

Eli Ginzberg



*With a new introduction
by the author*

*Adam Smith
and the Founding of
Market Economics*

*Adam Smith
and the Founding of
Market Economics*



Adam Smith

Eli Ginzberg

*With a new introduction
by the author*

*Adam Smith
and the Founding of
Market Economics*

 **Routledge**
Taylor & Francis Group
LONDON AND NEW YORK

The frontispiece is reproduced by permission of Macmillan and Co., Ltd., from *A Catalogue of the Library of Adam Smith*, 2nd edition, prepared for the Royal Economic Society by James Bonar.

Originally published in 1934 by Columbia University Press

Published 2002 by Transaction Publishers

Published 2017 by Routledge

2 Park Square, Milton Park, Abingdon, Oxon OX14 4RN

711 Third Avenue, New York, NY 10017, USA

Routledge is an imprint of the Taylor & Francis Group, an informa business

Copyright © 2002 by Taylor & Francis.

All rights reserved. No part of this book may be reprinted or reproduced or utilised in any form or by any electronic, mechanical, or other means, now known or hereafter invented, including photocopying and recording, or in any information storage or retrieval system, without permission in writing from the publishers.

Notice:

Product or corporate names may be trademarks or registered trademarks, and are used only for identification and explanation without intent to infringe.

Library of Congress Catalog Number: 2002072673

Library of Congress Cataloging-in-Publication

Ginzberg, Eli, 1911-

Adam Smith and the founding of market economics / Eli Ginzberg ; with a new introduction by the author.

p. cm.

Includes bibliographical references and index.

Previously published: *The house of Adam Smith*. New York : Columbia University Press, 1934.

ISBN 0-7658-0949-4 (pbk. : alk. paper)

1. Smith, Adam, 1723-1790. 2. Capitalism. 3. Free enterprise.

I. Title.

HB103.S6 G56 2002

330.15'3—dc21

2002072673

ISBN 13: 978-0-7658-0949-0 (pbk)

TO
My Father
ON THE OCCASION OF HIS
SIXTIETH BIRTHDAY



Taylor & Francis

Taylor & Francis Group

<http://taylorandfrancis.com>

Contents

INTRODUCTION TO THE TRANSACTION EDITION: <i>The Wealth of Nations</i> and the Founding of Market Economics	ix
PREFACE	xv
INTRODUCTION	3

PART ONE

I. Merchants and Knaves	11
II. Farmers and Gentlemen	32
III. The Laboring Poor	47
IV. Big but Bad Business	68
V. The Costs of Evil	84
VI. The Learned and the Pious	95
VII. A Better World for All	118

PART TWO

VIII. False Prophets	147
IX. Hell Called Heaven	169
X. A Dangerous Oracle	197
XI. Flesh and Spirit	219
APPENDICES	235
NOTES	245
INDEX OF NAMES	267



Taylor & Francis

Taylor & Francis Group

<http://taylorandfrancis.com>

*Introduction to the Transaction Edition:
The Wealth of Nations and the Founding
of Market Economics*

The Columbia University Press published my doctoral dissertation, entitled *The House of Adam Smith*, in the spring of 1934. The decision of Transaction Publishers to reprint, in 2002, my long out-of-print dissertation led me to reread *The Wealth Of Nations* for the first time in the intervening seven decades, which reminded me of an earlier speculation.

Suppose that the development of economics had been limited to the publication of *The Wealth of Nations*, and that the new discipline had never heard of David Ricardo, John Stuart Mill, Alfred Marshall, John Maynard Keynes, and many other economists. One could make a case—even a strong case—that economics might have evolved into a stronger and more productive discipline if it had been forced to look to *The Wealth of Nations* for its further guidance. I will do my best to explain to the readers of this early twenty-first century piece why I believe that Adam Smith's *The Wealth of Nations*, published initially in 1776 and subsequently revised by him, warrants such in-depth study.

The uniqueness of Adam Smith's contribution can be summarized as follows: the central question that he raised in *An Inquiry into the Nature and Causes of the Wealth of Nations*—the multi-dimensions of

economic growth (and decline) that he dealt with, from the rise and dismemberment of ancient Greece and Rome to the outbreak of the War of Independence between the American colonies and Great Britain—revealed the sophistication of Smith, who emphasized early in his work (chapter 2) “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. For the first six to eight years of their existence they were perhaps very much alike and neither their parents nor playfellows could perceive any reasonable difference, but the disposition to trade, barter, and exchange alone gave occasion to any (later) difference of talents.”

Smith goes on to note that labor is the only universal as well as the only accurate measure of value by which we can compare the values of different commodities at all times at all places.

My recent rereading of *An Inquiry into the Nature and Causes of the Wealth of Nations*, the full title of Adam Smith’s classic, called my attention to a great number of important and special characteristics of this masterpiece that had escaped me or that I had not adequately appreciated at the time I wrote my dissertation. Smith set himself a number of basic questions, such as the reasons why some countries, for example Holland and Great Britain, were relatively affluent while many others, such as Spain and most of Italy, lagged far behind. Moreover, despite the recent outbreak of hostilities between the American colonies and Great Britain, Smith offered not a

little but a lot of evidence that the working population in the major American colonies had achieved a standard of living considerably in excess of similar workmen in London and in other large cities in the British Isles. Oversimplified, Smith's interpretation was twofold: the first was the surplus of no-cost land for every American farmer who was able and willing to work it; and the second was the continuing willingness of the British government to pay for many of the costs of the colonial government without requiring the local citizenry to contribute much or anything towards these costs.

Little attention has been paid by successive generations of economists to the observation with which Smith brought *The Wealth of Nations* to a close. "If any of the provinces of the British Empire cannot be made to contribute to the support of the whole Empire it is surely time that Great Britain should free herself from the expense of defending those provinces in times of war and of supporting any part of their civil or military establishments in time of peace and endeavoring to accommodate her future views and designs to the real mediocrity of her circumstances."

In seeking to understand the great attraction that *The Wealth of Nations* had for me when I first became acquainted with it earlier in the twentieth century and my even greater appreciation for it from my close rereading of it after the passage of seventy years can best be explained by the following: my amazement at the scale and scope of the challenges that Adam Smith had set himself, not only to under-

stand the dynamics of the British economy in the eighteenth century, but to broaden the scale and scope of his inquiry to include the major stages in the evolution of the European economies current, medieval, and ancient, with further attention to the settlements and later developments of the European migrants to the Americas, South and North, and with at least passing attention to the economies of China and India.

Equally noteworthy is that Smith immersed himself in the historical records of the national developments over multiple centuries that he sought to examine and from which he sought—based on the facts that his probings and analyses would uncover—to extract the lessons from which he could erect his models of growth and development. He was an empiricist, first and foremost. But in addition to being an empiricist, he had held the appointment of Professor of Moral Philosophy at the University of Glasgow, and never avoided the challenge that every serious academic must confront: to choose between right and wrong, better or worse. The principal reason that Smith undertook to prepare a new edition of *The Wealth of Nations* in the early 1780s was to expand very substantially his analyses of the “mercantile system” in which he emphasized the many reprehensible practices of master manufacturers and merchants who engaged in all sorts of disreputable and illegal activities to enhance their earnings by taking unfair and illegal advantages of their customers and their workers. True, many master manufacturers and merchants were responsible for expand-

ing the scale and scope of the market by improvements in their buying and selling of goods and services, but it would be a serious error in Smith's view for the larger society not to seek to protect itself from their nefarious and often illegal actions. While the spread of competitive markets held the best prospects for the improvement in the living standards of the citizenry at large, the courts and the legislature had the responsibility to monitor what was happening in the marketplace so that the mercantile sector could not exploit the consumer.

Two additional observations about my seven decades-infatuation with Adam Smith and *The Wealth of Nations*: I visited Kirkcaldy in August 1939, about two weeks before the outbreak of World War II, in the expectation of learning a little more about Smith's years while he was busy writing *The Wealth of Nations* between the early 1760s and the early 1770s. In seeking the help of the local librarian, he explained that while he had almost nothing of importance relating to the life and work of Adam Smith, he had an impressive collection of testimonials about a young native poetess. Such is fame!

Adam Smith was a firm believer in the role of education in raising the future well being of the population by increasing their knowledge and skills. He strongly favored public financing of village schools such as was the growing practice in Scotland in the eighteenth century. With the advantage of a much lengthened retrospective, I am reasonably certain that my subsequent concentration on the study of human resources during my long academic career was

the outgrowth of my early infatuation with the work of Adam Smith and *The Wealth of Nations*, a contribution for which I will always be in his debt.

ELI GINZBERG

2002

Preface

This book is the result of several coincidences. My interest in Adam Smith was first aroused during my senior year in college. One of my fellow students had occasion during a discussion of the *Wealth of Nations* to ridicule the suggestion of Smith that judges should be paid by the litigants rather than by the state. My acquaintance with the history of economics was exceedingly meager but nevertheless the student's criticism did not ring true. He had accused Adam Smith of naïveté. I, however, had never met a naïve Scotsman. A careful reading of the text convinced me that Smith had not been given a fair trial and, after a perusal of the secondary literature, I became suspicious that his general approach had never been fully appreciated.

At about this time, in the winter of 1930, Columbia University acquired the Seligman Library of Economics, a unique collection of economic tracts. I thought it not unlikely that many of the books and pamphlets in this library would shed considerable light upon the background of Adam Smith. Therefore, under the kindly guidance of Professor Seligman, I worked my way through the relevant material which was published between 1688, the year of the Glorious Revolution, and 1776, the year in which the *Wealth of Nations* appeared.

At the beginning of my investigations in the pamphlet literature of the seventeenth and eighteenth

centuries, I had the good fortune to make the acquaintance of Professor V. G. Simkhovitch who was then engaged in writing his *Approaches to History*. One who has read these essays will recognize my indebtedness to this scholar.

I have taken certain liberties in the writing of this book which I believe deserve a word of explanation. In Part One the attempt has been made to reconstruct and interpret the *Wealth of Nations* without constant recourse to direct quotation. Adam Smith presents himself; hence, the possibility of unwarranted deductions is reduced. The pamphlet literature of the eighteenth century has been drawn upon to establish a degree of continuity. The dilution of Adam Smith's distinctive style has been intentionally avoided.

In the final preparation of the manuscript, I have been greatly aided by the corrections and additions which the several members of the Faculty of Political Science of Columbia University were kind enough to suggest. I owe a special debt of gratitude to Professors Carter Goodrich and Wesley Clair Mitchell.

NEW YORK
DECEMBER, 1933

ELI GINZBERG

Introduction



Taylor & Francis

Taylor & Francis Group

<http://taylorandfrancis.com>

Introduction

The South Sea Bubble has just burst; the French Revolution is still far distant. Adam Smith is born during one of the few quiet years of a very disturbed century—a century of wars and revolutions.

He passes a quiet childhood on the north shore of the Firth of Forth, and in his early teens moves to Glasgow to attend the University. He proves himself able and industrious and wins a scholarship for Oxford where he passes six years busily engaged in educating himself, for his professors are interested in things other than their subjects and their pupils.

The middle of the century finds him lecturing to a public class at Edinburgh University on English literature and political economy. Some kind friends have obtained this insignificant post for him. Shortly thereafter, his old University at Glasgow, suddenly remembering his existence, offers him a Professorship in Logic, which he gratefully accepts. The chair in Moral Philosophy, one of the most important and lucrative positions in the University, becomes vacant during the first semester of Smith's academic career. By a stroke of good fortune, the young Professor of Logic is elected to this post.

For thirteen years Smith lectures and writes in this small river town. He publishes a book on ethics that catches the public's fancy, and is a great success. The author's fame spreads far and wide, and pupils come from distant Switzerland to study with him.¹

At about this time an English statesman weds a wealthy widow and obtains through his marriage not only a wife and money, but also a stepson. As this youth is coming to the end of his teens, his future education becomes a pressing problem. The universities are quite unsatisfactory, and even if they were much better, could offer little to one of the future rulers of Great Britain.² Greek and Latin are of slight value to a young duke when he engages in parliamentary debate.

The Continent beckons. Louis XV presides over a cultured, if slightly decadent, court. Voltaire has established himself in Geneva, preaching strange things to the followers of Calvin and Zwingli. The English have long considered French culture to be culture par excellence. Why not expose the young duke to it? If the inoculation takes, so much is gained; if not, nothing is lost. The young man cannot travel alone, for the custom of the day prescribes tutors.

Charles Townshend, the stepfather, passes for the cleverest man in England. In searching for an eligible tutor, he remembers the author of the *Theory of Moral Sentiments*, for the book made a great impression upon him. His son will have one of the most distinguished scholars of the day for his nurse. This statesman is fearless. He precipitates the American Revolution by introducing the hateful taxes and excises which so enrage the colonists. With similar self-assurance, he makes an offer to the renowned Glasgow professor to become his stepson's tutor. Adam Smith accepts, to the amazement of his friend, David Hume, who doubted that he would forego his teaching career.³ This sceptic momentarily forgot the power of money.

Student and guide sail for the Continent, for France. Paris is slighted at first for a less interesting town in the south, Toulouse, which is the favorite haven of expatriated Englishmen. Here they spend some eighteen months, the former professor becoming increasingly bored as their stay lengthens. The society is horribly dull, and his French is woefully inadequate. His working habits return, and he commences to write a book to while away the time.⁴

Geneva and Paris are visited before the trip is completed. After two and a half years the voluntary exiles return to their native land, the duke somewhat better informed of the world and its people, Adam Smith the richer for his contacts with the Continental intelligentsia, and a life pension of three hundred pounds per annum.

Although he passes some time in London, he spends the greater part of the next decade at his birthplace, Kirkcaldy. The book which he began to sketch in Toulouse is now his chief concern. He is completely preoccupied with its composition, working long and hard.⁵ His solicitude for his mother alone prevents him from suffering the ill effects of a too intensive concern with his brain child. His many friends anxiously anticipate the publication of the book, but they are forced to wait a long while. The author will not be hurried. Finally, in 1776, a book appears in London, entitled *An Inquiry into the Nature and Causes of the Wealth of Nations*, by Adam Smith, F. R. S., formerly Professor of Moral Philosophy at the University of Glasgow. Though not so popular as his first book, it is nevertheless successful.

The author returns to Kirkcaldy where he spends the next two years. He receives an appointment as inspector of customs, and is forced to remove his domicile to Edinburgh. Twelve years thereafter, a dutiful servant of His Majesty, George III, passes from this world. His death is almost unnoticed.

In 1926 the leading universities in the world held a sesquicentennial celebration in honor of the publication of the second, and less popular, of Adam Smith's books. Contemporary opinion much preferred the *Theory of Moral Sentiments* to the *Wealth of Nations*.⁶ The economic treatise failed to impress the leaders of society. In fact Smith once facetiously remarked that he had almost forgotten he had written the book. The twentieth century thinks it, however, worthy of a jubilee festival.

Systems of thought lead a life independent of their creators and their original environment. Plato died, Greece declined, but *The Republic* lived on. Not really *The Republic*, but legions of *Republics*. Each reader in each generation interpreted the material in the light of his own preconceptions.⁷

During the Middle Ages, the Church was the most powerful institution in Europe. The pontiffs, however, did not find it difficult to utilize the anarchistic doctrines of the Gospels in their struggle for political autocracy. Soviet Russia has followed from the day of its birth a policy of ruthless opportunism but this has not prevented it from persecuting people for being unorthodox Marxists. The present leaders are not bothered by the fact that Karl Marx never wrote one word about the socialized commonwealth.⁸ They pos-

sess the power of interpretation and anyone who fails to accept their reading of the text is punished.

The Catholic Church did not need the New Testament to authorize the collection of taxes, nor would Stalin be at a loss to construct a Five Year Plan without *Das Kapital*. But as we are all more or less ancestor worshipers or, as Freud would say, sufferers from a father complex, there is practical value in controlling the authorities.

The battle of life is fought with all types of weapons. Ideas are light artillery. As some few of the belligerents might possibly be impressed with intellectual arguments, a cautious tactician will prevent his opponents from adding even such poor ammunition to their war supplies. The good Lord was probably disconcerted by the last European massacre, but that did not prevent both the Germans and the Allies from drafting Him. Each party thought it expedient to have God on its side, if for no other reason than to deny that He was in the camp of the enemy.⁹

Adam Smith wrote *The Wealth of Nations* for many reasons, among them to record his disgust with the chicanery which the merchants and manufacturers practiced. A university, endowed by a merchant prince of the twentieth century, published a volume in Smith's honor.¹⁰ The man who animadverted upon the captains of industry of his time is hailed by the outstanding entrepreneur of a later period. Circumstances can make strange bedfellows feel completely at ease.

English and Continental civilizations were vastly upset during the declining years of Smith's life, and more especially in the decades after his death. The

introduction of power machinery caused the disturbance. The problems of the new industrial era demanded attention, and men suddenly evidenced a great interest in economics. Some people became very wealthy; others lost every farthing. The fortunate members of the community were interested in preserving their gains; the victims searched for succor. Political philosophies suddenly developed a high economic value. The successful bourgeoisie were certain that the wise men of the past foretold their conquests when they prophesied that England would be blessed with a great capitalistic economy.

Smith had been a great master of words, and the literati of the new society, in composing their hymns of praise, borrowed liberally from him. At the close of the century his fame was known only to a few discriminating people. However, a short time thereafter, the unfledged writers established him as the father of modern political economy, a national genius of the first rank. Though none had been his pupils, they called him master, searching confirmation for their own theories in his work. It was an artful game of words, and possibly the novices did not realize that it was nothing but a gambol.

Smith has been greatly honored during the last century and a half, but he has also been subjected to vitriolic attacks and violent abuse. He has been praised by his enemies, and condemned by his friends. A series of historical accidents can account for this paradox. During the *mêlée* the spirit of Adam Smith was lost, but perhaps it is not too late to recapture it.

Part One



Taylor & Francis

Taylor & Francis Group

<http://taylorandfrancis.com>

Merchants and Knaves

Business is a necessary evil, which the moral leaders of mankind have tolerated but never condoned. At no time did they view with favor the pursuit of material gain. The Old Testament prophets proclaimed against the rapacity of the rich. Jesus scorned the money lenders. Luther had no kind words to say to the wealthy, nor did Calvin indulge the new bourgeoisie.

The eighteenth century was not given to religious exuberance; philosophers and scientists were more prominent in intellectual circles than members of the clergy. The most enlightened people considered God the Great Watchmaker, and his ministers unimportant apprentices. But not everyone was emancipated. The Scottish professor who lectured on economics at Glasgow during the fifties and sixties was not free from the nagging of fanatical Presbyterians. And though he disliked their hard and strict rules of life, he absorbed not a little of their moral fervor. The waning interest in religion resulted in a more intensive study of ethical and moral problems.

The *Wealth of Nations* is a gentlemanly and scholarly, though pointed, indictment of a large group in the society of the day. In common with the reformers of old, Adam Smith looked askance at the knavery and meanness of business men. His wrath was kindled against the merchants and manufacturers, for he hated

their invidious practices. He hoped that after the public had been enlightened, remedial action would be taken.

The corruption of individuals is a problem for the courts. The moral degeneracy of an important sector of the population ought to be the concern of the commonwealth. Adam Smith preached to the nation.

The violence and injustice of the rulers of mankind is an ancient evil which scarce admits a remedy.¹ All for ourselves, nothing for others, has long been the vile maxim of masters.² The English had decapitated one sovereign and banished another. With the passage of time, they acquired great skill in dealing with the Lord's anointed. They were able to put the fear of Satan into all self-righteous administrators. However, the peoples of other lands were still oppressed by their princes.

England, though fortunate not to have suffered from the violence of the crown, was no earthly paradise. Throughout the greater part of the eighteenth century the country experienced growing pains, but the doctors were unable to diagnose the ailment. Adam Smith, however, was firmly convinced that he had discovered the cause of the malady. The rapacity and monopolizing spirit of the merchants and manufacturers was racking the commonweal's constitution. This was an optimistic conclusion, for he felt certain that the infection was curable.³ As a careful internist, he paid special attention to the case history.

Since the days of Queen Elizabeth, the legislature had taken trade and commerce under its protecting