profitable method of employing any new capital ”—whence arises a competition between different capitals, and a lowering of profits, which must diminish the price which can be paid for the use of capital, or in other words the rate of interest. It was formerly wrongly supposed, and even Locke and Montesquieu did not escape this error, that the fall in the value of the precious metals consequent on the discovery of the American mines was the real cause of the general lowering of the rate of interest in Europe. But this view, already refuted by Hume, is easily seen to be erroneous. “ In some countries the interest of money has been prohibited by law. But, as something can everywhere be made by the use of money, some­thing ought everywhere to be paid for the use of it,” and will in fact be paid for it; and the prohibition will only heighten the evil of usury by increasing the risk to the lender. The legal rate should be a very little above the lowest market rate ; sober people will then be preferred as borrowers to prodigals and projectors, who at a higher legal rate would have an advantage over them, being alone willing to offer that higher rate.

As to the different employments of capital, the quantity of pro­ductive labour put in motion by an equal amount varies extremely according as that amount is employed—(1) in the improvement of lands, mines or fisheries, (2) in manufactures, (3) in wholesale or (4) retail trade. In agriculture "Nature labours along with man,” and not only the capital of the farmer is reproduced with his pro­fits, but also the rent of the landlord. It is therefore the employ­ment of a given capital which is most advantageous to society. Next in order come manufactures; then wholesale trade—first the home trade, secondly the foreign trade of consumption, last the carrying trade. All these employments of capital, however, are not only advantageous, but necessary, and will introduce themselves in the due degree if left to individual enterprise.

These first two books contain Smith’s general economic scheme; and we have stated it as fully as was consistent with the brevity here necessary, because from this formulation of doctrine the English classical school set out, and round it the discussions of more modern times in different countries have in a great measure revolved.

The critical philosophers of the 18th century were often destitute of the historical spirit, which was no part of the endowment needed for their principal social office. But some of the most eminent of them, especially in Scotland, showed a marked capacity and pre­dilection for historical studies. Smith was among the latter; Karl Knies and others justly remark on the masterly sketches of this kind which occur in *the Wealth of Nations.* The longest and most elaborate of these occupies the third book; it is an account of the course followed by the nations of modern Europe in the successive development of the several forms of industry. It affords a curious example of the effect of doctrinal prepossessions in obscuring the results of historical inquiry. Whilst he correctly describes the European movement of industry, and explains it as arising out of adequate social causes, he yet, in accordance with the absolute principles which tainted his philosophy, protests against it as in­volving an entire inversion of the “ natural order of things.” First agriculture, then manufactures, lastly foreign commerce; any other order than this he considers ” unnatural and retrograde.”

The fourth book is principally devoted to the elaborate and ex­haustive polemic against the mercantile system which finally drove it from the field of science, and has exercised a powerful influence on economic legislation. When protection is now advocated, it is commonly on different grounds from those which were in current use before the time of Smith. He believed that to look for the restora­tion of freedom of foreign trade in Great Britain would have been ” as absurd as to expect that an Oceana or Utopia should be estab­lished in it.” His teaching on the subject is not altogether un­qualified; but, on the whole, with respect to exchanges of every kind, where economic motives alone enter, his voice is in favour of freedom. He has regard, however, to political as well as economic interests, and on the ground that ” defence is of much more importance than opulence ” pronounces the Navigation Act to have been “ perhaps the wisest of all the commercial regulations of England.” Whilst objecting to the prevention of the export of wool, he proposes a tax on that export as somewhat less injurious to the interest of growers than the prohibition, whilst it would "afford a sufficient advantage.” to the domestic over the foreign manufacturer. This is, perhaps, his most marked deviation from the rigour of principle; it was doubtless a concession to popular opinion with a view to an attainable practical improvement The wisdom of retaliation in order to procure the repeal of high duties or prohibitions imposed by foreign govern­ments depends, he says, altogether on the likelihood of its success in effecting the object aimed at, but he does not conceal his contempt for the practice of such expedients. The restoration of freedom in any manufacture, when it has grown to considerable dimensions by means of high duties, should, he thinks, from motives of humanity, be brought about only by degrees and with circumspection—though the amount of evil which would be caused by the immediate abolition of the duties is, in his opinion, commonly exaggerated . The case in which J. S. Mill justified protection—that, namely in which an industry well adapted to a country is kept down by the acquired ascendancy of foreign producers—is referred to by Smith.; but he is opposed to the admission of this exception for reasons which do not appear to be conclusive. He is perhaps scarcely consistent in ap­proving the concession of temporary monopolies to joint-stock com­panies undertaking risky enterprises “ of which the public is after­wards to reap the benefit.”@@1

He is less absolute in his doctrine of governmental non-interference when he comes to consider in his fifth book the “ expenses of the sovereign or the commonwealth.” He recognizes as coming within the functions of the state the erection and maintenance of those public institutions and public works which, though advantageous to the society, could not repay, and therefore must not be thrown upon, individuals or small groups of individuals. He remarks in a just historical spirit that the performance of these functions requires very different degrees of expense in the different periods of society. Besides the institutions and works intended for public defence and the administration of justice, and those required for facilitating the commerce of the society, he considers those necessary for promoting the instruction of the people.. He thinks the public at large may with propriety not only facilitate and encourage, but even impose upon almost the whole body of the people, the acquisition in youth of the most essential elements of education. He suggests as the mode of enforcing this obligation the requirement of submission to a test examination "before any one could obtain the freedom in any corporation, or be allowed to set up a trade in any village or town corporate.” Similarly, he is of opinion that some probation, even in the higher and more difficult sciences, might be enforced as a con­dition of exercising any liberal profession, or becoming a candidate for. any honourable office. The expense of the institutions for religious instruction as well as for general education, he holds, may without injustice be defrayed out of the funds of the whole society, though he would apparently prefer that it should be met by the voluntary contributions of those who think they have occasion for such education or instruction.

To sum up, it may be said that the *Wealth of Nations* certainly operated powerfully through the harmony of its critical side with the tendencies of the half-century which followed its publication to the assertion of personal freedom and “ natural rights.” It discredited the economic policy of the past, and promoted the overthrow of institutions which had come down from earlier times, but were un­suited to modern society. As a theoretic treatment of social economy, and therefore as a guide to social reconstruction and practice in the future, it is provisional, not definitive. But when the study of its subject comes to be systematized on the basis of a general social philosophy more complete and durable than Smith’s, no contribu­tions to that final construction will be found so valuable as his.

Buckle has the idea that the two principal works of Smith, the *Theory of Moral Sentiments* and the *Wealth of Nations*, are mutually complementary parts of one great scheme, in which human nature is intended to be dealt with as a whole—the former exhibiting the •operation of the benevolent feelings, the latter of what, by a singular nomenclature, inadmissible since Butler wrote, he calls "the passion of selfishness.” In each division the motive contemplated is re­garded as acting singly, without any interference of the opposite principle. This appears to be an artificial and misleading notion. Neither in the plan of Smith’s university course nor in the well- known passage at the end of his *Moral Sentiments* is there any indica­tion of his having conceived such a bipartite scheme. The object of the *Wealth of Nations* is surely in no sense psychological, as is that of the *Moral Sentiments.* The purpose of the work is to exhibit social phenomena, not to demonstrate their source in the mental constitu­tion of the individual.

The following may be referred to for biographical details: Dugald Stewart, *Biographical Memoir of Adam Smith,* originally read (1793) before the Royal Society of Edinburgh, and afterwards prefixed to Smith’s *Essays on Philosophical Subjects;* J. A. Farrer, *Adam Smith* (1881); R. B. Haldane, *Life of Smith* (1887), and the very full and excellent *Life of Adam Smith* by John Rae (1895). Additional particulars are given in Brougham’s *Men of Letters and Science,* Burton’s *Life of Hume* and Alexander Carlyle’s *Autobiography;* and some characteristic anecdotes of him will be found in *Memoirs of the Life and Works of Sir John Sinclair* (1837). For comments on his *Theory of Moral Sentiments,* see, besides Stewart, as cited above, Dr T. Brown’s *Philosophy of the Human Mind,* lects. 80 and 81 ; Sir J. Mackintosh’s *Dissertation on the Progress of Ethical Philosophy* ; and the art. Ethics in the present work. On the *Wealth of Nations,* see the prefaces to M'Culloch’s, Rogers’s, Shield Nicholson’s and Cannan’s editions of that work; Rogers’s *Historical Gleanings* (1869); the art. " Smith ” in Coquelin and Guillaumin’s *Dictionnaire de l'éco­nomie politique;* Bagehot’s *Economic Studies* (1880); and Cossa’s *Guide to the Study of Political Economy* (Eng. trans., 1880), chap. v. See also Professor Shield Nicholson’s *Project of Empire* (1909), which is a critical study of the Economics of Imperialism, with special reference to the ideas of Adam Smith; and Professor W. J. Ashley’s essay in *Compatriots Club Lectures* (1905) on " Political Economy and the Tariff Problem.” See also Professor W. J. Ashley’s *Select Chapters and Passages from the "Wealth of Nations ”* (1895). (J. K. l.; X.)

@@@1 Professor Bastable calls attention to the interesting fact that the proposal of an export duty on wool and the justification of a temporary monopoly to joint-stock companies both appear for the first time in the edition of 1784