> century, the value of gold and silver in Europe to about a third of what it had been before. As it cost less labour to bring those metals from the mine to the market, so when they were brought thither they could purchase or command less labour...

Even those few economists who laud Adam Smith as really adopting the Humean price-specie-flow mechanism concede that he dropped this approach when considering a mixed monetary system including bank notes or paper money.[28] Indeed, even though Smith occasionally adhered to the quantity theory of specie money in its effects on prices, he here throws it over altogether and asserts that convertible bank notes are always equal in value to gold and hence their quantity will always remain the same. Any increase of bank notes beyond the total of specie will 'overflow' the 'channel of circulation' and therefore return to the banks in what was later called a 'reflux', in exchange for specie which immediately flows out of the country. Smith therefore explicitly denies that an increase in bank notes can raise the prices of commodities. But why did Smith abandon the quantity theory completely here, in exchange for such nonsense? Plausibly, because of Smith's need to integrate all value theory on the basis of the labour cost of production. If he ever conceded that an increase in the quantity of paper money could affect values, even temporarily, then Smith would have had to admit an enormous hole in his labour-cost theory. For the 'labour cost' involved in printing paper money obviously bears no relation whatever to the exchange value of that money. Therefore, paper money, including bank paper, had to be assimilated tightly to the value of specie.

Adam Smith wrote in an eighteenth century Britain where virtually all his predecessors had denounced the new institution of fractional-reserve banking as inflationary and illegitimate. His friend David Hume (1752) had called for the radical repudiation of this institution on behalf of 100 per cent specie-reserve banking. Other important writers had taken the same position, including Jacob Vanderlint (d. 1740) in his *Money Answers All Things* (1734), and Joseph Harris (1702–64), master of the Royal Mint, in his *An Essay Upon Money and Coins* (1757–58). Harris had stated that banks were 'convenient' so long as they 'issued no bills without an equivalent in real treasure', but that their increases of credit beyond that limit are inflationary and will eventually endanger the banks' own credit.

If Smith had continued in his predecessors' footsteps, his commanding authority and prestige might have been able to bring about a fundamental reform of the fractional-reserve banking system. But, unfortunately, Smith, in his need to meld all monetary theory into a long-run labour cost of production approach, abandoned the quantity theory and the specie-flow-price mechanism in his discussion of paper money. He thus set economic theory once again on an erroneous and fateful road by embracing the institution of fractional-reserve credit. No longer holding such credit to be inflationary, Smith went on to adumbrate one of the major defences of paper money, still held to this day: that gold and silver are mere 'dead stock', accomplishing nothing. The banks, by substituting their paper notes for specie, 'enable the country to convert a great deal of this dead stock into active and productive stock...'.

Indeed, so far did Adam Smith rhapsodize about paper money that he likened its accomplishments to providing a sort of highway through the air:

> The gold and silver money which circulates in any country may very properly be compared to a highway, which, while it circulates and carries to market all the grass and corn of the country, produces itself not a single pile of either. The judicious operations of banking, by providing...a sort of waggon-way through the air, enable the country to convert, as it were, a great part of its highways into good pastures and cornfields, and thereby to increase considerably the annual produce of its land and labour.

Adam Smith failed to realize that the stock of gold and silver was far from 'dead'; on the contrary, it performed the vital function of being a money commodity, among other functions providing to every member of society an insurance against paper money inflation, whether launched by government or banks. The stock of gold, in short, performs a 'store of value' service which Smith totally overlooks. Smith's critique of specie as 'dead stock' also stems from his belief that money is not a commodity serving as a medium of exchange, but a claim, a sign, a 'voucher to purchase'. The French economist Charles Rist is justly highly critical of the dead stock approach and its influence on later generations:

> this idea was seized upon with extraordinary alacrity and found high favour...it dominated the thought of English writers in the nineteenth century. The belief that the use of metallic money is a retrograde and costly system, to be discouraged by all possible means, is firmly fixed in British thought on currency and banking. The use of the cheque and the bank-note was for a long time regarded only from this point of view. These two instruments were considered merely as means of economizing money; the idea was taken as the guide to the country's currency policy, and the most disastrous conclusions were drawn from it.[29]

16.8 The myth of *laissez-faire*

If, then, Adam Smith contributed nothing of value to economic thought; if, in fact, he introduced numerous fallacies, including the labour theory of value, and thereby caused a significant deterioration of economic thought from previous French and British economists of the eighteenth century; did he make any positive contribution to economics? A common answer is that the significance of the *Wealth of Nations* was political rather than analytic: that his great achievement was to initiate and take the lead in the advocacy of free trade, free markets, and *laissez-faire.* It is true that Smith articulated the political–economic sentiments of his day. As Joseph Schumpeter wrote: 'Those who extolled A. Smith's work as an epoch-making, original achievement were, of course, thinking primarily of the *policies* he advocated...' Smith's views, Schumpeter added, 'were not unpopular. They were in fashion.' In addition, Schumpeter shrewdly noted that Smith was very much a 'judiciously diluted' Rousseauan in his eighteenth century egalitarianism: 'Human beings seemed to him to be much alike by nature, all reacting in the same simple ways to very simple stimuli, differences being due mainly to different training and different environments.'[30]

But while Schumpeter's explanation of Smith's vast popularity[31] – that he was a plodder in tune with the *Zeitgeist* – holds part of the truth, it still scarcely accounts for the way in which Smith swept the board, blotting out general knowledge of all previous and contemporary economists. This puzzle will be examined further in the next chapter. For the mystery of Smith's total triumph deepens when we realize that he scarcely originated *laissez-faire* thought: as we have seen, he was merely in an eighteenth century tradition flourishing in Scotland and especially in France. Why then were these preceding economists, analytically far superior to Smith and also in the *laissez-faire* framework, so readily forgotten?[32]

Smith's greatest achievement has generally been supposed to be the enunciation of the way in which the free market guides its participants to pursue the good of the consumers by following their own self-interest. As Smith wrote in perhaps his most famous passage: A man

> will be more likely to prevail if he can interest their self-love in his favour, and show that it is for their own advantage to do for him what he requires of them... It is not from the benevolence of the butcher, the brewer, or the baker, that we expect our dinner, but from their regard to their own interest. We address ourselves, not to their humanity, but to their self-love, and never talk to them of our own necessities but of their advantages.

And in an equally famous passage bringing out the general principles of this point:

> As every individual, therefore, endeavours as much as he can both to employ his capital in the support of...industry, and so to direct that industry that its produce may be of the greatest value; every individual necessarily labours to render the annual revenue of the society as great as he can. He generally, indeed, neither intends to promote the public interest, nor knows how much he is promoting it... (B)y directing that industry in such a manner as its produce may be of the greatest value, he intends only his own gain, and he is in this, as in many other cases, led by an invisible hand to promote an end which was no part of his intention.

Smith goes on to caution wisely against alleged aims to promote the 'public good' directly:

> Nor is it always the worse for the society that it was no part of it. By pursuing his own interest he frequently promotes that of the society more effectually than when he really intends to promote it. I have never known much good done by those who affected to trade for the public good.

Hostile critics of *laissez-faire* have latched on to Smith's terminology of the 'invisible hand' to indict him for ostensibly beginning his analysis with a mystical and therefore flagrantly unscientific *a priori* assumption that Providence manipulates people for everyone's good 'by an invisible hand'. Actually, Smith was simply engaging in an *a posteriori* conclusion from his scientific analysis, and from the free market analysis generally, that pursuit of self-interest on the market leads to advancing the interest of all. Similar pursuits in government by no means lead to the same harmonious and happy result, Smith being alive to the pernicious consequences of government's creation of monopolies and its conferring privileges on special interest groups. Smith, a religious man, was simply expressing his quite justified wonderment at the harmonizing influence of the free market, and his 'by an invisible hand' was a metaphor which contained an implicit 'as if' before his use of the phrase.

Despite the undoubted importance of these passages, however, Adam Smith's championing of *laissez-faire* was scarcely consistent. In the first place, Smith retreated from the absolutist, natural law position that he had set forth in his ethical work, *The Theory of Moral Sentiments* (1757). In this book, free interaction of individuals creates a harmonious natural order which government interference can only cripple and distort. In *Wealth of Nations*, on the other hand, *laissez-faire* becomes only a qualified presumption rather than a hard-and-fast rule, and the natural order becomes imperfect and to be followed only 'in most cases'. Indeed, it is this deterioration of the case for *laissez-faire* that German scholars were to label *Das AdamSmithProblem.*

Indeed, the list of exceptions Smith makes to *laissez-faire* is surprisingly long. His devotion to the militarism of the nation-state, for example, induced him to take the lead in the pernicious modern view of excusing any government intervention that might plausibly be labelled for 'the national defence'. On that basis, Smith supported the navigation acts, that bulwark of British mercantilism and systemic subsidy for British shipping. One of Smith's reservations about the division of labour, indeed, is that it leads to a decay of the 'martial spirit', and Smith goes on at length about the decay of the martial spirit in modern times, and about the great importance of restoring and sustaining it. '(T)he security of every society must always depend, more or less, upon the martial spirit of the great body of the people.' It was an anxiety to see government foster such a spirit that led Smith into another important deviation from *laissez-faire* principle: his call for government-run education. It is also important, opined Smith, to have governmental education in order to inculcate obedience to it among the populace – scarcely a libertarian or *laissez-faire* doctrine. Wrote Smith:

> An instructed and intelligent people besides are always more decent and orderly than an ignorant and stupid one. They feel themselves, each individually, more respectable, and more likely to obtain the respect of their lawful superiors, and they are therefore more disposed to respect those superiors. They are...less apt to be misled into any wanton or unnecessary opposition to the measures of government.

In addition to navigation acts and public education, Adam Smith advocated the following forms of government intervention in the economy:

- Regulation of bank paper, including the outlawing of small denomination notes – after allowing fractional-reserve banking.
- Public works – including highways, bridges and harbours, on the rationale that private enterprise would not 'have the incentive' to maintain them properly(!?)
- Government coinage.
- The Post Office, on the simple grounds – which will draw a bitter laugh from modern readers – that it is profitable!
- Compulsory building of fire walls.
- Compulsory registration of mortgages.
- Some restrictions on the export of 'corn' (wheat).
- The outlawing of the practice of paying employees in kind, forcing all payment to be in money.

There is also a particularly lengthy list of taxes advocated by Adam Smith, each of which interferes in the free market. For one thing, Smith paved the way for Henry Georgism and the 'single tax' by urging higher taxes on uncultivated land, displaying his animus against the landlord. He also favoured moderate taxes on the import of foreign manufactures, and taxes on the export of raw wool – thus gravely weakening his alleged devotion to freedom of international trade.

Adam Smith's Calvinist abhorrence of luxury is also seen in his proposals to levy heavy taxes on luxurious consumption. Thus he called for heavier highways tolls on luxury carriages than on freight wagons, specifically to tax the 'indolence and vanity of the rich'. His puritanical hostility to liquor also emerges in his call for a heavy tax on distilleries, in order to crack down on hard liquor and induce people to drink instead the 'wholesome and invigorating liquor of beer and ale'. His devotion to ale, however, was minimal, for Smith also advocated a tax on the retail sale of all liquor in order to discourage the multiplication of small alehouses.

And finally, Adam Smith advocated the soak-the-rich policy of progressive income taxation.

Perhaps Smith's most flagrant violation of *laissez-faire* was his strong advocacy of rigid usury laws, a sharp contrast to the opposition to such laws by Cantillon and Turgot. Smith did not indeed wish to adhere to the medieval prohibition of all credit. Instead, he urged an interest rate ceiling of 5 per cent, slightly above the rate charged to prime borrowers: a 'price which is commonly paid for the use of money by those who can give the most undoubted security'. His reasoning followed his predilection, as we have already noted, for hostility to free market time-preferences between consumption and saving. Driven by Calvinist hostility to luxurious consumption, Smith tried to skew the economy in favour of more 'productive labour' in capital investment and less in consumption. By forcing interest rates below the free market level, Smith hoped to channel credit into the sober hands of prime borrowers, and away from credit into the hands of speculators and of 'prodigal' consumers. As Professor West admits, Adam Smith condemned the demand for loans by 'prodigals and projectors', in which the prodigal 'dissipates in the maintenance of the idle, what was destined for the support of the industrious'. In that way, the ceiling on interest rates, as West notes, 'would reallocate credit into the most productive hands'.

Yet, West, a free market adherent who is generally an uncritical admirer of Smith, then maintains that Smith was curiously inconsistent in not realizing, in this one case, that price controls would create a greater shortage of credit. Here, West echoes the brilliant essay *The Defence of Usury* by the Smithian Jeremy Bentham in accusing the master of inconsistency in his usual advocacy of the free market. But, as Professor Garrison indicates in his comment on West, Smith knew only too well what he was doing. In urging a reallocation of credit by the government 'into the most productive hands', Adam Smith was precisely *trying* to create a shortage of credit for consumers and speculators, and thereby to channel credit into the hands of sober, low-risk businessmen. As Garrison points out,

> Smith was not interested in reducing the cost of borrowing with his credit controls. He was trying to reduce the amount of funds borrowed for certain categories of loans. And his anti-usury scheme was well suited for this. Smith notes that money is lent to the government at three percent, and to sound businessmen at four, and four and a half. Only 'prodigals and projectors', people who are most likely to 'waste and destroy' capital, would be willing to borrow at eight or ten percent. Smith therefore recommended an interest ceiling at five percent. This policy was not aimed at allowing the prodigals and projectors to obtain funds

> more cheaply, but at preventing them from obtaining any funds at all. These funds would be diverted, then, into the hands of those who are more future oriented.

In short, Smith knew full well that a low interest ceiling would not benefit marginal borrowers by providing them with cheap credit. He knew that usury laws would dry up credit altogether for marginal borrowers and he sought precisely that result. For Smith virtually embraced the idea of zero time-preference as the ideal – the non-time-preference of his mythical 'impartial spectator' – and, concludes Garrison, 'It is not difficult to see how Smith's standard of zero time preference coupled with his awareness of sharply positive time preferences could lead him to make the very policy recommendations that West found to be surprising. He sought to reallocate resources away from the present and toward the future...'[33]

Perhaps most important of all, how do we square Smith's alleged role as champion of free trade and *laissez-faire* with his spending the last 12 years of his life as a commissioner of Scottish customs, cracking down on smugglers violating Britain's extensive mercantilist laws and evading import taxes? Did he treat the job as a sinecure? No: recent studies show that his role as a top enforcer of mercantilist laws and tariffs was active and hard-working. Was he driven by penury? Hardly, since, with his great reputation, he probably could have commanded an equivalent sum in a top academic post.[34] Did he suffer from qualms of conscience? Apparently not, since he not only approached his job with enthusiasm, but was also particularly, vigilant and hard-nosed in trying to enforce the onerous restrictions and tariffs to the hilt.

Edwin West, an inveterate admirer of Smith as an alleged devotee of *laissez-faire*, speculates that he entered the high customs bureaucracy as a practical free trader trying to remove or lighten the customs burden on the Scottish economy. But as Anderson et al. reply, 'If Smith had been deeply concerned with reducing the cost to the economy resulting from customs, the most effective strategy at the level of his responsibilities would have been to reduce the efficiency of the enforcement apparatus. But Smith did not do this'.[35] On the contrary, Smith showed no appreciation whatever of the social and economic value of the underground economy or the great British tradition of smuggling. Instead, he tried his best to make enforcement of the mercantilist laws and burdens as efficient as possible. Neither did he use his high post to promote reforms in the direction of free trade. On the contrary, his major 'reform' proposal as commissioner was for compulsory automatic warehousing of all imports, which would have made inspection and enforcement far easier for the customs officials, at the expense of the smugglers, international trade and the nation's economy. As Anderson et al. note, 'Smith was proposing a reform that was likely to increase the costs to the economy from customs duties'. And finally Smith's correspondence as commissioner shows no particular desire to cut tariffs or restrictions. In contrast, his dominant emotion seems to have been pride at cracking down on smugglers and thereby increasing government revenue. In December 1785, he writes to a fellow customs official that

> it may, perhaps, give the Gentleman pleasure to be informed that the net revenue arising from the Customs in Scotland is at least four times greater than it was seven or eight years ago. It has been increasing rapidly these four or five years past; and the revenue of this year has overleaped by at least one half the revenue of the greatest former year. I flatter myself it is likely to increase still further.[36]

Well, happy day! *This* from an alleged champion of *laissez-faire*!?

16.9 On taxation

Over the centuries, economists have contributed little of interest or value on the subject of taxation. In addition to describing forms of taxation, they have generally approached the subject from the point of view of the state as a kindly or not so kindly despot, seeking to maximize its revenue while doing minimum harm to the economy. There are variations among the different schools, but the general thrust is the same. Thus, the cameralists (see Chapter 17) were frankly interested solely in maximizing state revenue, as were the French absolutists; the more liberal economists admonished the government to keep tax rates lower than had been customary.

The more liberal economists have tried to strictly demarcate functions which government should and should not perform. By ruling out various kinds of government intervention, the thrust, other things being equal, is to reduce total government taxation and spending. But they have offered us very few guidelines beyond that. If, for example, as in the case of Smith, the government is supposed to supply public works, *how many* should it provide and how much should be spent? There have been almost no preferred criteria, then, for total spending or for overall levels of taxation.

There has been more discussion of the *distribution* of taxation. That is, given, from some arbitrary external dictate, that the *total level* of taxation should be a certain amount, T, there has been considerable discussion of *how* T should be distributed. In short, the two main problems of taxation are: *how much* should be levied, and *who* should pay? and there has been considerably more thought devoted to the latter question.

But none of this has been very satisfactory. Again, the basic point of view seems to be that of a highwayman or slavemaster, interested in extracting the maximum from his charges while keeping their complaints as minimal as possible. In the discussion in eighteenth century France, there were two favourite tax proposals: proportional income or property taxation, or, as in the case of Marshall Vauban and later the physiocrats, a single tax on land, revenue to a fixed and visible source of income that seems fixed, unchanging, and therefore easy for the state to get at.

Adam Smith's discussion of taxation in the *Wealth of Nations* became, like the rest of his work, a classic setting the central focus for economic thought from that point on. And, like the rest of the work, it was a confused mixture of the banal and the fallacious.[37] Thus, Smith set forth four 'canons' of 'evident justice and utility' in taxation, which were to become famous from then on. Of the four, three are banal: that the tax payment be made as convenient as possible for the payer: that the cost of collection be kept to a minimum since the state does not even benefit from these levies on the taxpayer: and that the tax be certain rather than arbitrary.[38]

The substantive canon was Smith's first in the list: that tax be proportional to incomes. Thus:

> The subjects of every state ought to contribute towards the support of the government, as nearly as possible, in proportion to their respective abilities; that is, in proportion to the revenue which they respectively enjoy under the protection of the state. The expense of government to the individuals of a great nation, is like the expense of a great estate, who are all obliged in proportion to respective interests to the estate.

In the first place, this passage is hopelessly confused in presenting as if they were identical two very different criteria for justice or propriety in taxation: the 'ability-to-pay' and the 'benefit' principles. Smith maintains that people's ability to pay taxes is proportionate to income: and that benefits derived from the state are proportional in the same way. Yet he offers no justification for either of these dubious propositions.

On ability it is by no means clear that people's ability to pay – however that be defined – is proportionate to income. What, for example, of the influence of a person's relative wealth (as contrasted to income), his medical or other expenses, etc.? And one thing is certain; Adam Smith presented no arguments for this bald assertion.

The idea that one's benefit derived from the state is proportional to one's income is even shakier. How precisely do the wealthy, by virtue of that wealth, benefit proportionately from the state as compared to the poor? That would only be true if the government were *responsible* for the wealth, by means of a subsidy, monopoly grant, or some form of special privilege. If not from special privilege, then how do the rich benefit proportionately to their income? Surely not from redistributive measures, by which the state takes money from the wealthy and gives it to bureaucrats or the poor; in that case, it is the latter group who benefit and the rich who suffer from this redistribution. So who then should pay for *such* benefits? The bureaucrats and the poor? And benefits from police protection or the public schools? But surely the wealthy could far more afford to pay for private provision of these services, and therefore the rich benefit *less* than the middle class or certainly than the poor from such expenditures.

Neither would it save the theory to say that since *A*, for example, makes five times as much money as *B*, that *A* therefore benefits five times as much from 'society' and therefore should pay five times the taxes. The fact that *A* makes five times as much as *B* shows that *A*'s services are *individually* worth five times as much as *B* to his fellows on the market. Therefore, since *A* and *B* in truth benefit similarly from the existence of society, the reverse argument would be far more plausible: that the *differential* between *A*'s and *B*'s incomes is due to *A*'s superior productivity, and that 'society', if indeed it can be held to be responsible for anything specific at all, can be held responsible for their equal core incomes, below that differential. The implication of that point would be that both persons, and therefore all persons, should pay an equal tax, that is, a tax equal in absolute numbers.

Finally, whatever society's claim to part of people's incomes may be, society – the division of labour, the body of knowledge and culture, etc. – is in no sense the state. The state contributes no division of labour to the production process, and does not transmit knowledge or carry civilization forward. Therefore, whatever each of us may owe to 'society', the state can hardly claim, any more than any other group in society, to be surrogate for all social relations in the country.

16.10 Notes

1. *Das AdamSmithProblem* referred to only one of the numerous contradictions and puzzles in the Adam Smith saga: the big gap between the natural rights–*laissez-faire* views of his *Theory of Moral Sentiments*, and the much more qualified views of his later and decisively influential *Wealth of Nations*.
2. In an illuminating article on 'Adam Smith's Acknowledgements', Professor Salim Rashid writes: 'It is stated by Schumpeter that this [not acknowledging one's sources] was the practice of the age. This is incorrect. If we turn to some of the works quoted in the *Wealth of Nations*, such as Charles Smith's *Tracts* on the Corn-Trade or John Smith's *Memoirs* on Wool, we shall find them scrupulous in acknowledging their intellectual debts. Among Smith's contemporaries, Gibbon is well-known for the care with which he provided references and the same is true of the best-known agricultural writer of Smith's day, Arthur Young'. Salim Rashid. 'Adam Smith's Acknowledgements: Neo-Plagiarism and the Wealth of Nations', *Journal of Libertarian Studies*, 9 (Autumn 1990), p. 11.
3. The first and most consistent piece of modern Smith revisionism came a year earlier in two excellent and illuminating articles by Emil Kauder: 'Genesis of the Marginal Utility Theory: From Aristotle to the End of the Eighteenth Century', in J. Spengler and W. Allen (eds), *Essays in Economic Thought* (Chicago: Rand McNally and Co., 1960), pp. 277–87; and 'The Retarded Acceptance of the Marginal Utility Theory', *Quarterly Journal of Economics* (Nov. 1953), pp. 564–75. But Schumpeter's revision was far more influential.
4. Unfortunately, since the mid-1970s celebration of Smith's bicentennial, a counter-revisionist trend has set in to try to restore the hagiographical attitude dominant before the 1950s. See our bibliographical essay below.
5. For a new view of Smith's tenure at the customs house based on original investigation into the handwritten minutes of the board of customs commissioners, 1778–90, as well as

on Smith's numerous letters to customs collectors at the outports, see the important article of Gary M. Anderson, William F. Shughart II and Robert D. Tollison, 'Adam Smith in the Customhouse', *Journal of Political Economy*, 93 (August 1985), pp. 740–59.

6. Griping about alienation had begun with the influential *Essay on the History of Civil Society* (1767), written by Smith's friend Adam Ferguson. A similar theme, however, had appeared in Smith's unpublished Glasgow lectures of 1763. On Ferguson's influence, see M.H. Abrams, *Natural Supernaturalism* (New York: W.W. Norton, 1971), pp. 220–21, 508.
7. Quoted in Ronald Hamowy, 'Adam Smith, Adam Ferguson, and the Division of Labour', *Economica* (August 1968), p. 253.
8. Edwin Cannan, *A History of the Theories of Production and Distribution in English Political Economy From 1776 to 1848* (2nd ed., London: P.S. King & Son, 1903), pp. 23–4.
9. Cannan, op. cit., note 8, p. 24.
10. Ingrid Hahne Rima, *Development of Economic Analysis* (3rd ed., Homewood, Ill.: Richard D. Irwin, 1978), p. 79.
11. Edwin G. West, *Adam Smith* (New Rochelle, NY: Arlington House, 1969), p. 173.
12. Also see Nathan Rosenberg, 'Adam Smith on Profits – Paradox Lost and Regained', *Journal of Political Economy*, 82 (Nov./Dec. 1974), pp. 1187–9.
13. J.A. Schumpeter, *History of Economic Analysis* (New York: Oxford University Press, 1954), pp. 324–5.
14. We cannot use the excuse that Smith had developed the utility–scarcity analysis in his lectures and therefore saw no need to repeat it in the *Wealth of Nations*. For the lectures were unpublished and remained so until almost the twentieth century.
15. Paul H. Douglas, 'Smith's Theory of Value and Distribution', in J.M. Clark et al., *Adam Smith, 1776–1926* (Chicago: University of Chicago Press, 1928), p. 80.
16. Emil Kauder, 'Genesis of the Marginal Utility Theory from Aristotle to the End of the Eighteenth Century', in Spengler and Allen, op. cit., note 3, p. 282. Also see H.M. Robertson and W.L. Taylor, 'Adam Smith's Approach to the Theory of Value', in ibid., pp. 293–4.
17. John Locke (1632–1704), the great late seventeenth century English libertarian political theorist, is often erroneously held to have originated the labour theory of value. Actually, Locke was discussing a far different problem from the determination of price. In the first place, he championed the idea of private property in land to the original homesteaders, who took unused land out of the common by 'mixing their labour' with the soil. This is a labour theory of the proper origin of private property rather than a labour theory of value. Second, Locke is trying to demonstrate the unimportance of land – supposedly originally communal – as compared to the importance of human energy and production in determining the value of products or resources. Locke asks us to compare an unused piece of communal land with the difference made by labour in tilling the soil and transforming it into consumer goods. Here Locke is certainly correct in highly valuing the input of human energy, which here includes the creation and the collaboration of capital goods as well as the narrow modern meaning of 'labour'. Human energy, or 'labour' in the broadest sense, has certainly made the crucial difference in the march upwards from penury and barbarism to modern civilization. But this is no 'labour theory of value' in the sense of determining price.
18. Thus Ricardo, following and clarifying Smith, asserted that 'The estimation in which different qualities of labor are held comes soon to be adjusted in the market with sufficient precision for all practical purposes'. And Marx declared that 'the different proportions in which different sorts of labour are reduced to unskilled labour as their standard are established by a social process which goes on behind the backs of the producers'. Cited in Douglas, op. cit., note 15, p. 82n.
19. Douglas, op. cit., note 15, p. 95. Similarly, the astute Alexander Gray wrote that 'through Ricardo, his [Smith's] cost-of-production theory and his emphasis on labour as the source of all value, became one of the cornerstones of the Marxian structure. Indeed, it is a commonplace that Scientific Socialism was arrived at by carrying classical English politi-

cal economy to its logical conclusions'. Alexander Gray, *Adam Smith* (London: The Historical Association, 1948), p. 24.
20. Douglas, op. cit., note 15, pp. 102–3.
21. H.M. Robertson and W.L. Taylor, 'Adam Smith's Approach to the Theory of Value', in Spengler and Allen, op. cit., note 3, p. 301.
22. For a more elaborate critique, see our discussion of Malthus and Malthusianism below (Chapter 17).
23. Jacob Viner, *Studies in the Theory of International Trade* (New York: Harper & Bros, 1937), p. 87.
24. Adam Smith, *Lectures on Justice, Police, Revenue and Arms* (1896, New York: Kelley & Millman, 1956), p. 197.
25. Thus, Douglas Vickers writes, in a volume generally devoted to Smithian apologetics: '...in the matter of the theory of money *The Wealth of Nations* does not deserve very high praise. In the *Wealth of Nations* the theory of money resides at a relative nadir in the swings of its long historical development. Deeper analysis and more extended argument occurred on both sides of the 1776 divide'. Douglas Vickers, 'Adam Smith and the Status of the Theory of Money', in A. Skinner and T. Wilson (eds), *Essays on Adam Smith* (Oxford: The Clarendon Press, 1975), p. 484. Also see W.L. Taylor, *Francis Hutcheson and David Hume as Predecessors of Adam Smith* (Durham, NC: Duke University Press, 1965), p. 132.
26. See Frank Petrella, 'Adam Smith's Rejection of Hume's Price-Specie-Flow Mechanism: A Minor Mystery Revealed', *Southern Economic Journal*, 34 (Jan. 1968), pp. 365–74.
27. Oddly enough, Professor Eagly, in his article allegedly rehabilitating Smith as an adherent of the Humean price-specie-flow theory, demonstrates just the opposite: 'To begin with, Smith assumed the existence of an international purchasing-power-parity for the monetary metals... Whenever and wherever the local price of specie in terms of commodities diverges from the international purchasing-power-parity, specie movements take place immediately. The world demand for specie thus appears to an individual nation as infinitely elastic with respect to its price in terms of commodities. Any small deviation in the domestic commodity price of specie from the international parity results in immediate specie export (or import)'. In short, Smith focuses completely on long-run equilibrium, with process dropping out altogether. Robert V. Eagly, 'Adam Smith and the Specie-Flow Doctrine'. *The Scottish Journal of Political Economy*, 17 (February 1970), p. 64. Bloomfield's apologia for Smith follows Eagly, adding encomiums to Smith's alleged modernity in anticipating Mundellian, neo-monetarist equilibrium economics. Arthur I. Bloomfield, 'Adam Smith and the Theory of International Trade', in Skinner and Wilson, op. cit., note 25, pp. 478–80. J.T. Salerno, 'The Doctrinal Antecedents of the Monetary Approach to the Balance of Payments (doctoral dissertation, Rutgers University 1980), pp. 196–208, also follows Eagly, but admits in the course of his discussion Smith's inconsistencies as well as his stress on long-run equilibrium. Wu, in his generally excellent work, admits that 'Smith said nothing about the intermediate mechanism', but then oddly proclaims that since Smith had approved Hume's analysis in the lectures, 'he could hardly have omitted entirely Hume's doctrine from his celebrated essay'. An unfortunate example of excessive reverence for one's subject leading an author to '*a priori* history', Chi-Yuen Wu, *An Outline of International Price Theories* (London: George Routledge & Sons, 1939), pp. 82–3.
28. See Eagly, op. cit., note 27, pp. 62, 66–8; Salerno, op. cit., note 27, pp. 208–211.
29. Charles Rist, *History of Monetary and Credit Theory: From John Law to the Present Day* (1940, New York: A.M. Kelly, 1966), p. 85.
30. Schumpeter, op. cit., note 13, pp. 184–6.
31. Ibid., p. 181.
32. As Schumpeter notes: the free market principle and the natural law view that the 'free interaction of individuals produces not chaos but an orderly pattern that is logically determined...had been quite clearly enunciated before, for example, by Grotius and Pufendorf'. Ibid., p. 185.
33. In his critique of Smith, Garrison notes that 'Smith's own blueprint for increasing wealth

was...self-defeating, although there is no evidence that this was ever recognized by Smith... In reality credit controls serve only to reduce the gains from intertemporal exchange. Individuals may prefer, say, one unit of a consumption good now to two or even five units of the good next year. If this preference is not allowed to be expressed in the market, then the wealth of the nation, reckoned in terms of present value, i.e. discounted at a rate corresponding to the individuals' true time preference, will actually decrease'. Roger W. Garrison, 'West's "Cantillon and Adam Smith": A Comment', *The Journal of Libertarian Studies*, 7 (Autumn 1985), pp. 291–2. Also see Edwin G. West, 'Richard Cantillon and Adam Smith: A Reappraisal' (unpublished MS), pp. 22–3.

34. See G.M. Anderson et al., 'Adam Smith in the Custom house', *Journal of Political Economy*, 93 (August 1985), p. 751n.
35. Anderson et al., op. cit., note 34, pp. 752–3.
36. Smith to George Chalmers, 22 December 1785, in Ernest C. Mossner and Ian S. Ross (eds), *The Correspondence of Adam Smith* (Oxford: The Clarendon Press, 1977), letter 251, pp. 289–90; quoted in Anderson et al., op. cit., note 34, p. 754.
37. In his canons of taxation, Smith was influenced by his teacher Hutcheson, and by his friend Henry Home, Lord Kames. Smith also may well have been influenced by Carlo Antonio Broggia's (1683–1763) *Tratto de' tributi*...(1743) and Count Pietro Verri's (1728–97) *Meditazione sull' economia politica* (1771). Broggia was a Neapolitan, possibly a retired businessman; Verri was a Milanese who served as an official in the Austrian and also the French administration in Milan.
38. Though these canons may be banal, they are by no means self-evident. Thus, see the critique in Murray N. Rothbard, *Power and Market: Government and the Economy* (Menlo Park, Calif.: Institute for Humane Studies, 1970), pp. 102–3.

17 The spread of the Smithian movement