PROGRESS AND PROSPERITY IN ADAM SMITH'S NATURAL LIBERTY: FANCIES OF MANKIND

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Abstract: *In this essay I aim to understand how Adam Smith predicted the progress and prosperity of a commercial society and analyze the main attributes of his natural liberty system. I examine the meaning and implications of prosperity in Smith's thought. Finally, I analyze the role of the division of labor and parsimony in the overall process of societal advancement.*

KEY WORDS: Adam Smith, progress, prosperity, commercial society, natural liberty, division of labour, parsimony, François Quesnay, physiocracy

I. Introduction

> "The natural effort of every individual to better his own condition, when suffered to exert itself with freedom and security, is so powerful a principle, that it is alone, and without any assistance, not only capable of carrying on the society to wealth and prosperity, but of surmounting a hundred impertinent obstructions with which the folly of human laws too often incumbers its operations." (WN.IV.v.b.43)[1]

Adam Smith fundamentally believes that "the desire of bettering our condition" prompts us to take actions that favor progress, economic growth, and overall well-being. He describes it in the *Wealth of Nations* (WN) as "a desire which, though generally calm and dispassionate, comes with us from the womb, and never leaves us till we go into the grave" (WN.II.iii.28). How does a desire for betterment lead to prosperity? What is the engine of material progress in Adam Smith's thought? In this essay I explore what Adam Smith considered the key ingredients and moral underpinnings of prosperity, harnessing both the

[1] I refer to Smith's *Wealth of Nations* as "WN" and his *Theory of Moral Sentiments* as "TMS" throughout the essay. Adam Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations* [1776], eds. R. H. Campbell and A. S. Skinner, Vol. II of the Glasgow Edition of the Works and Correspondence of Adam Smith, (Indianapolis: Liberty Fund, 1981); Adam Smith, *The Theory of Moral Sentiments* [1759], eds. D. D. Raphael and A. L. Macfie, Vol. I of the Glasgow Edition of the Works and Correspondence of Adam Smith, (Indianapolis: Liberty Fund, 1982).

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Wealth of Nations (WN) and *The Theory of Moral Sentiments* (TMS) to illustrate his important vision.[2]

In TMS, "nature" not only elicits the desire for betterment but also inculcates in each person the feelings needed to restore this desire after disappointment. For Smith, this "deception," the gulf between our imagined expectations and the real satisfaction we achieve, is what triggers progress. The world would stop without it: "It is this deception which rouses and keeps in continual motion the industry of mankind. It is this which first prompted them to cultivate the ground, to build houses, to found cities and commonwealths, and to invent and improve all the sciences and arts, which ennoble and embellish human life" (TMS.IV.i.10).

It is by "imagination" that we anticipate a particular degree of satisfaction from attaining a desired object. Imagination and prosperity are allies: "Our imagination, which in pain and sorrow seems to be confined and cooped up within our own persons, in times of ease and prosperity expands itself to every thing around us" (TMS.IV.i.9). The difference between what we *imagine* getting and what we *really* get was contrived by an entity called "nature." Smith believed that humans must find the best methods to make use of 'nature' and improve their conditions.

These methods are found in the system of natural liberty. What is the nature of this system and how does it make us better off? In the next section of this essay, I will discuss the key features of the natural liberty system in juxtaposition with the mercantilist system. In Section III, I will explore how the division of labor and a rule of conduct based on parsimony form two decisive ingredients of a prosperous society in Smith's thought.

II. Natural Liberty versus Mercantilism

A. Introduction

The simple system of natural liberty allows each of its members to improve her conditions. For Smith, all alternative systems obstruct decisions that would otherwise take place in liberty. More often than necessary, certain laws and legislation curb the "natural effort of every individual to better his own condition." He is emphatic that such interventions impede growth and prosperity. His first piece of advice is to dispose of the remaining laws of the feudal period:

[2] In doing so I make no claim that these books were entirely consistent. Yet I am recognizing that the so-called *Das Adam Smith Problem* has been broadly rebutted and attenuated. Also, we cannot properly grasp Smith's vision without considering both contributions. Even when the two works were deemed irreconcilable in academic circles, his ideas on progress and prosperity largely escaped suspicion. See Leonidas Montes, "*Das Adam Smith Problem*: its origins, the stages of the current debate, and one implication for our understanding of sympathy," *Journal of the History of Economic Thought* 25, no. 1 (2003). See also Amos Witztum, "A Study into Smith's Conception of the Human Character: Das Adam Smith Problem revisited," *History of Political Economy* 30, no. 3 (1998).

> [B]reak down the exclusive privileges of corporations, and repeal the statute of apprenticeship, both which are real encroachments upon natural liberty, and add to these the repeal of the law of settlements, so that a poor workman, when thrown out of employment either in one trade or in one place, may seek for it in another trade or in another place.. (WN.IV.ii.42)

Though Smith tends to prefer "natural" arrangements and is skeptical about the human ability to improve society by decree, he tries to strike a balance between the two forces. Throughout TMS, nature and reason share the same ends,[3] but nature is best guided by sentiments like self-love and interest. Human rationality is weak compared to the strength of "nature's intentions."

Adam Smith bestows upon "nature" good intentions and wisdom. But as he sees it, "nature" is not *always* good; "she" is only *generally* good. When we are ill, nature can make us better often without the rational prescriptions of a doctor and even without medicine. Nevertheless, some natural diseases are deadly. If we are to draw up a legal framework, "nature" propels increasingly good outcomes for everyone, but this effect is general, not particular. Perhaps influenced by the disturbing Lisbon earthquake of 1755, Smith discusses the power of natural catastrophes several times.[4] As in the odd case of an "earthquake or an inundation," a good man may lose his integrity by an "unlucky circumstance," perhaps by being accused of a crime he didn't commit. But while stressing that this happens only "by an accident," Smith appeals to the reader that this is an exception, not a rule. "An innocent man may be believed to have done wrong: this, however, will *rarely* happen" (TMS.III.v.8, my italics).

Therefore, man is "directed to correct" nature's particular (outlier) results by reason, but this proves too difficult (TMS.III.v.9). Smith hints that any human attempt "to alter that distribution of things which natural events would make, if left to themselves" will be "perpetual." (TMS.III.v.10)

> The natural course of things cannot be entirely controlled by the impotent endeavours of man: the current is too rapid and too strong for him to stop it; and though the rules which direct it appear to have been established for the wisest and best purposes, they sometimes produce effects which shock all his natural sentiments.. (TMS.III.5.10)

[3] In this regard, it is possible to find some partial influence of late stoic assumptions on Smith's thinking. See Pierre Force, *Self-Interest Before Adam Smith – A Genealogy of Economic Science* (Cambridge, UK: Cambridge University Press, 2003), 75. See also Leonidas Montes, "Adam Smith as an *Eclectic* Stoic," *The Adam Smith Review* 4, ed. Vivienne Brown (London: Routledge, 2008).

[4] See: TMS.III.5.8 and TMS.III.3.4.

Guided by reason, we might wish that people behave benevolently or that the government writes the best possible laws, but we will be disappointed. Our attempts and interventions will only bear outcomes that will "shock" our "natural sentiments." To sum up, in the sense that Smith uses the term "nature," it seems that nature's powers are superior in strength to human reason. But it is up to reason to escort nature along. The system of natural liberty resolves the tension between nature and reason. We first take care of our own interest (as "nature" determined) as it coincides with others' interests (as "reason" wishes).

B. Supporting natural liberty

Almost axiomatically, Adam Smith believes that attempts to counteract "nature's" impulses will be more than offset by "nature's" strengths. He uses the expression "extraordinary encouragements" to define these "anti-natural" measures. When "by extraordinary encouragements" we "draw towards a particular species of industry a greater share of the capital of the society than what would naturally go to it" we are "in reality subversive of the great purpose which it means to promote. It retards, instead of accelerating, the progress of the society towards real wealth and greatness" (WN.IV.ix.50). The case is completely different when we cope with "nature's" course without blocking "her" force. Instead of promoting a particular end, group, or industry, we assist nature by creating an atmosphere for the unobstructed blossoming of everyone's interest.

It is in every workman's private interest to market his labor in an unconstrained, and hence prosperous, economic setting. In Smith's discussion about labor salaries, *growth* explains the prevalence of high wages: "In the progressive state (. . .) the condition of the laboring poor, of the great body of the people, seems to be the happiest and the most comfortable" (WN.I.viii.43). Even more explicitly: "It is not the actual greatness of national wealth, but its continual increase, which occasions a rise in the wages of labour" (WN.I.viii.22). In conclusion, "[t]he proportion between the real recompence of labour in different countries, it must be remembered, is naturally regulated, not by their actual wealth or poverty, but by their advancing, stationary, or declining condition" (WN.I.xi.e.35).

High wages will in turn cause population growth: "The liberal reward of labour, therefore, as it is the effect of increasing wealth, so it is the cause of increasing population" (WN.I.viii.42). A larger population reinforces economic growth. Spengler reminds us that though Smith did not explicitly advance a population policy,[5] he "was concerned to show that uneconomic practices and interferences with the system of

[5] See Joseph J. Spengler, "Adam Smith on the Population Growth and Economic Development," *Population and Development Review* 2, no. 2 (1976): 167–80.

natural liberty and competition tended to restrict both population and the level of living."[6]

Moreover, people would be motivated by increasing salaries to become more productive: "A plentiful subsistence increases the bodily strength of the labourer, and the comfortable hope of bettering his condition, and of ending his days perhaps in ease and plenty, animates him to exert that strength to the utmost" (WN.I.viii.44). This increase in productivity results in an even greater demand for laborers. "The demand for those who live by wages, therefore, naturally increases with the increase of national wealth" (WN.I.viii.21). At this point, employers might benefit from coordinating among themselves to lower salaries[7] but "[t]he scarcity of hands occasions a competition among masters, who bid against one another, in order to get workmen and thus voluntarily break through the natural combination of masters not to raise wages" (WN.I.viii.17).

Collusive strategies to undercut salaries are destabilized by free market mechanisms. Smith anticipated John Nash's game theory contributions.[8] Even if traders choose to collude, their incentives "to cheat" expand as the number of competitors rises: "In *a free trade* an effectual combination cannot be established but by the unanimous consent of every single trader and *it cannot last longer* than every single trader continues of the same mind" (WN.I.x.c.30, my italics). Free trade competition, in an open market with free entering and free exiting, is the decisive factor by which the market benefits everyone.

To illustrate this, Smith inserts a sub-chapter in the second edition of Book IV of WN called "*Digression Concerning The Corn Trade And Corn Laws*" (WN.IV.v.b) where he studies what happens in a situation of scarcity during harvest season. The inland dealer's interest is exactly "the same" as that of the people (WN.IV.v.b.3). Setting prices other than those required by the market would have devastating consequences:

> When the government, in order to remedy the inconveniencies of a dearth, orders all the dealers to sell their corn at what it supposes a reasonable price, it either hinders them from bringing it to market, which may sometimes produce a famine even in the beginning of the season. (WN.IV.v.b.7)

[6] Ibid., 176.

[7] In general, for Smith, the two parties in a wage contract do not have the same *immediate* interest. See Emma Rothschild, *Economic Sentiments – Adam Smith, Condorcet and the Enlightenment* (Cambridge, MA: Harvard University Press, 2001), 64. In the long run, however, and especially with economic growth, there are reasons to believe Smith thought everyone would be gradually better off. Thirdly, as said, everyone has generally speaking the same interest in bettering their condition.

[8] See Iain McLean, *Public Choice: An Introduction* (Oxford: Basil Blackwell, 1987), chapter 7. For an argument that Smith was aware of Nash's game equilibrium already in TMS, see: Vivienne Brown, "Intersubjectivity, The Theory of Moral Sentiments and the Prisoners' Dilemma," *The Adam Smith Review* 6, ed. Fonna Forman-Barzilai (London: Routledge, 2011).

Individuals know better than governments how to dispose of their capital and choose their employments.[9] In a state 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, and to bring both his industry and capital into competition with those of any other man, or order of men" (WN.IV.ix.51). It is necessary, therefore to accept general "laws of justice" which aim to prevent the invasion of others. Such restraints facilitate "the natural course of things" for both Smith and his friend David Hume.[10] The natural liberty system requires general rules that delineate the realm of liberty and noninterference for its members.

Still, Smith seems to accept some forms of economic regulation, conscious that they restrain natural liberty.

> To restrain private people, it may be said, from receiving in payment the promissory notes of a banker, for any sum whether great or small, when they themselves are willing to receive them; or, to restrain a banker from issuing such notes, when all his neighbours are willing to accept of them, is a manifest violation of that natural liberty which it is the proper business of law, not to infringe, but to support. (. . .) The obligation of building party walls, in order to prevent the communication of fire, is a violation of natural liberty, exactly of the same kind with the regulations of the banking trade which are here proposed. (WN.II.ii.94)

Laws should restrain "those exertions of the natural liberty of a few individuals, which might endanger the security of the whole society" (WN.II.ii.94). The law certainly cannot know how to serve our best interests. To enhance progress, justice should provide a general framework rather than make particular decisions. "The law which prohibited the manufacturer from exercising the trade of a shopkeeper, endeavoured to force this division in the employment of stock to go on faster than it might otherwise have done. The law which obliged the farmer to exercise the trade of a corn merchant, endeavoured to hinder it from going on so fast. Both laws were evident violations of natural liberty, and therefore unjust" (WN.IV.v.b.16).

When discussing the wages, he says that "experience seems to show that law can never regulate them properly, though it has often pretended to do so" (WN.I.viii.34). Laws and regulations should therefore be accepted when they are general and meant to facilitate commerce and liberty.

[9] It is also possible to argue that for Smith the play of individual "self-interests" works, in principle, better in the realm of economic transactions than in real politics. See A. W. Coats, "Adam Smith's Conception of Self-Interest in Economic and Political Affairs," *History of Political Economy* 7, no. 1 (1975): 132–36.

[10] See David Hume, "Of Commerce," in Eugene F. Miller, ed., *Essays Moral, Political and Literary* (Indianapolis, IN: Liberty Fund, 1985), 153–267, especially, 260.

This does not mean these intentions will be fulfilled or that we can know beforehand the ultimate consequences of a law.

But the main argument is that justice carries a negative connotation because it is achieved by holding back or preventing something from happening. In Smith's mind, justice evolves only by precluding someone's encroachment on another's realm. "Mere justice is, upon most occasions, but a negative virtue, and only hinders us from hurting our neighbour" (TMS.II.ii.1.9). Elsewhere he rephrases the same idea, arguing that "to hinder us from hurting our neighbour" is even the very "*end* of the rules of justice" (TMS.III.vi.10, my italics). Acting justly is extremely easy: "We may often fulfil all the rules of justice by sitting still and doing nothing" (TMS.II.ii.1.9). And yet, justice is a "pillar" of utmost importance and offers a key role for the state:

> Commerce and manufactures can seldom flourish long in any state which does not enjoy a regular administration of justice, in which the people do not feel themselves secure in the possession of their property, in which the faith of contracts is not supported by law, and in which the authority of the state is not supposed to be regularly employed in forcing the payment of debts from all those who are able to pay. (WN.V.iii.7)

The sovereign has duties regarding matters of "great importance," namely defence, justice, and basic public works[11] (WN.IV.ix.51). These are shaped by what Smith calls "the Science of a Legislator."[12] Although he insists on this well-defined role of government, he hesitates to draw a strict line between public and private realms. This hesitation may be related to his intellectual dispute with the "physiocrats," specifically François Quesnay. While Quesnay envisions a system of "perfect" liberty, Smith wishes to leave things as they are and attempt only tentative and gradual improvements.

Smith argues that Quesnay tries to assimilate his pseudo doctor's accomplishments into his economic thinking, which led him (Quesnay) to perceive the "political body" as an element that could "thrive and prosper only under a certain precise regimen, the exact regimen of perfect liberty and perfect justice" (WN.IV.ix.28). For Smith, "experience" tells us exactly the opposite: a human body preserves its health "under a vast variety of different regimens" (WN.IV.ix.28). Smith's natural liberty system is not meant to be perfect. There is "some unknown principle of preservation,

[11] On this topic, it is possible to argue that for Smith there are some state functions that surpass the so-called "minimal state." See Andrew Skinner, *Adam Smith and The Role of the State* (Glasgow: University of Glasgow Press, 1974).

[12] Knud Haakonssen, *The Science of a Legislator: The Natural Jurisprudence of David Hume and Adam Smith* (Cambridge, UK: Cambridge University Press, 1981): 93–94.

capable either of preventing or of correcting" some misbehaviors on our part and restoring full health (WN.IV.ix.28).

In matters of health, Smith prefers to let nature take her course rather than follow a doctor's rational designs. "The inscription upon the tomb–stone of the man who had endeavoured to mend a tolerable constitution by taking physic; '*I was well, I wished to be better; here I am*" (TMS.III.iii.31, italics in the original). The desire laid down by "nature" for the betterment of our condition is superior to "errors of administration." The "effort" we make to better ourselves

> is frequently powerful enough to maintain the natural progress of things toward improvement, in spite both of the extravagance of government, and of the greatest errors of administration. Like the unknown principle of animal life, it frequently restores health and vigour to the constitution, in spite, not only of the disease, but of the absurd prescriptions of the doctor. (WN.II.iii.31)

Just as the "natural body" is capable of "remedying" laziness and some intemperance, the system of natural liberty is capable of surpassing one striving for perfect liberty. For Donald Winch, this is actually the true meaning of Smith's invisible hand, a device aiming to show "how, in policy contexts, the patient recovers in spite of the absurd nostrums of doctor-politicians."[13]

Quesnay's lack of real experience as a doctor is actually what made him believe that only "perfect liberty" could produce economic growth. For Smith, he is wrong: "If a nation could not prosper without the enjoyment of perfect liberty and perfect justice, there is not in the world a nation which could ever have prospered" (WN.IV.ix.28). Nevertheless, Smith took Quesnay seriously enough in economic matters, as he too was concerned with the way that each class gets its "proper share" in a system of liberty. Smith and members of the French school both acknowledge self-regulating features in the economy.[14]

Smith's attack on the "physiocracy" is targeted only at what he calls the "capital error" of the doctrine, the idea that agricultural production alone represents real value. For Smith, the cultivation of lands is a crucial keystone for the growth of town manufacturing but not the only one. "Had human institutions, therefore, never disturbed the natural course of things, the progressive wealth and increase of the towns would, in every political society, be consequential, and in proportion to the improvement

[13] Donald Winch, "Adam Smith's 'Enduring Particular Result': A Political and Cosmopolitan Perspective," in Istvan Hont and Michael Ignatieff, eds., *Wealth and Virtue, The Shaping of Political Economy in the Scottish Enlightenment* (Cambridge, UK: Cambridge University Press, 1983), 266.

[14] See Robert B. Ekelund and Robert F. Hébert, *A History of Economic Theory and Method* (New York: McGraw-Hill, 1997), 122.

and cultivation of the territory or country" (WN.III.i.4). By increasing productivity in the cultivation of land, "the labour of *one* family can provide food for *two*." This, in turn, makes half of the society freer. The proportion of families who no longer need to work in agriculture can finally "be employed in providing other things, or in satisfying the other wants and *fancies of mankind*" (WN.I.xi.c.7, my italics).

For Smith, agriculture should take precedence only in early stages of development. When he devotes a whole book (III) of *Wealth of Nations* to the "Progress of Opulence in different Nations," his main point is that "the greater part of the capital of every growing society is, first, directed to agriculture, afterwards to manufactures, and last of all to foreign commerce" (WN.III.i.8). Instead of facilitating these transitions, governments[15] had "entirely inverted" this "natural course of things" (WN.III.i.8). Mercantilist policies, by stimulating activities in a different order,[16] may be partially responsible for having reproduced an "unnatural" order of things.

C. *Mercantilism hinders progress*

By believing that a nation's produce could be measured only by the weight of agricultural crops, even Quesnay seems to understand that money, including gold and silver, has no intrinsic value. Max Beer argues that it is precisely this "anti-mercantilism of Quesnay which aroused Smith's admiration for him."[17] Smith agrees that "consumable goods" would now represent the "wealth of nations," disregarding "the unconsumable riches of money" (WN.IV.ix.38).

As demonstrated, a nation can prosper in a variety of regimes, but not by accumulating gold and silver. Increases in production and increases in the quantity of gold "have arisen from very different causes" (WN.I.xi.n.1). However, Smith's main objection to mercantilism was not this confusion[18] but the ease with which it would be possible to turn down a system of liberty for a despotic one: "the mercantile system" is "in its nature and essence a system of restraint and regulation" (WN.IV.ix.3) and will constitute an intellectual barrier for furthering the liberty of commerce. Mercantilists believe that agriculture, industry, and commerce in general should be maintained at a level other than the "natural" one. Although they aim to enrich the country this way, they are supposedly only creating an "advantageous balance of trade" (WN.IV.viii.1). "Nothing, however,

[15] This argument may be disputable, especially by analyzing historical evidence. See Paul Bowles, "Adam Smith and the 'Natural Progress of Opulence'," *Economics, New Series* 53, no. 209 (1986): 109–118.

[16] See Robert A. Blecker, "The 'Unnatural and Retrograde Order': Adam Smith's Theories of Trade and Development Reconsidered," *Economica, New Series* 64, no. 255 (1997): 527–37.

[17] See Max Beer, *An Inquiry Into Physiocracy* (London: Frank Cass & Co. Ltd., 1966): 172.

[18] See J. A. La Nauze, "The Substance of Adam Smith's Attack on Mercantilism," *Economic Record* 13 (1937): 90–93.

can be more absurd than this whole doctrine of the balance of trade, upon which, not only these restraints, but almost all the other regulations of commerce are founded" (WN.IV.iii.c.2).

Observing the mercantilist tendency to favor those who can exert power over the legislator, Smith concludes that mercantilist policies are in fact conceived against the worst-off in society. Proponents of mercantilism do not ultimately care for the balance of trade because trade is subject to the influence of interest groups.[19] Smith gives more examples: woollen manufactures shape customs duties in their favor, buying inputs from anywhere and with no duties, preventing exports that could ultimately force them to compete in a broader market. In this way, "they (. . .) obtained a monopoly against consumers" (WN.IV.viii.17). They enact laws that aim to secure their level of revenue. Using mercantilist reasoning, they convince the government that these enactments make the nation prosperous: "Our woollen manufacturers have been more successful than any other class of workmen, in persuading the legislature that the prosperity of the nation depended upon the success and extension of their particular business" (WN.IV.viii.17). The mercantilist system is not just about accumulating metals by achieving a favorable balance of trade with foreign countries. Ultimately some groups will be better at convincing the government to protect their industry and forbid imports from potential competitors.[20] Smith even anticipates studies on rent-seeking strategies and pressure groups, which now constitute an important part of public choice economics.[21] When the state wants to give an incentive to a particular industry (in the form of a "bounty," for instance), it actually precludes the industry from producing the desired object:

> the bounty to the white herring fishery is a tonnage bounty; and is proportioned to the burden of the ship, not to her diligence or success in the fishery; and it has, I am afraid, been too common for vessels to fit out for the sole purpose of catching, not the fish, but the bounty.. (WN.IV.v.a.32)

Smith's critique of mercantilism is not complete without inverting some of its premises. Unlike the mercantilists, Smith argues that we become better off only by making others better off.[22] It is by enriching the neighbor

[19] See Douglas A. Irwin, *Against the Tide: An Intellectual History of Free Trade* (Princeton, NJ: Princeton University Press, 1996), 83.

[20] That Smith perceives "mercantilism" as similar to "protectionism" is explained by Olson. See Mancur Olson, *The Rise And Decline of Nations: Economic Growth, Stagflation, and Social Rigidities* (New Haven, CT: Yale University Press, 1982): 126–27.

[21] See Mancur Olson, *The Logic Of Collective Action: Public Goods and the Theory of Groups* (Cambridge, MA: Harvard University Press, 1971).

[22] See Eamonn Butler, *Adam Smith: A Primer* (London: The Institute of Economic Affairs, 2007): 26.

nations that we, too, may get richer. Commerce should be a source of "union and friendship" (WN.IV.iii.c.9), a situation when another nation's growth is beneficial to our own. The only exception to this rule, of course, is war, where the wealth of a rival nation can be used to produce better weaponry (see WN.IV.iii.c.11).

Despite the mercantilist orthodoxy of the day, the *Wealth of Nations* shifted attention to consumption and consumers' satisfaction. For Smith, value exists only inside human beings, not in gold or any particular production. The idea that gold represents value and wealth, however, often resurfaces in world history. If we consider "precious metals" to be "money" (as indeed, money was backed by gold in Smith's time), we can see a "partial return" to mercantilism in modern Keynesianism.[23] According to Keynes, the economy receives a boost every time we spend, rather than save money. This is precisely the opposite of Smith's thinking (WN.II.ii.25 and WN.II.iii.16). Indeed, some policy makers today still believe that the interest rate should be as low as possible even if kept artificially so by injecting fresh money into the economy through the banking system. As Maria Pia Paganelli rightly underlines, "Those who advocate the benefits of increasing money supply (by increasing money to stimulate the economy) generally justify their claims as motivated by what today we call the 'benevolent dictator' assumption"[24]; that is, if the sovereign really cared for the society (if he were benevolent) he would have the means to help it by printing money. A good person creates good outcomes. This shifts the discussion from rules to persons, motivating a search for people of good character over good practices and institutions. Smith is aware of how easily some "leaders" propose "to new-model the constitution" based on ideas "of which they have no experience" (TMS.VI.ii.2.15). These can be represented by "the man of system" who "is often so enamoured with the supposed beauty of his own ideal plan of government, that he cannot suffer the smallest deviation from any part of it" (TMS.VI.ii.2.16). People will tend to believe in such plans.

This problem will be especially acute in the commercial era. In earlier historical periods (such as the "hunters" and "pastoral" eras), our minds were "kept alive" by the "difficulties which are continually occurring" (WN.V.i.f.51). Every man was in some measure "a statesman" and could "form a tolerable judgment concerning the interest of the society, and the conduct of those who govern it" (WN.V.i.f.51). For Smith, the commercial society would be especially liable to political enthusiasm and even "fanaticism." Its comforts could hamper some people's mental abilities.

[23] See O. H. Taylor, *A History Of Economic Thought: Social Ideals and Economic Theories From Quesnay to Keynes* (London: McGraw-Hill Book Company, 1960), 93.

[24] Maria Pia Paganelli, "Vanity and the Daedalian Wings of Paper Money in Adam Smith," in Leonidas Montes and Eric Schliesser, eds., *New Voices on Adam Smith* (New York: Routledge, 2006), 280.

This could be counteracted with a broad system of education. The public "can facilitate, can encourage, and can even impose upon almost the whole body of the people, the necessity of acquiring those most essential parts of education" (WN.V.i.f.54). "Science is the great antidote to the poison of enthusiasm" (WN.V.i.g.14).

Smith thought that people would feel more comfortable in systems coordinated unnaturally through legal enforcement and regulation, or what he also calls "police." In fact, he believes it is almost counterintuitive to support the "simple system" of natural liberty.[25] Nevertheless, progress depends on it. For Smith, standards of living increase every time society leans toward the natural liberty system and decrease every time society chooses non-natural arrangements. The system and its legal framework set the frontier of growth possibilities. A nation's potential will be fulfilled by making use of two great engines: parsimony and the 'Division on Labour.'.

II. The Workings of Parsimony and 'Division of Labour'

A. Introduction

Smith considers poverty to be the greatest evil. Poverty essentially means *death*, but not one brought about naturally, as, for instance, by endured famine. For Smith, poverty means *to die brutally*. Paganelli explains this: "In Smith's account, poverty forces people to kill young children, the old, and the sick, either directly or indirectly."[26] In his "Introduction" to WN Smith writes that "poor" countries "are frequently reduced, or, at least, think themselves reduced, to the necessity sometimes of directly destroying, and sometimes of abandoning their infants, their old people, and those afflicted with lingering diseases, to perish with hunger, or to be *devoured by wild beasts*" (WN.Intro.4, my italics). Discussing the "poverty of the lower ranks of people in China" (WN.I.viii.24), Smith adds:

> Any carrion, the carcase of a dead dog or cat, for example, though half putrid and stinking, is as welcome to them as the most wholesome food to the people of other countries. Marriage is encouraged in China, not by the profitableness of children, but by the liberty of destroying them. In all great towns several are every night exposed in the street, or drowned like puppies in the water.. (WN.I.viii.24)

[25] See Lauren Brubaker, "Why Adam Smith is Neither a Conservative Nor a Libertarian," *The Adam Smith Review* 3, ed. Vivienne Brown (London: Routledge, 2007): 200.

[26] Maria Pia Paganelli, "Commercial Relations: From Adam Smith To Field Experiments," in Christopher J. Berry, Maria Pia Paganelli, and Craig Smith, eds., *The Oxford Handbook Of Adam Smith* (Oxford: Oxford University Press, 2013), 334.

Even in Scotland, where poverty is not as extreme, less brutality does not mean that poverty ceases to mean death: "But poverty, though it does not prevent the generation, is extremely unfavourable to the rearing of children. The tender plant is produced, but in so cold a soil and so severe a climate, soon withers and dies. It is not uncommon, I have been frequently told, in the Highlands of Scotland for a mother who has borne twenty children not to have two alive" (WN.I.viii.38). When Smith argues that free commerce extends the orbit of the division of labor, he is promoting life. "Whenever the circumstances of the parent rendered it inconvenient to bring up the child, to abandon it to hunger, or to wild beasts, was regarded without blame or censure" (TMS.V.ii.15). For Smith, progress and prosperity prevent infanticide.

B. Dining with Adam Smith

Hunger is certainly a powerful sensation. For Smith it is also an imprint of "nature," a primary motivator of our actions.[27] Only after attending to our hunger can we consider other desires: "Food not only constitutes the principal part of the riches of the world, but it is the abundance of food which gives the principal part of their value to many other sorts of riches" (WN.I.xi.c.36). This quote can be taken literally. Smith ascribes to "corn" the stability of value that can serve as a measuring tape for all other commodities.[28] Moreover, he believes that food supply is also behind the flourishing of the arts and sciences. We can see this clearly in a sentence probably written quite hastily by the reporter of the *Lectures*: "Indeed to supply the wants of *meat*, *drink*, cloathing, and lodging allmost the whole of the arts and sciences have been invented and improved" (LJA.vi.16, italics in the original).

Smith singles out the self-love of three professionals — the butcher, brewer, and baker — to illustrate a key element of economic progress. These individuals represent *real* value in *real* economies. By producing food, they prompt growth in all other activities, which proves to be a uniquely human achievement: "All other animalls are content with their food in the state it is producd by nature, and have no conception that it would be improved by cookery or rendered more agreable or more nourishing by a sauce" (LJA.vi.9).

Ian Ross, one of Smith's few biographers, describes what any laboring worker or student in Glasgow could expect to eat for dinner in the middle

[27] Joseph Butler, author known as Bishop Butler, might have had a strong influence on Smith on this issue. See Joseph Butler, "Fifteen Sermons Preached at the Rolls Chapel" [1726], in L. A. Selby-Bigge, ed., *British Moralists: Being Selections From Writers Principally of the Eighteenth Century* (Oxford: Clarendon Press, 1897), 200–201.

[28] For an argument that says the price of corn influences decisively the price of food in general, see Michael Pollan, "The (Agri)Cultural Contradictions of Obesity," in David Schmidtz and Elizabeth Willot, eds., *Environmental Ethics: What Really Works, What Really Matters* (New York: Oxford University Press, 2011), 33–37, especially, 36.

of the eighteenth century, and it was not something one would obtain from a butcher, brewer, or baker. It was rather a modest diet consisting of mashes of peas or oat flour.[29] A student could certainly afford such a meal for five pounds sterling per year, but could hardly go further. Adam Smith is aware that he is not talking about a dinner his students usually enjoy: "Oatmeal indeed supplies the common people in Scotland with the greatest and the best part of their food" (WN.I.viii.33). Some fish were also not so rare: "in many parts of Scotland, during certain seasons of the year, herrings make no inconsiderable part of the food of the common people" (WN.IV.v.a.34).

Looking beyond meat, bread and beer, Smith considers potatoes one of the "most important improvements" of Europe (WN.I.xi.n.10). He notes the health benefits of eating potatoes after remarking how people fed by "oatmeal" are usually weaker than others (WN.I.xi.b.41). But he leaves potatoes out of his famous example of the butcher, brewer, and baker. He knew that potatoes were part of "the poor" people's meal: "Not only grain has become somewhat cheaper, but many other things from which the industrious poor derive an agreeable and wholesome variety of food, have become a great deal cheaper. Potatoes, for example, do not at present, through the greater part of the kingdom, cost half the price which they used to do thirty or forty years ago" (WN.I.viii.35).

It is not his primary goal to show how trade and the appeal to self-love impact human health or maintain the situation of the poor. Instead, Smith mainly argues that the appeal to self-love helps improve people's general economic conditions. The dinner he describes will not be *expected* by the regular Scottish laborer or student unless we find ourselves in a thriving country.

> Butcher's-meat, *except in the most thriving countries*, or where labour is most highly rewarded, makes but an insignificant part of his subsistence (. . .). In France, and even in Scotland, where labour is somewhat better rewarded than in France, the labouring poor seldom eat butcher's–meat, except upon holidays, and other extraordinary occasions. (WN.I.xi.e.29, my italics)

Elsewhere, however, he reminds us that some foods are valued absurdly highly because they constitute "rarities and curiosities" that can satisfy very exquisite wishes at prices with no boundaries. The reason for these extremely high prices is that "human industry could not multiply at pleasure" (WN.I.xi.k.1) such foods. It is not in our power to multiply "singular birds and fishes" considered very "rare" (WN.I.xi.k.1). The dinner in the

[29] See Ian Simpson Ross, *Adam Smith: Uma Biografia*, 1st ed., *The Life of Adam Smith* (Oxford: Clarendon Press, 1995), trans. (Rio de Janeiro e São Paulo: Editora Record, 1999), 79.

butchers and brewers example is of a different sort: it is an expensive meal but one which can be generalized by industry.

This food industry is a stepping stone into the other infinite wants of mankind.[30] "After food, cloathing and lodging are the two great wants of mankind" (WN.I.xi.c.2). But these three types of wants are different and need further qualification. As he explains, "The desire of food is limited in every man by the narrow capacity of the human stomach; but the desire of the conveniencies and ornaments of building, dress, equipage, and household furniture, seems to have no limit or certain boundary" (WN.I.xi.c.7). Our eyes will be more impressed by the wide range of clothing variety. This shift will help reveal a most decisive role for preferences[31] in comparing the products of these industries. Most of our preferences will be shaped by the tastes of the rich, and after setting a fashion, no one will dare to dress differently. "Dress and furniture are allowed by all the world to be entirely under the dominion of custom and fashion" (TMS.V.i.4).

The rich will define themselves by the grandeur of their "wardrobe" (WN.I.xi.c.7), not by what and how they eat. This shifts their demand from "menial servants" to other types of wage-earners.[32] Instead of hiring "menial servants" to serve their friends on "a profuse and sumptuous table," they will rather adorn their houses and start collecting "ingenious trinkets of different kinds; or, what is most trifling of all, in amassing a great wardrobe of fine clothes" (WN.II.iii.38). Smith is very concerned with the situation of the poor. It makes no sense to him that "the people who cloath the whole world are in rags themselves" (LJB.II.330). Those who provide the rich with their fancy clothes should be proportionally well clothed. In WN, "It is but equity, besides, that they who feed, cloath and lodge the whole body of the people, should have such a share of the produce of their own labour as to be themselves tolerably well fed, cloathed and lodged" (WN.I.viii.36). This order is not arbitrary: food comes first, clothes come second.

Indeed, for Smith, we will transition quickly from demanding food to demanding superficial objects as soon as our welfare allows it.[33] He seems to imply "that the demand for vanities increases as societies get wealthier."[34] The nascent commercial society would take everyone out of poverty and yet would leave us feeling that we want to satisfy more than

[30] See Joseph S. Davis, "Adam Smith and The Human Stomach," *The Quarterly Journal of Economics* 68, no. 2 (1954): 275–86.

[31] See Nathan Rosenberg, "Adam Smith, Consumer Tastes, and Economic Growth," *Journal of Political Economy* 76, no. 3 (1968): 361–74.

[32] See Jean Dellemotte and Benoît Walraevens, "Adam Smith on the Subordination of Wage-earners in the Commercial Society," *The European Journal of the History of Economic Thought* 22, no. 4 (Hampshire: Routledge, 2015): 692–727.

[33] Examples include: WN.I.xi.c.7; WN.I.xi.d.1; WN.I.xi.k.1.

[34] Samuel Fleischacker, *On Adam Smith's Wealth of Nations: A Philosophical Companion* (Princeton, NJ: Princeton University Press, 2004), 115.

just our physical desires. Here Smith is similar to Rousseau.[35] In Force's analysis, for both thinkers "civilized life has little to do with the satisfaction of natural needs, and almost everything to do with esteem and approbation."[36] Indeed, "[i]t is the vanity, not the ease, or the pleasure, which interests us" (TMS.I.iii.2.1). However, while agreeing in their conclusions that we work to be seen favorably by others, they completely disagree about almost everything else.[37] Rousseau's man before civilization existed in a pure state of satiety[38] and benevolence, and it is only on the way to civilization that he starts feeling the pressure of other needs.[39]

In the commercial era, we do not need to work very hard to satisfy our material needs. "For to what purpose is all the toil and bustle of this world? What is the end of avarice and ambition, of the pursuit of wealth, of power, and preheminence? Is it to supply the necessities of nature?" Smith's answer is now predictable: "The wages of the meanest labourer can supply them" (TMS.I.iii.2.1). But man does not simply work for bread, beer, or butcher's meat; he works in order to be seen favorably by others, that is, to entice their sympathy. The desire "to better our condition" encapsulates acquiring respect, credit, and rank. But it is also true that Smith's sharpest insight concerns the natural desire of humans for praise as contrasted with the merit of real praiseworthiness. For Smith we want praise exactly because we ascribe value to praiseworthiness. Contrary to Rousseau,[40] to whom the disposition to seek approval is merely linked to a "real indifference for good and evil," in Smith's case, a man "desires, not only to be praised, but praiseworthiness; or to be that thing which, though it should be praised by nobody, is, however, the natural and proper object of praise" (TMS.III.2.1).

> The desire of becoming the proper objects of this respect, of deserving and obtaining this credit and rank among our equals, is, perhaps, the stronger of all our desires, and our anxiety to obtain the advantages of fortune is accordingly much more excited and irritated by this desire, than by that of supplying all the necessities and conveniencies of the body, which are always very easily supplied. (TMS.VI.i.3)

[35] For other points of contact, see Dennis C. Rasmussen, *The Problems and Promise of Commercial Society: Adam Smith's Response to Rousseau* (Philadelphia: University of Pennsylvania Press, 2008).

[36] Force, ibid., 45.

[37] See Edwin G. West, "Adam Smith and Rousseau's Discourse on Inequality: Inspiration or Provocation?" *Journal of Economic Issues* 5, no. 2 (1971): 56–70.

[38] See Jean-Jacques Rousseau, *Discours sur l'origine et les fondements de l'inégalité parmi les homes* [1755], in *Oeuvres Completes Vol. III – Du Contrat Social – Écrits Politiques*, eds. Bernard Gagnebin and Marcel Raymond (Paris: Gallimard, Bibliothèque de la Plèiade, 1964), 109–223.

[39] See Andrew S. Skinner, "Adam Smith: The Development of a System," *Scottish Journal of Political Economy* 23, no. 2, (1976): 111–32.

[40] See E. G. West, "Adam Smith and Rousseau's Discourse on Inequality: Inspiration or Provocation?" *Journal of Economic Issues* 5, no. 2 (1971): 56–70.

But praiseworthiness can never happen in isolation. We know more about ourselves by comparing reactions with one another. This works more generally as even the size of our "nose" can be said to be big or small only in comparison to another person's nose. We therefore long for approval because we want to check if our passions match. We compare ourselves because we want to know who we are.[41] This provokes a kind of ongoing adjustment similar to the prices in the marketplace, where no person alone can determine its conditions.

And we need the market precisely because we are not self-sufficient, or, in his words, men are never "independent" (WN.I.ii.2). In TMS, humans are creatures that "stand in need of each others assistance" (TMS.II.ii.3.1). Each man looks up to others "conscious of his own weakness, and of the need which he has for the assistance of others" (TMS.I.i.2.1). They do not search for another's assistance by their strengths. We can find the same line in the *Lectures on Jurisprudence*[42]: "Man continually standing in need of the assistance of others" (LJA.vi.45). In this work, *man* is defined by his extreme weakness, abandonment, and destitution. He is the "one who is shipwrecked in the midst of the sea" (LJA.vi.45). On this very same issue in WN, the author follows this philosophy, though emphasizing it further. "Man" does not simply need another's assistance: A man needs an ever-growing quantity of the others. "In civilized society he stands at all times in need of the cooperation and assistance of *great multitudes*" (WN.I.ii.2, my italics). The market is what puts in motion, through the division of labor, everybody from whom we need cooperation.

C. *Division of labour and parsimony*

Adam Smith ends the first chapter of the *Wealth of Nations* with a comparison of "the most common day-labourer" in a "thriving country," a "European prince," and an "African king." Smith admits that the accommodation of the first seems "simple" when compared to the luxurious one of the prince. But this frugal peasant has a "woolen coat," an object which represents a quantity and a quality of work that surpasses any imaginable combination of laborers. As the division of labor grows, the number of workers involved in the production of any good "exceeds all computation" (WN.I.i.11). It becomes impossible for anyone to coordinate

[41] For a similar point yet coming through the idea of impartial spectator, see Charles L. Griswold, *Adam Smith and the Virtues of Enlightenment*, (Cambridge: Cambridge University Press, 1999), 108–10.

[42] Adam Smith, *Lectures on Jurisprudence*, eds. R. L. Meek, D. D. Raphael and P. G. Stein, Vol. V of the Glasgow Edition of the Works and Correspondence of Adam Smith, this volume includes two reports of Smith's course together with the *Early Draft of The Wealth of Nations* (Indianapolis: Liberty Fund, 1982). The first set is designated throughout as "LJA" and the second set is designated as "LJB" (report LJA probably of 1762-1763 and report LJB probably of 1763-1764).

the efforts of millions who contributed to any single "homely" production. "10,000 naked savages" could never produce this very same coat for their African king, the "absolute master" of all their decisions. Smith hints that the poor "frugal peasant" way of life in any "thriving country" is actually closer to that of a European prince than that of an African king.

For Smith, the division of labor is the most important catalyst for productive activity: "first, to the increase of *dexterity* in every articular workman; secondly, to the saving of the *time* which is commonly lost in passing from one species of work to another; and lastly, to the *invention* of a great number of machines which facilitate and abridge labour" (WN.I.i.5, my italics). Repetition increases dexterity, saves time and culminates in new inventions that represent work in a condensed manner. Everyone can benefit as innovations are introduced and spread: "rivalship and emulation render excellency" (WN.V.i.f.4).

Smith is sure that we will become more creative through the division of labor: "Men are much more likely to discover easier and readier methods of attaining any object, when the whole attention of their minds is directed towards that single object, than when it is dissipated among a great variety of things" (WN.I.i.8). If we must begin a completely "new work" every now and then we are bound to become annoyed and get "slothful and lazy" (WN.I.i.7). Yet the division of labor is precisely the process through which lazy persons think about how to save their own labor: they spread out tasks, cut down individual work time and increase the total amount of work completed. Their advancements are to be felt in the processes of the division of labor itself and the greater quantity of goods available.[43] It is this "great multiplication of the productions of all the diferente arts, in consequence of the division of labour, which occasions, in a well-governed society, that universal opulence which extends itself to the lowest ranks of the people" (WN.I.i.10).

With the progress of society and as productivity increases, more people will feel they can be freer to, and perhaps more inclined to, embrace less physical activities. "In the progress of society, philosophy or speculation becomes, like every other employment, the principal or sole trade and occupation of a particular class of citizens" (WN.I.i.9). But their contribution is complementary to that of physical labor. Their advances represent more sophisticated and hence more comfortable machines that will render the work effort less painful. A worker can start to be more productive without increasing her effort. By increasing productivity, the discoveries of lazy "philosophers" will trigger opulence: "We have already shewn that

[43] Smith might be assuming the "total social production is subject to increasing returns." See Heinz D. Kurz, "Technical Progress, Capital Accumulation and Income Distribution in Classical Economics: Adam Smith, David Ricardo, and Karl Marx," *The European Journal of the History of Economic Thought* 17, no. 5 (Hampshire: Routledge, 2004): 1183-1222, especially, 1188.

the division of labour is the immediate cause of opulence" (LJB.II.218; See also: LJB.II.213). The division of labor is considered the *sole* reason for the opulence of civilized societies in the *Early Draft* of the WN[44] (ED): "The division of labour, by which each individual confines himself to a particular branch of business, can *alone* account for that superior opulence which takes place in civilized societies, and which, notwithstanding the inequality of property, extends itself to the lowest member of the community" (ED.6, my italics).

A more advanced society produces a greater variety of labor, which results in a wider differential in the capacity to afford goods. A very rare talent may, with less time at work, buy a greater quantity of goods, whereas someone else would have to invest many hours to obtain the same product. But the general tendency will be to increase levels of production and bring products within the reach of the poor by lowering prices. This will take place in some industries more than others. "The reduction in the real price of the coarse manufacture, though considerable, has not been so great as in that of the fine" (WN.I.xi.o.8). In many other industries — not only in the food business and related areas — we can see that Smith was aware of the commercial era's trickling down effect on some luxuries. "A better movement of a watch, than about the middle of the last century could have been bought for twenty pounds, may now perhaps be had for twenty shillings" (WN.I.xi.o.4).

This effect might remind us of Joseph Schumpeter's idea of "creative destruction."[45] Schumpeter also stressed that free markets improve the conditions of the poor, while they are indifferent to the rich.[46] As for Smith, expanding markets internationally and lowering artificial restraints gives the poor more access to more goods. But as previously argued, Adam Smith was also concerned that aspirations for "great wealth" could corrupt human values and intensify vanities in the commercial society. This last effect, however, was not as pressing as the need to improve the conditions of the poor. He hints that the commercial society will greatly alleviate the destitution and penury of his time. The benefits of markets offset their liabilities. If free competition means decreasing prices for the poor, this means that the poor are getting gradually more affluent or even "opulent," as he puts it.

Smith usually supports the idea that cheapness means opulence. In both sets of the *Lectures on Jurisprudence*, cheapness is almost everywhere

[44] The *Early Draft* of The Wealth of Nations is designated as "ED." See Adam Smith, *Lectures on Jurisprudence*, ed. R. L. Meek, D. D. Raphael and P. G. Stein, Vol. V of the Glasgow Edition of the Works and Correspondence of Adam Smith; this volume includes two reports of Smith's course together with the *Early Draft of The Wealth of Nations* (Indianapolis: Liberty Fund, 1982).

[45] Joseph A. Schumpeter, *Capitalism, Socialism, and Democracy* (New York: Harper Perennial, 1976), 81–86.

[46] Ibid., 67.

regarded as "plenty" for Smith, which is synonymous with abundance.[47] "For these terms plenty and cheapness are in a manner synonimous, as cheapness is a nec[e]ssary consequence of plenty" (LJA.vi.7-8). Similarly, "[i]n the following part of this discourse we are to confine ourselves to the consideration of cheapness or plenty, or, which is the same thing, the most proper way of procuring wealth and abundance. Cheapness is in fact the same thing with plenty" (LJB.II.205-206).

What matters for Smith is the ease with which people obtain goods. Labor, or the quantity of effort advanced by the worker, will be made dearer, but the work, as the final product, will become more accessible. This means that real wages will increase.[48] The apparent paradox is the outcome of the division of labor: We will be able to buy more commodities (more work) with less hours of toil (less labor). This means that labor increases its value in comparison to work: "*the price of labour comes to be dear while at the same time work is cheap*" (LJA.vi.33, my italics). We get this outcome by enlarging the use and extent of the division of labor. In LJA, the reporter mentions that by "dividing the work amongst 18 different hands" we have, after computing all accounts, "60,000 times as much work as when it was all done by one man" (LJA.vi.51). That very same worker "*can afford* his pins for 1/60000 of what he did at first and have as much to himself" (LJA.vi.51, my italics). Labor is the effort one expends to produce a pin, while work is the amount of "pins." For Smith this renders the toil of the "labour" more respectable and "dearer." Less effort triggers more general well-being.

It is important to note that Smith's discussion about the division of labor may be out of context[49], the result of the French "*encyclopedistes*" influence[50] and that the example of the pin was not technologically up to date.[51] Indeed, the example Smith chose was "very trifling" (WN.I.i.3, see also: WN.I.i.4). More clearly in the *Early Draft*, he defined the *pins* approach as "this frivolous instance" (ED.6). No one really cares much for pins. Their production can be divided into several labors, but it is not a good example. He is in great pains to invent all the labors around it and seems exhausted after five or six. There is a clear jump between the first five "distinct operations" he describes and the eighteen he wanted to get:

[47] See Vivienne Brown, *Adam Smith's Discourse: Canonicity, Commerce, and Conscience* (London: Routledge, 1994): 142–53.

[48] See Tony Aspromourgos, "'Universal Opulence': Adam Smith on Technical Progress and Real Wages," *The European Journal of the History of Economic Thought* 17, no. 5 (Hampshire: Routledge, 2010): 1169–82.

[49] See T. C. Smout, "Where Had the Scottish Economy Got to by the Third Quarter of the Eighteenth Century?" in Istvan Hont and Michael Ignatieff, eds., *Wealth and Virtue: The Shaping of Political Economy in the Scottish Enlightenment* (Cambridge, UK: Cambridge University Press, 1983), 72.

[50] See Robert Mankin, "Pins and Needles: Adam Smith and the Sources of the Encyclopedie," *The Adam Smith Review* 4, ed. Vivienne Brown (London: Routledge, 2008), 199.

[51] See Mark Blaug, *Economic Theory in Retrospect* (Cambridge, UK: Cambridge University Press, 1978): 37.

> *One* man draws out the wire, *another* straights it, a *third* cuts it, a *fourth* points it, a *fifth* grinds it at the top for receiving the head; to make the head requires two or three distinct operations; to put it on, is a peculiar business, to whiten the pins is another; it is even a trade by itself to put them into the paper; and the important business of making a pin is, *in this manner, divided into about eighteen* distinct operations. (WN.I.i.3, my italics)

The maximum number of operations we may get above is 11, not 18. Thus the expression "in this manner" does not seem to follow. He likely wanted the reader to focus on the process of the division of labor itself. He is not really talking about a particular invention or creation. The thrust of the argument is in the process, not the pins. Indeed, he makes very clear that the pin example can be applied "every other" industry: "In every other art and manufacture, the effects of the division of labour are similar to what they are in this very trifling one" (WN.I.i.4). The division of labor is the process by which we allow *all* inventions to flourish; it is the creator of creations. He picked up the most insignificant element he could imagine so as not to distract the reader from the mechanism.

In book V of WN, however, Smith criticizes the division of labor for being a mentally hampering device.[52] This happens because the division of labor depends on the available technology. As time goes by and technology advances, the probability of a common worker contributing innovative solutions diminishes.[53] In a mature commercial society, it becomes less likely that a worker used to thinking only about a particular task will find a new method for value creation. Smith never says that technological advances will stop, but I think he would agree that we cannot know in advance who will contribute the most in the next round of technological advances generated by the division of labor. Hence and once more he underlines the need for a broad educational system.

The division of labor requires certain levels of well-being, capital, and technology to be fully realized. It is not up to us to impose or steer its advances. In the early stages of development with little capital, labor cannot be easily divided, and we cannot simply choose the amount of capital available in our society. At best, we can search for the finest kinds of behavior to contribute to increasing levels of capital. How does one do it? Smith could not be clearer: Capital advancements are based on thrift, saving, and parsimony, "not industry." In Book II of WN, he writes:

[52] See Edwin G. West, "Adam Smith's Two Views on the Division of Labour," *Economica* 31 (1964): 23–32.

[53] See Nathan Rosenberg, "Adam Smith on the Division of Labour: Two Views or One?" *Economica* 32 (1965): 127–39.

> Parsimony, and *not industry*, is the immediate cause of the increase of capital. Industry, indeed, provides the subject which parsimony accumulates. But whatever industry might acquire, if parsimony did not save and store up, the capital would never be the greater." (WN.II.iii.16, my italics)

This parsimony encapsulates some aspects of what we would call "investment," especially after saving. In one passage Smith argues that this accumulation of stock comes prior even to the division of labor[54]: "As the accumulation of stock must, in the nature of things, be previous to the division of labour, so labour can be more and more subdivided in proportion only as stock is previously more and more accumulated" (WN.II.intro.3). This sentence entertains the thesis about the primacy of parsimony over the division of labor.[55] Nevertheless, if we compare the real impact of the division of labor on overall wealth and parsimony, we would conclude that "saving, investment, and accumulation" is only second:[56] Smith prefers the division of labor. It is important to add, however, that most of the outcomes of the division of labor are not predictable and are to some extent out of our control. We cannot force labor to be divided before its due moment. That is not the case with parsimony. It is always within our reach to choose to be frugal and parsimonious. Adopting parsimony as a rule of conduct makes the most of what we can do to boost the wealth of nations.

Smith does not always view wealth positively.[57] The virtue of a man lies in being "contented with his situation," increased by steady "small accumulations" (TMS.VI.i.12). "In publick, as well as in private expences, *great wealth* may, perhaps, frequently be admitted as an apology for *great folly*" (WN.IV.v.a.37). But prevalently in both TMS and WN he gives precedence to wealth *created by parsimony*. Even if it is superior to the passions for present enjoyment, "private frugality" is still alleged to be an "effort," for it must be correctly "protected by law, and allowed by liberty" (WN.II.iii.36). For Smith, it is a fact that in his country, despite the "exactions of government," capital has been "silently" (WN.II.iii.36) accumulated by frugality.

> Though the principle of expence, therefore, prevails in almost all men upon some occasions, and in some men upon almost all

[54] For an interesting perspective on the interdependence between "accumulation" and "division of labor," see: Andrea Lavezzi, "Smith, Marshall and Young on Division of Labour and Economic Growth," *The European Journal of the History of Economic Thought* 10, no. 1 (Hampshire: Routledge, 2003): 81–108.

[55] See Syed Ahmad, "Smith's Division of Labor and Rae's Invention: A Study of the Second Dichotomy, with an Evaluation of the First," *History of Political Economy* 28, no. 3 (1996): 441–58.

[56] Terence W. Hutchison, "Adam Smith and The Wealth of Nations," *Journal of Law and Economics* 19, no. 3 (1976): 517.

[57] See Samuel Fleischacker, *On Adam Smith's Wealth of Nations*, 105.

> occasions, yet in the greater part of men, taking the whole course of their life at an average, the principle of frugality seems not only to predominate, but to predominate very greatly. (WN.II.iii.28)

Though governments will not be "parsimonious," private inhabitants will. We may indeed compare the long-run adjectives that Smith ascribes to *parsimony* such as "uniform," "constant," (WN.II.iii.31), "universal," "continual," and "uninterrupted" (WN.II.iii.36) with the instantaneous allure for *profusion* described as "violent," "momentary," and "occasional" (WN.II.iii.28). As it involves a degree of self-command, parsimony is a good rule of conduct. "Self-command is not only itself a great virtue, but from it all the other virtues seem to derive their principal lustre" (TMS.VI.iii.11). Smith is particularly interested in this feeling of completeness that *naturally* constrains our propensities for immediate gratification. If we are fine now, we feel less acutely the impulse to further our possessions. We can find some tranquillity or happiness: "Happiness consists in tranquillity and enjoyment. Without tranquillity there can be no enjoyment; and where there is perfect tranquillity there is scarce any thing which is not capable of amusing" (TMS.III.3.30).

Parsimony arising from self-command is also the best private attitude for gradually augmenting one's wealth. It is an "effort" they make "to better their own condition" (WN.II.iii.36) and allows capital to accumulate even when government fails. He makes this clear:

> It is *this effort*, protected by law and allowed by liberty to exert itself in the manner that is most advantageous, which *has maintained the progress of England towards opulence and improvement in almost all former times, and which, it is to be hoped, will do so in all future times*." (WN.II.iii.36, my italics)

D. Conclusion

The system of natural liberty lifts people into ever-greater levels of material prosperity through succeeding stages, from agriculture to manufacturing and industry. From there, some escape further to engage in foreign commerce. Finally, with freer time and less effort required to produce goods and services, we encounter the "man of speculation." Each passage and improvement enhances productivity in the previous stage, alleviating the burden of labor for the worst-off. Industrialization and technology improve agriculture and foreign commerce helps industries develop internationally. Philosophers, meanwhile, can study and support free commerce.

Still, the division of labor is the most important engine of production. This engine cannot be started by human will or desire because it requires some initial levels of well-being and capital accumulation. Adam Smith therefore

recommends us to live parsimoniously and defer some present satisfaction to the future. Parsimony and the division of labor do not require the intervention of *special* laws or regulations; they require only that everyone be allowed to pursue his natural desire to better his condition. Smith is skeptical about legislation aiming to encourage particular industries, as this speaks more to an industry's ability to lobby rather than produce value. Such practices are common in a system of mercantilism and in some ways "physiocracy." The system of natural liberty is a model in which the government protects all private interests by not protecting any "special interest." Smith believes that the realm of politics will tend to be tainted by "special interests" which by reducing the scope of competition will thwart the effects of the invisible hand. To counteract these encroachments, Smith believes that the government can promote a form of education.

Over time, the system of natural liberty produces astonishing results. Eventually it becomes easier not only to expect a dinner, but also to satisfy fashionable tastes. We begin to pay attention not merely to our material needs, but to the ways in which society views us.

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