



# Progress by consent: Adam Smith as development economist

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## Abstract

Adam Smith is not sufficiently recognized as a founder of development economics. Smith challenged the longstanding assumption that inferior development outcomes reflected inferior groups, and that superior groups should coerce inferior groups to make development happen. Smith made clear that the positive-sum benefits of markets required respecting the right to consent of all individuals, from whatever group. These ideas led Smith to be a fierce critic of European conquest, enslavement, and colonialism of non-Europeans. The loss of Smith's insights led to a split in later intellectual history of pro-market and anti-colonial ideas. The importance of the right to consent is still insufficiently appreciated in economic development debates today.

**Keywords** Economic development

Reviewing the long history of development thinking can throw into sharp relief good or bad ideas that exist in a far more muted form today. It can also show remarkable scientific and moral progress over time in development thinking.

One such idea that was widespread and influential for a couple centuries in Western intellectual history is that less developed people were unfit to have the same rights as more developed people.

Underdevelopment equaled innate inferiority, which implied your inability to make wise choices for yourself. Advanced development equaled innate superiority, which included the ability to direct development for the inferior people. These ideas opened the door for the more developed, allegedly superior people to make choices for the less developed people. Europeans had the right to seize lands of American Indians because Europeans would make the wise choices that would develop the lands more. Slave-

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owners had the right to dictate to slaves unfit to make choices for themselves. Colonizers had the right to dictate to whole countries unfit to make choices for themselves. Many thinkers linked the idea that underdevelopment reflects innate inferiority to the right of the more developed to coerce the less developed.

Adam Smith is notable in this debate because he argued more universally for individuals' right to choose for themselves, and emphasized how these choices would serve both their own interests and those of society and the world as a whole.<sup>1</sup> Smith shows how recognizing the right to choose and consent is essential for development to really be beneficial for all. The gains from trade can only occur if one party does not coerce the other, an idea that led Smith to fiercely criticize European conquest and colonization of non-Europeans. He shows how the ideas of economics are very important in what most would classify as a moral or political debate.

Smith also contradicts the idea that all Europeans used to be equally racist and oppressive and that there is linear progress over time. Although hardly a saint by today's standards, Smith mounted an argument in favor of universal equal rights for individual choice that is notable for its day. Sadly, some of his key ideas on this were lost by later economists and thinkers for many decades afterwards.

Let's start with an example of the unequal rights debate in Smith's own time and place. Smith's fellow Scottish luminary and friend David Hume expressed widespread conventional wisdom on the innate inferiority of less developed (what he called less civilized) groups in 1753:

I am apt to suspect the negroes, and in general all the other species of men (for there are four or five different kinds) to be naturally inferior to the whites. There never was a civilized nation of any other complexion than white, nor even any individual eminent either in action or speculation.<sup>2</sup>

Hume sees success of Europeans at becoming developed (civilized) as due to their superiority as a racial group. The innate group difference explanation is so dominant that Hume denies even any heterogeneity among the non-white group, with not a single national exception and not even any individual exceptions.

Hume had also argued these innate differences implied no rights to choose for themselves for the inferior nonwhites and no moral restraints on coercion by the superior whites. He probably meant this as a positive description of the moral norms among whites rather than his own normative view.<sup>3</sup>

<sup>1</sup> Glaeser (2011) argues that the individual right to choose is "the moral heart of Economics," tracing it back to Adam Smith

<sup>2</sup> From the essay "On National Characters" in the original 1753 version of Hume (1777). The later 1777 version drops the phrase "and in general all the other species of men (for there are four or five different kinds)," which was perhaps Hume's response to criticisms of this passage.

<sup>3</sup> Sebastiani (2013, Kindle Locations 1058-1064) argues that Hume "intended to demonstrate that justice was an artificial, conventional, and social virtue relating to public utility and not to any transcendental principle, because it had come into being and evolved in the ambit of relations of exchange between individuals." More evidence for this is that Hume expresses his own revulsion against slavery: "domestic slavery, in the AMERICAN colonies, and among some EUROPEAN nations, would never surely create a desire of rendering it more universal. The little humanity...to exercise so great authority over their fellow-creatures, and to trample upon human nature, were sufficient alone to disgust us with that unbounded dominion." (from his 1742 Essay "On the Populousness of Ancient Nations" in Hume (1777))

Hume said that the norm is that we should not “lie under any restraint of justice with regard to” an inferior “species.” Nor would these inferiors “possess any right or property.” In short:

Our intercourse with them ... {is} absolute command on the one side, and servile obedience on the other. Whatever we covet, they must instantly resign: Our permission is the only tenure, by which they hold their possessions ... the restraints of justice and property, being totally useless, would never have place ... (1751: 88)

Hume applied this to the European conquest of the Americas as an example:

The great superiority of civilized EUROPEANS above barbarous INDIANS... made us throw off all restraints of justice, and even of humanity, in our treatment of them. (1751: 89)<sup>4</sup>

A now forgotten member of the Scottish enlightenment named James Dunbar summarized (and attacked) this kind of norm in 1782, partly in response to Hume:

Europe, at this day, usurps over all the communities of mankind. She affects to move in another orbit from the rest of the species. She is even offended with the idea of a common descent; and rather than acknowledge her ancestors to have been co-ordinate only to other races of Barbarians, and in parallel circumstances ... by imagining specific differences among men, {she} precludes or abrogates their common claims. According to this theory, the oppression or extermination of a meaner race, will no longer be so shocking to humanity. Their distresses will not call upon us so loudly for relief. And public morality, and the laws of nations, will be confined to a few regions peopled with this more exalted species of mankind.<sup>5</sup>

Dunbar did not develop the counter-attack; he mainly objected on moral and religious grounds. Smith did develop a counter-attack on both positive and normative grounds. He did not disprove the idea of innate differences or the unfitness of inferior groups to choose for themselves. Rather, he showed there was an alternative way of thinking – economics – that made the link between inferior outcomes and inferior individuals not as automatic as it seemed. He argued for the potential for mutual gains if everyone’s right to choose is respected, as opposed to the zero-sum games of coercion of non-Europeans by Europeans. Unlike Hume, Smith was not limiting himself to describing the existing moral norms; he was affirming normative rules (an “obvious and simple system of natural liberty”) that made these mutual gains possible.

Let us trace the steps that lead from some of Smith’s well-known ideas to Smith’s not very well-known critique of European conquest and colonialism:

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<sup>4</sup> Quotations from Hume (1751) from Levy and Peart (2004), whose exposition I follow here. This paper has also benefited greatly from an unpublished manuscript Levy and Peart 2016.

<sup>5</sup> Pp. 102–103, Dunbar (1782)

- (1) Adam Smith really was a Development Economist,
- (2) He celebrated individual choice everywhere,
- (3) He denied that superior institutions reflected superior races,
- (4) He advocated the moral principle of reciprocal respect for everyone else's right to choose and consent,
- (5) He criticized European conquest and colonialism as a violation of all of these principles.

## 1 Step 1: Adam Smith really was a Development Economist

To learn from history of development thinking, we first have to be convinced there IS a history of such thinking. There is a curious notion in development economics that the field emerged out of nowhere right after World War II. I used to share that view, writing in 2001: “{For decades and centuries} No economists paid much attention to the problems of poor countries... Suddenly after World War II, we policy experts, having ignored poor countries for centuries, now called for attention to their “urgent problems.””<sup>6</sup>

Let us define the field at a minimum as the study of the development differences among nations and peoples. Apparently we believe that economists for decades and centuries had remarkably little curiosity about the dramatic development differences evident around them.

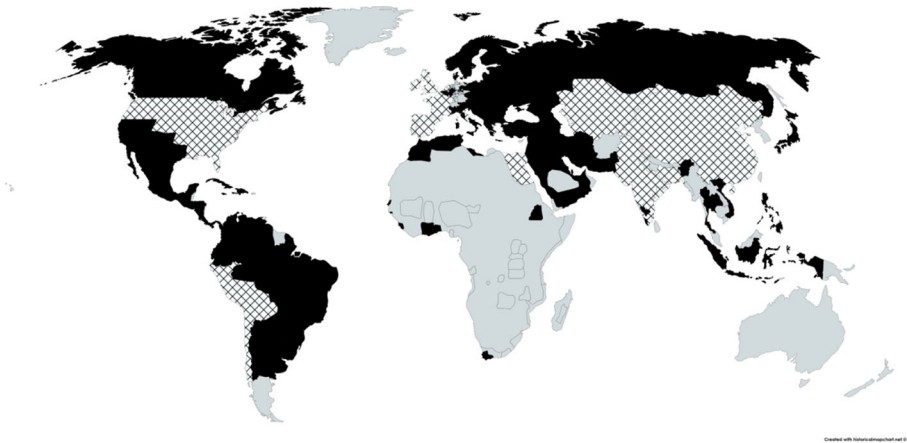
It took me embarrassingly long to acknowledge some obvious ancient history of development thinking, and some other development economists are apparently taking even longer. As long ago as 1776, Adam Smith wrote a book called the *Wealth of Nations*. It turns out, after many hours of careful reading, that the book is indeed about the *Wealth of Nations*.

Far from ignoring the wider world, Smith cited 164 different historical or contemporary place names or names of ethnic groups. Figure 1 shows these references mapped onto a world map with old country and colony boundaries.

The omissions (shown in grey) are rare and reflect information availability. Only Australia and New Zealand are left out altogether. Specific place names in Africa are limited to some places on the coast, but there are very important discussions of the African continent as a whole. The rest of the world is well covered (shown in black), and the top 20 most mentioned places (shown as hatched) are spread around the world. Smith has abundant coverage of future Third World places such as Peru, Mexico, Chile, Egypt, India, Africa, Central Asia, and China. Smith's First World success stories are England, lowland Scotland, British North America, and Holland. The future Second World is also covered in discussions of Russia and Eastern Europe.

Smith's terminology of course did not include “GDP per capita” or even “development,” yet the words he used express similar concepts. For developed, he used civilized, opulent, modern, prosperous, improved, advanced, or rich. For the least developed, he used savage, barbarous, rude, poor, unimproved, uncivilized, unfortunate, or ignorant. For economic growth or its absence, Smith uses words like progress, advance, stationarity, decline, or decay. Some of these terms are offensive, which make clear Smith shared prejudices of his day. In context of his specific examples, however,

<sup>6</sup> Easterly (2001), p. 30



**Fig. 1** Countries or colonies mentioned in Adam Smith's *The Wealth of Nations* shaded black. Top 20 in the number of mentions shown as hatched. Places not mentioned shown in grey. Created using <https://historicalmapchart.net/world-1815.html>.

Smith is using these words as empirical descriptors for levels or changes of material income, human capital, and technology.

As we will see below, Smith used his widespread examples to test his preferred hypothesis to explain development. The hypothesis is not a surprise – development happens based on free trade and free markets, making possible the division of labor and gains from specialization. Many of his examples use natural variation in trade based on access to waterways, or proximity to prosperous towns or rich neighbors. So for example, England, Scotland, and Holland benefit from access to waterways, towns, and rich neighbors. Inland Africa suffers from the lack of all three. The Incas and the Aztecs had not enough trade for a different reason – they lacked money as a means of exchange. China and India were intermediate development examples because they had large domestic markets and good interior water transport, but had refused to participate in international trade. Free institutions and moral norms that support individual choice and trade also matter, as we will develop more below.

## 2 Step 2: Smith universally celebrates individual choice

Smith is famous for stressing the power of choices of self-interested individuals, and he does not modify this approach when he covers less developed areas. There is so much attention paid to the “self-interest” part of this approach that the “individual choice” part is often overlooked. At the time (and for more than a century and a half afterwards), the conventional wisdom on development differences stressed innate group differences rather than individual behavior. As we saw with Hume, people thought it obvious that development outcomes for groups simply reflected innate superiority or inferiority of those groups. Inferior groups lacked, among other things, the ability to make the right choices for themselves.

Smith opted instead for what historians of thought Peart and Levy (2005); Levy and Peart (2016a, b) called “analytical egalitarianism” for all individuals. He is assuming that individuals everywhere are capable of acting in their own interest, and then that

their choices actually benefit society as a whole. Some of Smith's most famous statements are in the context of building up from individual choices to the benefits of free trade or free markets for society-wide development. He starts with the "division of labour, from which so many advantages are derived," which is based on the individual "propensity to truck, barter, and exchange one thing for another."<sup>7</sup>

The importance of individual choices comes right after in the famous quote: "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."<sup>8</sup> Even such humble members of society (by the standards of Smith's day) as butchers make rational choices in their own interest and in the interest of the rest of us. Individual choice exists on both sides of every transaction – the butcher chooses to sell us the beef and we consent to buy it from him. The voluntary choice on both sides guarantees that it is a mutually beneficial transaction.

Smith moves next to how this raises the productivity of individuals through gains from exchange that lead to gains from specialization. "Being able to exchange all that surplus part of the produce of his own labour" for "the produce of other men's labour" allows specialization. "Every man {can} apply himself to a particular occupation, and to cultivate and bring to perfection whatever talent of genius he may possess for that particular species of business."<sup>9</sup>

Another member of the Scottish Enlightenment noted the effect of liberty or its absence on individual productivity in a rejoinder to Hume on his view of the innate inferiority of blacks: "Learn, Mr. Hume, to prize the blessings of Liberty and Education, for ... had you been born and bred a slave, your Genius... would never have been heard of."<sup>10</sup>

For society as a whole, good outcomes reflect the freedom of choice for individuals. Smith gives many examples of this, anticipating much of the neoclassical synthesis of modern economics.

Individual choice beneficially corrects misallocation, anticipating the modern discussion of misallocation as a major determinant of Total Factor Productivity and hence level of development. On allocation of labor, if there "was any employment evidently either more or less advantageous than the rest, so many people would crowd into it in the one case, and so many would desert it in the other, that its advantages would soon return to the level of other employments." The individualist choices are at work again: "Every man's interest would prompt him to seek the advantageous, and to shun the disadvantageous employment." Smith notes this can only happen when there was individual "liberty, and where every man was perfectly free both to choose what occupation he thought proper, and to change it as often as he thought proper."<sup>11</sup> It also reflects individual freedom to choose where to live. If there is coercion of individuals, these benefits fall apart. Smith elsewhere complains: "To remove a man who has committed no misdemeanour, from the parish where he chooses to reside, is an evident violation of natural liberty and justice."<sup>12</sup>

<sup>7</sup> Smith (1776), Kindle Locations 217–220

<sup>8</sup> Smith (1776) (Kindle Locations 233–239)

<sup>9</sup> Smith (1776) (Kindle Locations 252–258)

<sup>10</sup> Quoted in Sebastiani (2013), Kindle Locations 2962–2964

<sup>11</sup> Smith (1776) (Kindle Locations 1536–1537)

<sup>12</sup> Smith (1776) (Kindle Locations 2221–2222)

Individual choice also corrects misallocation of capital. The individual employs his capital where “its produce may be of the greatest value” because he is responding to individual incentives: “he intends only his own gain.” It is in this context we hear the famous words: “he is in this, as in many other cases, led by an invisible hand to promote an end which was no part of his intention. Nor is it always the worse for the society that it was no part of it. By pursuing his own interest, he frequently promotes that of the society more effectually than when he really intends to promote it.”<sup>13</sup> The self-interest usually gets all the attention here in the readings of these quotes divorced from context. The self-interest argument is there, but what is more notable for our purposes is how Smith has gone from individual choice to the level of development of a society when it is possible to realize the benefits of freedom of individual choice through gains from trade, gains from specialization, and correcting misallocation.

Slavery makes the same points on the benefits of individual choice in reverse, he notes much later in the *Wealth of Nations*. Slaves did not consent to have their production seized by their owner. Slaves are also not free to move to higher wage employments. Slaves have no incentive to work hard, and so lands worked by slaves “produce as little as possible.”<sup>14</sup> Likewise, slaves have no incentive to make labor-saving innovations on the job, these “have been the discoveries of freemen.” (He confirms this empirically with a comparison of high productivity Hungarian mines with free labor compared to low productivity Turkish mines using slave labor in the same neighborhood.)<sup>15</sup>

So individuals will produce more when they belong to societies where they are not slaves, where it is possible to trade, where there is freedom of individual choice. If there are bad aggregate outcomes for a nation or racial group, in Smith’s analysis, it reflects lack of opportunity for trade or bad institutions that deny individuals the freedom to make their own choices.

Variations on the noun “choice” or verb “choose” occur 48 times in the *Wealth of Nations*. Smith mentions “consent” 24 times. Celebrating choice was a powerful alternative to the widespread assumptions in the West that individuals from inferior groups were simply incapable of making good choices for themselves or for their societies.

However, there is still a major loose end – if good institutions partially determine the outcome, these superior institutions could still reflect the wisdom of superior individuals from superior groups.

### 3 Step 3: Smith denies that superior institutions reflect superior people

This step is the most radical and the most intellectually challenging both in Smith’s day and in ours. It involves first the idea of unintended general equilibrium (or in Hayek’s more general and poetic phrase “spontaneous order”), of which the Invisible Hand of the market is the most famous example. Second, Smith describes how the extent of the market (if we think of that as an institutional feature) varies unintentionally with

<sup>13</sup> Smith (1776) (Kindle Locations 7128–7133)

<sup>14</sup> Smith (1776) (Kindle Locations 6223–6227)

<sup>15</sup> Smith (1776) (Kindle Locations 10,904–10,911)

geographic accidents that affect transport costs. Third, Smith describes how the institutions that support individual freedom to choose also evolve unintentionally.

### 3.1 Spontaneous order

The most radical idea in the *Wealth of Nations* that breaks the seemingly inevitable link between innate group abilities and outcomes is that of unintended general equilibrium. This is the real meaning of the invisible hand – related to the more general concept of spontaneous order (or with complexity theory, it could be “emergence of a complex adaptive system”). Spontaneous order is often seen today in development as a useless idea, not generating any policy recommendations except perhaps a scary passivity. But it is of great importance in the historical debate about innate differences between groups vs. different outcomes arising from intrinsically equal individuals under different circumstances. If individuals did not intend the good outcome for their group, their allegedly innate superiority does not so obviously get credit for it. Individuals in the group with the superior outcome do not have the knowledge or ability to direct development for their own group, much less for other groups with inferior outcomes.

In this section, I will discuss first how Smith argues that the opportunity to trade depends partly on geographic and historical accidents. Smith then argues that even the institutions that support individual freedom of choice (as opposed to slavery) evolved unintentionally and spontaneously, as opposed to being due to the innate genius of the white race.

Smith’s contemporary Scotsman Adam Ferguson gave the most eloquent expression of unintended general equilibrium as applied to institutions:

EVERY step and every movement of the multitude, even in what are termed enlightened ages, are made with equal blindness to the future; and nations stumble upon establishments, which are indeed the result of human action, but *not the execution of any human design*.<sup>16</sup>

Ferguson also used lack of intentional design to challenge the key idea in this paper – *the notion of innate European superiority leading to the right to coerce non-Europeans*: “the Europeans have a growing ascendancy over the nations of Africa and America. ON the credit of a superiority which certain nations possess, they think that they have a claim to dominion.”<sup>17</sup>

And Ferguson pours it on:

THE artifices of the beaver, the ant, and the bee, are ascribed to the wisdom of nature. Those of polished nations are ascribed to themselves, and are supposed to indicate a capacity superior to that of rude minds. But ... Those establishments arose from successive improvements that were made, without any sense of their general effect; and they bring human affairs to a state of complication, which the

<sup>16</sup> Ferguson (1782) (Kindle Locations 2071–2079)

<sup>17</sup> Ferguson (1782) (Kindle Locations 1636–1643)



greatest reach of capacity with which human nature was ever adorned, could not have projected.<sup>18</sup>

Ferguson explicitly denies that superior group outcomes reflect superior groups. The allegedly superior group of individuals did not even know how they got to a superior outcome, nor would they be qualified to achieve a good outcome for any other group.

Ferguson's language is eloquent but also a bit vague or even mystical. It is to Smith's great intellectual credit to have given the market as a concrete example of unintended general equilibrium; later in this section we will see he believed in unintentional and un-designed institutions also.

First, let's revisit the full language of the famous Smith quote on markets:

{the individual} intends only his own security; and by directing that industry in such a manner as its produce may be of the greatest value, he intends only his own gain; and he is in this, as in many other cases, led by an invisible hand to promote an end which was no part of his intention. Nor is it always the worse for the society that it was no part of it. By pursuing his own interest, he frequently promotes that of the society more effectually than when he really intends to promote it. I have never known much good done by those who affected to trade for the public good.<sup>19</sup>

The usual reaction to this quote is to rush into a discussion of when self-interest is beneficial or not, depending on such things as externalities or monopoly. This is a good debate, but it has obscured what I think is the most important contribution of this quote – the lack of correspondence between individual intentions (and thereby individual abilities to intend and accomplish good things) and outcomes. Suppose first that private and social returns are indeed equal, as Smith assumes here. When the individual tries to benefit themselves, they wind up benefiting the public also. When they try to benefit the public instead of themselves, they wind up benefiting neither. Now suppose you diagnosed some government fixes for market failures, and rejected *laissez-faire*. It is still true that the market equilibrium does not reflect any single agent's intentions or design.

Smith had made a similar point right before this quote, sounding like Ferguson:

This division of labour, from which so many advantages are derived, is not originally the effect of any human wisdom, which foresees and intends that general opulence to which it gives occasion. It is the necessary, though very slow and gradual, consequence of a certain propensity in human nature, which has in view no such extensive utility; the propensity to truck, barter, and exchange one thing for another.<sup>20</sup>

The last sentence is still vague and leaves unclear the question of where the development generated by the division of labor will appear and where it won't. However, Smith

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<sup>18</sup> Ferguson (1782) (Kindle Locations 3029–3034)

<sup>19</sup> Smith (1776) (Kindle Locations 7128–7136)

<sup>20</sup> Smith (1776) (Kindle Locations 217–220)

went to a lot of effort to answer this question elsewhere in the *Wealth of Nations*, as we discuss next.

### 3.2 Possible poverty traps and exogenous opportunities for trade

Part of the answer is in another famous Smith quote: “the division of labor is limited by the extent of the market.” In rich, developed countries, individuals can specialize, while in poor countries, individuals must do many things and lose the benefits of specialization.

In opulent countries, the market is generally so extensive, that any one trade is sufficient to employ the whole labour and stock of those who occupy it. Instances of people living by one employment, and, at the same time, deriving some little advantage from another, occur chiefly in poor countries.<sup>21</sup>

Smith had already argued as noted above in step 2 that the division of labor causes development, while here he is arguing the reverse causality as well – development causes division of labor. Although Smith did not fully flesh it out, this could lead to what today would be called a poverty trap – there could be a vicious circle of poverty and no division of labor, or a virtuous circle of growing division of labor and growing prosperity reinforcing each other.<sup>22</sup>

What could impel societies into vicious or virtuous circles through the extent of the market? One of Smith’s favorite answers is accidents of geography and location that affect transport costs. High transport costs kill off trade and lead to poverty; low transport costs lead to trade and prosperity.

In his own back yard, Smith notes that even abundant coal deposits in Scotland cannot be sold at a profit because they are “in an inland country, thinly inhabited, and without either good roads or water-carriage.”<sup>23</sup> Farther afield, he says Tartary and Siberia (partly corresponding to the later Soviet Union) suffers from frozen seas and lack of conveniently placed rivers. Africa also suffers from lack of large inlets and navigable and well-located rivers, according to Smith. Such long-lived geographic obstacles explain why they have long been “in the same barbarous and uncivilized state in which we find them at present.”<sup>24</sup>

<sup>21</sup> Smith (1776) (Kindle Locations 1839–1841)

<sup>22</sup> To be more exact, the existence of a poverty trap also depends on the relative slopes of the two relationships of opposite causality between development and extent of the market. If the slopes are such that there is no poverty trap, it is still true that starting from a low level of each, the division of labor and extent of the market will feed on each other and increase till they reach a stable equilibrium. A factor that exogenously makes the market small, such as the high transport costs to be discussed next, will have a low stable equilibrium at a low level of development. A longstanding argument for foreign aid is that it will allow an escape from a poverty trap, but Easterly (2006a, b) and Kraay and McKenzie (2014) fail to find evidence of the simple types of poverty traps in which aid would have this effect.

<sup>23</sup> Smith (1776) (Kindle Locations 2615–2618) Roads are of course endogenous, unlike waterways. Smith recognized this and posited yet another case of dual causation – richer countries could afford better roads, and then these roads would make them even richer. The opposite could happen for poor countries, another possible poverty trap.

<sup>24</sup> Smith (1776) (Kindle Locations 339–345)

The happy opposite case is when a city on a navigable river or the coast has a large market due to the cheapness of ocean shipping. The city will “grow up to great wealth and splendor,” even though it won’t necessarily benefit its own hinterlands because of high transport costs on land. He cited such diverse examples as cities of ancient Greece, historical Egypt along the Nile, the Barbary Coast (today’s Northern African coast from Morocco to Libya), and the cities of Italy (“the first in Europe which were raised by commerce to any considerable degree of opulence”).

Smith next gets remarkably close to the modern gravity model of trade. He notes that a large extent of the market can emerge either with a large population creating a large domestic market, or by being close to rich and populous neighbors (assuming good waterways for shipping in both cases). China and India fit the first case, and Holland the second.

The poverty trap idea, even if implicit in Smith, is a further elaboration of an unintended general equilibrium. Nobody intends to be poor, and poverty does not reflect innate failings of poor societies or racial groups. The accidents of geography and history set in motion vicious or virtuous circles beyond the control of individuals.

### 3.3 Unintentional evolution of free institutions

Finally, a large extent of the market depends on the existence of individual freedoms to trade and to have individual rights to one’s own labor, property, and one’s own choices of occupations and locations. All the benefits of the market in step 2 above depend on these free institutions. England, Scotland, British North America, and Holland had such freedoms, while China, India, and Egypt (especially after being conquered by the Turks) did not. Were these free institutions designed by superior groups?

Smith sometimes saw these freedoms as determined by discrete policy choices by a government. He was after all trying to persuade any governments who would listen to give up zero-sum mercantilist thinking and trade restrictions, and to embrace free trade. Sounding a lot like a modern IMF or World Bank mission, he preaches to China that

A more extensive foreign trade... could scarce fail to increase very much the manufactures of China, and to improve very much the productive powers of its manufacturing industry...as well as the other improvements of art and industry which are practiced in all the different parts of the world. Upon their present plan, they have little opportunity of improving themselves.<sup>25</sup>

This does sound like freedom depends on wise policies by wise leaders. However, Smith mostly stuck to his (and Ferguson’s) vision of spontaneous order determining institutions and norms that determine individual freedom – not seeing freedom as resulting from intentional design by superior leaders from superior groups.

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<sup>25</sup> Smith (1776) (Kindle Locations 10,851–10,859)

Smith had mocked the would-be intentional designers of free institutions in his earlier work, *The Theory of Moral Sentiments*.

The man of system ... is apt to be very wise in his own conceit ; and is often so enamoured with the supposed beauty of his own ideal plan of government ... He seems to imagine that he can arrange the different members of a great society with as much ease as the hand arranges the different pieces upon a chess - board . He does not consider that the pieces upon the chess -board have no other principle of motion besides that which the hand impresses upon them ; but that , in the great chess - board of human society , every single piece has a principle of motion of its own , altogether different from that which the legislature might chuse to impress upon it .<sup>26</sup>

The claim of Europeans to have a superior innate genius for institutional design does not hold up if institutions emerge without design. Again, Smith mocks the pretension of individuals from groups with superior outcomes – they lack the ability to design those outcomes even for their own group. So they also lack the ability to design a better outcome for other groups that currently have inferior outcomes.

How institutions and freedoms could unintentionally evolve is a lot less well developed in Smith than the example of general equilibrium in markets (as is still the case today). Nevertheless, Smith gave an intriguing example that involved his favorite concepts of trade and the extent of the market. This story may or may not be historically accurate, but it illustrates his concept of unintentional evolution.

The story relates to the power of feudal barons in Western European history. Being large landowners, they produced a lot of grain. With high transport costs, low population density, and few cities to offer a market, they had nowhere to sell the grain. So they used it to feed a large private army of soldiers as well as many servile dependents. These armies gave the barons a lot of power, which they attempted to extend by fighting each other. The barons thereby kept the country in perpetual war, which further discouraged trade. With their armies, the barons also had a lot of power to oppress and coerce their own dependents, making them unfree serfs.

Some shocks led nevertheless to the gradual growth of trade – some combination of gradual population growth, slow growth of cities, and the discovery of America which Smith discusses elsewhere in the *Wealth of Nations* as a big positive shock to European trade opportunities. Eventually, markets finally emerge for the large grain surpluses of the large landowners. They trade their grain for lots of luxury goods from city merchants and have less interest in large private armies or maintaining servile dependents. They have now lost their power to oppress individuals around them, and the serfs gradually get their freedom. Smith makes clear nobody at any point “had either knowledge or foresight of that great revolution.”<sup>27</sup>

Smith tells another version of this story, substituting Catholic clergy and monastic leaders for the barons as the relevant large landowners. Smith as a Protestant was not a big fan of Catholic leaders. He notes their power was so great that “all the wisdom and virtue of man could never have shaken, much less have overturned {it}” Yet, he

<sup>26</sup> Smith (1759), Page 240

<sup>27</sup> Smith (1776) (Kindle Locations 6619–6625)

gleefully notes, commerce and their desire for luxury goods unintentionally destroyed that power anyway:

The clergy, like the great barons, found something for which they could exchange their rude produce, and thereby discovered the means of spending their whole revenues upon their own persons, without giving any considerable share of them to other people. ... Their retainers became consequently less numerous, and, by degrees, dwindled away altogether. The clergy, too, like the great barons, wished to get a better rent from their landed estates, in order to spend it, in the same manner, upon the gratification of their own private vanity and folly. But this increase of rent could be got only by granting leases to their tenants, who thereby became, in a great measure, independent of them.<sup>28</sup>

Thus, the end of serfdom, religious oppression, and the rise of individual freedom is yet another variable both causing, and at the same time caused by, the growth of markets (yet another poverty trap story). Again, the results are following Ferguson's language: "the result of human action, but *not the execution of any human design.*" While Smith did not necessarily prove these stories or the previous ones about the extent of the market, he gave a new way of thinking that anticipates significant parts of modern economic development theory and evidence.

#### **4 Step 4: Smith finds moral principles that make possible universal individual choice**

Smith also deployed moral principles that support individual choice. In modern terms, he recognized the need both for formal institutions (those just described in Step 3, part c) and for moral norms.

All of Smith's analytical machinery is based on the notion of individual choice, presuming that the individual has a right to his own labor and property. Moreover, the opportunities for gains from trade only exist when individuals have their contract rights respected, when individuals do not steal from or coerce each other rather than honor the contract. Choice is equivalent to the absence of coercion – each individual has the right to consent. The invisible hand of self-interest only works when your self-interest is constrained to recognize other people's self-interest to have their rights respected as well. If this principle is violated, this would make your self-interest harmful to others. This violation of the Invisible Hand by unequal rights and coercion does not get as much attention as it deserves compared to the usual focus on market failures, externalities, etc.

Although formal institutions could enforce these rights to choose, Smith recognized that strong moral principles were even more powerful to make them happen – and that the right institutions would not emerge without the right moral norms. The right morals for Smith can be summarized with the idea of reciprocity – any rights that I want for myself, I should respect in others.

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<sup>28</sup> Smith (1776) (Kindle Locations 12,827–12,834)

Smith had already developed these ideas 17 years before the *Wealth of Nations* in his other major work, *The Theory of Moral Sentiments* (1759). Moral reciprocity can emerge because we care about the opinions of others:

The all-wise Author of Nature has, in this manner, taught man to respect the sentiments and judgments of his brethren; to be more or less pleased when they approve of his conduct, and to be more or less hurt when they disapprove of it.<sup>29</sup>

Because we care about the approval of others, social norms emerge. Others will punish any violations of moral reciprocity we commit by social disapproval or ostracism. We trade our own embrace of reciprocal morality for the approval of others. This is a step in the right direction of getting moral reciprocity, but still not quite enough.

Smith recognized multiple equilibria in social norms (not using those words). He gives the example of “good and bad company:”

The man who associates chiefly with the wise and the virtuous, though he may not himself become either wise or virtuous, cannot help conceiving a certain respect at least for wisdom and virtue ; and the man who associates chiefly with the profligate and the dissolute, though he may not himself become profligate and dissolute , must soon lose, at least, all his original abhorrence of profligacy and dissolution of manners.<sup>30</sup>

Although Smith did not fully develop it, social norms are hence another example of spontaneous order that breaks the automatic link between innate characteristics of individuals or groups and the outcomes for those individuals or groups. A random shock could take the same individual out of good company into bad company and thus change his morals. Or a shock could switch a whole social group of individuals from being good company to being bad company.

Smith thus recognized that he needed something more to anchor the social norms to come out right for facilitating exchange. Right after “the all-wise Author of Nature” quote above, he adds a second layer of moral principle above social norms. For individuals making choices, even if their peers approve of an action, a higher principle may still tell them it is wrong:

though man has, in this manner, been rendered the immediate judge of mankind, he has been rendered so only in the first instance; and an appeal lies from his sentence to a much higher tribunal, to the tribunal of their own consciences, to that of the supposed impartial and well-informed spectator, to that of the man within the breast, the great judge and arbiter of their conduct.<sup>31</sup>

The “impartial spectator” is the central idea of moral reciprocity in the *Theory of Moral Sentiments*, what Smith calls justice. Justice means acting towards another party so that a spectator who is impartial between the interests of the two parties would approve of

<sup>29</sup> Smith (1759)(p. 132).

<sup>30</sup> Smith (1759), pp. 229–239

<sup>31</sup> Smith (1759)(p. 132).

our actions. It implies reciprocity – we would act the same regardless of whether we were the actor or the acted-upon. It is similar to how late twentieth century economists would apply the “veil of ignorance” concept of John Rawls.

The most famous passage of the *Theory of Moral Sentiments* is a powerful illustration of the need for the “impartial spectator.” It is usually quoted out of context:

Let us suppose that the great empire of China, with all its myriads of inhabitants, was suddenly swallowed up by an earthquake, and let us consider how a man of humanity in Europe, who had no sort of connexion with that part of the world, would be affected upon receiving intelligence of this dreadful calamity...he would pursue his business or his pleasure, take his repose or his diversion, with the same ease and tranquillity, as if no such accident had happened. The most frivolous disaster which could befall himself would occasion a more real disturbance. If he was to lose his little finger to-morrow, he would not sleep to-night; but, provided he never saw them, he will snore with the most profound security over the ruin of a hundred millions of his brethren, and the destruction of that immense multitude seems plainly an object less interesting to him, than this paltry misfortune of his own.

This is usually where the quotation stops, making the opposite point from what Smith intended. For in the next sentences, he will invoke the impartial spectator:

To prevent, therefore, this paltry misfortune to himself, would a man of humanity be willing to sacrifice the lives of a hundred millions of his brethren, provided he had never seen them? Human nature startles with horror at the thought, and the world, in its greatest depravity and corruption, never produced such a villain as could be capable of entertaining it.<sup>32</sup>

There is no self-interest at stake caring about China, and the indifference of Europeans means we cannot count on social norms to make us care either. Only the impartial spectator can rescue the situation:

the natural misrepresentations of self-love can be corrected only by the eye of this impartial spectator. It is he who shows us ... the deformity of injustice... the deformity of doing the smallest injury to another, in order to obtain the greatest benefit to ourselves.<sup>33</sup>

Smith’s selection of China, as viewed by “a man of humanity in Europe,” is significant. He is specifically asserting that the reciprocity of rights extends to non-Europeans.

Smith’s view here contrasted to Hume’s moral norm of European impunity towards what he thought were inferior races, as quoted in the Introduction: “Our intercourse with them ... {is} absolute command on the one side, and servile obedience on the other. Whatever we covet, they must instantly resign...” We can understand why a 1773 critic of Hume emphasized his violation of reciprocal morality: “What idea of

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<sup>32</sup> Smith (1759)(pp. 137–138).

<sup>33</sup> Smith (1759)(pp. 138–139).

Christianity must Indians conceive from our traders? What notions must the Africans entertain of our humanity?”<sup>34</sup>

Smith believed this powerful moral conscience existed in “our own characters:”

It is not the love of our neighbour, it is not the love of mankind, which upon many occasions prompts us to the practice of those divine virtues. It is a stronger love, a more powerful affection, which generally takes place upon such occasions; the love of what is honourable and noble, of the grandeur, and dignity, and superiority of our own characters.<sup>35</sup>

It’s a little unclear who is “we” here. Whether, when, and where the moral conscience really obeys the impartial spectator is a not spelled out in *The Theory of Moral Sentiments*.

Despite such lack of clarity, the real contribution of Smith’s idea of moral reciprocity is to realize that some such constraint must exist on self-interest to make the Invisible Hand have the great benefits Smith would say it does in the *Wealth of Nations*. Smith states this plainly in the middle of a famous quote in which he characterizes his idea of “the obvious and simple system of natural liberty:”

Every man, *as long as he does not violate the laws of justice*, is left perfectly free to pursue his own interest his own way (italics added).<sup>36</sup>

As Lionel Robbins would later point out in his discussion of Hume, without some such idea of justice, “the classical theory of self-interest and the market would remain completely in the air.”<sup>37</sup> Mutual gains from trade are possible only when there is mutual respect for rights.

## 5 Step 5: Smith criticizes the colonialism of the West and unequal rights for the Rest

So far so good for reciprocity of rights, but does it only apply to Europeans? Hume and much subsequent European thought and practice would so limit this norm. We have Smith already on record saying no in the *Theory of Moral Sentiments* with the China earthquake example. Smith in *The Wealth of Nations* also criticizes injustice also towards non-Europeans.

The extensive critique of European conquest and colonialism in the *Wealth of Nations* gets surprisingly little attention.<sup>38</sup> Smith obviously does not measure up to modern values – he does not criticize European oppression as emphatically, or centrally, or repeatedly, or comprehensively as we might wish, and he did not even call for ending colonialism. But the critique is still there, and it is not just random moralizing. The critique is following the moral and economic arguments of his two books on how to achieve development through positive-sum consensual interactions that are the result

<sup>34</sup> Quoted in Rothschild (2009), p. 437

<sup>35</sup> Smith (1759)(pp. 138–139).

<sup>36</sup> Smith (1776) (Kindle Locations 10,951–10,958)

<sup>37</sup> Robbins (1953), p. 57.

<sup>38</sup> Notable exceptions are Muthu 2008 and Rothschild 2012.



of individual choices. The book most famous as a critique of zero-sum mercantilist thinking is also a critique of zero-sum colonialist thinking.

The link to his economic philosophy is clear in his critique of conquest of the Americas. It should have been a great opportunity for mutual benefits for Europeans and indigenous Americans:

The commodities of Europe were almost all new to America, and many of those of America were new to Europe. A new set of exchanges, therefore, began to take place, which had never been thought of before, and which should naturally have proved as advantageous to the new, as it certainly did to the old continent.

But it was not to be:

The savage injustice of the Europeans rendered an event, which ought to have been beneficial to all, ruinous and destructive to several of those unfortunate countries.<sup>39</sup>

If only the Europeans had obeyed the impartial spectator to respect the choices and right to consent of the indigenous Americans.

Smith returns to European violations of indigenous consent in the New World several more times in the *Wealth of Nations*: the Europeans took lands away from “the inhabitants {who} were plainly incapable of defending themselves.” The cover story of “converting them to Christianity” is what “sanctified the injustice of the project.” The greed for gold was the real motive, which “was got by so very easy a method as the plundering of the defenceless natives.”<sup>40</sup>

This example shows why the caricature that Smith generally endorses greed is so misguided. Self-interest in Smith is balanced by the self-interest of the other party to any transaction. If one party violates the other party’s right to consent to what THEY think is in THEIR interest, then self-interest is “ruinous and destructive.”

In case the reader has not yet gotten the point:

injustice seem to have been the principles which presided over and directed the first project of establishing those colonies; the folly of hunting after gold and silver mines, and the injustice of coveting the possession of a country whose harmless natives, far from having ever injured the people of Europe, had received the first adventurers with every mark of kindness and hospitality.<sup>41</sup>

Smith still is not sure we are getting it, he tells us again that what should have been mutual gains from trade was instead zero-sum gains for Europeans at the expense of non-Europeans:

The 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

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<sup>39</sup> Smith (1776) (Kindle Locations 7016–7023)

<sup>40</sup> Smith (1776) (Kindle Locations 8865–8866)

<sup>41</sup> Smith (1776) (Kindle Locations 9311–9316)

history of mankind...By uniting in some measure the most distant parts of the world, by enabling them to relieve one another's wants, to increase one another's enjoyments, and to encourage one another's industry, their general tendency would seem to be beneficial. To the natives, however, both of the East and West Indies, all the commercial benefits which can have resulted from those events have been sunk and lost in the dreadful misfortunes which they have occasioned... {The Europeans committed} with impunity every sort of injustice in those remote countries.<sup>42</sup>

Smith roamed widely with these critiques. The Dutch in the Spice Islands (the Moluccas, part of today's Indonesia) burned down the local spice farms that competed with their trading monopoly. "This savage policy" had apparently starved so many locals as to reduce the Moluccas' population. In a satirical double insult, Smith says "The English {East India} company have not yet had time to establish in Bengal so perfectly destructive a system {as the Dutch in the Spice Islands}."

This is only the beginning of Smith's repeated attacks on the British presence in India through the East India Company. The Company had two potent instruments to restrict individual choices of the locals – a monopoly and an army. Such coercion once again make likely zero-sum enrichment of Europeans at non-European expense. The monopoly was ruthless, willing to "pervert the administration of Justice, in order to harass and ruin those who interfere with them in any branch of commerce." The armed monopoly tended to "stunt the natural growth of that part of the surplus produce which, in the case of a free trade, would {have been} exported to Europe." The Company's monopoly extended to the Indian domestic market, also stunting local production. The consequence was to "degrade the cultivation of the whole country, and to reduce the number of its inhabitants."<sup>43</sup> He indeed thought the Company's restrictions on the rice trade contributed to a famine in Bengal.<sup>44</sup>

Smith called the Company "a very singular government" in which every member of the administration gets rich and leaves India, caring so little about the future of the country that he would be "perfectly indifferent though the whole country was swallowed up by an earthquake."<sup>45</sup> The earthquake metaphor is an echo of the famous China earthquake example in the *Theory of Moral Sentiments*. There as quoted above, Smith said "Human nature startles with horror at the thought" of personal gain at the expense of such a calamity. He said then "the world, in its greatest depravity and corruption, never produced such a villain as could be capable of entertaining it." Apparently, the world did produce at least one such villain in the East India Company.

Smith keeps flinging insults at the East India Company: "the plunderers of India," whom it is "impossible {to make them} ... in any respect, fit to govern." Basically, they are the worst rulers ever:

<sup>42</sup> Smith (1776) (Kindle Locations 9933–9940)

<sup>43</sup> Smith (1776) (Kindle Locations 10,179–10,185)

<sup>44</sup> Smith (1776) (Kindle Locations 8289–8290)

<sup>45</sup> Smith (1776) (Kindle Locations 10,196–10,199)

No other sovereigns ever were, or, from the nature of things, ever could be, so perfectly indifferent about the happiness or misery of their subjects, the improvement or waste of their dominions, the glory or disgrace of their administration.<sup>46</sup>

After “their depredations over ... some of the richest and most fertile countries in India,” their legacy was that “all was wasted and destroyed.”<sup>47</sup> “If the trading spirit of the English East India company renders them very bad sovereigns, the spirit of sovereignty seems to have rendered them equally bad traders.”<sup>48</sup>

In case we have missed the point the first twelve times, he says it again, the Company is “altogether unfit to govern its territorial possessions.”<sup>49</sup>

Despite these critiques, Smith makes clear the problem is not that East India Company agents were innately bad people. With European oppression as with non-European underdevelopment, the explanation is not innate characteristics of racial groups or any other groups, but individuals responding to incentives:

I mean not, however, by anything which I have here said, to throw any odious imputation upon the general character of the servants of the East India Company, and touch less upon that of any particular persons. It is the system of government, the situation in which they are placed, that I mean to censure, not the character of those who have acted in it. They acted as their situation naturally directed, and they who have clamoured the loudest against them would probably not have acted better themselves.<sup>50</sup>

On another example of European oppression – African slavery – Smith offers a briefer treatment. In the *Theory of Moral Sentiments*, he did compare the “magnanimity” of the negro from the coast of Africa” to “his sordid master”:

Fortune never exerted more cruelly her empire over mankind, than when she subjected those {African} nations of heroes to the refuse of the jails of Europe, to wretches who possess the virtues neither of the countries which they come from, nor of those which they go to, and whose levity, brutality, and baseness, so justly expose them to the contempt of the vanquished.<sup>51</sup>

Smith’s view here on African slavery was sufficiently notorious that Virginian pamphleteer Arthur Lee in 1764 complained Smith had “debased” the American slave-owning colonists into “monsters.”<sup>52</sup>

In *The Wealth of Nations*, Smith re-affirms the moral value of owning your own labor, although it is in the context of British labor market restrictions rather than African slavery:

<sup>46</sup> Smith (1776) (Kindle Locations 12,021–12,029)

<sup>47</sup> Smith (1776) (Kindle Locations 12,043–12,046)

<sup>48</sup> Smith (1776) (Kindle Locations 13,100–13,102)

<sup>49</sup> Smith (1776) (Kindle Locations 12,049–12,058)

<sup>50</sup> Smith (1776) (Kindle Locations 10,196–10,201)

<sup>51</sup> Smith (1759) (pp. 211–212).

<sup>52</sup> Quoted in Rothschild (2009), p. 424

The property which every man has in his own labour, as it is the original foundation of all other property, so it is the most sacred and inviolable.<sup>53</sup>

Smith does discuss African slavery in the Americas elsewhere in the *Wealth of Nations*, but it is mostly empirical description of how well or badly it works for the material consumption of both masters and slaves, depending on the incentives of the masters to treat the slaves well.

Smith stopped short of calling for an end to colonialism. He saw it as politically infeasible: “To propose that Great Britain should voluntarily give up all authority over her colonies... would be to propose such a measure as never was, and never will be, adopted by any nation in the world.” It would be “mortifying to the pride of every nation.” Moreover, “the private interest of the governing part” of the colonizing country wants colonial opportunities for political patronage: “the disposal of many places of trust and profit, of many opportunities of acquiring wealth and distinction” which exist even in colonies that are unprofitable as a whole.<sup>54</sup>

In spite of all his attacks on the East India Company, Smith still conformed to the politically feasible position on India himself: “The territorial acquisitions of the East India Company” were “the undoubted right of the Crown, that is, of the state and people of Great Britain.” Reforms in India should seek to lighten taxes and prevent “the embezzlement and misapplication of the greater part of those which they already pay.”<sup>55</sup> Most biographers of Smith describe him as cautious or realistic about challenging the status quo of his society, and this example seems to fit the pattern.<sup>56</sup>

Despite his own caution and realism about immediate changes to colonialism, Smith offers a remarkable prophecy about the end of colonialism. He makes clear that it will involve respecting the rights of non-Europeans to consent:

Hereafter, perhaps, the natives of those countries may grow stronger, or those of Europe may grow weaker; and the inhabitants of all the different quarters of the world may arrive at that equality of courage and force which, by inspiring mutual fear, can alone overawe the injustice of independent nations into some sort of *respect for the rights of one another*. {italics added}

Smith’s favorite solution of free trade will help bring about a post-colonial world:

But nothing seems more likely to establish this equality of force, than that 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.<sup>57</sup>

Smith would then finally get his desired relationship between the West and the Rest – reciprocal “respect for the rights of one another” and mutual gains from

<sup>53</sup> Smith (1776) (Kindle Locations 1905–1910)

<sup>54</sup> Smith (1776) (Kindle Locations 9780–9785)

<sup>55</sup> Smith (1776) (Kindle Locations 15,322–15,325)

<sup>56</sup> Rasmussen (2017). Rasmussen describes Hume as openly skeptical of religion (which denied to him professor positions), while Smith was much more discreet about his similar skepticism.

<sup>57</sup> Smith (1776) (Kindle Locations 9940–9946)

globalization. That world very imperfectly began to arrive in our own generation of development economists, and the gains for development of both the West and the Rest were indeed remarkable.

## 6 Conclusions

Smith's student Dugald Stewart summarized the Scottish Enlightenment as if Smith had won the battle with his friend Hume:

That the capacities of the human mind have been in all ages the same, and that the diversity of phenomena exhibited by our species is the result merely of the different circumstances in which men are placed... The application of this fundamental and leading idea to the natural or theoretical history of society in all its various aspects;— to the history of languages, of the arts, of the sciences, of laws, of government, of manners, and of religion,— is the peculiar glory of the latter half of the eighteenth century, and forms the characteristic feature of its philosophy.<sup>58</sup>

Historian Jennifer Pitts in our generation looks back on Smith in about the same way:

Smith's conviction about the equal rationality of all people led him to theorize progress without thereby generating a hierarchy of moral and political worth, and without regarding societies in "earlier" stages pejoratively, as lacking the intellectual capacity or the moral judgment of more "advanced" Europeans.<sup>59</sup>

Despite what seems like a natural synthesis in Smith of a pro-market argument with an anti-colonial and anti-racist one, it is sad that this combination would rarely occur again among economists or other intellectuals in the centuries and decades after Smith before the modern era. Instead there was a split such that many pro-market thinkers were pro-colonial, while anti-colonial and anti-racist thinkers were anti-market. (Although Mises, Hayek and Friedman made some statements – not very well known – that are exceptions.)<sup>60</sup> That split both delayed the realization of Smith's prophecy about the end of colonialism and influenced anti-colonial development plans to go into an anti-market and coercive direction. The effects linger into our own day in politics, as there is

<sup>58</sup> Quoted in 1815 in Sebastiani (2013), Kindle Locations 4395–4398.

<sup>59</sup> Pitts (2005), p. 243

<sup>60</sup> Quotes: Von Mises (1927): "the colonial policy of the European powers since the age of the great discoveries stand in the sharpest contrast to all the principles of liberalism." Hayek (1944) "The experience in the colonial sphere, of Great Britain as much as of any other, has amply shown that even the mild forms of planning which Englishmen know as colonial development involve, whether they wish it or not, the imposition of certain values and ideals on those whom they try to assist." And Hayek again: "Can there be much doubt that {global economic planning} would mean a more or less conscious endeavor to secure the dominance of the white man, and would rightly be so regarded by all other races?" Friedman (1958) "What is required in the underdeveloped countries is the release of the energies of millions of able, active, and vigorous people... what is required is an atmosphere of freedom." Friedman and Rose (1980): "If some people are denied access to particular positions in life for which they are qualified simply because of their ethnic background, color, or religion, that is an interference with their right to "Life, Liberty, and the pursuit of Happiness." It denies equality of opportunity and, by the same token, sacrifices the freedom of some for the advantage of others."

still a split between pro-market positions (usually on the right) and anti-racist and anti-colonial advocacy (usually on the left).

Smith showed that it is impossible to ignore the moral questions of equal rights to consent. In the economic development world today, there is still today not sufficient awareness of the importance of individual choice and consent in development programs. There is arguably an emphasis on material incomes such that human rights violations still have a low profile in development.<sup>61</sup> The question that Smith asked as to whether material income gains occur through positive-sum consent between individuals or through zero-sum coercion is still not asked enough in development efforts. The emphasis on evidence relative to theory in development results even more in questions of consent being neglected. There is little discussion of consent even with the overt use of coercion in “humanitarian military interventions.”<sup>62</sup>

However, the low profile for consent in development is partly because of the good news that violations of the “rights of one another” are less likely and less egregious in our day than they were in Smith’s. There has clearly been scientific and moral progress from Smith and Hume’s generation of development thinkers to today’s generation, and Smith’s ideas get some of the credit for this. Many development economists of the modern era resurrected Smith’s analytical synthesis – development emerging from models of individual choice, applied equally to all nations and ethnic groups, taking for granted equality of all individuals and individual choice and consent.<sup>63</sup>

With the popular resurgence of xenophobia and zero-sum thinking in the Western world, perhaps it wouldn’t hurt to follow Smith and talk a little more openly about our economic ideas and moral principles— that individuals everywhere are indeed fit to choose for themselves, and that true progress happens by consent.

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<sup>61</sup> Easterly (2014) gives examples.

<sup>62</sup> As Coyne and Hall (2014) discuss, some of the same debates about “American Empire” are happening today as happened analogously in the time of Smith.

<sup>63</sup> Shleifer (2009) labels the period since 1980 “The Age of Milton Friedman.”

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