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6. Classical Economics from Smith to Malthus

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6. Classical Economics from Smith to Malthus

Abstract
In 1776, several years after his good friend James Watt had obtained the first patent covering the steam engine and several years before the process for making wrought iron was devised, Adam Smith (1723-1790), a retired professor of moral philosophy at the University of Glasgow, published *An Inquiry into the Nature and Causes of the Wealth of Nations*. This book was immediately popular. It went through five editions in English and was translated into four foreign languages during its author's lifetime, and has stimulated and provoked Western economic thought and debate down to our own time. It won for Smith a secure place as the chief founder of the body of thought which we call classical economics. [*excerpt*]

Keywords
Contemporary Civilization, Economic Interests, Wealth of Nations, Adam Smith, Natural Laws

Disciplines
Economic History | Economics | Economic Theory

Comments
This is a part of Section XIV: The Industrial Revolution, Classical Economics, and Economic Liberalism. The Contemporary Civilization page lists all additional sections of *Ideas and Institutions of Western Man,* as well as the Table of Contents for both volumes.

More About Contemporary Civilization:

From 1947 through 1969, all first-year Gettysburg College students took a two-semester course called Contemporary Civilization. The course was developed at President Henry W.A. Hanson's request with the goal of "introducing the student to the backgrounds of contemporary social problems through the major concepts, ideals, hopes and motivations of western culture since the Middle Ages."

Gettysburg College professors from the history, philosophy, and religion departments developed a textbook for the course. The first edition, published in 1955, was called *An Introduction to Contemporary Civilization and Its Problems*. A second edition, retitled *Ideas and Institutions of Western Man*, was published in 1958 and 1960. It is this second edition that we include here. The copy we digitized is from the Gary T. Hawbaker '66 Collection and the marginalia are his.

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6. Classical Economics from Smith to Malthus

gave the first sophisticated systematic thought to economy. everyone from hence forward are either for them or again them.

In 1776, several years after his good friend James Watt had obtained the first patent covering the steam engine and several years before the process for making wrought iron was devised, Adam Smith (1723-1790), a retired professor of moral philosophy at the University of Glasgow, published *An Inquiry into the Nature and Causes of the Wealth of Nations*. This book was immediately popular. It went through five editions in English and was translated into four foreign languages during its author's lifetime, and has stimulated and provoked Western economic thought and debate down to our own time. It won for Smith a secure place as the chief founder of the body of thought which we call classical economics.

Cast in the spirit of the eighteenth century Enlightenment and drawing upon the work of many progenitors, *The Wealth of Nations* offered an explanation of how the sum total of conflicting individual economic interests can be anything other than chaos when operating in the market place in the absence of a central directing agency, such as government. Smith argued that when man is left to the pursuit of his own self-interest he is generally guided by the "invisible hand" of competition to achieve his own greatest happiness and, at the same time, to dominated by commercial capitalism

promote the best interests of the community. If nothing else, this conviction that there were natural laws operating in the economic world which were as reliable as those in the physical world, laws which men could and would know and obey, stamped Smith as an adherent of the Enlightenment faith, and at the same time exposed him to severe criticism.

In The Wealth of Nations Smith presented a comprehensive survey and interpretation of the principles of economic life as he understood them, against the larger background of all of society. It was a survey based upon his own very considerable knowledge of the workings of eighteenth century commercial capitalism. This knowledge was acquired over a period of many years in a Britain where industrialization was just beginning. In no sense was his work an apology for industrial capitalism. Rather it was meant to counter the strong mercantilist emphasis on regulation of the economy, especially of foreign trade. It was also to demonstrate his belief that the wealth of a nation stems not from its stock of money, but from its human and natural resources, and from the effectiveness with which they are used. He insisted that the mercantilist preoccupation with production had been an erroneous one, obscuring the fact that consumption

> is the sole end and purpose of all production; and the interest of the producer ought to be attended to, only so far as it may be necessary for promoting that of the consumer. The maxim is so perfectly self-evident that it would be absurd to attempt to prove it.

government is the big policeman for security, safety of property, no farther.

Smith provided an explanation for such fundamental economic concerns as value and price. He discussed the problem of an increasing population. He offered four famous canons of a good tax (Is it according to the taxpayer's ability to pay? Is it certain in amount? Is it levied in a way that it is most convenient to pay? Does it remove the minimum of money possible from circulation?). Using his famous pin-factory illustration, he demonstrated how the division of labor increased total production, insisting that a worldwide division, unhampered by tariffs or other trade barriers, would be the most advantageous arrangement of all. This was in keeping with his basic belief in natural economic laws:

> ...every system which endeavours, either by extraordinary encouragements, to draw towards a particular species of industry a greater share of the capital of the society than what would naturally go to it; or, by extraordinary restraints, to force from a particular species of industry some share of the capital which would otherwise be employed in it, is 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; and diminishes, instead of increasing, the real value of the annual produce

All systems either of preference or of restraint, therefore, being thus completely taken away, the obvious and simple system of natural liberty establishes itself of its own accord. 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. The sovereign is completely discharged from a duty, in the attempting to perform which he must always be exposed to innumerable delusions, and for the proper performance of which no human wisdom or knowledge could ever be sufficient, -- the duty of superintending the industry of private people, and of directing it towards the employments most suitable to the interest of the society. According to the system of natural liberty, the sovereign has only three duties to attend to; three duties of great importance, indeed, but plain and intelligible to common understanding: first, the duty of protecting the society from the violence and invasion of other independent societies; secondly, the duty of protecting, as far as possible, every member of the society from the injustice or oppression of every other member of it, or the duty of establishing an exact administration of justice; and, thirdly, the duty of erecting and maintaining certain public works and certain public institutions, which it can never be for the interest of any individual, or small number of individuals, to erect and maintain; because the profit could never repay the expense to any individual or small number of individuals, though it may frequently do much more than repay it to a great society. *

Nevertheless, in fairness this must be emphasized. Adam Smith was no dogmatic devotee of laissez-faire. He recognized that there were times when the interests of individuals or groups simply would not work to promote the best interests of the community, when they might, for example, lead to monopoly. Then the public power would have to intervene.

Shortly after the death of Adam Smith in 1790, England became involved in the titanic struggle with France which did not end until the final defeat of Napoleon in 1815. The long years of intermittent yet bitter warfare brought about serious economic dislocations as well as momentous industrial developments. When victory came at last, Britain was plagued by serious inflation and an enormous public debt. The government had long since been forced to suspend specie payments and rely on paper money. Manufacturers were restive under a heavy tax burden. They were concerned about declining profit margins as

* Adam Smith, An Inquiry into the Nature and Causes of the Wealth of Nations (Oxford: At the Clarendon Press, 1869), II, p. 272.

"dismal science" -

well as about the possibility of acquiring markets in which to dispose of the large inventories of goods built up during the war. The wage system as a method of rewarding labor was becoming much more common in Britain. Some observers wondered just how high, or low, wages in the long run should be. Compared with those of today, wages were woefully low, but the manufacturers were convinced that at the moment they were too high to permit the necessary incentive for business expansion. High wages, they believed, reflected high food prices, which in turn were brought on by land rents which had risen sharply since 1793. In their own defense the landlords argued that rents were high because prices were high. This, they said, was true because the population was increasing and demanding more food. The landlords who had brought much additional land under cultivation during the long struggle with France, were anxious to promote British agriculture and therefore wanted continued protection against foreign imports of grain. To make matters worse, the country experienced a severe postwar depression which lasted until about 1820.

Both in and out of the political forum which Parliament provided, Britons discussed this unhappy legacy of economic problems and attempted to solve them. A Corn Law enacted in 1815 provided what the landlords who controlled Parliament wanted. Foreign grain could be imported only when domestic grain reached a very high price. The income tax was eliminated in the following year. Finally in 1821 the Bank of England resumed specie payments and the country adopted the gold standard. But legislation was not the only result of these discussions. The postwar problems led the intellectual successors of Adam Smith to examine, criticize, and reinterpret the fundamentals of economics as he had propounded them forty years earlier. They wrote pamphlets dealing with specific issues and then often followed them with more ambitious treatises. Frequently these works passed through many editions and were translated into other languages, becoming for many years the most widely used textbooks in the economics courses which were then being introduced for the first time into the college curriculum. The following is a brief list of the major writings of the classical economists:

1776	Adam Smith	The Wealth of Nations
1798	Thomas R. Malthus	An Essay on the Principle of Population
1803	Jean Baptiste Say	Treatise on Political Economy
1817	David Ricardo	Principles of Political Economy and Taxation
1820	Thomas R. Malthus	Principles of Political Economy
1821	James Mill	Elements of Political Economy
1825	John Ramsay McCulloch	Principles of Political Economy
1828	Jean Baptiste Say	A Complete Course in Practical Political Economy
1836	Nassau William Senior	An Outline of the Science of Political Economy

1848	John Stuart Mill	<u>Principles of Political Economy</u>
1874	John Elliot Cairnes	<u>Some Leading Principles of Political Economy Newly Expounded</u>