or stirs the pulse. Yet, for all its dryness, it has an immediacy that should lead us to consider it with a respectful eye. Not only are the laws of the market essential to an understanding of the world of Adam Smith, but these same laws will underlie the very different world of Karl Marx, and the still different world in which we live today. Since we are all, knowingly or otherwise, under their sovereignty, it behooves us to scrutinize them rather carefully.

Adam Smith's laws of the market are basically simple. They tell us that the outcome of a certain kind of behavior in a certain social framework will bring about perfectly definite and foreseeable results. Specifically they show us how the drive of individual self-interest in an environment of similarly motivated individuals will result in competition; and they further demonstrate how competition will result in the provision of those goods that society wants, in the quantities that society desires, and at the prices society is prepared to pay. Let us see how this comes about.

It comes about in the first place because self-interest acts as a driving power to guide men to whatever work society is willing to pay for. "It is not from the benevolence of the butcher, the brewer, or the baker that we expect our dinner," says Smith, "but from their regard to their self-interest. We address ourselves, not to their humanity, but to their self-love, and never talk to them of our necessities, but of their advantages."

But self-interest is only half the picture. It drives men to action. Something else must prevent the pushing of profit-hungry individuals from holding society up to exorbitant ransom: a community activated only by self-interest would be a community of ruthless profiteers. This regulator is competition, the conflict of the self-interested actors on the marketplace. For each man, out to do his best for himself with no thought of social consequences, is faced with a flock of similarly motivated individuals who are engaged in exactly the same pursuit. Hence, each is only too eager to take advantage of his neighbor's greed. A man who permits his self-interest to run away with him will find that competitors have slipped in to take his trade away; if he charges too much for his wares or if he refuses to pay as much as everybody else for his workers, he will find himself without buyers in the one case and without employees in the other. Thus very much as in *The Theory of Moral Sentiments*, the selfish motives of men are transmuted by interaction to yield the most unexpected of results: social harmony.

Consider, for example, the problem of high prices. Suppose we have one hundred manufacturers of gloves. The self-interest of each one will cause him to wish to raise his price above his cost of production and thereby to realize an extra profit. But he cannot. If he raises his price, his competitors will step in and take his market away from him by underselling him. Only if all glove manufacturers combine and agree to maintain a solid front will an unduly high price be charged. And in this case, the collusive coalition could be broken by an enterprising manufacturer from another field—say, shoemaking—who decided to move his capital into glove manufacture, where he could steal away the market by shading his price.

But the laws of the market do more than impose a competitive price on products. They also see to it that the producers of society heed society's demands for the *quantities* of goods it wants. Let us suppose that consumers decide they want more gloves than are being turned out, and fewer shoes. Accordingly the public will scramble for the stock of gloves on the market, while the shoe business will be dull. As a result glove prices will tend to rise as consumers try to buy more of them than there are ready at hand, and shoe prices will tend to fall as the public passes the shoe stores by. But as glove prices rise, profits in the glove industry will rise, too; and as shoe prices fall, profits in shoe manufacture will slump. Again self-interest will step in to right the balance. Workers will be released from the shoe business as shoe factories contract their output; they will move to the glove business, where business is booming. The result is quite obvious: glove production will rise and shoe production fall.

And this is exactly what society wanted in the first place. As more gloves come on the market to meet demand, glove prices will fall back into line. As fewer shoes are produced, the surplus of shoes will soon disappear and shoe prices will again rise up to normal. Through the mechanism of the market, society will have changed the allocation of its elements of production to fit its new desires. Yet no one has issued a dictum, and no planning authority has established schedules of output. Self-interest and competition, acting one against the other, have accomplished the transition.

And one final accomplishment. Just as the market regulates both prices and quantities of *goods* according to the final arbiter of public demand, so it also regulates the *incomes* of those who cooperate to produce those goods. If profits in one line of business are unduly large, there will be a rush of other businessmen into that field until competition has lowered surpluses. If wages are out of line in one kind of work, there will be a rush of men into the favored occupation until it pays no more than comparable jobs of that degree of skill and training. Conversely, if profits or wages are too low in one trade area, there will be an exodus of capital and labor until the supply is better adjusted to the demand.

All this may seem somewhat elementary. But consider what Adam Smith has done, with his impetus of self-interest and his regulator of competition. First, he has explained how prices are kept from ranging arbitrarily away from the actual cost of producing a good. Second, he has explained how society can induce its producers of commodities to provide it with what it wants. Third, he has pointed out why high prices are a self-curing disease, for they cause production in those lines to increase. And finally, he has accounted for a basic similarity of incomes at each level of the great producing strata of the nation. In a word, he has found in the mechanism of the market a self-regulating system for society's orderly provisioning.

Note "self-regulating." The beautiful consequence of the market is that it is its own guardian. If output or prices or certain kinds of remuneration stray away from their socially ordained levels, forces are set into motion to bring them back to the fold. It is a curious paradox that thus ensues the market, which is the acme of individual economic freedom, is the strictest taskmaster of all. One may appeal the ruling of a planning board or win the dispensation of a minister; but there is no appeal, no dispensation, from the anonymous pressures of the market mechanism. Economic freedom is thus more illusory than at first appears. One can do as one pleases in the market. But if one pleases to do what the market disapproves, the price of individual freedom is economic ruination.

Does the world really work this way? To a very real degree it did in the days of Adam Smith. Even in his time, of course, there were already factors that acted as restraints against the free operation of the market system. There were combinations of manufacturers who rigged prices artificially high and associations of journeymen who resisted the pressures of competition when it acted to lower their wages. And already there were more disquieting signs to be read. The Lombe brothers' factory was more than a mere marvel of engineering and a source of wonderment to the visitor: it betokened the coming of large-scale industry and the emergence of employers who were immensely powerful individual actors in the market. The children in the cotton mills could surely not be considered market factors of equal power with the employers who bedded, boarded, and exploited them. But for all its deviations from the blueprint, eighteenth-century England approached, even if it did not wholly conform to, the model that Adam Smith had in mind. Business *was* competitive, the average factory *was* small, prices *did* rise and fall as demand ebbed and rose, and changes in prices *did* invoke changes in output and occupation. The world of Adam Smith has been called a world of atomistic competition, a world in which no agent of the productive mechanism, on the side of labor or capital, was powerful enough to interfere with or to resist the pressures of competition. It was a world in which each agent was forced to scurry after its self-interest in a vast social free-for-all.

And today? Does the competitive market mechanism still operate?

This is not a question to which it is possible to give a simple answer. The nature of the market has changed vastly since the eighteenth century. We no longer live in a world of atomistic competition in which no man can afford to swim against the current. Today's market mechanism is characterized by the huge size of its participants: giant corporations and strong labor unions obviously do not behave as if they were individual proprietors and workers. Their very bulk enables them to stand out against the pressures of competition, to disregard price signals, and to consider what their self-interest shall be in the long run rather than in the immediate press of each day's buying and selling.

That these factors have weakened the guiding function of the market mechanism is apparent. But for all the attributes of modern-day economic society, the great forces of self-interest and competition, however watered down or hedged about, still provide basic rules of behavior that no participant in a market system can afford to disregard entirely. Although the world in which we live is not that of Adam Smith, the laws of the market can still be discerned if we study its operations.

But the laws of the market are only a description of the behavior that gives society its cohesiveness. Something else must make it go. Ninety years after *The Wealth of Nations*, Karl Marx was to discover "laws of motion" that described how capitalism proceeded slowly, unwillingly, but ineluctably to its doom. But *The Wealth of Nations* already had its own laws of motion. However, altogether unlike the Marxist prognosis, Adam Smith's world went slowly, quite willingly, toward—although, as we shall see, never quite all the way to—Valhalla.

Valhalla would have been the last destination that most observers would have predicted. Sir John Byng, touring the North Country in 1792, looked from his coach window and wrote: "Why, here now, is a great flaring mill ... all the Vale is disturbed.... Sir Richard Arkwright may have introduced Much Wealth into his Family and into his Country, but, as a Tourist, I execrate his Schemes, which having crept into every Pastoral Vale, have destroyed the course, and the Beauty of Nature." "Oh! What a dog's hole is Manchester," said Sir John on arriving there.

In truth, much of England was a dog's hole. The three centuries of turmoil which had prodded land, labor, and capital into existence seemed to have been only a preparation for still further upheaval, for the recently freed agents of production began to be combined in a new and ugly form: the factory. And with the factory came new problems. Twenty years before Sir John's tour, Richard Arkwright, who had gotten together a little capital peddling women's hair to make wigs, invented (or stole) the spinning throstle. But, having constructed his machine, he found it was not so easy to staff it. Local labor could not keep up with the "regular celerity" of the process—wage-work was still generally despised, and some capitalists found their new-built factories burned to the ground out of sheer blind hatred. Arkwright was forced to turn to children—"their small fingers being active." Further-more, since they were unused to the independent life of farming or crafts, children adapted themselves more readily to the discipline of factory life. The move was hailed as a philanthropic gesture—would not the employment of children help to alleviate the condition of the "unprofitable poor"?

For if any problem absorbed the public mind, besides its mixed admiration of and horror at the factory, it was this omnipresent problem of the unprofitable poor. In 1720, England was crowded with a million and a half of them—a staggering figure when we realize that her total population was only twelve or thirteen million. Hence the air was full of schemes for their disposition. Despairing