamilton observed that the "example of the national government in a matter of this kind may be expected to have a far more powerful influence, [than] the *precepts* of its constitution."³³ Hamilton is often

³⁰ *John Marshall: Major Opinions and Writings*, John Roche ed., (New York: Bobbs-Merril, 1967), p.158. Marshall, of course, followed Hamilton closely in other areas of constitutional interpretation.

³¹ Hamilton would have agreed with Marshall's decision in *Fletcher v Peck*, (1810) (6 Cranch 87), which held that land grants are charters and his dissent in *Ogden v Saunders*, (1827) (12 Wheaton 213), where he argued that state bankruptcy laws involved an interference with the obligation of contracts. See, respectively, Hamilton, *The Law Practice of Alexander Hamilton*, Julius Goebels & Joseph Smith ed., (New York: Columbia University Press, 1980), IV.356-435 and H to Stephen Van Rensselaer, Jan. 27, 1799, *Papers*, XXII.442-3.

³² "The Constitution and Hamiltonian Capitalism," in *How Capitalistic is the Constitution?* ed. Robert A. Goldwin and William S. Schambra, (Washington: American Enterprise Institute, 1982), pp.57-64.

³³ H to Washington, May 28, 1790, *Papers*, VI.436-437. Hamilton's belief in the power of the example of the national government is also illustrated in his attitude to the question of whether the national government should issue paper money, i.e., "emit bills of credit," a power which the constitution explicitly denied to the states. Hamilton implies that the national government does in principle have this power, but that it would be very unwise to use it. Hamilton did not object to paper money issued by banks. "Bank Report," *Reports*, pp.62-3.

compared with Hobbes on the issue of contracts. It should be remembered that Hamilton, unlike Hobbes, stresses the honorable duty to live up to one's promises, rather than any subjectivism implicit in his understanding of contracts.³⁴ Hamilton's position is, perhaps, more clearly stated as opposing democratic subjectivism or, simply, injustice, rather than as endorsing philosophic subjectivism. Hamilton saw the rejection of discrimination as an act of financial and moral rectitude which he hoped would have a lasting impact on the nation.

The decision to honor the precise terms of the contracts was, however, subject to one great and rather embarrassing difficulty: the resources of the nation were insufficient to meet the obligations of those contracts. Hamilton's handling of this problem is instructive. He had to find a way which modified the immediate demands placed on the resources of the national government without losing the confidence of the public creditors. Such a modification would have to take place on "fair and equitable" principles. On this basis every proposal put to the public creditors "ought to be in the shape of an appeal to their reason and to their interest; and not to their necessities."³⁵ In an early letter, Hamilton had described the essence of successful financial policy as a "union of public authority and private influence."³⁶ Although Congress did not adopt Hamilton's plan as a whole, it deserves our consideration.³⁷ The compromise Hamilton hit upon involved raising new loans which creditors could subscribe to in the public debt. The new loans were to be raised by issuing securities which yielded an annual average rate of interest of 4%, but which were redeemable only at specified times. Hamilton believed this last feature

³⁴See editor's introduction to the "Report on Public Credit," *Papers*, VI.53. McDonald stresses Hamilton's efforts to introduce the *lex mercatoria* into American law. McDonald loosely follows Morton Horwitz's "instrumentalist" interpretation of the change in commercial law in the United States which argues that the law was changed to serve an emerging capitalist class. *The Transformation of American Law 1780-1860* (Cambridge: Harvard University Press, 1977). Marshall's understanding, which stresses the philosophical basis of the law, is at least as plausible.

³⁵"Public Credit," *Reports*, p.22.

³⁶H to _____, Dec. 1779, *Papers*, II.149.

³⁷Congress adopted a less sophisticated, but more politically acceptable, plan based on a clumsy formula. Hamilton was deeply involved in the negotiating. The compromise forced Hamilton to change his plan to monetize the debt in certain ways. See McDonald, *Hamilton*, pp.185-88,192-3.

presented an attractive prospect for investors because of the greater certainty involved.³⁸ The old debt was redeemable at the pleasure of the government. These securities would be particularly attractive if, as expected, interest rates were to fall. Hamilton also recommended that these securities be issued in a variety of forms (six in all). He reasoned as follows:

In nothing are the appearances of greater moment, than in whatever regards credit. Opinion is the soul of it, and this is affected by appearances, as well as realities, By offering an option to the creditors, between a number of plans, the change mediated will be more likely to be accomplished. *Different tempers will be governed by different views of the subject.*³⁹

The variety of forms would cater to different expectations of the future held by public creditors.

The plan as a whole would improve the public credit by creating the appearance of an improvement. The quicker the government could rearrange its finances so that it could meet its interest commitments the quicker its credit would be restored because then the unsightly embarrassment of heaping up arrears of interest would be removed. As this effect would be achieved by a reduction in the payment of interest, not by an improvement in the financial situation of the country, it would exist more in the mind than in the realities of the situation. But, as Hamilton stressed, appearances were as important as realities in matters of finance and credit.

2. Assumption

Assumption of the state debts was the most far-reaching of Hamilton's proposals. Assumption refers to the transfer of responsibility for the state war debts to the National government. With a single stroke, it transformed the entire financial system of the United States. As we noted earlier, Hamilton believed the Constitution manifested a design to place the management of the public finances in the national government. Assumption appeared to him to be a Constitutional measure which would virtually replace fourteen separate financial systems with

³⁸Those who wished to keep their 6% securities could do so, but they would have to rely on annual appropriations rather than permanent "funding." (See below.)

³⁹"Public Credit," *Reports*, p.31.

one unified system under the control of the national government.

Assumption recommended itself to Hamilton for reasons of both justice and policy. As with the issue of discrimination, exact justice was impossible. The settlement of the intergovernmental debts arising from transfers between the National and State governments during the war posed a particular problem for establishing the precise amount of the debts to be assumed.⁴⁰ But, on balance, he believed assumption to be the best of the possible alternatives. The war debt was, in Hamilton's high phrase, "the price of liberty." It was only just that the nation as a whole should pay for debts incurred in a national struggle. Justice was further served in that assumption held out the best hope of meeting the needs of the State creditors. Each creditor deserved equal treatment which was unlikely to happen if matters were left to the individual States. Moreover, in view of past indiscretions by the States, there were reasons to believe that the State creditors would fare much worse than the creditors of the National government.⁴¹

There were, in addition, strong motives of policy in favor of assumption. First, assumption would facilitate management of the debt by allowing the burden of taxes to be spread across the several States. Without assumption it would be impossible to establish a rational taxation policy throughout the country. States would be pitted in competition for resources with the National government and competitions among the states would be intensified.

Second, a unified financial system would unite the public creditors, thereby removing potential sources of conflict between the creditors of different States and between State and national creditors in the same States. This was important from the point of view of gaining support

⁴⁰The "settlement" of these debts was a task fraught with difficulty because of poor record keeping and because there were suspicions that some States had engaged in activities not directly connected with the war effort. Hamilton thought it would have been better if every state had renounced its claims and to have proceeded "on the principle that each state in the war had exerted itself to the full extent of its faculties." This "great and liberal measure" was impossible because of conflicts among the States. "Defense of the Funding System," July 1795, *Papers*, XIX.44-5.

⁴¹"Public Credit," *Reports*, pp.14-5; "Defense of Funding System." July 1795, *Papers*, XIX.30.

for the government and for facilitating management of the debt.⁴²

Third, by removing the issue from the reach of the States, assumption was likely to secure better the interests of the public creditors. Hamilton did not regard the mere parchment provisions of the Constitution against interference with contracts as a sure guarantee that they would be observed, especially if a state found itself in difficulty as a result of the heavy debt burden. It was, he argued, wise to second the spirit of those provisions "by removing as far as it could be constitutionally done out of the way of the States whatever would oblige or tempt to further tampering with faith credit (and) property."⁴³

Fourth, without assumption disruptive population movements were likely. Heavily burdened states would be depopulated. Heavy state taxes might also provoke a westward movement which would "retard the progress in general improvement and . . . impair for a greater length of time the vigor of the Nation by scattering too widely the elements of resource and strength. It [would] weaken government by enlarging too rapidly the sphere of its action and weakening by stretching out the links of connection between the different parts." To give such an impulse would be to lay "artificial disadvantages" on the settled parts of the country. This was a major concern for Hamilton. At the Constitutional Convention, he had questioned the ability of any government to govern a nation of so great an extent as the United States.⁴⁴

Finally, he argued that assumption would help to increase the popularity of "our infant Government by increasing the number of ligaments between the Government and the Interests of individuals." Hamilton, as we have noted, believed the most dangerous challenges facing the Union to be those of "controlling the eccentricities of state ambition and the explosions of factious passions." Assumption presented itself as a constitutional measure which extended the National

⁴²*Ibid.*, *Papers*, XIX.30-1,36-7.

⁴³*Ibid.*, *Papers*, XIX.32.

⁴⁴*Ibid.*, *Papers*, XIX.39-40; "Speech on a Plan of Government." June 18, 1787, *Papers*, IV.191. There was also an economic dimension to the problem of westward expansion. See below.

government's reach into the "internal concerns" of the states. It would win friends and manifest the powers of the National government. Hamilton claimed, however, that "it was the consideration upon which I relied least of all." This remark is significant because of the emphasis placed on this motive by generations of historians and by the Republicans at the time.⁴⁵ The influence of the debt, Hamilton observed, was temporary and limited because it would ultimately be extinguished and, moreover, because it would gradually be accumulated in fewer and fewer hands. He noted also that assumption necessitated the imposition of new and unpopular taxes which would hurt the government's popularity.⁴⁶

We might add that there was a certain logic in Hamilton's procedure. His initial appeal to the commercial classes who held the debt was in several senses a necessity. The restoration of public credit was the first priority for economic reasons and for reasons more strictly political. Public credit was intimately related to private credit. With the system of public credit in tatters it was impossible to believe that there could be a return to prosperity. For the public credit to be reestablished, it was essential that the confidence of this class be boosted, otherwise they would not be "bullish" enough to bring about the desired appreciation in the price of government securities.⁴⁷ Moreover, as the Republicans liked to point out, war with Great Britain was a real possibility. Without credit, resistance to the British would be doomed. Hamilton had to make his policies appeal to the nation's creditors. Furthermore, in the short run, there was also no one else to turn to. Any appeal to the people would be problematic until the benefits of the new administration were brought home in more tangible ways. Even then there was no guarantee that the system of public credit would gain support.⁴⁸ The commercial classes could by contrast

⁴⁵See, e.g., Charles Beard, *An Economic Interpretation of the Constitution of the United States* (New York: Free Press, 1913), pp.100-1.

⁴⁶"Defense of Funding System." July 1795, *Papers*, XIX.41. Hamilton's remarks are confirmed in Nelson's anti-Hamiltonian polemic when he points to the narrowness of the Federalists' electoral support. *Liberty and Property: Political Economy and Policy Making in the New Nation 1789-1812* (Baltimore: The Johns Hopkins University Press, 1987), pp.110-1,165.

⁴⁷See E.A.J. Johnson, *Foundations of Economic Freedom*, pp.148-51.

understand what was in their own best interests. Hamilton many times refers to the commercial and financial classes as "enlightened," by which he seems to mean that they are more farseeing than the ordinary course of men.⁴⁹

These are important responses to the Republican criticism. Hamilton believed that liberty and an unequal distribution of wealth went hand-in-hand. But this does not mean that he believed in government solely for the interests of the wealthy. Joyce Appleby who, with some gusto, has recently repeated the Jeffersonian criticism of Hamilton, claims that the Republicans held out a vision of hope for the common man.⁵⁰ The economic aspects of Appleby's general view have been developed by John R. Nelson. Nelson claims that Hamilton's whole "stabilization policy" turned on the appeasement of the monied interest. This is an exaggeration.⁵¹ Hamilton's preferences for the wealthy are those which are necessarily associated with the liberal understanding of property. This does not mean, however, that Hamilton's program did not envisage substantial benefits for the ordinary man.⁵² The difference between Hamilton and Jefferson chiefly concerned the means of doing so.

⁴⁸"The effect of energy and system," Hamilton remarked, "is to vulgar and feeble minds a kind of magic which they do not comprehend and thus they make false interpretations of the most obvious facts." "Defense of the Funding System" *Papers*, XIX.36.

⁴⁹See, e.g., "Public Credit," *Reports*, pp.3,4,14,22,24,32,39.

⁵⁰*Capitalism and a New Social Order: The Republican Vision of the 1790s*(New York: New York University Press, 1984), pp.14,53-4,88. Caton notes the Jeffersonian bias of most historians of the Federalist era. *Politics of Progress*, p.479-80 n.25. With Appleby and other recent commentators, this bias is explicit.

⁵¹*Liberty and Property*, p.165.

⁵²Hamilton remarks a number of times on the prospective benefits for all classes. See *Reports*, "Public Credit,"pp.5,6,7, "Bank Report," pp.54,68, "Manufactures," p.164.

3. Taxes

In his first "Report on Public Credit," Hamilton noted that without funding it would be difficult to take an "effectual command of the public resources."⁵³ The context pointed, however, to the need to avoid conflicts with the states on taxation matters. Hamilton's Report recommended an increase in various existing import duties and the introduction of an excise duty on distilled spirits made in the United States in order to meet the new government's new financial needs. A version of his excise tax recommendations was finally passed into law on March 3 of 1791. Hamilton's *Defense of the Funding System* reveals another, fuller, dimension of his thinking on the assumption question. There he remarks that it would have been easiest for the national government to forego assumption. This policy would have allowed it to avoid raising taxes and put it in a better position to court popularity. But such an unwillingness to risk "reputation & quiet" would have shown "pusillanimity & weakness" in the responsible individual. It would also be shortsighted because in the long run a "weak and embarrassed government never fails to be unpopular." Tackling hard problems is the only way to establish respect. Hamilton saw a further reason for assuming the burden at that particular time. It was an opportunity to "leave the field of revenue more open to the US & thus secure to [the] government for the general exigencies of the Union including defense and safety *a more full and complete command of the resources of the nation.*"⁵⁴

Hamilton remarked in *The Federalist* that the resources of a nation are seldom more than equal to its needs.⁵⁵ No limit, then, should be set on the resources available to the national government once it has been charged with unlimited ends. Hamilton believed the Constitution conferred such a power, but that political obstacles remained. As Publius, he had noted that

⁵³"Public Credit," *Reports*, p.13.

⁵⁴"Defense of the Funding System." *Papers*, XIX.29-30, emphasis added.

⁵⁵*The Federalist*, No.30.185.

resistance to taxation, especially excises, was characteristic of Americans.⁵⁶ He was no doubt also aware of the fate of Walpole's administration in Great Britain which collapsed partly as a result of attempting to introduce an excise.⁵⁷ Hamilton reasoned that a delay in exercising these powers would be construed as a disapproval of this form of taxation. On the other hand, circumstances were propitious for implementing an excise immediately because of the popularity of both Washington and the government immediately following Ratification.⁵⁸ The object of assumption presented itself as a chance to "occupy the ground" in new areas of taxation by way of a seemingly unobjectionable excise tax on distilled spirits. One might conclude that if assumption was a pretext for anything, it was for the introduction of new forms of taxation.

We might also consider Hamilton's excise scheme in light of his objective of increasing the prominence of the National government. The imposition of an excise tax, however confined, extended the reach of the national government into those "internal concerns" which Hamilton saw as central to obtaining the allegiances of the people as a whole. As it turned out, Hamilton literally had to "take command" and "occupy the ground" of Western Pennsylvania during the Whiskey Rebellion to execute the excise law.⁵⁹ Hamilton's handling of this problem is highly illuminating because it is an indication of his views on how to establish the authority of a new government. He was quite aware that there would be difficulties in implementing this new form of taxation. While he showed a willingness to try and improve the provisions of the excise law, he nevertheless quickly signalled his desire to see the law strictly upheld. Writing to Washington, he called for *vigorous measures against offenders, noting*

that it is indispensable, if competent evidence can be obtained, to exert the full force of the Law against the offenders, with every circumstance that can manifest the determination of the

⁵⁶Ibid., No.12.72.

⁵⁷After praising excise taxes, Smith gives an account of Walpole's demise (WN V.ii.k.40).

⁵⁸Hamilton had made this tactic clear to Washington. H to Washington, Aug. 18, 1792, *Papers*, XII.236-7.

⁵⁹Jacob Cooke provides a balanced account of Hamilton's involvement in the Whiskey Rebellion, *Alexander Hamilton*, (New York: Charles Scribner's Sons, 1982), pp.146-57.

*government to enforce its execution; and if the processes of the courts be resisted, as is rather to be expected, to employ those means, which in the last resort are put in the power of the executive.*⁶⁰

Writing as "Tully" during the height of the disturbances in 1794, Hamilton made clear the reason for his concern.

What is the most sacred duty and the greatest source of security in a Republic? . . . An inviolate respect for the Constitution and the Laws - the first growing out of the last. Respect for law is the great security against enterprises by the rich and powerful and demagogues who would climb on the shoulders of faction to the tempting seats of usurpation and tyranny.⁶¹

The Rebellion presented an opportunity to manifest the "terrors" of the National government while avoiding actual bloodshed by deploying an overwhelming number of troops.⁶² Historian Jacob Cooke remarks that the Whiskey Rebellion showed "Hamilton at his most imperious."⁶³

Hamilton might respond that, at times, governments must be imperious and be seen to be imperious.

4. Funding

The question of funding takes us to the heart of some of the most important issues which separated Smith from Hamilton. Here the question of the status of money moves to the center of our discussion, as it will when we discuss Hamilton's plan for a national bank. Smith, as we argued earlier, relegated money to a purely instrumental role in the economy, thus permitting a distinction between the real and the nominal economy. In addition, he attacked the character of the financial classes on the ground that they were useless.⁶⁴

⁶⁰H to Washington, Sept. 1, 1792, *Papers*, XII.312. Cf. H to John Dickinson, Sept. 25-30, 1783, on the means of establishing the authority of new governments, *Papers*, III.451-2.

⁶¹"Tully No. III." August 28, 1794, *Papers*, XVII.159.

⁶²H to Washington, Aug. 2, 1794, *Papers*, XVII.16.

⁶³*Alexander Hamilton*, p.153.

⁶⁴See Ch. 4 above and WN V.iii.56: "a creditor of the public, considered merely as such has no interest in the good condition of any particular portion of land, or in the good management of any particular portion of capital stock. . . . Its ruin may in some cases be unknown to him, and cannot directly affect him." Variations on this theme appear in the writings of American opponents of the monied interest. See Johnson, *Foundations of American Economic Freedom*, pp.101-19.

Funding refers to the practice of providing for the payment of the interest on debt by earmarking specific revenues for that purpose on a permanent basis.⁶⁵ Funding may or may not be accompanied by provision for the retirement of the principal of the debt. Smith disapproved of funding observing that it "has gradually enfeebled every state which has adopted it" (WN V.iii.57). Hamilton's first Report on Public Credit did not provide for the retirement of the principal by a specified date. A number of commentators have noticed that Hamilton's first Report on Public Credit established only an "appearance" that the debt would be paid off.⁶⁶ Again, for the purpose of policy it was the appearance which counted as much as the reality of the situation. The "sinking fund" Hamilton proposed at that time was more an instrument for economic management than a means of extinguishing the debt. It was really a means of supporting the price of public securities during difficult times by "open market operations." This was, he believed, all that could be done at the time. Hamilton's final report on public credit, the so-called Valedictory Report, provided for the creation of a larger sinking fund which planned for the retirement of the debt over a period of thirty years. The original sinking fund was expanded and given legislative protection against political interference. Hamilton also recommended that as a "rule of administration" any new debt be accompanied with the means for its extinguishment in a specified time. Hamilton was quite serious about this provision and it remains one of the most orthodox aspects of his financial program. We should note, however, that Hamilton envisaged a somewhat leisurely extinguishment of the existing debt. His sinking fund was more flexible than the British precedents which he drew upon. While the debt would take longer to pay off, a less demanding sinking fund was less likely to be violated by the legislature. As a result, a reputation for sound financial management could be preserved even during difficult times.

⁶⁵Smith provides a helpful discussion of the practice at WN V.iii.12.

⁶⁶Smith provides a helpful discussion of the nature of sinking funds at WN V.iii.27-8. Funding and the sinking fund are discussed by McDonald. *Hamilton*, pp.163-88,223,248-50,304-5. On the importance of "appearances" with respect to the sinking fund, see Owens, "The Surest Guardian of Liberty" pp.134-9.

Funding appealed to Hamilton for a number of reasons. First, a more rapid extinguishment of the debt was simply impossible given the resources of the nation. Second, a system which earmarks funds for the provision of public debts on a permanent basis is superior to any that relies on annual provisions. With funding, creditors have a greater assurance of the permanent value of their holdings. Moreover, such a guarantee would be the surest way of raising the price of the depreciated securities to their par value, after which they would become an "object of ordinary and temperate speculation."⁶⁷ Hamilton's plan made a clear distinction between speculative purchases of the debt and investments which would be to the long term benefit of the nation. But, he remarked,

virtuous and sensible men lamenting the partial evils of all over-driven speculation know at the same time that they are inseparable from the spirit and freedom of Commerce & that the cure must result from the disease.⁶⁸

Speculation in the debt led to two "bubbles." On both occasions, Hamilton's Treasury acted to bring matters to a head and through the sinking fund to support the price of government securities.⁶⁹ Third, once the securities were at or near their par value foreign purchases would cease to be a drain on the nation's wealth. The inflow of capital could, then, be used for productive purposes.⁷⁰ Hamilton did not fear foreign investment in the debt because he saw it as absolutely necessary for a nation in the condition of the United States. Only with a continual inflow of hard money from abroad would it be possible to develop the nation's resources in an effective way. Finally, once prices stabilized the securities could act as money in a capital starved United States.

These last two arguments are crucial to Hamilton's scheme. Both are connected with Hamilton's opinion that the United States faced a critical shortage of capital. Hamilton's first priority

⁶⁷"Defense of Funding System." July 1795, *Papers*, XIX.62.

⁶⁸*Ibid.*, XIX.62.

⁶⁹See McDonald, *Hamilton*, pp.222-3,243-9.

⁷⁰With the debt selling below par, yields would be above current interest rates, i.e., the government would be paying more than it needed to and would be served better by new borrowings. See "Defense of Funding System," July 1795, *Papers*, XIX.62-3.

was the restoration of public credit, but he saw this goal as both a direct and indirect means of stimulating trade and industry in the United States. As we have noted, he believed such a plan was authorized by the words of the Constitution giving the national government a general power to regulate commerce for the public good.

Hamilton believed that the monetization of the public debt was a powerful means of increasing the amount of capital available for economic development. He described this as "*an artificial increase of capital*" which would pave the way for "*an absolute increase in capital or an accession of real wealth.*" Hamilton regarded the increase in "artificial wealth" as "an engine of business, or an instrument of industry and commerce" the positive effects of which had been demonstrated by the European nations, especially Great Britain. Hamilton's reasoning on this issue deserves close attention because it represents a deep departure from Smith.

Smith discussed the question of public debts in the concluding chapter of the *Wealth of Nations*.⁷¹ There he warned of a coming crisis due to the high levels of indebtedness which characterized most European governments. His warning echoed those sounded earlier by Hume and Montesquieu. Smith considered and rejected the argument that the public debts are a species of capital which contributes to trade and industry. The enthusiast for public debt, he argued,

does not consider that the capital which the first creditors of the public advanced to government, was, from the moment in which they advanced it, a certain portion of the annual produce turned away from serving in the function of a capital, to serve in that of a revenue; from maintaining productive labourers to maintaining unproductive ones, to be spent and wasted, generally in the course of the year, without even the hope of any future reproduction (WN V.iii.47).

The argument relies on the distinction between productive and unproductive labor. The accumulation of public debt involves the destruction of an already existing capital because a quantity of purchasing power is spent by the government in an activity which does not give rise to

⁷¹That Smith chose to emphasize the "colonial disturbances" and the debt problem in his last words to his readers is a significant indication of the priority he accorded them.

a vendible commodity. Smith believed the fallacies of the mercantile system were the source of the contrary view. His argument tries to dispel the illusion that the purchasing power remains alive in the form of the security issued by the government which he grants may be exchanged for money. Smith's view may be traced back to his understanding of labor as the "original purchase money" of all things. A commodity represents the various transformations which labor has produced on the raw materials provided by nature. A capital is such a commodity or the representation of an existing commodity in terms of money.

Hamilton first dealt with Smith's argument in his first Report on Public Credit, but he returned to it several times in his later Reports. Each return can be seen as a further clarification of his difference with Smith. Hamilton's response to certain "Theoretical Writers on Political Economy" takes the allegedly superficial view seriously.⁷² Hamilton begins by denying that the raising of funds by issuing securities involves the destruction of a capital.

Tis evident [it is] not annihilated, they only pass from the individual who lent to the individual or individuals to whom the government has disbursed them. They continue in the hands of their new masters to perform their usual functions, as capital.⁷³

Hamilton takes seriously the appearance that the purchasing power lives on in the sense that it is simply transferred from one group of citizens to another via the government. Implicitly, however, Hamilton denies Smith's distinction between productive and unproductive labor. According to Hamilton, not only is purchasing power or capital not destroyed, it is increased.

the lender has the bonds of the Government for the sum lent. These from their negotiable and easily vendible nature can at any moment be applied by him to any useful or profitable undertaking which occurs; and thus the Credit of the Government produces a new & additional capital.⁷⁴

In the Report on Manufactures, Hamilton attributes the "negotiable and easily vendible nature" of the bonds to the "estimation in which they are usually held by Monied men" and, hence, "in a sound and settled state of public funds, a man possessed of a sum in them can embrace any scheme of business, which offers, with as much confidence as if he were possessed of an equal

⁷²We will draw together his various arguments and present them logically, rather than chronologically.

⁷³"Defense of Funding System," July 1795, *Papers*, XIX.68.

⁷⁴*ibid.*

sum of Coin."⁷⁵ He explains in the Defense of the Funding System that the public debts are a form of "property": "All property is capital, that which can quickly and at all times be converted into money is active capital." Thus Hamilton did not define capital in terms of prior transformations of matter by labor, but in terms of the "estimation" in which various objects were held by the business community.

Hamilton appealed to experience for a confirmation of his view.

There are strong circumstances in confirmation of this Theory. The force of Monied Capital which has been displayed in Great Britain, and the height to which every specie of industry has grown up under it, defy a solution from the quantity of coin which that nation has ever possessed. Accordingly it has been coeval with its funding system, the prevailing opinion of men of business, and of the generality of the most sagacious theorists of that country, that the operation of the public funds has contributed to the effect in question.⁷⁶

Here again Hamilton relied on common experience and the views of enlightened statesmen rather than on theories, however persuasive and elegant. Just as Hamilton made a clear distinction between enterprise and speculation, he also made a clear distinction between money and wealth.

But though the funded debt is not in the first instance, an absolute increase in capital, or an augmentation of real wealth; yet by serving as a new power in the operations of industry, it has within certain bounds a tendency to increase the real wealth of the community, in like manner as money borrowed by a thrifty farmer, to be laid out in the improvement of his farm, may, in the end, add to his stock of real riches.⁷⁷

In essence, Hamilton's plan relied on future prosperity to pay off current indebtedness. It is clear that Hamilton did not see this as an exceptional way to stimulate economic activity. The funded

⁷⁵Reports, pp.150-1.

⁷⁶Reports,p.153. Hume, e.g., noted the effect of the public debt as a species of capital, although he attacked public debt in general. "Of Public Credit," *Essays*, p.93. Hume was concerned about the long run consequences of the debt. He took a similar position on the closely related issue of the effects of an expansion of the money supply. See "Of Money" in *Essays* pp.286-7. Of Hume's argument Keynes remarks:"Hume had a foot and a half in the classical world. For Hume began the practice among economists of stressing the importance of the equilibrium position as compared with the ever shifting transition towards it, though he was still enough of a mercantilist not to overlook the fact that *it is in the transition that we actually have our being.*" *The General Theory of Employment, Interest, and Money* (London: Macmillan, 1973), p.343. Smith abstracted from the transition altogether in his treatment of money. Cf. Smith LJ(B) 253: "[Hume] seems however to have gone a little into the notion that public opulence consists in money."

⁷⁷Reports, p.154.

debt operated in much the same way as "bank credit and in an inferior degree every species of private credit."⁷⁸

Hamilton did not endorse unlimited government borrowing. He noted that there were "respectable individuals, who from a just aversion to an accumulation of Public debt, are unwilling to concede to it any kind of public utility, who can discern no good to alleviate the ill with which they suppose it pregnant." While he could not agree with them, he granted that there would come a time when the accumulation of debt ceased to be useful. "Where this critical point is," he continued, "cannot be pronounced; but it is impossible to believe, that there is not such a point."⁷⁹

5. National Bank

Hamilton thought a national bank was necessary for the perfection of his economic program.⁸⁰ Hamilton's bank drew on English precedents, but it is also clear that his plan was deliberate and far-reaching in a way which exceeded the somewhat *ad hoc* development of the Bank of England. In addition to facilitating public finance, Hamilton's bank was intended to be a powerful instrument for the promotion of national prosperity.⁸¹

Hamilton begins the Report on a National Bank by observing that the question of banking was one in which the policies of "the principal and most enlightened nations" and the views of both "Theorists and men of business" were in agreement. Adam Smith was among those who had described the benefits of banking.⁸² Smith also seemed to approve of the Bank of

⁷⁸ *Ibid*, p.153.

⁷⁹ *Ibid*, p.154.

⁸⁰ Bray Hammond has argued that Hamilton was one of the first great theorists of central banking. He draws attention to Hamilton's origination of fractional reserve requirements. *Banks and Politics in America* (Princeton, N.J.: Princeton University Press, 1957), pp.142-3.

⁸¹ McDonald, *Hamilton*, pp.194-5.

⁸² Hamilton was aware of Smith's argument. See H to Washington, Aug. 18, 1792, *Papers*, XII.244..

England which he described as a "great engine of state." There are, however, subtle but important differences between the two on the question of banks. Hamilton agreed with Smith that banks had the power to increase the active capital of the nation by allowing merchants to place their idle balances in deposits and rely on credits for the conduct of their day-to-day business. Without this access to credit, they would have to keep on hand a certain amount of cash for ordinary operations and emergencies. This advantage of bank money permitted the nation a saving on the expense of their circulating capital in the form of hard money, which, as Smith pointed out, has to be purchased with goods produced in the country.⁸³ The surplus quantity of precious metals could then be exported and materials for productive activities purchased. In the North American colonies, Smith attributed the persistent shortage of the precious metals to the excessive enterprise of Americans which made them unwilling to see part of their capital tied up in the form of species. Smith believed there was a determinate amount of bank money which could be issued profitably equal to the value of the amount of coin otherwise requisite for the conduct of the everyday affairs of business. If this amount is exceeded, then the paper will be returned to the bank to be exchanged for species.⁸⁴

While Hamilton's argument is similar in many respects, he approached the matter from a different angle. While he stresses the role of banks in expanding credit, he says little about the savings due to the reduced need for species which Smith emphasizes.⁸⁵ He summarizes his argument as follows:

This additional employment given to money, and the faculty of the bank to circulate a greater sum than the amount of its stock in coin are to all the purposes of trade and industry an absolute increase in capital. Purchases and undertakings, in general, can be carried on by any given sum of bank paper or credit, as effectually as by an equal sum of gold and silver. And

⁸³"Bank money" refers to the credits, promissory notes, etc., issued by banks which serve the purpose of money and circulate among merchants. The confidence that this paper can at anytime be converted into money is what keeps it in circulation, perhaps indefinitely.

⁸⁴See Ch. 4 above. For Smith's discussion of paper money in North America, see WN V.iii.78-87.

⁸⁵See "Bank Report," *Reports*, pp.59-60, where Hamilton notes that there may be a temporary exportation of species.

thus by contributing to enlarge the mass of industrious and commercial enterprise, banks become nurseries of national wealth: a consequence, as satisfactorily verified by experience, as it is clearly deducible in theory.⁸⁶

It might appear that Hamilton simply leaves out a step in the argument by referring to the creation of credit as an increase in capital, but when considered in light of his discussion of the monetization of the public debt it is far more plausible to believe that he meant what he said; the expansion of the supply of paper money itself will give a stimulus to economic activity. Smith would not have acknowledged the extra stimulus given to industry by the expansion of paper credit in itself because he believed the level of economic activity was determined by other factors. For him, the paper circulated is simply a replacement for precious metals which would have been necessary otherwise. This in mind, Hamilton's seeming agreement that the circulation of bank money is self-limiting takes on a different light.⁸⁷ Again, the point of difference concerns their understanding of the determinants of the demand for circulation.

Hamilton's emphasis on bank money and his prediction that the monetization of the debt would act as a stimulus to economic activity may be placed in the context of his broader thinking on economic issues. Hamilton, unlike Smith, did not see money as an epiphenomenon, or even simply as a means of lowering the costs of transaction, "to use a contemporary term which refers to the difficulties which attend the conduct of exchanges without money."⁸⁸ For Hamilton, money "is the very hinge on which commerce turns. And this does not mean merely gold and silver; many other things have served the purpose with different degrees of utility."⁸⁹ A constant theme of all Hamilton's Reports is the necessity of providing an adequate medium of circulation for the purpose of avoiding "stagnation."⁹⁰ This concern lies behind his recommendation for

⁸⁶Ibid., p.50 (emphasis added).

⁸⁷Both argue that emissions in excess of demand will be returned on the bank.

⁸⁸This is essentially Smith's argument. Cf. Owens who does not notice the additional elements in Hamilton's argument for bank money. "The Surest Guardian" pp.120-1.

⁸⁹"Bank Report," *Reports*, p.106.

⁹⁰Hamilton refers to the problem of stagnation at Ibid., pp.51,59, "Manufactures," Ibid., p.160.

monetizing the public debt, establishing a national bank, and securing a favorable balance of trade. It is worth enquiring a little further into Hamilton's view of this matter.

To begin with, while Hamilton approved of the use of paper money, he was vitally concerned with increasing the stock of precious metals within the nation. In his second Report on Public Credit, the Report on a National Bank, he took up the question of whether banks in general tend to banish the precious metals. This he thought to be the most serious objection to banks.

Hamilton noted the "most common" answer to this objection:

the thing supposed is of little or no consequence; that it is immaterial what serves the purpose of money, whether paper or gold and silver; that the effect of both upon industry is the same; and that the intrinsic wealth of the nation is to be measured, not by the abundance of the precious metals, contained in it, but by the quantity of productions of its labour and industry.

According to Hamilton, this answer, which is clearly the one given by Smith, is "not destitute of solidity." Yet, Hamilton maintained that

the positive and permanent decrease of the precious metals, in a country, can hardly ever be a matter of indifference. As the commodity taken in lieu of every other, it is a species of the most effective wealth; and as the money of the world, it is of great concern to the state, that it possesses a sufficiency of it to face any demands, which the protection of its external may create.⁹¹

Hamilton's argument surely reminds of Locke's claim that money, in the form of gold or silver, is the universal commodity which is accepted everywhere and which, because of its steady value, is desirable without bounds. The precious metals, Hamilton stressed, are important for the protection of the nation's external economic and military interests. Species is the international currency and, therefore, necessary for international trade and for the purchase of foreign supplies in war time. Smith had granted that this was to an extent true, but he relegated it to the position of an exceptional concern, thus minimizing the importance of a favorable balance of trade as a source of species.⁹² Hamilton's different assessment of national needs may be traced in part to a different assessment of the demands of foreign affairs. The position of a new nation made

⁹¹"Bank Report," *Ibid.*, p.57.

⁹²See WN IV.i.4,20-30. In the course of this discussion, Smith notes that sophisticated manufactures may be useful for raising funds during a war because of their high value and small bulk.

these demands especially acute. Hamilton also shared with Locke a concern for the role of specie money as a pledge for future value, the characteristic which makes it so desirable. Hamilton had, however, a more flexible idea of what might constitute money. Moreover, he attributed a role to opinion which is not evident in Locke's account.⁹³

The necessity of an adequate supply of money of all kinds was explained by Hamilton in *The Federalist* No.12. He there observed that commerce by multiplying the means of gratification, by promoting the introduction and circulation of the precious metals, those darling objects of avarice and human enterprise, it serves to vivify and invigorate the channels of national industry, and to make them flow with greater activity and copiousness. . . . all orders of men look forward with eager expectation and with growing alacrity to this pleasing reward to their toils.⁹⁴ Stagnation is, however, the consequence of "an inadequate circulating medium."⁹⁵ Precisely how this abundance of money provides an incentive needs to be explained. First, the abundance of purchasing power provides an incentive to industry because buyers can be found and lenders are willing to part with their money on easy terms.⁹⁶ An adequate circulation creates a climate of confidence which then feeds on itself. In addition, Hamilton seems to have seen that there is a certain delight in acquisition. Hamilton cannot be accused of reducing human motivations solely to the love of money. As Hume noted, there seems to be a peculiar joy in action itself. That said,

⁹³It is not clear Hamilton thought that the precious metals were desirable without bounds; they too might at times suffer from excess supply. See "Bank Report," *Reports*, p.55. Steuart, also, placed a great deal of emphasis on the need for "symbolic" money such as a monetized public debt. See McDonald, *Novus Ordo Seclorum: The Intellectual Origins of the Constitution*, (Lawrence: University Press of Kansas, 1985), pp.119-3,136, for an account of Steuart's possible influence on Hamilton.

⁹⁴*The Federalist*, No. 12.70. McDonald, *Hamilton*, 221,231-6, provides the best account of this aspect of Hamilton's plan. Cf. Hume "Of Money," *Essays*, p.37: "in every kingdom, into which money begins to flow in greater abundance than formerly, everything takes a new face: labour and industry gain life; the merchant becomes more enterprising, the manufacturer more diligent and skilful, and even the farmer follows his plough with greater alacrity and attention."

⁹⁵"Bank Report," *Reports*, p.59.

⁹⁶Hamilton saw the rate of interest as a simple reflection of the abundance or scarcity of money. This was another case where he did not enter into an analysis of the "real" forces which might determine interest rates. See *Reports*, "Public Credit," p.6, "Bank Report," p.53,67.

to a large degree it is the incentive which money, particularly the precious metals, provides that elicits human endeavor. He was aware of the power of incentives to move men and his efforts to ensure an adequate circulating medium was an effort to this end.⁹⁷

As we have observed, Hamilton was as impressed as Smith with the utility of paper money for the conduct of domestic commerce. The situation of the United States made this consideration of particular importance. First of all, he believed that the revolutionary war and the instability which followed had created a scarcity of money in the United States. Smith denied that there could be such a thing as a scarcity of money in normal times. Such complaints, he thought, were always the product of prospective borrowers without adequate credit. Hamilton agreed that scarcity is a complaint of all times, and one, in which "the imagination must ever have too much scope." Yet, he argued, there were tell-tale signs of real scarcity of money, chiefly, a greater prevalence of direct barter in the interior of the country and a general difficulty of selling improved real estate. A return to financial stability promised some improvement on this front. There was, however, a deeper problem inherent in the situation of the United States economy which went beyond any temporary instability. On this score, Smith and Hamilton differed significantly. Hamilton realized that for many years to come the labor of the United States would be primarily devoted to developing the natural resources of the nation, especially its agriculture. The improvement of the frontier required the diversion of resources into activities which would only pay off after a significant period of time. This meant that in the interim there would be a continual shortage of funds for investment in other areas, manufacturing for example. This, in turn, threatened to exacerbate the problem of foreign trade. Without industries which could produce exportable goods or provide substitutes for imports, the trade imbalance would result in a continual drain of precious metals from the country.⁹⁸

⁹⁷ See Lerner, "Commerce and Character," p.22.

⁹⁸ Johnson has suggested that Hamilton's understanding of the balance of payments problem facing the United States was the organizing principle of his whole program. *Foundations of American Economic Freedom*, pp.123-6. There is a great deal of plausibility to this argument. We have taken a different route in order to emphasize the points of comparison

Smith nowhere recommends that banks be established for the purpose of encouraging national commerce. He explicitly warns against the establishment of banks for "public spirited purposes." Hamilton's national bank on the other hand was *deliberately* intended to achieve such a purpose. "Public utility," he argued, "is more truly the object of public banks than private profit." "And it is the business of government to constitute them on such principles, that while the latter is the result, in a sufficient degree, to afford competent motives to engage in them, the former will not be made subservient to the latter."⁹⁹ Hamilton's bank has many similarities to a modern central bank. Its position as the government's exclusive banker gave it a disproportionate influence on the economy. One must remember, also, that at the time there were only three other banks in the entire United States. Hamilton's bank would provide an important source of capital for the development of the country. To a degree, it is true that Hamilton intended to do this on the basis of largely fictitious wealth, but, as McDonald has observed, he was counting on the future to make good the returns. McDonald describes that bank as an instrument for the "institutionalization of future expectations" which by so doing could provide the wherewithal for development.¹⁰⁰ It was a daring plan. In this regard, we might note Hamilton's opinion of the notorious John Law, gambler, duellist, banker to France, and architect of the infamous Mississippi Scheme. Of Law, Hamilton remarked that he "had more penetration than integrity." Of Law's plan, that the "foundation was good but the superstructure was too vast." Hamilton concluded that it "will be our wisdom to select what is good in this plan, and in others that have gone before us, avoiding their defects and excesses."¹⁰¹

In light of our argument, some comment is required on Hamilton's decision to place the bank substantially under private control. Hamilton considered the possibility of establishing a wholly

with Smith.

⁹⁹"Bank Report," *Reports*, p.66.

¹⁰⁰*Hamilton*, p.227. See also his *Novus Ordo Seclorum*, p.140.

¹⁰¹H to unknown addressee , Dec. 1779, *Papers*, 11,244n.6,245.

national bank that would allow the government to reap the profits of its activities. Such an idea was, however, open to "insuperable objections." Full confidence in the institution required that it be under private direction to free it from the suspicion that it would become an arm of government and "in certain emergencies, under a feeble or too sanguine administration would, really be liable to being too much influenced by *public necessity*."¹⁰² While it would clearly be in the government's interest not to abuse its influence, Hamilton argued that given human nature it almost certainly would.

The keen, steady, and, as it were, magnetic sense, of their own interest, as proprietors, in the Directors of a Bank, pointing invariably to its true pole, is the only security, that can always be relied upon, for a careful and prudent administration.¹⁰³

This is not to say that the state was to have no control over the bank. In addition to being a minority shareholder and possessing an unqualified right to be appraised of all the workings of the Bank, the charter of the bank was for a limited time only. If the performance of the bank was unsatisfactory, the charter could be allowed to lapse. Hamilton also seems to have assumed that there would be a certain harmony of understanding among practical men as to what was beneficial for the economy as a whole, and therefore eventually for each part. Thus, it was unlikely that the bank's directors would pursue policies too much at odds with enlightened opinion.

Hamilton was aware of the risks that went along with his scheme of incentives.¹⁰⁴ As he argued with respect to the other passions, the passion for gain ought to be governed by reason or reasonable habits, which in this case are those of industry and enterprise. He spelled out the dangers in his discussion of the prudent limits on the accumulation of public debts. If these are exceeded, "the greatest part of it may cease to be useful as a Capital, serving only to pamper the

¹⁰²Hamilton questioned the wisdom of paper money issued by the National government. He observed that, while in principle possible and Constitutionally permitted, such a practice would almost certainly be abused. "Bank Report," *Reports*, pp.62-3. Smith was more open to the idea, citing the experience of the American colonies. Smith's confidence in his theory may have led him to believe that such a policy could be wisely managed. See WN II.ii.86-7, 100-3; V.iii.78-87.

¹⁰³"Bank Report," *Reports*, p.72.

¹⁰⁴See McDonald, *Novus Ordo Seclorum*, pp.140-1.

dissipation of idle and dissolute individuals."¹⁰⁵ Likewise, if productive uses were not found for the inflow of foreign capital, it would be "quickly exported to defray the expense of an extraordinary consumption of foreign luxuries."¹⁰⁶ Late in December 1791, soon after the first speculative bubble, he warned that

[t]here is at the present juncture, a certain fermentation of the mind, a certain activity of speculation and enterprise which if properly directed may be made subservient to useful purposes; but which if left entirely to itself, may be attended with pernicious effects.¹⁰⁷

One means of making this spirit "subservient to useful purposes" was a skilful management of the nation's finances. But Hamilton believed more was necessary. It is in light of this problem that the significance of Hamilton's program to encourage manufactures is visible.

C. The Encouragement of Manufactures

The Report on Manufactures is a surprisingly theoretical document. Hamilton pondered long before issuing the Report, nearly two years after his first Report on Public Credit. While writing it, he initiated an extensive empirical study of American business and agriculture. The Report while long on theory and generalities is a little short on practical recommendations. It lacks, for example, any recommendation comparable in scope to the assumption of the state war debt. But there is no reason to doubt, as some have suggested recently, that Hamilton was serious in his efforts to encourage manufactures.¹⁰⁸ A better explanation would begin by considering the character of the Report and the circumstances in which it was presented. Hamilton observed that the situation required him to "investigate principles, to consider objections, and to endeavour to establish the utility of the thing proposed to be encouraged."¹⁰⁹ Manufacturing was a

¹⁰⁵"Manufactures," *Reports*, p.154.

¹⁰⁶*Ibid.*, p.165.

¹⁰⁷"Report on Manufactures" Dec. 5, 1791, *Papers*, X.296. Again the language is very similar to Hume's. See "Of Refinement in the Arts" *Essays*, p.271.

¹⁰⁸See, e.g., Nelson, *Liberty and Property*, pp.37-51.

¹⁰⁹"Manufactures," *Reports*, p.181.

particularly controversial issue because it raised directly the issues of the luxury debate. Though there were disagreements about the means, no-one openly questioned the restoration of the public credit. This was not the case with manufacturing, especially large scale manufactures.¹¹⁰ Hamilton wished, perhaps, to set the record straight on certain issues relating to manufacturing which once accomplished could be the basis for a more detailed and far-reaching plan. He perhaps also wished to consider with the obstacles which stood in the way of the development of such a plan, especially the constitutional limitations. In an important sense the report is an educational document.

Hamilton's report begins with a summary of the position against the encouragement of manufactures. Hamilton's statement of the opposing position is a virtual paraphrase of Smith's assessment of the condition of North America in the *Wealth of Nations*.

In every country . . . Agriculture is the most beneficial and *productive* object of human industry. This position, generally, if not universally true, applies with peculiar emphasis in the United states. . . . To endeavour, by the extraordinary patronage of Government, to accelerate the growth of manufactures, is, in fact, to endeavour, by force and art, to transfer the natural current of industry from a more, to a less beneficial channel.¹¹¹

While Hamilton granted that the argument had "respectable pretensions," he denied that it was applicable to the United States. "Most general theories," he continued, "admit of numerous exceptions, and there are few, if any, of the political kind, which do not blend a considerable portion of error, with the truths they inculcate."¹¹² In the sequel, Hamilton gives what might be regarded as a running commentary on the key contentions of the *Wealth of Nations*.¹¹³

¹¹⁰Johnson notes that the somewhat unwitting consensus of the first Congress on the question of the encouragement of manufactures broke down when the larger dimensions of the issue became apparent. *Foundations of American Economic Freedom*, pp.84-95,227-261. Hamilton's Report may have been instrumental in breaking down the consensus, *Ibid.*, pp.89-90.

¹¹¹"Manufactures," *Reports*, pp.116-7.

¹¹²*Ibid.*, p.118.

¹¹³Henry Cabot Lodge claims that Hamilton wrote a now lost commentary on the *Wealth of Nations* around 1783. *The Works of Alexander Hamilton*, 12 Vols, (New York: G.P. Putnam's Sons, 1904), Vol. III p.417n. There is little evidence for his contention, though it is clear Hamilton was quite familiar with Smith by the time of his great Reports. Hamilton is more deferential to the free trade position than in his "Continentalist" essays, but the substance of his views does not seem to have changed much.

1. Agriculture and Manufacturing

Hamilton begins with a discussion of the comparative economic merits of manufacturing and agriculture. He takes up first, not Smith, but the Physiocratic claim that agriculture is the *sole* productive activity. Physiocracy had its supporters in the United States. Jefferson and John Taylor, to name two, thought highly of them. Hamilton makes a clever rhetorical move by using his main antagonist, Smith, against the Physiocrats.¹¹⁴ Hamilton followed Smith in arguing that the Physiocratic position was not only contrary to common sense but also contained logical errors. Even if the labor of artificers and merchants produces no equivalent to the rent on land, it does produce sufficient to maintain those laborers during the year and, therefore, represents an increase in the national produce for the year over what there would have been without their labor. Hamilton's rejoinder to Smith's claim is more interesting for our purposes. Smith had argued for the superior productivity of agriculture over manufacturing on the grounds that manufacturing yields nothing which is the equivalent of the rent on land and, therefore, where profits are equal among competing uses, agriculture is capable of putting into motion an additional quantity of labor.

Hamilton began with Smith's claim that in agriculture nature labors along with man. This argument, Hamilton remarked, "may be pronounced both quaint and superficial." Labor by a single man on a complex object, he explained, may be productive of more value than the labor of man plus nature directed towards a simple object. Even more important, he thought, is the fact that in manufacturing labor could be aided by mechanical powers; a circumstance which removed "even the appearance of plausibility" in Smith's argument. Labor in manufacturing is, in addition,

¹¹⁴Hamilton described Jefferson as "a disciple of Turgot" and a "pupil of Condorcet." "The Examination No.III" Jan. 18, 1802, *Papers*, XXV.501. Turgot is something of a bridge between Smith and the Physiocrats. Smith and the Physiocrats were frequently, if selectively, referred to approvingly by many Republicans. Johnson, *Foundations of American Economic Freedom*, pp.72-100,152-192. See also Caton, *Politics of Progress*, p.506 n.65.

more constant and regular than in agriculture and more open to improvements by human ingenuity. In spite of the implausibility of Smith's claim, Hamilton did not lay much weight on his rebuttal. "Circumstances so vague and general, as well as so abstract, can afford little instruction on a matter of this kind."¹¹⁵

The principal argument in favor of agriculture, he believed, to be that manufacturing yields nothing which is the equivalent of rent. Hamilton dismissed this argument as "rather *verbal* than *substantial*." "It is easily discernible," he argued,

that what in the first instance is divided into two parts under the denominations of the ordinary profit of the Stock of the farmer and the rent to the landlord, is in the second instance united under the general appellation of the ordinary profit on the Stock of the Undertaker; and that this formal or verbal distinction constitutes the whole difference in the two cases.¹¹⁶

Put otherwise, Smith had not treated land as capital and the rent on land as a return on that capital. The real question is whether capital or stock laid out on the purchase and improvement of land yields a return greater than an equal sum employed in the prosecution of a manufactory. This is an empirical question which can only be settled by inquiry. Hamilton, indeed, attempted such an inquiry. While the results were not conclusive, he believed they "served to throw doubt upon, than to confirm the Hypothesis, under examination."¹¹⁷ While he did not argue for giving preeminence in every case to manufacturing, he concluded that there was no persuasive reason to believe that the encouragement of manufactures would result in a diversion of resources from more to less productive pursuits. The question of the merits of agriculture and manufacturing would have to be decided on the basis of other criteria.

In this regard, Hamilton suggested several reasons why the encouragement of manufactures was likely to lead to an increase in "the total mass of useful and productive labor, in a community."¹¹⁸ He proceeded to list seven factors connected with manufacturing which he

¹¹⁵"Manufactures," *Reports*, p.122.

¹¹⁶*Ibid.*

¹¹⁷*Ibid.*, p.124.

¹¹⁸*Ibid.*, p.125.

contended influence the mass of industrious effort in a community and together "add to it a degree of energy and effect, which are not easily conceived."¹¹⁹ He mentioned the following: (1) the division of labor; (2) an extension of the use of machinery; (3) additional employment to the classes of the community not ordinarily engaged in business; (4) the promoting of emigration from foreign countries; (5) furnishing greater scope for the diversity of talents and dispositions which discriminate men from each other; (6) the affording of a more ample and various field for enterprise; and (7) the creating in some instances a new, and securing in all, a more certain and steady demand for the surplus produce of the soil. Several of these factors warrant closer consideration.

Both Hamilton and Smith thought that the division of labor was capable of far greater extension in manufacturing than in agriculture. Hamilton's discussion of the benefits of the division of labor is more or less a paraphrase of Smith. But Hamilton stresses the benefits of the division of labor within an independent nation, and not the division of labor in the abstract. He concludes that substantial improvements in productivity would flow from having a manufacturing sector within the United States. Hamilton went on to single out machinery as a factor of "great importance" in favor of manufacturing. Hamilton noted the "prodigious effect" of the cotton mill on English manufacturing. This is a significant change. Smith had attempted to subsume technological change under the rubric of the extension of the division of labor or, more generally, of the natural progress of opulence. Hamilton shows an awareness of the dramatic change in economic affairs which the full-scale application of modern science to industry would bring about. The point is not that Smith should have known about these effects; it is that Smith thought he had hit upon an all encompassing framework which could take into account technology. Hamilton began from no such abstract position. Perhaps as a result, he was able to see more clearly the potential of technology.¹²⁰

¹¹⁹Ibid., p.128.

¹²⁰Caton remarks that Hamilton's political economy "pierced the barriers of the commercial

Hamilton's remarks on utilizing talents and expanding the field of enterprise are remarkably similar to those advanced by Hume in his defense of luxury. Hamilton's argument stresses the addition to the labor and industry of the nation resulting from this release of talents and energies. In arguing the case, though, he makes clear that there are certain benefits of a moral or quasi-moral character associated with manufacturing.¹²¹ Manufacturing would immediately provide employment for idle or underutilized labor. Of much more importance from the point of view of "the scale of national exertion" would be, he thought, first, the greater potential for making use of the diverse talents to which human nature gives rise and, second, the expansion of the objects open to the "spirit of enterprise."

With respect to the first, Hamilton wrote that

minds of the strongest and most active powers for their proper objects fall below mediocrity and labour without effect, if confined to uncongenial pursuits. And it is thence to be inferred, that the results of human exertion may be immensely increased by diversifying its objects. When all the different kinds of industry obtain in a community, each individual can find his proper element, and can call into activity the whole vigour of his nature.¹²²

With respect to the spirit of enterprise he remarked as follows.

To cherish and stimulate the activity of the human mind, by multiplying the objects of enterprise, is not among the least considerable of expedients, by which the wealth of a nation may be promoted. Even things not in themselves positively advantageous, sometimes become so, by their tendency to provoke exertion. Every new scene which is opened to the busy nature of man to rouse and exert itself, is the addition of a new energy to the general stock of effort.¹²³

The immediate result of such a diversification would be an increase in the nation's stock of

phase of modernity, summarized in the *Wealth of Nations*, and opened a political perspective on the high technology manufacture that was to dominate the next century. [It] was a growth economics animated by insight into the distinctly modern sources of growth." *Politics of Progress*, p.473. Caton comments on the difficulty which mainstream economics has had dealing with the uncertainty inherent in technological change. "The Preindustrial Economics of Adam Smith," pp.833-853. Smith's notion of incremental change as the key to growth is particularly unsuited for understanding technological change which is unpredictable and often not incremental.

¹²¹Recall that "industry and frugality" are "auxiliaries of good morals." "Draft of Washington's Farewell Address," July 30, 1796, *Papers*, XX.280-1.

¹²²"Manufactures," *Reports*, p.132. Owens interprets this as an expression of Hamilton's concern with the perfection of human nature. It is better understood in light of Hume's discussions of refinement in the arts. "The Surest Guardian of Liberty," p.159-66.

²²⁷"Manufactures," *Reports*, p.133.

industry and talent. The political consequence of diversification would be the creation of a new sort of society. Hamilton's words and arguments remind of Hume's defense of a diverse and sophisticated society against a homogeneous agricultural society. It is hardly a reach to suggest that Hamilton had it in mind when he made these arguments. Hamilton's emphasis on natural talents and the importance of different types of labor is notable. Smith denied the relevance of natural differences. Moreover, he analysed economic growth in terms of the accumulation of quantities of homogeneous labor.

Hamilton's pessimistic view on the state of American life, especially American agriculture, was evident at an early date. He wrote to Robert Morris on April 30, 1781 that Americans "labour less now than any civilized nation of Europe."¹²⁴ In the South, he said elsewhere, there prevailed a "voluptuous indolence" which made the people oblivious to their true interests even at times of profound crisis. That "commerce which presided over the birth and education of these states" suited them for "the chain" and, he lamented, "the only condition they sincerely desire is that it may be a golden one."¹²⁵ As he noted in *The Federalist*, there were significant elements of American life which did not fit this pattern, especially in the area of navigation, but the general rule was otherwise.¹²⁶ We can infer from Hamilton's lack of objection that he concurred in Washington's scathing assessment of the agricultural practices of his countrymen. In 1796 Washington wrote to Hamilton complaining that, "to every man who considers the agriculture of this country, (even in the best improved parts of it) and compares the produce of our lands with those of other countries, no ways superior to them in national fertility, how miserably defective we are in the management of them; and that if we do not fall on a better mode of treating them, how ruinous it will prove to the landed interest."¹²⁷ Washington went on to note that exploitative

¹²⁴ *Papers*, II.635.

¹²⁵ H to Laurens, Sept. 11, 1779, *Papers*, II.167.

¹²⁶ *The Federalist*, No. 11.

¹²⁷ Washington to H, Aug. 10, 1796, Washington to H, Nov. 2, 1796, *Papers*, XX.362-6.

farming methods would accelerate the westward expansion along with all its attendant economic and political difficulties. He directed Hamilton to incorporate these thoughts and a proposal for the establishment of an agricultural society for the furthering of this "great national object" into a draft of his last annual message to Congress.

Our inference is confirmed by an examination of Hamilton's "Report on Manufactures." Hamilton treads lightly over these issues, but his concern is clear. The Report leaves a reader with a first impression that Hamilton accepted the conventional wisdom that, as Jefferson had said, those who work the land are "the chosen people of God, if ever He had a chosen people."¹²⁸ Hamilton identifies the many attractions of the agricultural life and predicts that it will be the primary activity of Americans for many years to come. But, on a second glance, both these observations turn out to be indications of a great problem along the lines identified by Washington. What if nothing were done to improve agricultural practices? Cities would be depopulated and the land exhausted, leaving the people addicted to an easy, thoughtless existence on the frontier.

Over the course of the Report, Hamilton calls into question his favorable comments on agriculture. Agricultural work is "in a great measure periodical and occasional . . . while that occupied in many manufactures is constant and regular." Labor is used more effectively in manufacturing and examples of "remissness" are probably fewer. The natural fertility of the soil encourages "carelessness" in the mode of cultivation. Manufacturing by contrast "opens a wider field to the exertions of human ingenuity" than agriculture. Furthermore, the "exertions of the husbandman will be steady or fluctuating, vigorous or feeble, in proportion to the steadiness or fluctuation, adequateness or inadequateness, of the markets on which he must depend."¹²⁹

See also Washington to Arthur Young, Dec. 5, 1791, *George Washington: A Collection*, ed. W.B. Allen, (Indianapolis: Liberty Classics, 1988), pp.558-61. Harold Faulkner expresses a similar opinion of American agriculture during this period. *American Economic History* (New York: Harper & Brothers, 1935), pp.240-4. The theme of the need for "thorough work" was continued by Abraham Lincoln. See his "Address at the Wisconsin State Fair," Sept. 30, 1859, in *The Political Thought of Abraham Lincoln*, ed. Richard P. Current, (Indianapolis: Bobbs-Merrill, 1967), pp.125-38.

¹²⁸"Notes on the State of Virginia," Query XIX, *Writings*, Koch and Peden, p.280.

This last factor was of great importance. American farmers, as Hamilton pointed out, depended on demand from Europe and the West Indies which was subject to all the political and economic vicissitudes of international relations. It was, observed Hamilton, "a primary object of the policy of nations, to be able to supply themselves with subsistence from their own soils; and manufacturing nations, as far as circumstances permit, endeavour to procure from the same source, the raw materials necessary for their own fabrics."¹³⁰ As a result of this policy "the foreign demand for the products of Agricultural Countries is, in a great degree, rather casual and occasional, than certain or constant." There are, in addition, "natural causes" which make foreign demand for agricultural products precarious. The vagaries of the seasons, in particular, make gluts a regular possibility in world agricultural markets. The only way to secure a steady demand for agricultural products is to create an extensive domestic market by the promotion of a sizable manufacturing sector. Not only does manufacturing increase the demand for raw materials, it also increases the variety of materials required.¹³¹ Moreover, whatever labor is diverted from expanding the *extent* of agriculture into manufacturing is more than likely compensated by the "tendency to promote a more steady and vigorous cultivation" of existing farm lands. Hamilton rejected the notion that there was a conflict between agricultural and commercial states.¹³² An economic strategy which sought to create a balanced economy would, in the long term, bind agricultural and commercial interests more closely and, in particular, the interests of the North and the South.¹³³ Hamilton was particularly sensitive to this last concern, as we will see when we come to discuss his specific proposals.

Hamilton's desire to commercialize agriculture points to a significant difference with Smith

¹²⁹"Manufactures," *Reports*, pp.121-2,133-4.

¹³⁰*Ibid.*, p.134. Agricultural policy is, of course, still a primary source of tension in the international trading system. See Gilpin, *The Political Economy of International Relations*, pp.200,386.

¹³¹"Manufactures," *Reports*, pp.135-6.

¹³²*Ibid.*, p.139.

¹³³*Ibid.*, pp.163-5.

(and the Republicans). Smith noted that country gentlemen are seldom industrious, but that merchants turned country gentlemen are the best improvers. Hamilton would have agreed. Smith and Hamilton differ, however, on the question of whether the yeoman farmer is *naturally* industrious and intelligent.¹³⁴ Smith believed that industry and independence went together, and he attributed the rapid progress of North America to the diligence its small farmers. Hamilton was far less certain that industry was a natural characteristic of this class. The prevalence of slavery in the South, while important, is not a sufficient explanation for Hamilton's concern. Like Hume, he seems to have seen indolence as in some sense natural to man. As a result, steps would have to be taken to help things along.

2. Free Trade

After presenting general reasons for expecting manufactures to increase the total mass of industry and labor in the community, Hamilton took up a series of arguments against the encouragement of manufactures relating to the particular circumstances of the United States. The gist of the argument Hamilton addressed was as follows: in a nation with vast tracts of uncultivated land, and which is not closed to foreign commerce, it is in the interest of the nation to specialize in agriculture and thereby to benefit from the advantages of the international division of labor.

Hamilton began his response by taking up the notion of the "system of perfect liberty." If such a system prevailed among nations, Hamilton granted that "the arguments which dissuade a country, in the predicament of the United States, from the zealous pursuit of manufactures, would

¹³⁴Jefferson and many Republicans shared these views. Along with the Anti-Federalists, they saw finance and manufacturing as productive of dissipation and idleness. Appleby notes, however, that the work ethic was less a part of the republican vision than the "hope" of widespread "comfort" (as distinct from luxury). *Capitalism and a New Social Order*, pp.90-1. See also Owens, "The Surest Guardian of Liberty," p.144.

doubtless have great force." This qualified endorsement of Smith's system does not go any further than his original statement on the question of free trade in "The Continentalist." In any case, the system of perfect liberty was not material consideration because in the prevailing system of nations the general policy of nations "has been operated by an opposite spirit." The United States, in particular, was an unequal partner in several of its most significant trading relationships which "could not but expose them to a state of impoverishment, compared with the opulence to which their political and natural advantages authorize them to aspire."¹³⁵ Hamilton next stated what he thought to be the appropriate response to this state of affairs.

Remarks of this kind are not made in the spirit of complaint. 'Tis for the nations, whose regulations are alluded to, to judge for themselves, whether, by aiming at too much, they do not lose more than they gain. It is for the United States to consider by what means they can render themselves least dependent on the combinations, right or wrong of foreign policy.¹³⁶

Hamilton draws a sharp distinction between domestic and foreign trade: the former takes place among people united by a common interest under one government, whereas the latter takes place among people divided by national loyalties and without a common authority. He saw nations as engaged in a competitive struggle in which there is no simple harmony of interests. In *The Federalist* he remarked that "a unity of commercial, as well as political, interests, can only result from a unity of government."¹³⁷

McCoy argues persuasively that Smith's analysis of these issues exercised great influence over the foreign policies of Jefferson and Madison. Smith had urged retaliatory measures where there was a prospect of forcing the opponent to remove discriminatory practices. Jefferson and

¹³⁵"Manufactures," *Reports* p.138.

¹³⁶*Ibid.* It is interesting to note that in *The Federalist* No. 6 Hamilton began his discussion on the effects of commerce with the following questions: "Is it not ... the true interest of all nations to cultivate the same benevolent and philosophic spirit? If this be their true interest, have they in fact pursued it?" Hamilton's use of the conditional may signal a reservation about whether it was truly in the interests of nations to pursue such a policy unqualifiedly even in the best possible circumstances. On the connection between the humane spirit and philosophy, see our earlier discussion of Hamilton and André.

¹³⁷No.11.68.

Madison began from the perception, which might also have been derived from a study of the *Wealth of Nations*, that Great Britain was peculiarly vulnerable to such pressures. McCoy has shown how these views were behind their policy of commercial warfare against Great Britain. It was the eventual failure of this policies which forced Jefferson and Madison into a position of supporting the encouragement of manufactures as a central element of national policy.¹³⁸ By contrast, the Revolutionary War had dispelled any illusions Hamilton may have harbored about the relative power of the United States and Great Britain.¹³⁹ As a result, he saw no value in a retaliatory policy which could not be backed up with force. To him, the aggressive Republican stance towards Great Britain was foolhardy bluster which showed little appreciation of the true position of the United States. Hamilton's constant advice to Washington was to negotiate and to prepare for war.¹⁴⁰

That said, it is true that Hamilton preferred a "British connection" in the sense that he saw this in the strategic interest of the United States. At least three factors seem to have influenced Hamilton on this matter. First, the United States was in a competition with France and Spain for control of Florida and Louisiana. Hamilton seemed more concerned with gaining control of the Mississippi than the Western Territories or Canada. France and Spain were the enemies of Great Britain. Second, Hamilton envisaged the development of a mutually beneficial trading relationship between Great Britain and the United States. Finally, Hamilton preferred a connection with Great Britain because he believed that despite the revolution the nations were much closer as regards principles of government and manners than the United States and revolutionary France.

Hamilton turned next to the central tenet of Smith's political economy, namely, the proposition "that industry, if left to itself, will naturally find its way to the most useful and profitable

¹³⁸ *The Elusive Republic*, pp.209-235.

¹³⁹ In "The Continentalist No.III," he noted that it was common for Americans to misjudge the strength of Great Britain. *Papers*, II.663. Hamilton himself was guilty of this. See "The Farmer Refuted," *Ibid.*, I.155-60.

¹⁴⁰ H to Washington, April 14, 1794, *Ibid.*, XVI.266-279.

employment." This maxim implies that "manufactures without the aid of government will grow up as soon and as fast, as the natural state of things and the interest of the community may require."¹⁴¹ It is of some importance that Hamilton took up the question of international trade prior to that of the notion that trade must regulate itself. This order may reflect Hamilton's view that international trade must be considered as a separate branch of trade with distinct rules of its own. Smith, on the other hand, begins with local trade and extends its principles outwards. It is tempting, though not entirely accurate, to say that Hamilton begins by abstracting from the question of domestic trade whereas Smith begins by abstracting from the question of international trade. Against the solidity of Smith's "hypothesis," Hamilton believed "very cogent reasons may be offered." He mentions four factors which operate against the hypothesis: "the strong influence of habit and the spirit of imitation"; "the fear of want of success in untried enterprises"; "the intrinsic difficulties incident to first essays towards a competition with those who have previously attained to perfection in the business to be attempted"; and, finally, "the artificial encouragements with which foreign nations second the exertions of their own citizens." Hamilton ranked the last mentioned as the "greatest obstacle." Hamilton's remarks on the force of habit and on the effects of the fear of failure deserve comment because of the contrast with Smith. Smith had described economic progress as the accumulation of many individual efforts. Hamilton instead lays greater stress on the activities of a few adventurers who by breaking into new areas pave the way for the majority to follow. "Experience teaches," he observed, that men are so much so often governed by what they are accustomed to see and practise, that the simplest and most obvious improvements, in the most ordinary occupations, are adopted with hesitation, reluctance, and by slow gradations. The spontaneous transition to new pursuits, in a community long habituated to different ones, may be expected to be attended with proportionably greater difficulty. ¹⁴²

A "general spirit of improvement" is, then, not necessarily a spontaneous growth even in a free society. It would require the "incitement and patronage of government."¹⁴³ Government,

¹⁴¹"Manufactures," *Reports*, p.140.

¹⁴²*Ibid.*, p.140.

¹⁴³*Ibid.*, p.141.

Hamilton thought, could raise the "confidence" of "cautious and sagacious capitalists." This would involve giving them some protection from the most significant obstacles which might threaten new undertakings, especially the activities of foreign governments. It would be wrong to see this as a form of paternalism. Hamilton sought to create a climate of confidence where individual enterprise could flourish.

Hamilton granted that such encouragements could be seen as having a "tendency to give a monopoly of advantages to particular classes, at the expense of the rest of the community."¹⁴⁴ This objection had been central to Smith's critique of mercantilism. It was particularly pertinent in the United States because of the marked regional differences. Hamilton first noted that while this was, perhaps, true in theory, there were reasons to believe that prices would not necessarily increase as an immediate result of the protection of domestic manufactures. More important, he thought, is the principle that, once a manufacture has been brought to perfection, it necessarily falls in price. He concluded that "it is in the interest of a community, with a view to eventual and permanent œconomy, to encourage the growth of manufactures. In a national view, a temporary enhancement of price must always be well compensated by a permanent reduction of it."¹⁴⁵

3. Policies for Encouragement

Hamilton provided a detailed commentary on the merits of various means of encouraging manufactures. In the process of so doing he raised various constitutional questions with respect to deficiencies of the Federal Constitution for providing assistance to manufactures. Hamilton's discussion here is particularly interesting in light of later views of Hamilton as a statist political economist. In light of this opinion, it is striking to note the extent to which Hamilton saw a role for

¹⁴⁴ibid., p.157.

¹⁴⁵ibid., p.158.

competition.

Hamilton began by affirming the value of import duties as a means of encouraging manufactures and as an important source of revenue. Hamilton thought the propriety of this species of encouragement so uncontroversial that it "need not be dwelt upon."¹⁴⁶ His discussion leaves open the important question of how the competing priorities of revenue versus encouragement should be weighed. This trade-off was particularly acute in the early Republic because import duties were almost the only source of revenue. Smith had argued that revenue concerns were the only rational concern. While he did not accept Smith's general argument, Hamilton, too, seems to have accorded first priority to revenue concerns. Recently, it has been argued that Hamilton's Report, contrary to the conventional view, shows just how little he was willing to do about the encouragement of manufactures. Nelson, for example, has argued that Hamilton's economic program emphasized the restoration of credit to the exclusion of other concerns. He concludes that Hamilton lost the support of manufacturers and mechanics for this reason and that the conventional view of Republicans as partisans of agrarianism needs to be reevaluated in light of the actual support the Republicans received from the manufacturing interest. In effect, Nelson takes a conspiratorial view of Hamilton's program, linking it to what he sees as Hamilton's pro-British foreign policy. Nelson's argument is a good illustration of the problems that arise when revisionist history is revised.

It is, however, possible to divine a number of reasons for Hamilton's approach more in keeping with what Hamilton *said* his intentions were. First, Hamilton thought the first priority of the national government should be to restore the public credit. Increases in duties beyond a certain point would cut into revenues, thus impairing the capacity of the national government to restore the public credit. Second, it is fair to conclude that Hamilton regarded import duties as a blunt instrument which helped the industrious and the lazy alike. Where possible he preferred

¹⁴⁶He recommended that certain materials of manufacture be exempted from duties and that there be drawbacks, i.e., refunds, of duties on materials used in manufacturing. *Ibid.*, p.173-4.

more precise and selective means of encouragement. Finally, Hamilton was deeply concerned at the prospect of war with Great Britain. As we have noted, this made the restoration of public credit a necessity. Hamilton feared that the commercial warfare policies of the Republicans would lead to war. Perhaps his approach in the Report was designed to avoid throwing fuel on their fires. Again we should draw attention to our view that the Report is preliminary in that it was designed to establish certain propositions which could become the basis for future policy.¹⁴⁷ Hamilton's inaction on the matter after the Report died in Congress may be explained simply by the frantic pace of political events which consumed his energies.

With regard to complete prohibitions on the import of certain articles, Hamilton expressed severe reservations. These could only be beneficial where there is domestic competition sufficient to ensure an adequate supply at a reasonable price. There were, he thought, perhaps only a few cases where such a policy was justified. Conversely, prohibitions on the export of the raw materials for manufactures "ought be adopted with the greatest circumspection, and only in very plain cases." He noted that such prohibitions fall heaviest on agriculture.¹⁴⁸

Hamilton was more favorably disposed to bounties even though, as he observed, they were "less favoured by public Opinion." Smith was severely critical of the practice of granting bounties.¹⁴⁹ Bounties are, Hamilton argued, "more positive and direct" and have "a more immediate tendency to stimulate and uphold new enterprises."¹⁵⁰ Bounties also have less of a

¹⁴⁷Nelson points to a capital shortage as the chief problem for manufacturers. Hamilton's policies were designed with this in view. Nelson mentions a proposal of Gallatin's for direct loans to manufacturers. Hamilton probably thought this was simply not a good idea. His failure to propose such a measure hardly warrants a conclusion that he "was not an advocate of American manufacturing." *Liberty and Property*, pp.150,156-7. Nelson notes that Hamilton did not give manufacturers what they really wanted, namely, very high levels of protection. *Ibid.* pp.80-89. Hamilton finally realized that the Federalists had lost control of the cities. This was part of a general realization that more "popular" measures were necessary. See H to Bayard, April 16-21, 1802, *Papers*, XV.605-610.

¹⁴⁸"Manufactures," *Reports*, p.168.

¹⁴⁹See, e.g., WN IV.v.a.24,37; IV.viii.15,53-4; V.ii.k.38.

¹⁵⁰"Manufactures," *Reports*, p.168-9.

tendency to increase prices or to produce a scarcity of the particular good than most other forms of assistance. Hamilton drew attention to the way in which bounties might reconcile agricultural and manufacturing interests: duties on foreign manufactures could be earmarked for the payment of bounties to local farmers or to manufacturers who use locally produced raw materials. In each case, the effect is to stimulate local production. There was, Hamilton admitted, a degree of "prejudice" against bounties because of the perception of giving away public money to "enrich particular classes, at the expence of the Community." He responded that "that acquisition of a new and useful branch of industry" while it might result in a "temporary expence," is more than offset by an increase of industry and Wealth, by an augmentation of resources and independence, & by the circumstance of eventual cheapness."¹⁵¹

Hamilton believed that bounties could be provided under the authority of the "general welfare" clause to which he gave a characteristically broad interpretation.

It is . . . of necessity left to the discretion of the National Legislature, to pronounce upon the objects, which concern the general Welfare, and for which under that description, an appropriation of money is requisite and proper. And there seems to be no room for doubt that whatever concerns the general interests of *Learning, of Agriculture, of Manufactures, and of Commerce*, are within the sphere of the national Councils, *as far as regards an application of money.*¹⁵²

The only qualification he admitted was that the objects of the appropriation be general and not local in purpose. Bounties were appropriate for new industries, but, Hamilton added, the continuance of bounties on manufactures long established is almost always a questionable policy. "Because a presumption would arise, in every such case, that there were natural and inherent impediments to success."¹⁵³ Hamilton, like Smith, endorsed the granting of premiums "to reward some particular excellence or superiority, some extraordinary exertion or skill."¹⁵⁴ Such rewards touched the chords of emulation and of interest making them "a very economical means

¹⁵¹ Ibid., p.171.

¹⁵² Ibid., p.172.

¹⁵³ Ibid., p.171.

¹⁵⁴ WN IV.v.a.39.

of exciting the enterprise of the whole community."¹⁵⁵ In what could be seen as a complementary measure, he recommended the establishment of regulations for the inspection of manufactured commodities "to preserve the quality and character of the national manufactures."¹⁵⁶ Smith suggests nothing comparable to this effort to build a national reputation for quality. Hamilton also went much further than Smith when it came to the encouragement of new technologies. He agreed with Smith in advocating patent and copyright laws. Hamilton argued, in addition, for direct pecuniary awards to inventors. Hamilton also recommended the extension of this benefit to the introducers of new technologies from abroad, as well as to domestic authors and inventors. Here he noted that there was a question as to whether the appropriate constitutional authority existed. He also suggested, that contrary to the "liberal spirit" of the nation, it might be necessary in some cases to regulate the export of technology to certain countries.

Hamilton quoted Smith in support of public patronage for improvements in transportation. Again, however, he was forced to note that "it were to be wished that there was no doubt of the power of the national Government to lend its direct aid on a comprehensive plan."¹⁵⁷ Along similar lines, he recommended that measures be introduced to facilitate financial transactions throughout the nation.

Hamilton followed his discussion of the specific means of encouraging manufactures with some general comments on the impact of the taxation system on manufacturing. The gist of his remarks is substantially similar to those made by Smith. In particular, taxes which oppress the industrious poor, or which involve assessments by public officials, are to be avoided. The latter might be particularly problematic for new industries because they might be crushed by the mistaken conjectures of tax assessors.

¹⁵⁵ Ibid., p.173.

¹⁵⁶ See Ibid., p.183 for an example.

¹⁵⁷ Ibid., p.178.

Hamilton's discussion of particular cases contains no surprises in view of his measured discussion of the appropriate means. His most extensive recommendations concern manufactures connected with national security. Here, he is quite emphatic that national self-sufficiency is the goal.

Every nation, with a view to those great objects, ought to endeavour to possess within itself all the essentials of national supply. These comprise the means of *Subsistence, habitation, clothing, and defence*.

It was, he added, "the next great work to be accomplished."¹⁵⁸ Hamilton remarked that that until the United States acquired a powerful navy to protect its foreign commerce, it would be all the more essential to ensure an adequate domestic demand by encouraging manufactures. It is clear, however, from Hamilton's many remarks in support of an active commerce¹⁵⁹ that he desired both a navy and the encouragement of manufactures. There is little equivocation in Hamilton's remarks. As Caton observes, "Hamilton was a mercantilist and expected war."¹⁶⁰ Thus, for Hamilton, talk of trade-offs between defense and opulence was somewhat beside the point.

Throughout, Hamilton stressed the need for selective measures which promote or utilize competitive forces and which emphasize innovation and excellence rather than the simple protection of existing industries. The recommendations followed the maxim stated in the Second Draft of the Report that measures should be "systematic and progressive rather than forced to maturity by violent and disproportionate exertions."¹⁶¹ His only marked departures from this general principle were in the area of national security. Hamilton recommended the creation of a "Board" for the promotion of "Arts, Agriculture, Manufactures and Commerce." Under its auspices funds would be dispensed for encouraging immigration, the introduction of useful discoveries, premiums and other support such as Congress might authorize. Hamilton observed that the general equality of wealth in the United States meant that private support for such an institution

¹⁵⁸Ibid., p.162.

¹⁵⁹An active commerce is one that is carried out in the nation's own ships.

¹⁶⁰*Politics of Progress*, p.475.

¹⁶¹*Papers*, X.52.

was unlikely to be forthcoming; hence, the need for government support .

D. Hamilton's Legacy

We will confine our discussion to Hamilton's immediate legacy in the United States. In our conclusion, we will address the more general question of Hamilton's contemporary relevance.

Hamilton's political economy was a complex and subtle response to the problems of the early Republic. He attempted not only to solve economic difficulties, but to use the powers of the government to establish the authority of its laws and institutions. This necessitated changing society in profound ways. Hamilton wished to change the outlook of a colonial people to one appropriate to the people of an independent nation.

There is, we believe, a certain coherence to Hamilton's political and economic plans. His political program demanded that the tone of the government be set as high as possible, within the limits of the Constitution. The great offices of state were to be filled by men of quality and weight seeking to win a name for themselves. His economic program sought to create a diverse, vigorous, and modern society in which property and law were respected. While recognizing the primacy of agriculture in the United States in the foreseeable future, Hamilton's plan proposed to give a weight to the cities which they would not otherwise have received. Caton observes that the growth of cities necessarily increases the number of professionals, the class which Hamilton saw as playing the crucial political role of impartial judges of the various interests which comprise the nation.¹⁶² Such a nation would be a far cry from the homogeneous agrarian republic Jefferson sometimes said he desired. If we are correct in seeing Hume's influence on Hamilton's

¹⁶²*Politics of Progress*, p.477. Cf. *The Federalist* No. 35.214-5. Caton notes Hamilton's anticipation of de Tocqueville. At the Constitutional Convention G. Morris remarked that "the Busy haunts of men not the remote wilderness was the proper school of political talents." *Notes of Debates in the Federal Convention of 1787 Reported by James Madison* (New York: Norton, 1969), July 11, 1787, p.271.

understanding of the progress of society, then there is every reason to believe Hamilton expected the refined sensibilities which he himself possessed would continue in a commercial society, and perhaps even prosper. It goes without saying that such a nation would be, to use Hamilton's understated description, "respectable" abroad. One might conclude that he saw modernization and republican government as not only compatible, but that his program of modernization was essential to the perfection of republican government.

Hamilton's plan was never brought to fruition, so it is impossible to say it failed on its own terms. One might wonder, for example, if the egalitarianism implicit in Hamilton's first principles would not *finally* have eroded the wide role he envisaged for merit. In any case, Hamilton and the Federalists were opposed almost from the outset by the Republicans, and were eventually swept aside in the democratic revolution of 1800. Jefferson then deliberately set about lowering the tone of the National government, especially the executive branch. His championing of the states' rights position meant that the National government ceased its attempts to control the States by transferring allegiances to the National government.

Some elements of Hamilton's program were continued. Manufacturing was encouraged, but in fits and starts and chiefly by war, embargo, and, eventually, by the tariff. Some of Hamilton's arguments were republicanized by men such as Henry Clay who successfully promoted an "American System." To some extent the States took it upon themselves to encourage manufactures.¹⁶³ While it took the Civil War to effectively silence controversy, a protective tariff did become a cornerstone of American economic policy for more than a century. As we have indicated, high tariffs may not be as Hamiltonian as many imagine, but the tariff was an indication of the success of at least some of Hamilton's arguments. Even Jefferson and Madison were forced by circumstances to make substantial concessions to the Hamiltonian view on manufacturing. Hamilton's financial system survived until the time of Jackson when it was dismantled with rather

¹⁶³See Andrew Shonfield, *Modern Capitalism: The Changing Balance of Public and Private Power* (New York: Oxford University Press, 1965), pp.303-4.

disastrous results. Perhaps, it was in the Marshall Court where Hamilton's legacy was most faithfully upheld. Hamilton's understanding of the Constitution and of the proper role of the National government was perpetuated more or less intact by the Marshall Court. Marshall's great decisions, alluded to earlier, played a critical role in closing off areas of society from government, especially State, interference. In the "reckless, booming anarchy" of Jacksonian America, Marvin Meyers, following Tocqueville, detected both an ardent desire to succeed for its own sake, and a corresponding admiration of the successful.¹⁶⁴ Neither of these habits was reducible to mere money hunting. It is surely a question whether this "work ethic" could have survived the thorough democratization of political life which began in 1800 without the protection of the Courts. Marshall had significant advantages over Hamilton. His tenure as a judge, the dignity of his office, and the seeming abstractness of much judicial work made his job easier because it was less controversial. Perhaps not the least of his advantages over Hamilton was that, in the words of Henry Adams, he was "of all the aristocrats the most democratic in manners and appearance."¹⁶⁵

Hamilton realized that his own program was failing and that a change of tactics was needed. After Jefferson's election, for example, he spoke of the need for more populist measures.¹⁶⁶ But also during this period, it seems that he was developing a fall-back position which revolved around the preservation of the Constitution. After the election of 1800, he spoke of marching under "the banners of the constitution" as a strategy for the Federalists.¹⁶⁷ In this sense, too, Hamilton

¹⁶⁴The description comes from Bray Hammond, "Jackson, Biddle, and the Bank," *Journal of Economic History* 7 (May 1947):20. Marvin Meyers, *The Jacksonian Persuasion: Politics and Belief* (Stanford: Stanford University Press, 1957), pp.121-141.

¹⁶⁵*The History of the United States of America During the Administrations of Jefferson and Madison*, ed. Ernest Samuels, (Chicago: University of Chicago Press, 1967), p.142.

¹⁶⁶See H to James Bayard, April [16-21], *Papers*, XXV.605-10. Therein Hamilton recommends the establishment of a Christian Constitutional Society which was to engage in a broad range of political activities including the establishment of charitable and educational institutions in the cities. Hamilton was not well suited for popular politics. See Bayard's response, April 25, 1802, *Ibid.*, XXV.613-4.

¹⁶⁷H to James Bayard, April [16-21], *Ibid.*, XXV.606; "The Examination No. XVII," Mar. 20, 1802, *Ibid.*, XXV.576;

anticipated Marshall's establishment of the Courts as a major force acting to stem the democratic impulse.

CHAPTER SEVEN

CONCLUSION

A. Adam Smith and Alexander Hamilton on the Foundation of the Commercial Republic.

In this part of our conclusion, we summarize and comment upon the views of Adam Smith and Alexander Hamilton on the foundation of the commercial republic. In the next section, we will draw out the conclusions of our study and indicate their relevance to contemporary issues.

Several factors account for the particular place North America occupied in Smith's mind. The "colonial disturbances," as he called the American Revolution, were the burning political issue of the day. Smith took the opportunity to comment at length on them in the context of his general discussion of colonies in the *Wealth of Nations*. Furthermore, North America was, for Smith, both a demonstrable proof of his theory and the place where it was most likely that his ideas would have their chance.¹ Before we turn to our comparison, it is useful to comment a little further on these matters because they lend a heightened sense of importance to our task of comparing Smith and Hamilton.

Smith's opinions on the "colonial disturbances" were widely read and may have had an influence on British policy towards North America.² Smith remained quite steadfast in his views on the issue. While the *Wealth of Nations* was published shortly before the adoption of the Declaration of Independence, Smith made no significant changes to the text in the quarter

¹ See David Stevens, "Adam Smith and the Colonial Disturbances," *Essays on Adam Smith*, ed. Andrew Skinner and Thomas Wilson, (Oxford: Clarendon Press, 1975), pp.202-217.

² It appears that Smith was the author of a memorandum on American affairs sent to Alexander Wedderburn, North's Solicitor General, who was at the center of discussions on American policy. "Smith's Thoughts on the State of the Contest with America, February 1778," App. B, Corr., pp.377-85. Wedderburn was a close friend of Smith's.

century between 1776 and his death in 1790. Smith's preferred option was for Great Britain to cut herself free from the colonies thereby relieving herself of the arduous burden of defending them. After a peaceful separation, Smith thought it likely that "the same sort of parental affection on the one side, and filial respect on the other, might revive between Great Britain and her colonies, which used to subsist between those of ancient Greece and the mother city from which they descended" (WN IV.vii.c.66). Despite the theoretical appeal of separation, he regarded the measure as implausible even to the eyes of the "most visionary enthusiast." The "pride" of the British nation and, more importantly, the "interest" of its governing part were more than a match for considerations of the general interest. Smith's fall-back position was for the establishment of an imperial union which would grant to the colonies free trade and representation in the British parliament. This scheme held out a "new and more dazzling object of ambition" to the "ambitious and high-spirited men" of the colonies. Instead of the "paltry raffle of colony faction" they might come to hope for "some of the great prizes which come from the wheel of the great state lottery of British politics" (WN IV.vii.c.75-6). Smith was reasonably confident that North America would overwhelm Great Britain economically in the not too distant future. If representation were proportioned to taxation, as he wished, the "seat of empire would then naturally remove itself to that part of the empire which contributed most to the general defence and support of the whole" (WN IV.vii.c.79). Hamilton it seems had a certain amount of sympathy with this goal. As we have noted, Hamilton was not averse to the reestablishment of ties with Great Britain. In a conversation with the British agent Beckwith Hamilton drew a picture of a "young and growing empire": an independent nation, primarily but not exclusively agricultural, tied to Britain by trade, shared strategic interests, and a common heritage.³

Smith regarded the rapid progress of the North American colonies as a critical proof of his theory of the natural progress of opulence. There the "policy of Europe" had had little effect on the course of economic development. As we mentioned earlier, Smith believed that "the most

³Oct. 1789, *Papers*, V.482-90.

decisive mark of the prosperity of any country is the increase in the number of its inhabitants" (WN I.viii.23). He observed that in the colonies the population doubled every twenty to twenty-five years rather than every five hundred years as in Europe. The rapid increase in population was a result of the high demand for labor, and this, in turn, of the amount of funds devoted to the maintenance of productive labor. Smith saw the rapid increases in population as connected with the almost single-minded dedication of the Americans to agriculture. The Americans, he thought, had also benefited from the laws and institutions they derived from Great Britain. They were a "civilized" people understanding the value of laws, imbued with the habits of subordination necessary for government, and possessing a knowledge of the arts and sciences necessary for the conduct of agriculture (WN IV.vii.b.1-2). American laws against the engrossing of land and against primogeniture were both particularly suited for the promotion of agriculture. In addition, taxes were low and government cheap, a circumstance aided greatly by the colonies' failure to provide for their own defense. Finally, while the colonies were bound by the mercantile laws protecting British manufacturing, these laws had as yet done little harm to the colonies. Only in the future, when it became desirable for Americans to engage in manufacturing, would these "impertinent badges of slavery" become "really oppressive and insupportable."

According to Smith, the devotion of the Americans to agriculture was bringing them quickly to a situation of "real wealth and greatness." Agriculture, he contended, is the "proper business of all new colonies" because the cheapness of land renders it more advantageous than any other activity (WN IV.vii.c.51). New colonies produce large surpluses of agricultural products which they can exchange for manufactured goods from other lands. Smith warned the colonies that were they

either by combination or by any other sort of violence, to stop the importation of European manufactures, and, by thus giving a monopoly to such of their own countrymen as could manufacture the like goods, divert any considerable part of their capital into this employment, they would retard instead of accelerating the further increase in the value of their annual produce, and would obstruct instead of promoting the progress of their country towards real wealth and greatness (WN II.v.21).

Smith added that the same reasoning would argue against any American attempt to monopolize their own foreign trade by subsidizing their merchant marine.

In order to make our comparison, we must first ask what adjustments Smith would have made if he were formulating policies for an independent United States. We have anticipated our answer in our discussions of the American followers of Smith such as Jefferson and Madison. Some further comment is, however, necessary. We must take into consideration any quirks which might have entered into Jefferson's and Madison's analyses. On the questions of the possibility of free trade, of the outlook for peace and the causes of war, on the character of the yeoman farmer, and the political and economic merits of agriculture there was little disagreement among the three. The main question on which Smith may have differed was that of their policy of commercial warfare with Great Britain. Yet, for the purposes of our comparison, this, too, does not in practice amount to much because Smith did not recommend the encouragement of manufactures as an alternative to commercial warfare, but rather simple acquiescence in the discriminatory policies of other nations. Smith argued that it is foolish to increase the cost of imported goods if retaliation is unlikely to result in a repeal of the discriminatory measures. What is wisdom for an individual merchant is also wisdom for an independent nation; nations should sell as dear as possible and buy as cheap as possible. Thus, we may conclude that Smith would have opposed Hamilton's program for the systematic encouragement of manufactures. There is little reason to believe that Smith regarded the establishment of free trade in the United States as a utopian scheme. Perhaps more than anywhere else in the world, North America was a suitable testing ground for the system of natural liberty.

Behind Smith's practical recommendations were the principles of his political economy. Smith was led to believe that a science of political economy is possible by his study of history which revealed to him a set of regularities which had to some degree characterized every society. From these regularities Smith established the premises of his system. As the principle of motion

or driving force behind the progress of society, he proposed the desire of every man to better his condition. The great object of the *Wealth of Nations* is to show that with perfect liberty of trade the necessary operations of this desire result in the most rapid possible increase in the annual produce. Each individual seeks out the best, that is, the most financially rewarding, means of utilizing his wealth and skills. For the state to attempt to direct this natural motion is in Smith's view sheer folly or presumption because every individual is better equipped to pursue his own interest than anyone else is to pursue that same interest.

Smith thought that the natural progress of opulence follows a certain sequence: from agriculture to manufacturing to wholesale and retail trade, and, finally, to foreign trade. Agriculture is the most productive form of activity for society in that it puts into motion a greater quantity of labor than any other activity. Any nation with arable lands is best served by allowing its people to follow their natural inclination to take up agriculture until it becomes necessary to move into other pursuits. Smith regarded the natural inclinations which channel men into agriculture to be the desire for security, the desire for independence, and the natural attractions accompanying agricultural life. He thought these natural attractions of the agricultural life to be remnants of primitive man's delight in such pursuits.

The *Wealth of Nations* accounts for the economic progress of society in mechanical terms. We are driven to acquire by the desire to better our condition. Accumulation or economic growth is the result of savings from the surplus of the annual produce which are directed towards putting additional labor into motion. Smith did not hold a labor theory of value of the kind proposed later by Ricardo and Marx, but he shared with Locke the notion that labor creates value by transforming the spontaneous products of nature into things useful to man. Smith believed that all forms of labor may be expressed in terms of units of ordinary labor. Skilled labor, for example, is the product of past efforts, or labors, to acquire those skills. He denied that there are any irreducible natural differences of talent and ability among human beings. Smith measured the additional

motion which is communicated to society as a result of savings in terms of labor commanded; the toil and trouble of labor being a constant in a world of flux. The purchasing power of any particular commodity is measured by the amount of labor it can sustain. A corollary to Smith's argument is that the economy moves in a precise and determinate manner. Economic progress is an incremental process in which savings are automatically converted into investments, which, in turn, provide the returns that are source of future savings. The key to maintaining industry and frugality throughout society is the maintenance of competition among the merchants and manufacturers. Smith was unconcerned that savings might result in a deficiency of purchasing power because he believed that money only serves to facilitate present transactions. Thus, there is no reason to hoard money for, say, speculative reasons. By distinguishing between the real and the nominal economy, Smith attempted to speak about the operations of the economy without reference to the role of money.

Smith identified the division of labor as the factor responsible for the enormous increase in the productive powers of labor which characterizes civilized societies. The system of natural liberty results not only in the largest annual produce given the current productive powers of labor, but also in the most rapid advances in terms of the quality of labor which is put into motion. Smith argued that where there is freedom of trade, competition among producers will force them to adopt the most efficient means of production. Beyond this, the division of labor is limited only by the extent of the market. The rate at which the division of labor is extended depends on the increase in the population which, in turn, depends on the quantity of savings devoted to putting into motion additional labor. The best way to promote the division of labor is to allow the most perfect liberty of trade. As a result, Smith shows little interest in promoting particular types of labor.

Smith arrived at his views on economic policy by first considering economic affairs from the perspective of the natural course of things. His account of the natural course of things assumes

an ideal situation of universal free trade. Smith's system begins with a set of propositions on the basis of which he proceeds to deduce a set of conclusions. He believed he had verified these conclusions experimentally by studying the historical record.⁴ The system of natural liberty is in conception both abstract and apolitical. It is, however, these general principles which Smith believed are helpful to statesmen whose job it is to harmonize knowledge of the natural course of things with the particulars of each situation.

Smith's political science had little to say about the problem of founding a commercial people.⁵ The essential features of his political science were an account of the natural progress of law and government and an elaboration of the rules of justice and policy which ought to be found in all nations. Smith was more concerned with how a commercial society develops over the course of a long period of time, than in how one is founded at a particular time. He replaced the idea of the social contract as the basis of society with an understanding of the need to establish a harmony between what we have termed the formal constitution of the society and the stage of development society has reached. When this relationship is no longer synchronized, Smith pointed to a need to reform the constitution in order to reestablish a balance of powers, privileges, and immunities among the various classes which would hold in check factious passions. The most important function of the administration or what we have termed the effectual constitution is to establish an exact administration of justice, that is, one which guarantees the natural liberty of the people to the greatest extent possible. Smith's political economy and his political science both show the great extent to which reasons of state are compatible with natural liberty. In addition, the state must perform certain activities which, though important, are all "plain and intelligible to common understandings."

⁴For examples of Smith's use of "proof" and "demonstration," see WN I.xi.n.1; IV.ii.17,19; IV.vii.c.87.

⁵Smith's remarks on the "founders" of the American colonies at WN IV.vii.b.64 must be interpreted in light of his description of what is necessary for growth.

There are significant differences between Smith's separation of the formal and effectual constitutions and Hamilton's understanding of constitutionalism. Smith's solution might be described as technocratic rather than constitutional. This particular difference is indicative of their different starting points. Hamilton's understanding of this dimension of the foundation of the commercial republic is not technocratic. For Hamilton, the constitution is the means or instrument for relieving the inconveniences of the state of nature. It is a flexible instrument framed for the exigencies of the ages. A constitution is Hamilton's substitute for universal rules of justice and policy yielded by a science. The constitution allows *government* to take place. At times the entire people are involved, for example, during elections, while at other times, only a few are involved in deliberating, legislating, and acting. In each case the effectiveness of the constitution is dependent upon the character and abilities of those who participate. For Hamilton, an understanding of the natural course of things did not provide the kind of precise guidance on matters of policy and law which Smith thought it might. Hamilton did not, for example, take his bearings from an idealized notion of natural liberty. Knowledge of the natural course of things instead provided guidance on the kinds of powers which the constitution must grant to the government.

Smith's divorce of the constitutional and the administrative aspects of government comes at the price of a certain neglect of the kind of society which is necessary for the maintenance of a wise administration. Smith understood his political and economic science as the product of a particular stage of society. In this sense only, is it dependent on the kind of society. He sought to move political men through an appeal to the spirit of system. This kind of appeal was made necessary by his belief that as a class political men are moved chiefly by ambition. His political science and political economy each teach moderation in the interest of effectiveness, thereby reconciling public good, private ambition, and moderate politics. The shift in emphasis from the question of the form of government to universal principles of administration is of great

significance. It dispenses with the need for founding a particular kind of society, i.e., a particular form of citizenry that is compatible with a particular form of government. This omission is especially important when we consider the founding of a commercial *republic*.

Hamilton, by contrast, was acutely concerned with the idea of a founding. He sought to establish a free government in the United States by means of a wisely administered constitutional republic. His economic plan called for the creation of a diverse and complex society in which law and property were respected. Only there would men of quality and weight would find their way into public affairs. This is essential because the reflection and choice of the people must be supplemented by the actions of a wise administration. Furthermore, these actions must extend to shaping the character of the people. This is especially the case in the early stages of any society. Hamilton wished to establish a commercial people. In this regard, the history of the colonies gave him a considerable base on which to build. Hamilton saw it as his role to preserve and extend the commercial spirit. Beyond this, he attempted to promote a national character appropriate to the people of an independent nation. The cornerstone of Hamilton's politics was the notion of "respectability." At the Constitutional Convention Hamilton engaged Charles Pinckney in a memorable exchange over the need for respectability in a republic. Pinckney had argued that such concerns were unnecessary and even contrary to the spirit of a republic. Hamilton responded that to distinguish between the concern for respectability and that for security is an "ideal distinction."⁶ If it is to obtain the private goods of liberty and security, a nation must be respectable in the world. One of the preconditions for national respectability is a respectable people. In addition to the habits of self-reliance ordinarily associated with liberalism, for Hamilton this meant an awareness of their place as citizens of a great nation. Smith wrote a great deal about the "respectable" virtues, but he saw these virtues as the products of society itself. Moreover, he seldom refers to the political need for such virtues. Hamilton thought government had an

⁶Pinckney's remarks were made on June 25 and Hamilton's on June 29, *Notes of the Debates in the Federal Convention of 1787* by James Madison (New York: Norton, 1969), pp.185,216.

important role to play in shaping national character both by its example and by the direct encouragement of certain activities.

Hamilton did not believe that there is any way of completely overcoming the inconveniences of the state of nature. The relations among independent nations, for example, are as unpredictable and dangerous as those among individuals in the state of nature. As a result, war is an ever present possibility among independent nations. For this reason, Hamilton's political economy begins from the perspective of an independent nation. In this light, Smith's trade-off between defense and opulence is illusory because it makes a tacit assumption of knowledge of a peaceful future. Only on the basis of such an assumption is it possible to speak of a generalized notion of "power." Otherwise, all power is specific and valuable only in light of the particular situation of the nation. For example, the vicissitudes of international affairs led Hamilton to advocate an "active commerce" and its companion naval power.

Hamilton's sober expectation of what is possible in the world led him to stress the need to make the United States more self-sufficient. A nation dependent solely on agriculture for its exports is subject to the entire range of interruptions to which international trade is susceptible. Only with a balanced economy is it possible to have that stability of demand necessary for the effective and rapid development of a great nation. The only sure means to this goal is for the government to encourage manufacturing and thereby create a domestic market for agricultural products. Hamilton considered it irrelevant to speak of the potential benefits of a system of perfect liberty if, in fact, one does not exist already. To acquiesce in the face of restrictive measures on the grounds that it is always better to buy as cheaply as possible is in reality to sacrifice the future for the present. Far better to make a temporary sacrifice and substitute a domestic manufacture or a new export industry. Smith hypothesized that in the long term manufactures would arise of their own accord. This claim stands independently of his claim that agriculture is more productive than manufacturing. Hamilton was less certain. He stressed the

role of habit in determining economic behavior. When to the force of habit were added the efforts of other nations to preserve their preeminence in desirable areas of manufacturing, he was certain that domestic manufactures would arise only with the "incitement and patronage of government." The natural, in the sense of unimpeded, motion of society is likely to be in the direction of the easiest activities. These are not necessarily and, perhaps, not likely to be those in the best interests of the nation.

Manufacturing requires the acquisition of new and varied skills. To a striking extent Hamilton placed upon the government the responsibility of introducing these new skills. Hamilton paid more attention than Smith to the need for particular types of labor because he was less confident that the natural progress of opulence gives rise to the required skills. Hamilton laid great stress on the implications for manufacturing of new developments in technology. These were particularly important for the United States because they represented an opportunity to catch up with Europe with an unprecedented quickness. Furthermore, it is naive to believe that foreign governments would stand by idly and see their markets usurped. The competitive international system makes it necessary to provide some protection for domestic entrepreneurs. Hamilton recommended measures to encourage the development of new industries and to protect industries essential for national security.

Hamilton did not, however, see all international trade as a "zero-sum game." He agreed with Hume that there had been an excessive amount of jealousy of trade in Europe which had harmed commerce and created conflict. Hamilton saw the advantages that would accrue if the United States were to establish a trading relationship which allowed it to devote a large portion of its labor to agriculture. His plan for development of did not involve the kind of drive for industrialization which is generally associated with a statist political economy. Hamilton raised no objection to the likelihood that agriculture would remain the predominant, though not the exclusive, pursuit of Americans for a long time to come. He wished to improve and supplement agriculture for the

purposes of developing the resources of the country. Unlike Smith, he had little faith in the natural industry of the yeoman farmer. If left on his own, the yeoman farmer was likely to exploit and exhaust the land. The cheap fertile land of North America was particularly susceptible to such practices because there were no natural penalties for inefficiency. Hamilton sought to improve agricultural practices by injecting into agriculture the commercial spirit. One way to do this was to create a vital manufacturing sector.

Hamilton did not view economic growth in terms of Smith's idea of incremental change based on frugality and industry. It was not that he rejected these quasi-virtues or discounted their importance for economic growth. Rather, Hamilton saw economic growth as a more volatile and dynamic process which depended to an important extent on the extraordinary efforts of some, rather than the ordinary efforts of many. We can see this difference in several areas. As Hiram Caton has observed, Hamilton displayed a keen insight into the technological elements of economic growth. For the purpose of building up the nation's productive powers by encouraging manufactures, Hamilton was willing to depart from Smith's policy of buying as cheap as possible.⁷ In general, he was more concerned than Smith with encouraging particular types of labor.

Caton tends, however, to neglect the financial or, what he terms, the "commercial" aspect of Hamilton's program. Forrest McDonald's discussion of this aspect of Hamilton's plan is by far the best available.⁸ Hamilton sought to provide sufficient incentives to elicit the vast amount of energy and activity necessary for the exploitation of the human and material resources of the nation. He saw two conditions as essential: first, a climate of confidence among entrepreneurs and, second, the provision of a medium of exchange sufficient to incite industry and enterprise.

⁷"The Preindustrial Economics of Adam Smith," *Journal of Economic History* 45, No. 4 (Dec. 1985): 846-9. Caton includes Hamilton's views among the "industrial critiques" of Smith's political economy.

⁸*Alexander Hamilton: A Biography* (New York: Norton, 1979), pp. 117-210.

With respect to these matters, perhaps the most significant difference between Smith and Hamilton concerned the subject of money. Hamilton acted on the basis of a subtle understanding of the connections among money, speculation, and enterprise. He was aware of the difference between money and real wealth but, unlike Smith, he was anxious to see positive steps taken to ensure an adequate supply of money. With respect to hard money, Hamilton was concerned with the maintenance of a favourable balance of trade for the purpose of increasing the nation's stock of the precious metals. He saw this stock as important for the conduct of domestic commerce and as essential both for the conduct of international commerce and for the protection of the nation's security interests abroad. The nation's stock of precious metals represented its financial power in the world at large.

That said, Hamilton saw a considerable role for paper money as a substitute for hard money in the domestic economy. For this reason, he recommended the establishment of a national bank, as much for the promotion of prosperity as for the conduct of the government's finances. In this regard, Hamilton believed the national debt could be used as a supplement to the nation's supply of capital. Here Hamilton's understanding of the role of opinion and confidence in economic affairs is crucial. Any property whatsoever may act as capital in Hamilton's view. Property that is quickly alienable for money is active capital, i.e., capital that can be used for investment purposes. As a result, a change in the business community's "estimation" of the value of a certain species of property changes the amount of capital in the nation. One might say that Hamilton adopted a less sophisticated understanding of money than Smith. For Hamilton, money is whatever the business community considers to be money. The public debt, for example, could be considered as a species of capital. In addition, the meteoric rise in the value of those securities initiated by Hamilton's funding scheme could be considered as an increase in the active capital of the nation. Hamilton's simpler view of money also underlies his belief that interest rates are a function of the quantity of money, that is to say, of the greater scarcity or plenty of money. Smith,

by contrast, regarded interest rates as a function of the rate of profit and as such reflected a real value which could not be varied by simply varying the quantity of money. Hamilton's emphasis on the role of credit has an important political connotation which Caton's preoccupation with Hamilton's industrialism tends to obscure. Hamilton's political economy was more liberal than the European statist tradition because it relied more on private initiative.

As we have considered merely arguments for the most part, one might ask what, if anything, have we *proved*. We will approach this question from the perspective of both Smith and Hamilton. Smith would perhaps argue that developments in the United States would have proceeded much as they did even if Hamilton's economic program had never existed. Looked at from Hamilton's perspective the matter might appear quite differently. The establishment of an exact administration of justice, an objective with which Smith would have approved, was hardly a simple administrative matter. It required all the skill of the statesman to cajole and, at times, prod the American people to accept the system which he proposed. Furthermore, Hamilton's financial system was vitally important in breathing life and energy into the nation. Finally, whatever the drawbacks of a tariff system, it did protect and encourage American manufacturing throughout the nineteenth century in which time the United States rose to the status of a world power. Perhaps Hamilton would have taken another route in his own defense. When faced with a conflict between theories he looked to enlightened statesman and to the general policy of nations as guides for political practice. Has the general policy of nations changed much since Hamilton's time? It seems not. At times a more liberal world order has prevailed, but this has had more to do with the political situation of the day than with economic considerations. Furthermore, there are successful mercantilist states in Europe and Asia. In this respect, mercantilism cannot be said to have been refuted. For the purposes of our conclusion, we will side with Hamilton. To settle the question between Smith and Hamilton completely would, perhaps, require an historical inquiry far beyond the scope of the present study. Yet, the broad sweep of history seems to support Hamilton's

view, whereas Smith's is still unproven. An appeal to experience, however much it might theoretically be questioned, remains our best recourse because it is our only recourse.

B. Statesmanship and Political Economy

Many of the issues that separated Smith from Hamilton have an antiquarian flavor about them. For example, Smith's argument for the superior productivity of agriculture could today only be pronounced "quaint and superficial," just as Hamilton had said. Our purpose, though, was to consider these arguments for the light they shed on the way Smith and Hamilton approached economic affairs. This is important because Smith established an enormously influential school of thought which has maintained his basic approach even though it has rejected some of his specific opinions. Smith, perhaps, anticipated such an "empire" over men's minds. The system of natural liberty is elegant, simple, comprehensive, and founded on the familiar principle of self-interest. It thus contains all the elements which Smith thought essential for a successful theory. By an appeal to the spirit of system, Smith presented his thought in a manner designed to influence political men. Following in Smith's footsteps there arose a class of university trained professional economists. It is true that Smith's followers departed from his plan in several respects. They jettisoned his caution on the issue of implementing the system of natural liberty. They also tended to neglect the role Smith left for the state, for example, in the area of the provision of infrastructure.⁹ That said, the steady increase in the claims made for the system of natural liberty is to some extent attributable to Smith's establishment of an independent science of economics. Furthermore, Smith proposed a comprehensive study of political and economic affairs as a prerequisite for political office. Instead, his science of political economy became the singular

⁹See, e.g., Milton Friedman's bicentenary appreciation of the *Wealth of Nations*, "Adam Smith's Relevance for 1976," in *Adam Smith and the Wealth of Nations: Bicentennial Essays 1776-1976*, Fred F. Glahe ed., (Boulder: Colorado Associated University Press, 1978), pp.7-20. Friedman describes as "mischievous" Smith's suggestion that the state has a broad duty to erect and maintain certain public works and institutions (p.13).

pursuit of a professional class. Moreover, the theoretical side of political economy became the province of the professional economist and not of the philosopher as Smith seems to have envisaged.

Nevertheless, Smith attempted to bring under the rubric of science the economic affairs of nations and the respects in which Smith's followers have been faithful to his example have been at least as significant as their departures. We might infer from our analysis of the foundation of his science that he thought this was possible because society moves in a determinate way. Economic growth is the outcome of the sober and cautious efforts of many individuals over a long period of time. As a result, the celebration of a certain risk-averse individualism goes hand-in-hand with Smith's political economy. It is because economic outcomes depend on a multitude of similar causes that economic progress is smooth and predictable and, therefore, a suitable subject for scientific analysis. By escaping from the ambiguities of common speech to a more solid and precise realm of scientific analysis, Smith attempted to reveal the smooth and predictable character of economic progress which lies behind the world of appearances. Most modern economists simply take for granted what Smith thought to be the first step in scientific analysis. Still, they remain concerned with defining things in *real* terms, by which they mean abstracting from the froth and bubble of economic affairs and getting down to the factors which are really important. Smith attempted to do this by dealing with labor or energy expended as the real stuff which determines economic activity. Neither the uncertainty or volatility usually associated with economic affairs, nor the efforts of individual entrepreneurs or inventors figure prominently in Smith's analysis. While later economists have found ways to incorporate these factors into their analyses, for example, by a mathematical treatment of probability or by considering profits as a return for entrepreneurship, they have not substantially changed the apparatus which Smith established for considering economic affairs. Alfred Marshall, for example, began his classic *Principles of Economics* with the latin phrase "*Natura non facit saltum.*" Smith thought that for

political economy to be a science the unpredictable elements in human affairs had to be discounted. When viewed from the perspective of Adam Smith, it is a revealing irony that his successors attempted to incorporate what he regarded as unpredictable, and that economics now relies chiefly on prediction for its status as a science.

We might refer to Hume's distinction between general principles and particular deliberations in order to clarify the disagreement between Smith and Hamilton. Hume's distinction, which Smith adopted, is helpful for understanding the place of contemporary economics and, perhaps, social science as a whole. According to Hume and Smith, general principles describe the general course of things. They concern matters which depend on a multitude of causes and not upon mere accidents or contingencies. Hume gave as examples domestic policy for the former and foreign policy for the latter. To begin with, Hamilton did not make a sharp distinction between domestic and foreign affairs even with respect to economic matters. For Hamilton, then, the scope for general reasonings was correspondingly narrowed. Furthermore, as Hamilton understood Hume, the natural course of things in economic affairs is to an important degree a creation of government policy which enters as an important supplement to the natural inclinations of individuals. When Hamilton spoke of the "axioms" of politics and ethics he seems to have had in mind certain basic principles that he thought no reasonable man could dispute.¹⁰ Beyond these there were few general principles Hamilton was willing to grant as everywhere valid. Thus, to use Hume's terminology, there are many more "particular" decisions in political life than "general" decisions.

While Hamilton sometimes spoke of the "principles of political economy," he seemed to have in mind something quite different from Smith's science.¹¹ Hamilton did not elaborate a

¹⁰Among these he included the following: war is always a possibility because "the seeds of war are sown thickly in the human breast"; the principle that the means must be proportioned to the ends; and the principles of natural right. See *The Federalist* No.31.188-90; "Defense of the Funding System," July 1795, *Papers*, XIX.56; "The Farmer Refuted," *Ibid.*, I.122. The discussion in *The Federalist*, No.31 is relevant to the general issue.

complete political economy of his own. His interests and writings were dictated by the political situation in which he found himself. Our exposition was undertaken to clarify the way in which he approached practical problems. Hamilton, in contrast to Smith, kept the surface of things more in view. Perhaps he did this as a practical man, with a practical man's prejudices. But it is true that he made a point of mentioning that too great a "spirit of abstraction and refinement" is not suitable for understanding political and economic affairs. Hamilton was aware "how apt the imagination is to be heated" in theoretical inquiries. His caution in this area forbade surrender to any general theories of politics and counselled him to defer to experience. By experience he meant not so much experimentation, but the tried practice of nations and statesmen. Hamilton leaves greater room for what we might call judgment or the particular skill or knack which chooses the right means to given ends in particular circumstances.¹² Perhaps it was Hamilton's concern with "particular" deliberations that made him more concerned with opinions or what people say about things and that diverted him away from "nice and abstract" distinctions.

It is clear that Hamilton possessed a notion of the "natural course of things." He thought, for example, that the ancient republics went against the natural course of things. But Hamilton did not equate the natural course of things with an automatic process of growth. The absence of such an automatic process means that the statesman must choose the particular courses of action

¹¹Eg., *The Federalist*, No.35.215.

¹²See Leo Strauss's remarks on the nature of practical decisions in *Natural Right and History* (Chicago: University of Chicago Press, 1953), pp.304-11. Also see, Kurt Riezler, "The Philosopher of History and the Modern Statesman," *Social Research* 13, No.3 (Sept. 1946):368-80. See especially his remarks on Adam Smith at pp.372-3. In an essay clarifying the character of mathematical welfare economics, Joseph Cropsey once remarked that "every logic presupposes a metaphysic." "What is Welfare Economics?" *Political Philosophy and the Issues of Politics* (Chicago: University of Chicago Press, 1977), p.22. While we have made some attempt to uncover the basis of Smith's position, we will make no effort to do the same for Hamilton. Keynes embarked upon a more explicit and comprehensive criticism of the scientific character of classical political economy when he attempted to come to terms with the role of uncertainty in political and economic life. It is of more than passing interest that Keynes declared himself to be a pre-Classical economist, not a "Keynesian." See Athol Fitzgibbons, *Keynes's Vision: A New Political Economy* (New York: Oxford University Press, 1988). Fitzgibbons builds on certain keen insights of Richard Staveley, "Keynes's Adaptation of Classical Economics," *Australian Journal of Politics and History* 29, No.2 (Aug.1983):379-91.

which are likely to best serve the public good. In the situation of the early Republic, for example, this meant choosing between manufacturing and agriculture. It seems possible to trace what we have termed the methodological differences between Smith and Hamilton back to a fundamental reassessment of the value of history as a guide to human affairs. Anything like a philosophy of history was strikingly absent from Hamilton's words and actions. As a result, Hamilton shared something in common with those early modern philosophers who conceived of modernity as a project to be completed by conscious human actions. For Hamilton, "modern policy" was just that--policy--deliberately conceived and implemented. For Hamilton, history was a source both of inspiration and of general wisdom about the world. The true student of history, he believed, could not be led astray by visionary enthusiasts of any sort.¹³ A change in the understanding of history seems to be fundamental to the emergence of a science of economics. If history is viewed as conforming to a pattern which might be revealed by the appropriate method, it might then serve as a guide to practice in a more precise way than Hamilton envisaged. If history does not conform to such a pattern, or if knowledge of the pattern of history is unavailable to us, then it cannot. In the case of either of the latter, the hierarchy Smith established between a statesman guided by knowledge of the general course of things and the crafty and opportunistic politician must be rethought. Smith hierarchy is reflected in the social sciences' neglect of the perspective of the statesman. Hamilton's approach to political and economic matters represents an alternative to that proposed by the social sciences and which was originally proposed by men such as Smith and Hume. Hamilton took his bearings from a notion of a just society and he evaluated policies in light of this end. As a result, his political economy never ceased to be political. Furthermore, he did not begin from any presupposition that history itself acts to bring into being such a society. This task was left to human beings who must act in a world of change and chance.

We will illustrate the lessons of Hamilton's statesmanship by taking up three issues of great

¹³See, e.g., *The Federalist*, No.6.

contemporary importance: the problem of the developing world; the international balance of power; and the domestic economy.

Hamilton advocated what today would be described as a policy of economic nationalism.¹⁴ As the term "economic nationalism" was unknown to Hamilton, it is of some importance that we clarify Hamilton's position a little further. We noted in the introduction that Hamilton had an influence in the non-English speaking world. The writings of Friedrich List, for example, bear unmistakable marks of Hamilton's Report on Manufactures. In his *The National System of Political Economy*, List advocated the equivalent of an "American system" for a unified Germany. While List was a humane and decent man, he obscured the liberal basis of Hamilton's political economy. List founded his political economy on the idea of the nation as an organic whole.¹⁵ Hamilton, by contrast, was an advocate of liberal capitalism or, as he called it, the commercial republic. Hamilton's economic nationalism never lost sight of the liberal character of American society. He recommended policies which utilized the forces of competition and enterprise. We have already noted that it is incorrect to see Hamilton as an advocate of state or corporate capitalism. His modernization program was more than simply an effort to establish the United States as an independent nation; it was not an exercise in mere "reactive nationalism."¹⁶ He attempted to establish a society compatible with the form of government established by the United States Constitution. Even Hamilton's notion of "respectability" seems to go beyond mere power politics and to carry with it a connotation of acceptance within the community of *civilized* nations.

Much more could be said about the relevance of Hamilton's example to the "substance" of the development policies of recent decades, but it perhaps more appropriate in our closing

¹⁴See, e.g., Gilpin, *The Political Economy of International Relations*(Princeton: Princeton University Press, 1987), pp.31-4.

¹⁵*The National System of Political Economy*, pp.141-2.

¹⁶See Arndt's account of "reactive nationalism" as the reason for the spread of the idea of modernization from England to Europe and Asia, *Economic Development: The History of an Idea* (Chicago: Chicago University Press, 1987), pp.14-22. The term was originated by W.W. Rostow, *Politics and the Stages of Growth* (Cambridge: Cambridge University Press, 1971), p.63.

remarks to speak of the "style" of those policies. Since the Second World War the theory of economic development has been dominated by two schools of thought: structuralism and dependency theory.¹⁷ While the former is similar in many respects to Hamilton's advocacy of policies for *national* development, it shares with dependency theory a tendency to blame or indict the "structure" of the international trading system for impeding growth in the developing world. The reader will recall Hamilton's comment that such observations should not be made in "a spirit of complaint." Hamilton sought to make clear that development was a national responsibility as well as a national concern. Here the example set by the government, its style so to speak, might be of great political and economic significance.

As we noted, Hamilton's statesmanship has something in common with those thinkers who conceived of the modern project. In particular, one can see in both a comprehensive understanding of the notion of modernization. This comprehensive notion is often lost sight of in technical discussions of economic development.¹⁸ Yet it is important to recapture this original understanding, especially its liberal formulation.¹⁹ A better understanding of the profound transformation which took place in the West is central for understanding the problems and opportunities which confront these nations. Our study of Hamilton indicates that the Founding period involved a significant transformation of American society which was to a large degree produced by the state. This transformation is best understood in terms of the concept of modernization. Hamilton's example highlights the profound difficulty of establishing a liberal democracy and a free economy at the same time.

¹⁷For discussions of these theories see Arndt, *Economic Development*, pp.119-26; Gilpin, *The Political Economy of International Relations*, pp.273-88. These theories have had their greatest practical influence in Latin America.

¹⁸See, e.g., Ian M.D. Little, *Economic Development: Theory, Policy, and International Relations*, (New York: Basic Books, 1982). Little, perhaps as a result of his desire to avoid value judgments, does not mention modernization at all (pp.3-6).

¹⁹On this question see Caton, *The Politics of Progress: Origins and Development of the Commercial Republic 1600-1835* (Gainesville, FL: University of Florida Press, 1988), and Cropsey, "Modernization: United States Policy and the Meaning of Modernity," in *Political Philosophy and the Issues of Politics* (Chicago: University of Chicago Press, 1977).

The changing scene of world affairs has brought the relation between politics and economics back into the foreground of contemporary debate in a dramatic fashion. A number of recent studies have focussed on the shape of world politics "after hegemony," i.e., after the period of hegemony of the United States in world affairs.²⁰ The so-called "competitiveness issue" in the United States is a cool and popular way of speaking of the perceived changes in the balance of power throughout the world. The collapse of communism has sharpened the issue. There are many differences of opinion as regards the implications of these developments. One controversial line of argument suggests that there has been a fundamental change in human affairs; an evolution of consciousness among the elites of the developed world which will lead to the establishment of welfare state capitalism as the prevalent form of government accompanied by peaceful economic competition in the international arena.²¹ Other, more cautious, observers have noted that alongside the global balance of military power between the United States and the Soviet Union, there has developed a global balance of economic power in which those two nations are nowhere near as dominant. Richard Rosecrance has drawn attention to the rise of aggressive "trading states" like Japan which have made rapid and dramatic gains in terms of global economic power in recent decades. At the same time, it appears to Rosecrance that the efficacy of military power is in decline. While he engages in some prudent hedging of bets, Rosecrance seems to suggest that the "political-military world" is in the process of being eclipsed by the "trading world." Now this might require some changes in national policy, but it is not necessarily an unfortunate development. Rosecrance adds, however, that the "political-military" world might reassert itself, as it has done in the past.²² A more pessimistic view is taken by Robert Gilpin. He

²⁰See Robert Keohane, *After Hegemony* (Princeton: Princeton University Press, 1974). Keohane argues that the United States succeeded Great Britain as hegemon after the Second World War. See also Kennedy, *The Rise and Fall of the Great Powers: Economic Power and Military Conflict from 1500 to 2000* (London: Fontana, 1989), and Richard Rosecrance, *The Rise of the Trading State* (New York: Basic Books, 1985).

²¹Francis Fukayama, "The End of History?" *The National Interest*, No.16, (Summer 1989), pp.3-18.

²²*The Rise of the Trading State*, p.211-29.

notes that the 1980s brought liberalization to domestic economies, but a virtual disintegration of the comparatively liberal post-war trading order. Gilpin is very uncertain about the future implications for world prosperity and peace.²³

Throughout recent discussion of the issues, it is striking the extent to which they are foreshadowed by and often rely upon the eighteenth century debates on wealth, power, and strategy in which Smith and Hamilton were significant participants.²⁴ Hamilton questioned whether there is a place for a "benevolent and philosophic spirit" in international affairs. His pessimism extended to the liberal international system recommended by Smith. Hamilton saw this situation as perhaps regrettable but, nevertheless, as natural. His response was without indignation or complaint. Nations must attend to their own interests. At best, Hamilton seems to have envisaged trading arrangements, including international finance, in terms of what Robert Keohane refers to as "cooperation" as distinct from the "harmony" of interests proposed by Smith.²⁵ Hamilton took it for granted that there would be a continuing need for the state to encourage new industries and those vital to national security. Furthermore, any reader of Hamilton's sixth Federalist essay could entertain no doubts of his opinion concerning the future prospects of war. Hamilton believed in an unchanging human nature. If human nature is fixed, then human possibilities are fixed. The ever present possibility of war was, Hamilton thought, something Americans would be prone to forget. Rosecrance's "trading world" seems visionary. Hamilton denied that a peaceful trading relationship could be established among the American States unless there was first established a central power. Moreover, to be respectable in the

²³*The Political Economy of International Relations*, p.408.

²⁴For a discussion of the influence of Smith and Hamilton, see Edward Mead Earle, "Adam Smith, Alexander Hamilton, and Friedrich List: The Economic Foundations of Military Power," (1943) in *Makers of Modern Strategy from Machiavelli to the Nuclear Age*, ed. Peter Paret, (Princeton: Princeton University Press, 1986). Our comparison of Smith and Hamilton has called into question Edward Mead Earle's argument that Hamilton and Smith were in substantial agreement with regards to the question of economic power and strategy.

²⁵*After Hegemony* (Princeton: Princeton University Press, 1974), pp.51-7.

world is, in large part, to be powerful. Hamilton more clearly, perhaps, than many of his day, saw the manifold connections between the economy and the military capacity of the nation. His immediate emphasis was on the public credit, but in the background was the awareness that a flourishing commerce would add powerfully to the capacity of the United States to make war. We should again note that in the final analysis Hamilton saw these issues in terms of national character.

The problems of the international balance of power and economic development point to the potential importance of the role of the state in the economy. This suggestion is, however, open to a significant difficulty. The free market and liberalism connect nicely in that the free market promises growth without the necessity of government interference, thus protecting the liberal idea of limited government. The benefits of such an arrangement are obvious: the free market fosters independence, personal responsibility, and a decentralization of power. All three are, perhaps, as necessary to the preservation of the liberal democratic way of life as is national security. De Tocqueville pointed out that in the United States the administration of government was generally poor, but to be weighed against this there were political advantages which compensated for these failures of administration.²⁶ He warned of the dangers of an over-bearing state in all areas of life. Many see the experience of the twentieth century as at least a partial confirmation of de Tocqueville's concerns.²⁷ Hamiltonianism, today, would seem to be out of place or even dangerous.

What would be a Hamiltonian response to the contemporary scene? To begin with, one could not say that the expansion in government power in the United States since the 1930s was Hamiltonian in intention or substance. Hamilton was as much concerned with promoting habits of industry, frugality, and enterprise for the sake of both polity and economy as any of today's

²⁶*Democracy in America*, trans. George Lawrence ed. J. P. Mayer, (Garden City, N.Y.: Anchor Books, 1969), pp.87-98.

²⁷See, e.g., Friederich von Hayek, *The Road to Serfdom* (Chicago: University of Chicago Press, 1944.)

advocates of the free market. Hamilton did not, however, see these habits as a spontaneous growth even in a free society. The course of nature, he thought, might lead in the direction of indolence or speculative activity. As a result, economic management is essential.

There is, however, a deeper problem. Hamilton's high-toned government might have been well qualified to administer a finely tuned economic program. But, as we have seen, his grand scheme was lost sight of when the nation took a democratic turn. Hamilton was aware of the basic problem. For example, he was not prepared to trust even his own government with every responsibility, as his comments on paper money show. The more democratic the government the greater the reason for concern; hence his great fear of the State governments. On the basis of Hamilton's own principles one would have to lower one's expectations of what government could accomplish to take into account the departures from his original plan. That said, Hamilton did not believe there is any simply institutional solution to the political problem. The need for prudent judgments in light of the circumstances remains. Perhaps the most important judgments in this area concern the need to find policies appropriate to the political system.²⁸

We have suggested that the world is undergoing an important transition. At such times, it perhaps most important to have a clear understanding of the costs and benefits of alternative policies. In closing, we might cite two examples which testify to the need for a clear understanding of the merits of alternative policies when at a critical juncture in history. Thomas Jefferson explained his change of mind on the question of the encouragement of manufactures by asking "who in 1785 could foresee the rapid depravity which was to render the close of the century the disgrace of the history of man? . . . We have experienced what we did not then believe, that

²⁸David Hale has recently pointed to the problems that would arise in the United States from a simple imitation of Japanese mercantilism. The American form of government is unsuited for implementing such policies. Hale concludes that the haphazard policy making of the past is likely to continue "in a society as confused as is George Bush's America about how to reconcile its free-market intellectual traditions with the Reagan legacy of fiscal populism and the rise of corporatist and mercantilist industrial powers in Asia." "U.S.A. Inc.: Must we become Japanese?" *National Review*, Oct. 27, 1989, pp32,59. Some reflection on Hamilton's example might be helpful.

there exists both profligacy and power enough to exclude us from the field of interchange with other nations."²⁹ Jefferson's remarks reveal a belated recognition of what Hamilton had argued time and again is the natural course of things. Consider also the case of Franklin D. Roosevelt. When Roosevelt announced in his "Commonwealth Club Address" that the "day of enlightened administration has come" he was not speaking in Hamiltonian terms.³⁰ Perhaps, if he had had a clearer grasp of administration in the Hamiltonian sense, he would not have seen boisterous American capitalism as incompatible with an enlightened administration.

²⁹Letter to Benjamin Austin, January 9, 1816, *The Portable Thomas Jefferson*, ed. Merrill D. Peterson, (New York: Viking Press, 1975), p.548.

³⁰Sept. 23, 1932, reprinted in *New Deal Thought*, ed. Howard Zinn, (Indianapolis: Bobbs-Merrill, 1966), p.50.

APPENDIX: KEY TO ABBREVIATIONS

All references to the writings of Adam Smith are to the authoritative Glasgow Edition of the *Works and Correspondence of Adam Smith*. Full citations to the volumes in this edition are given in the bibliography. We have for the most part followed the system of citations developed for use in this edition: work followed by book or part followed by chapter followed by paragraph number, e.g. WN III.i.5 for *Wealth of Nations*, Bk III Ch.1 Para. 5. The titles of the various writings have been abbreviated as follows:

*An Inquiry into the Nature and Causes
of the Wealth of Nations*

WN

The Theory of Moral Sentiments

TMS

Lectures on Jurisprudence

which includes:

Report dated 1762-3

LJ(A)

Report dated 1766

LJ(B)

Early Draft of the *Wealth of Nations*

ED

Essays on Philosophical Subjects

which includes:

"The History of Astronomy"

Astronomy

"The History of Ancient Physics"

Ancient Physics

"The History of Ancient Logic and Metaphysics"

Ancient Logic

"Of the Nature of that Imitation which Takes Place
in What Are Called the Imitative Arts"

Imitative Arts

Dugald Stewart, "Account of the Life and Writings
of Adam Smith LL.D."

Account

Lectures on Rhetoric and Belles Lettres

LRBL

which also includes:

"Considerations Concerning the First Formation
of Languages"

Languages

The Correspondence of Adam Smith

Corr.

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