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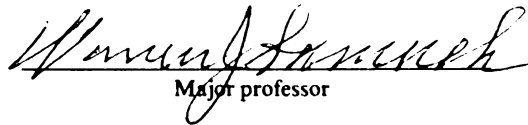
The Roles of Property in the Works of Adam Smith

presented by

Kirk Douglas Johnson

has been accepted towards fulfillment  
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Ph.D. degree in Economics

  
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**THE ROLES OF PROPERTY IN THE WORKS OF ADAM SMITH**

By

Kirk Douglas Johnson

A DISSERTATION

Submitted to  
Michigan State University  
in partial fulfillment of the requirements  
for the degree of

DOCTOR OF PHILOSOPHY

Department of Economics

2001

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## **ABSTRACT**

### **THE ROLES OF PROPERTY IN THE WORKS OF ADAM SMITH**

By

Kirk Douglas Johnson

This dissertation will identify and analyze the roles of property within the body of works written by, or attributed to, Adam Smith. To do this, the interpretive literature will help to provide a partial basis for the discussion. This interpretive literature has several different positions, and it will be argued that these views are not mutually exclusive. Smith's interpreters have used Smith, as Smith himself appears to have used property. Namely, Smith used *property* to serve his purpose at the moment, and interpreters have often used a particular interpretation to support their current position. A general model is offered to serve as the basis for further possible discussions on the subject of property and Smith's theories. In this interpretive model, Smith's property can be understood to serve the conceptual purpose as an operational filter to define one's self within social settings. He seems to have felt that individuals define, through property, their position in society, their relationships with others, the appropriateness of their conduct and that of others, their legal and governmental structures in which they live, and their ability to affect those structures.

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I would also like to thank Professors J. Biddle, N. Mercuro, and S. Woodbury for their help and insights in economic thought, property, and organizations. Further, I would like to thank Professor J. Goddeeris for his assistance and direction as the Economics Department Chair at Michigan State University.

In addition, many people deserve my thanks for having read and commented on various parts of this dissertation. In particular, the 2001 History of Economics Society Annual Meeting attendees and discussants, J. Evensky, I. Rima, and M. Cross offered extensive suggestions and encouragement to complete this project. Friends, fellow graduate students and department personnel have been kind enough to listen to my whinging, format files and help repair crashed computers. In particular, I would like to thank Aleksy, Amy, Beverly, Geoff, James, Laurel, Linda, Margaret, Marianne, Olga, Pamela, and the rest for their years of help.

My greatest debt is to my family, and I am thankful for each and their support. Archer and Dorethy Clark provided the table on which this dissertation was written, and a sanctuary in which to write. Kim and Karen Johnson, and Joe and Anne Szablinski always asked when their brother was finally going to graduate, and were kind enough to

and their

and my par-

education.

not roll their eyes when the answer was not particularly precise. Especially, I also must thank my parents for their enthusiastic support and encouragement throughout my years of education.

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WN. An Inq.  
L. Lecture  
LA. Lecture  
LB. Lecture  
TMS. A Theor  
COR. The Coll  
EPS. Essays o  
BLR. Essays o

These books are

## **LIST OF ABBREVIATIONS**

**WN:** An Inquiry into the Nature and Causes of the Wealth of Nations

**LJ:** Lectures on Jurisprudence

**LJA :** Lectures on Jurisprudence, Report of 1762-3

**LJB :** Lectures on Jurisprudence, Report of 1766

**TMS:** A Theory of Moral Sentiments

**COR:** The Collected Correspondence of Adam Smith

**EPS:** Essays on Philosophical Subjects

**BLR:** Essays on Belle Letters and Rhetoric

These books are all Liberty Classics Editions, Liberty Fund, Inc., Indianapolis Indiana.

## A. Introduction

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## **Chapter One**

### **Introduction and Methodology**

#### **A. Introduction:**

There are few philosophers during the last four centuries that have had as profound an impact on Western and World Civilization as Adam Smith has had. The possible short list of similarly influential figures includes Locke, Bentham, and Hume, and creates an interesting basis for comparison. These three authors were well written on particular aspects of their philosophical and political systems. They were each able to develop theories of governance, social systems, and property. These theories are explicitly spelled out in their respective works, and are fairly complete models of society. On the other hand, we have Adam Smith. His published works, Theory of Moral Sentiments and Wealth of Nations, provide a theory of society in its moral and economic spheres of activity. Posthumously, Lectures on Jurisprudence was assembled from two sets of lecture notes taken from students during his lectures of 1762-63 and 1766. This volume develops a theory of governance and law while addressing historical and legal issues. Together, these three volumes represent a philosophical system that describes society as it was, and as Smith envisioned it ought to be. Missing from Smith's body of works are detailed essays like those of his cohorts. We do not have an essay on property, nor do we have a complete picture of Smith's views on jurisprudence. To construct a model describing his social system, the interpretive literature must assemble the relevant parts from his various works. Individual perceptions regarding what is relevant, or not, will ultimately direct any study into particular ends.

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Adam Smith was the first to fundamentally explain the modern system and philosophy of capitalism, and is generally accepted as the founder and/or father of economics. This economic system is based on the exchange of goods and services between individuals, each striving to be independent with a mutual dependence on the production of others in society. This system is described by the private ownership and exchange of objects that are either measure, or serve as the means of accumulating wealth. This property-based system has as its initial and arguably the most influential analyst, a man who failed to explicitly identify the roles of property in this system. This dissertation will attempt to identify and analyze the roles of property within the body of works written by, or attributed to, Adam Smith. To do this, the interpretive literature will help to provide the basis for discussion. The volume of interpretive literature on Smith is rather extensive, and, at times, apparently contradictory. Many authors have interpreted the works of Adam Smith either attempting to describe Smith, or to use their interpretations of his position while developing their own. These interpretations can be categorized in four ways.

First, some interpreters have argued that Smith himself ignored the concept, for example,

“Adam Smith apparently considered property as unworthy of much discussion and hardly mentions it, much less defines it. Nor did he analyze it in either its moral or economic aspects where he was so distinguished.” [Harper, 1974, p.4.];

Second, others have argued that Smith lacked any rigorous discussion of the concept:

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“An examination of his notes of these lectures [LJ] as published shows a discussion which is purely formal and lacks even the first glimmering of an idea of the economic meaning of property.” [Ely, 1914, p.71-72.];

Third, other interpreters find that Smith failed to appreciate the importance of the concept as it relates to his own economic reasoning. His discussion may have been significant, but the content was neither elaborated nor extensive enough to provide an indication of what Smith ‘really meant’ by property and the related vocabulary:

“What wealth, or its subterm, capital, was, Smith did not really say.”

[George, 1946, p.183.]

Others found that Smith’s analysis was completely reliant on his conception of property, even if he did not provide a clear definition of it.

“It probably never occurred to Adam Smith to speculate as to the possibility of society existing and enjoying necessities, conveniences, and amusements without separate property. Separate property was to him a ‘natural’ institution, which existed in much the same form among savage tribes of hunters and fisherman as in eighteenth century England...

“Consequently, in almost the whole of the doctrines of these writers [English Classical Political Economists], the existence of private property and the practice of exchange is assumed.” [Cannan, 1967, p.7.];  
and,

Finally, there are authors from a variety of time periods who identify the entirety of Smith (and eventually, all of economics) as an extended discussion of property and property rights.

“Private property, private enterprise, individual initiative, the profit motive, wealth, competition, - these are the concepts which he employed in describing the economy of his time...” [Berle and Means, 1967, p.303.]

“The institution of the right of property is, in truth, the foundation on which all the other institutions of society rest.” [McVickar, 1966, p.58.]

“The idea which underlies all practical economic conclusions, idea of property.” [Belloc, 1924, p.81.]

“Their [modern economists] inquiry into the causes of the wealth of nations has concerned itself with an inquiry into the results of the property rights of individuals and the motives connected with them.” [Hadley, 1897, p.10.]

Contrary to some of the views above, this dissertation will systematize property within Smith’s works. The roles that property plays will be explored both within the works of Smith, but also within the interpretive literature discussing Smith. As to the fact that the interpretive literature has several different positions on the roles of property it will be argued that these views are not mutually exclusive. Smith’s interpreters have used Smith as Smith himself appears to have used property, namely, Smith used “property” to serve his purpose at the moment, and interpreters have often developed an interpretation via particular passages to support their current position. Potential problems arise when individual interpreters maintain multiple views on the role of property. Someone writing on the stages of historical development may use the “age of shepherds” discussion while ignoring other passages, but might later choose other passages from Smith to discuss a different aspect of property. Generally, individuals have been

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**consistent** with their choice of citations from Smith as these writers relate to **contemporaries**. Individuals arguing that property is primarily a means of defining the **historical** stages of society use a similar series of passages from LJ and WN. Following the **publication** of LJ, views using the same WN resources reached different conclusions. **Recent** research offers new views on Smith. These recent discussions often focus on the **notion** of power and the relationship between power (however defined) and property. **Much** of this recent discussion would not appear to argue against the historical stages **interpretations**, but rather that the stages inquiries do not answer the questions of interest for **this** newer generation of authors. These newer interpretive approaches have shown an **interest** in describing the embeddedness of social institutions and the formal rules of the **economic** game. One recent phenomenon is the description of property as a rhetorical **device**. By examining the entire corpus of Smith's writings, in the light of other **interpreters**, Smith's total theory may be identified.

#### **B. Methodology:**

This project will identify the roles of property in the works of Adam Smith. **Rather** than discussing these works and the works of interpreters separately, concurrent **discussion** of both sets of literature will be made while addressing different functions of **property**.

All perceived relevant statements from Smith's writings have been identified, and **classified**, as they appear to relate to the concepts of property and its definition.

The survey of literature selected for discussion of the subject matter is the result of a **multi-disciplinary** search using Library of Congress headings within electronic **search** services. These services include Lexus-Nexus, J-Stor, the e-card catalogues for

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the libraries of Michigan State University, Rice University, The University of Michigan, the State of Iowa Association of Colleges and the on-line search services for The Kress Collection, and the Library of Congress. This search included the following areas of general subject headings:

Adam Smith, Adam Smith and Property, Historical Approaches to Property, Power and Property Rights, Property and Property Rights Policy, History of Economic Thought, History of Legal Thought, Discourse Analysis and Property, and Property History.

Additional focused searches occurred as related materials were discovered within the topics listed above. These extensions include geographical references (e.g. Property History – United Kingdom), specific commentaries on criminal and civil legal systems (History of Legal Thought – 19<sup>th</sup> Century - Criminal), editorials on freedom and democracy, and property distribution.

Interlibrary loan systems have provided copies of all off-site literature. Once these secondary sources were located, attempts to identify their source quotes within Smith's writings were made. By identifying their sources in Smith, concurrent discussions permit recognition of differing views of the same passage from Smith.

Representative literature from each subject heading is used as a representation of the more than three thousand identified secondary sources. This body of literature has several significant discussion foci that have resulted in large numbers of articles and books on particular topics having their foundation in Smith. This is especially true during periods of historical retrospection in the United States. Editorials commonly

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Chapter Two will focus on subjects particularly related to the individual economic agent and discusses ambition, approbation, deception, incentive and motivation. Chapter Three will discuss social (either society-wide or interpersonal) roles of property including the issues of government, justice, law, social definitions, and stages of development. Chapter Four will discuss power through different interpretive approaches. The final chapter will review the arguments, and conclusions regarding these positions will be made.

### **C. Findings:**

Two major categories of conclusions are reached. Conclusions regarding the interpretive literature are:

1. Interpretive literature that appears mutually exclusive is not necessarily so. The goals of interpreters differed and, as such, their subject matter reflects this difference. Just as different jurists hearing the same arguments may arrive at different conclusions, all interpreters will be subject to the problems of perspective.
2. The term 'property' serves the purpose of the moment. By using property to define historical stages, and to act on the 'internal spectator,' Smith left a wide range of particular discussions for interpretation.
3. Interpreters do not offer generalized models for defining property in Smith. The few attempts to provide models of property using Smith have generally taken a 'mode of discourse' position. In these writings, property serves all



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Conclusions regarding Adam Smith will include:

1. There is a synthesis of the several roles of property as part of Smith's social system. This synthesis will find a particular concept of property that can be applied to his different analytical discussions.
2. Property can be understood to serve a conceptual purpose for Smith as an operational filter to define one's self within social settings. He seems to have felt that individuals define, through property, their position in society, their relationships with others, the appropriateness of their conduct and that of others, their legal and governmental structures in which they live, and their ability to affect those structures.

Several lesser arguments will also be made. To reach these conclusions, two things will need to be shown: First, the interpreted roles of property are not mutually exclusive; and secondly, that once a set of definitions is found, a model that incorporates these roles can be developed. It is hoped that this model will prove useful while interpreting Smith and putting into perspective the diverse models of property that followed his works.

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## **Chapter Two**

### **Property and the Individual**

#### **A. Introduction:**

Property, as it relates to the individual, appears to provide several different functions. By distinguishing these from the social roles considered in the next chapter, the self-perceptions of social standing, expectations of conduct, and the largest number of serious conflicts in the interpretive literature can be addressed.

The following discussion will start with the impartial spectator, the mechanism by which approbation and ambition are initiated. Smith introduced this mechanism in TMS, but chose to leave it out of his other works. This is particularly noticeable in WN, and has sparked several debates over potential problems with Smith's analysis. Principally, are there a different sets of operational guidelines for personal conduct and financial conduct? This dissertation argues that Smith had different conceptual purposes for the two documents (TMS and WN) as they regard property. Much of the following discussion will draw from TMS, but certain individual issues associated with property are described in WN. In particular, the deception and motivation roles of property are a part of both works. They result from the self-regulatory construction of the impartial spectator, and they advance economic growth rates through their incentives to action on the part of economic agents. The comparative nature of wealth accumulation in Smith's social system and the development of social classes, and his definition of 'virtuous conduct' are discussed. Finally, incentive aspects to property are covered in a separate section. These divisions are designed to help clarify the range of issues that Smith

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### **B. Impartial Spectator:**

The internal spectator is a self-regulatory system controlling behavior. Adam Smith developed this notion in TMS to describe a social, ethical system wherein individuals would hold feelings appropriate to the circumstances defined by socialization. The psychological distance between the observer and the actual participant would indicate the proportional level of empathy that the observer would feel. This internal agent generates feelings sympathetic to the circumstances by conferring sentiments through a mental self-imposition into events.

“As is well known, Adam Smith’s ethical work is taken up with the ethics of sentiment or sympathy.” [Flubacher, 1950, p.90.]

The easier someone can put their ‘impartial spectator’ into a situation, the easier for them to identify with the feelings that others are enduring while actually in that situation. This process of reflecting on the events around us is an active process by which individuals develop a set of expectations for their own conduct, and ultimately the conduct of others.

"According to Smith, conscience is a product of social relationship. Our first moral sentiments are concerned with the actions of other people. Each of us judges as a spectator and finds himself judged by spectators. Reflection on our conduct begins later in time and is inevitably affected by the more rudimentary experience." [TMS introduction by Raphael and Macfie, p.15-16.]

This requires an imagined ‘man within’ that observes and judges actions as if they were someone else watching. This spectator will be dependent on the customs and education

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of the individual, an important point that will be more fully developed in chapter four. Regardless of the exact set of values held by the individual, certain rules will govern everyone. Smith believes that all people seek approval for their actions, not necessarily from others, but from their internal spectator, which is believed (by the individual) to reflect others.

“Whatever is the passion which arises from any object in the person principally concerned, an analogous emotion springs up, at the thought of his situation, in the breast of every attentive spectator.” [TMS, p.10.]

Obviously, there is a difference between this imagined spectator and actual spectators. Self-regard will alter interpretations of events, as will differences in what the impartial spectator knows relative to that which the actual spectators know.

Approval mechanisms can deceive, as this process requires an interpretation of events through an interpretation of others’ sentiments in those events. Even so, all other things being equal, property carries its own status in this assessment process.

“In equal degrees of merit there is scarce any man who does not respect more the rich and the great, than the poor and the humble. With most men the presumption and vanity of the former are much more admired, than the real and solid merit of the latter.” [TMS, p.62.]

Wealth approbation begins to appear as property is evolved into different forms than Smith’s ‘original form’ of what is carried. Once property is changed in Smith’s system to items beyond immediate possession, property carries status, and it confers this status to the family. As far as Smith’s impartial spectator is concerned, our sympathies are swayed by the presence of property.



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"In this stage, as property is introduced, one can be eminent not only for his superior abilities and renowned exploits but also on account of his wealth and the estate he has derived from his forefathers." [LJA, p.216.]

Others arrive at this same conclusion, or reflect this argument.

"His working days are held to be spent in a continual striving after personal monetary gain; and, providing he does not infringe the criminal code or 'the custom of trade,' there is no limit to the extent to which it is regarded as proper for him to exploit the economic possibilities of his situation for his own benefit. Furthermore, his standing as a man of business is determined by the size of his income..." [Robson, 1926, p.112.]

"Property in general and comprehensive terms, then, is seen as having a moral value in itself." [Vickers, 1997, p.88.]

The social virtue of wealth is identified by each person's impartial spectator. An extensive explanation of this concept is not the purview of this dissertation. (Reference may be made to Hollander [1973] or Flubacher [1950] for detailed accounts of the methods of approbation.) What is important here is the basis for approbation.

"We desire both to be respectable and to be respected. We dread both to be contemptible and to be condemned. But, upon coming into the world, we soon find that wisdom and virtue are by no means the sole objects of respect; nor vice and folly, of contempt." [TMS, p.62.]

Whether by accident, or by intent, Smith defines the (dis)approval of our actions by our handling and respect of property. Smith is uncomfortable with the status that

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property and the propertied enjoy, but while criticizing this reality Smith describes a social system based on the forms and amount of property.

"This disposition to admire, and almost to worship, the rich and the powerful, and to despise, or, at least, to neglect persons of poor and mean condition, though necessary both to establish and to maintain the distinction of ranks and the order of society, is, at the same time, the great and most universal cause of the corruption of our sentiments. That wealth and greatness are often regarded with the respect and admiration which are due only to wisdom and virtue; and that the contempt, of which vice and folly are the only proper objects, is often most unjustly bestowed upon poverty and weakness, has been the complaint of moralists in all ages." [TMS, p.62.]

Interpreters recognize the same series of complaints, some making the same judgment.

"They [modern market values] then offend against such criteria as some earlier authors, for example Smith, have advanced." [Vickers, 1997, p.88.]

Unlike Smith, Vickers and Robson do not explicitly acknowledge that these concerns are both an historical and contemporary (capitalist) phenomena. Smith cites historical examples to describe the problems associated with property status. More recent historians have arrived at different conclusions about the factual content of some of Smith's examples, but they have not generalized the problems of property across historical periods in the same manner.

"We frequently see the respectful attentions of the world more strongly directed towards the rich and the great, than towards the wise and the virtuous. We see frequently the vices and follies of the powerful much less despised than the

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poverty and weakness of the innocent. To deserve, to acquire, and to enjoy the respect and admiration of mankind, are the great objects of ambition and emulation." [TMS, p.62.]

This status of property not only appears in the early editions of TMS, it is kept by Smith in the reprint editions of his text. We may infer that either Smith continues to believe in the status of property, or he wished to preserve the main text of TMS, his editing only intended to remove some errors in syntax or fact. This view does not stand in isolation, for his view of wealth having a separate status continues in WN.

"A man of rank and fortune is by his station the distinguished member of a great society, who attend to every part of his conduct, and who thereby oblige him to attend to every part of it himself. His authority and consideration depend very much upon the respect which this society bears to him." [WN, p.795.]

As property has status, Smith suddenly shows the benefits of putting people with property into the public spotlight. Property conveys a sense of self-worth, and approbation becomes important as the wealthy believe that more spectators are watching them. Their impartial spectator's approbation becomes more important, as they believe more actual spectators see them. It does not necessarily mean that his impartial spectator will change any actual behavior, but it does appear that the public scrutiny may change the relative importance of the imagined and the real spectators.

"He dare not do any thing which would disgrace or discredit him in it, and he is obliged to a very strict observation of that species of morals, whether liberal or austere, which the general consent of this society prescribes to persons of his rank

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and fortune. A man of low condition, on the contrary, is far from being a distinguished member of any great society.” [WN, p.795.]

Anyone without property is suddenly free to ignore much of society because society is ignoring them. Property both draws attention and pressures for adherence to the social rules. Reduced levels of property means less social pressure for cohesion from individuals. Our internal spectator requires us to seek approbation, and wealth has been successful in finding it.

Public interaction is guided by our property, and some people will be more able to ‘fit in’ than others. For Smith, those people who can maintain the appearance of consumption will have an easier time avoiding problems.

“The experience too, which is laid out in durable commodities, is favorable, not only to accumulation, but to frugality. If a person should at any time exceed in it, he can easily reform without exposing himself to the censure of the public.”

[WN, pps.347-348.]

Smith even goes one step further in TMS. After developing an entire system of self-regulatory conduct from the impartial spectator, he goes beyond the imagined person outside ourselves, and focuses on the very real society.

"It is because mankind are disposed to sympathize more entirely with our joy than with our sorrow, that we make parade of our riches, and conceal our poverty.

Nothing is so mortifying as to be obliged to expose our distress to the view of the public, and to feel, that though our situation is open to the eyes of all mankind, no mortal conceives for us the half of what we suffer. *Nay, it is chiefly from this*



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[TMS, p.50, italics added.]

Property becomes the means to an end. It provides approval. It is not merely a belief that others will approve, Smith seems to have found (to his dismay) that society grants real approval. This approval of property, and the propertied, overcomes the weaknesses of the impartial spectator when facing differentiated economic status. The difference in status is supposed to increase the difficulty in empathizing with someone. The further the experience from the spectator, the harder to put oneself into the mood.

"Though between this condition [Smith's contemporary Britain] and the highest pitch of human prosperity, the interval is but a trifle; between it and the lowest depth of misery the distance is immense and prodigious. Adversity, on this account, necessarily depresses the mind of the sufferer much more below its natural state, than prosperity can elevate him above it. The spectator, therefore, must find it much more difficult to sympathize entirely, and keep perfect time, with his sorrow, than thoroughly to enter into his joy, and must depart much further from his own natural and ordinary temper of mind in this one case than in the other." [TMS, p.45.]

Whatever passions are felt, individuals may be similarly observed and felt by observers. It is this status conferred by observers that adds to the virtue of wealth. Class distances are supposed to make sympathy harder to obtain, but property has made it easier in Smith's system. This system will result in the poor being least likely to receive sympathy, even if their plight makes them the least able to face adversity. Everyone can sympathize with higher economic classes, but few will be effectively able to sympathize

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with those lower than themselves. As society advances, more members will be moved out of poverty and Smith sees this as a positive force in society.

“Notwithstanding the present misery and depravity of the world, so justly lamented, this really is the state of the greater part of men. The greater part of men, therefore, cannot find any great difficulty in elevating themselves to all the joy which any accession to this situation can well excite in their companion.”

[TMS, p.45.]

We will all be better able to sympathize with a world that is more like own. The spectator will require each individual for definition, and is dependent on the past experiences and social customs of each agent. Events seen that are outside the realm of the observer’s experience are less possibly classified, and less effort will be spent on developing a set of feelings for the circumstances.

Smith concerns himself with character throughout TMS, but does so in WN as well. In TMS, the discussion is about ethics and virtue. In WN, it is more about productive resource use. For the moment, we will continue with the virtuous character and Smith’s impartial spectator, returning to address resource use later in this discussion.

Although the impartial spectator is within every person, people still depend on the others around them to offer criticism, assess your character and conduct. If people materially depend on you, they may act as sycophants because of that dependency. By finding people without material dependence, you are able to have real ‘impartial spectators’ rather than your own imagined spectator.

"Are you in prosperity? Do not confine the enjoyment of your good fortune to your own house, to the company of your own friends, perhaps of your flatterers,

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Smith again tries to find a way to get external sources of information for one's impartial spectator. If filtering is already occurring, you will need to seek people who will be less likely to filter their comments to you. This approach appears to suggest that in relationships, property and wealth advantages will alter your ability to find impartiality. Property has changed our perceptions of ourselves, and Smith argues that it will also change our means of gathering information to develop these self-perceptions.

"Frequent those who are independent of you, who can value you only for your character and conduct, and not for your fortune." [TMS, p.154.]

Seeking such people may not be altogether pleasant. Other people may feel threatened by your new-found wealth.

"Neither seek nor shun, neither intrude yourself into nor run away from the society of those who were once your superiors, and who may be hurt at finding you their equal, or, perhaps, even their superior. The impertinence of their pride may, perhaps, render their company too disagreeable: but if it should not, be assured that it is the best company you can possibly keep; and if, by the simplicity of your unassuming demeanor, you can gain their favor and kindness, you may rest satisfied that you are modest enough, and that your head has been in no respect turned by your good fortune." [TMS, p.154.]

Interpreters have seen this combination of virtue and sympathy as driving two forces. First, individuals want admiration, even if only from within; and secondly, the desires driving all individuals to act will drive society.

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Flubacher defines society to be a process [Flubacher, 1950, pps.77-84.] relying as much on Veblen (conspicuous consumption) as Smith, and where bettering one's condition arises from two objectives: 1. a sympathy principle, to be well thought of; and 2. an invisible hand, where the pursuit of wealth improves society. Flubacher has taken property as an exogenously determined concept used to describe a particular social process. Whatever property is, society is to be described as a functional dependent, and the reverse of this sequence does not hold. Similarly:

“In Moral Sentiments, Smith searches for the underlying purpose that mobilizes individuals into a relatively coherent social fabric. What are the motivating desires that provide the minimum standard for personal direction and social decorum? His answer: the universal search for approbation. And what induces such approbation? Dedicated commitment to the personal discipline and organizational framework surrounding the entrepreneurial quest for opulence and its attendant freedoms.” [Schervish, 1994, p.1.]

For J. T. Young, the spectator is the foundation of property rights.

“He [Smith] explicitly grounds property rights in spectator principles.” [Young, 1997, p.65 and repeats p.73.]

“The spectator's sympathy with the injury and resentment of the possessor is the basis upon which a right of property exists.” [Young, 1997, p.119.]

Similar to Flubacher and Schervish, the problem here is the reversal of Young's reasoning holds as well. The spectator's ability to sympathize depends on the existence of property. The social framework that the person is indoctrinated into forms the spectator, and sets the conditions for realizing sympathy for others is necessary.



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Property, being a part of that framework, results in the spectator's recognition of something that deserves sympathy.

“As the relevant context changes so will the spectator's judgement about what exchange justice requires.” [Young, 1997, p.124.]

And as society was generally well-to-do in 18<sup>th</sup> century England, Englishmen of the period were expected to sympathize with the wealthy. The plight of one Englishmen was seen as more likely to exert an influence over the feelings of their peers than the plight of one hundred strangers in a far-away land. For Smith, it is easier to ‘experience’ the happiness of wealth, and, therefore, easier to display wealth than poverty. Young argues:

“Vanity leads us to emulate the rich” [Young, 1997, p.136.]

But, why does it have to be vanity? Character is defined by the behavior of those with property and how they handle it. Virtue (especially modesty) with wealth is supposed to carry someone much further and longer than property without virtue.

"Though in prosperity, however, the man of excessive self-estimation may sometimes appear to have some advantage over the man of correct and modest virtue; though the applause of the multitude, and of those who see them both only at a distance, is often much louder in favor on the one than it ever is in favor of the other; yet, all things fairly computed, the real balance of advantage is, perhaps in all cases, greatly in favor of the latter and against the former.” [TMS, p.253.]

The ability to see this advantage is held by few people. It is these few that Smith values, and is trying to convince others of this view.

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“His admirers may neither be very numerous nor very loud in their applauses; but the wisest man who sees him the nearest and who knows him the best; admires him the most. To a real wise man the judicious and well-weighed approbation of a single wise man, gives more heartfelt satisfaction than all the noisy applauses of ten thousand ignorant though enthusiastic admirers.” [TMS, p.253.]

In TMS, Smith asks, “What makes a praise-worthy character?” and, as importantly, “How will we know it when we encounter it?”

“...how and by what means does it come to pass, that the mind prefers one tenour of conduct to another, denominates the one right and the other wrong; considers the one as the object of approbation, honor, and reward, and the other of blame, censure, and punishment?” [TMS, p.265.]

He answers these two questions with the same answer; prosperity. Property is the ‘object’ of esteem, and everyone without has an obligation to acquire it. It is not simply Young’s vanity that drives our actions, it is Smith’s ‘nature’ that acts on and through people.

"Among those primary objects which nature had recommended to us as eligible, was the prosperity of our family, of our relations, of our friends, of our country, of mankind, and of the universe in general." [TMS, p.274.]

In a discussion of his predecessors’ views on property, Smith describes the Greeks as deifying nature. These philosophers are still selected by Smith as a system, in part, recommended to define virtuous conduct:

“As all the events in this world were conducted by the providence of a wise, a powerful, and good God, we might be assured that whatever happened tended to

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the prosperity and perfection of the whole. If we ourselves, therefore, were in poverty, in sickness, or in any other calamity, we ought, first of all, to use our utmost endeavors, so far as justice and our duty to others would allow, to rescue ourselves from this disagreeable circumstance." [TMS, p.274.]

We are seeking the manner in which an impartial spectator is operationalized, and Smith needs some foundation for the judgments of a spectator. 'Real virtues' serve as a part of this judgement. It is not the flaw of vanity; praiseworthiness is only part of this system. Actual praise is desired, but we are able to have sympathy with those closest to ourselves, and people above us in the economic hierarchy. If we seek internal praiseworthiness (by being benevolent but parsimonious) we will accumulate property. This leads to actual praise. Invoking his naturalist philosophy, Smith expands this situation. All individuals accumulating property creates more sympathy and possible virtuous conduct. This will lead society to advance, while individuals (seeking praise) will want others to succeed as well. These other 'successful' people will make it easier to find approbation as the increased numbers of the materially well-off creates a larger of pool of people to entertain sympathy to and from. The wealth of many has become preferable to that of one.

"Nature, too, had taught us, that as the prosperity of two was preferable to that of one, that of many, or of all, must be infinitely more so." [TMS p.274]

This chapter in Smith's TMS invokes several arguments. One, that prosperity is 'founded upon natural principles,' as seeking approval is a natural part of the human psyche.

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"As they are all of them, in this respect, founded upon natural principles, they are all of them in some measure in the right. But as many of them are derived from a partial and imperfect view of nature, there are many of them too in some respects in the wrong." [TMS p.265]

Secondly, it is divine (which is, perhaps, the natural principle referred to earlier in this passage. See Campbell [1977], Clark [1992], Peterson [1994], or Skinner [1972] for more on this subject.) Property is the basis for interpersonal and intra-personal assessment. Property accumulation is not a *carte blanche* for behavior as people are social creatures, and success at the expense of others is not acceptable.

Others have argued that we seek property not to be approved by others, but rather we seek it to be different than others. Approbation is still only an internal mechanism and the similarity of people in their youth is replaced with a desire for distinction.

"Further, the different individuals as well as the community were interested in expanding wealth because that was the only way by which one individual and one country could appear distinctive and superior to the others." [Brahmananda, 1959, p.145. This is based on the TMS discussion of p.45.]

Supporting this viewpoint are two particular passages from TMS. The first identifies a particular *natural* phenomenon, and the second uses the particular example of the frivolous as a means of reaching social stature.

"They more effectually gratify that love of distinction so natural to man." [TMS, p.183.]

"What can be added to the happiness of the man who is in health, who is out of debt, and has a clear conscience? To one in this situation, all accessions of fortune



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may properly be said to be superfluous; and if he is much elevated upon account of them, it must be the effect of the most frivolous levity. This situation, however, may very well be called the natural and ordinary state of mankind.” [TMS p.45]

The elevation in status by means of conspicuous objects was common to the Mercantilists preceding him. Was Smith saying anything new or was he (not-so-simply) describing a model with which to define the reality of 18<sup>th</sup> century Great Britain? Whatever purpose he had, public virtue in his system is assigned by spectators to those with the appearance of wealth. The character of the person behind that appearance is Smith’s concern, and his work in TMS wants to find those things that make a person virtuous. Appearances are a problem for Smith, not only because we miss out on such ‘real virtues’ as wisdom, but that this drive for approval may cost people their ‘real virtue.’

Notwithstanding the deception that wealth implies virtue, people seek approval (which comes with wealth by sympathy or distinction) and behavior may change in those that have it and those seeking it. Parsimony, a virtue in Smith’s system of behavior, is jeopardized when people seek more approval than perhaps they should. Individuals, responding to the social pressures of having wealth, may wish to have an appearance that is beyond their actual situation. To maintain this appearance, savings may be reduced. This change in tone occurs as we move from TMS to WN’s discussion of virtue.

“The high rate of profit seems every where to destroy that parsimony which in other circumstances is natural to the character of the merchant. When profits are high, that sober virtue seems to be superfluous, and expensive luxury to suit better the affluence of his situation.” [WN, p.612.]

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Worse yet, the influence that owners of capital have on others may change the latter's behavior. We will spend more time on this possibility in chapter four. There is a potential upside to this situation. Propertied people may no longer be self-regulated, but might be held to a higher standard of approval by becoming the object of imitation. This creates the first problematic aspect of property in Smith.

“The owners of the great mercantile capitals are necessarily the leaders and conductors of the whole industry of every nation, and their example has a much greater influence upon the manners of the whole industrious part of it than that of any other order of men. If his employer is attentive and parsimonious, the workman is very likely to be so too; but if the master is dissolute and disorderly, the servant who shapes his work according to the pattern which his master sets him.” [WN, p.612.]

Mimicking the propertied may be bad, but under the right circumstances Smith sees this as a possible social good. It is not the presence of property that should be emulated, but its disposition. Consuming frivolous trinkets diverts capital from productive uses and reduces the future capital stock. We do need to be careful not to overstate Smith's views on the frivolous. Industry is set in motion in Smith's economic system whenever consumption occurs, even if it is frivolous. For the purposes of the present discussion, Smith would appear to prefer the holder of resources to either consume wisely, or not at all. Employing labor for the production of trinkets would appear to be a positive by-product of a poor character choice. Smith's example provides additional reasons that the correct models of conduct need to be followed so that productive labor can continue to be employed:

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“Accumulation is thus prevented in the hands of all those who are naturally the most disposed to accumulate; and the funds destined for the maintenance of productive labor receive no augmentation from the revenue of those who ought naturally to augment them the most. The capital of the country, instead of increasing, gradually dwindles away, and the quantity of productive labor maintained in it grows every day less and less.” [WN, p.612.]

Virtue may also be lost while trying to accumulate property in the drive for perceived status. This status may allow the wealthy a possible existence above the law, but will at the same time draw the keen attention of those seeking to emulate the successful. This is one of the interesting balances in Smith’s depiction of wealth and the wealthy in his social system.

"To attain to this envied situation, the candidates for fortune too frequently abandon the paths of virtue; for unhappily, the road which leads to the one, and that which leads to the other, lie sometimes in very opposite directions. But the ambitious man flatters himself that, in the splendid situation to which he advances, he will have so many means of commanding the respect and admiration of mankind, and will be enabled to act with such superior propriety and grace, that the luster of his future conduct will entirely cover, or efface, the foulness of the steps by which he arrived at that elevation. In many governments that candidates for the highest stations are above the law; and, if they can attain the object of their ambition, they have no fear of being called to account for the means by which they acquired it.” [TMS, p.65.]

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The possibility of rising above the law is slim. For those seeking accumulation, the possibility of failure will increase if their behavior becomes less virtuous.

"The good old proverb, therefore, that honesty is the best policy, holds, in such situations, almost always perfectly true." [TMS, p.63.]

This does not prevent trying:

"They often endeavor, therefore, not only by fraud and falsehood, ... but sometimes by the perpetuation of the most enormous crimes, ... to supplant and destroy those who oppose or stand in the way of their greatness." [TMS p.65]

Property brings a spotlight to it. Smith is pleased that this will generate some internal controls to raise standards of conduct. Later, he is concerned that the desire to be in the spotlight will yield inappropriate actions.

"The probabilities are that for the sake of securing the general benefits that flow from private property and competitive dealings we shall always have to permit some doings that are on the line between the productive and the predatory."

[Tausig, 1939, p.28.]

This becomes a balance of actions, and also the basis for seeking the power to redefine the social rules, customs and habits (see Chapter Four). Property itself has no intrinsic value in Smith's system, but it is a means of defining virtue. Perhaps vanity may drive some people and natural proclivities other people, but the approbation that comes with property is sought by everyone.

Much of his analysis is done in the context of a particular social setting. Smith continues this discussion in his look at markets. The contrariness of interests (between



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those seeking property, and those in their way) makes for one of his most scathing criticisms of businessmen.

“The interest of dealers, however, in any particular branch of trade or manufactures, is always in some respects different from, and even opposite to, that of the public. To widen the market and to narrow the competition, is always the interest of the dealers. To widen the market may frequently be agreeable enough to the interest of the public; but to narrow the competition must always be against it, and can serve only to enable the dealers, by raising their profits above what they naturally would be, to levy, for their own benefit, an absurd tax upon the rest of their fellow-citizens.” [WN, p.267.]

Although society does not permit excessive violations of personal conduct, some violations may occur. To this Smith has argued for honesty, and we see his faith in ability:

“Abilities will even sometimes prevail where the conduct is by no means correct. Either habitual imprudence, however, or injustice, or weakness, or profligacy, will always cloud, and sometimes depress altogether, the most splendid professional abilities. Men in the inferior and middling stations of life, besides, can never be great enough to be above the law, which must generally overawe them into some sort of respect for, at least, the more important rules of justice.” [TMS, p.63.]

Not all wealth must come from the loss of virtue. Smith has confidence in the ability of people to accumulate while exhibiting good character.

"In the middling and inferior stations of life, the road to virtue and that to fortune, to such fortune, at least, as men in such stations can reasonably expect to acquire,

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are, happily in most cases, very nearly the same. In all the middling and inferior professions, real and solid professional abilities, joined to prudent, just, firm, and temperate conduct, can very seldom fail of success.” [TMS, p.63.]

“I expect all the bad consequences from the chambers of Commerce and manufactures establishing in different parts of this Country, which your Grace seems to foresee. In a Country where Clamour always intimidates and faction often oppresses the Government, the regulations of Commerce are commonly dictated by those who are most interested to deceive and impose upon the public.” [COR, p.286.]

Property can be a deceiver, and may do so in two ways. There is the deception of the person seeking it, and the manner in which others may be deceived by it. In WN, this dual deception is an underlying theme for the division of labor and the success of self-interest. We seek people who have interests that may not be our own. By showing a means of mutual beneficence, we may interest them in trades that will be to mutual advantage. These trades are working on others’ self-aggrandizement.

”Give me that which I want, and you shall have this which you want, is the meaning of every such offer; and it is in this manner that we obtain from one another the far greater part of those good offices which we stand in need of. 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. It is this co-dependence that differentiates man from animal.... In civilized society he stands at all times in need of the

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cooperation and assistance of great multitudes, while his whole life is scarce sufficient to gain the friendship of a few persons. In almost every other race of animals each individual, when it is grown up to maturity, is entirely independent, and in its natural state has occasion for the assistance of no other living creature. But man has almost constant occasion for the help of his brethren, and it is in vain for him to expect it from their benevolence only. He will be more likely to prevail if he can interest their self-love in his favor, and show them that it is for their own advantage to do for him what he requires of them. Whoever offers to another a bargain of any kind, proposes to do this. [WN, pps.26-27.]

As seen earlier, Smith takes his spectator further toward reality with each of his works. Initially, we have an internal ‘voice’ of regard. Later, he identifies the real spectators whose approbation we seek. Finally, approval can be measured. Our actions can be exchanged for others actions, and on the basis of mutual approval, our level of activity is dependent.

### **C. Deception and Motivation:**

One of the more famous passages appearing in TMS is Smith’s discussion of ambition. This four page discussion is cited in the literature on deception, motivation, ambition, and the construction of incentive structures.

“The poor man's son, whom heaven in its anger has visited with ambition, when he begins to look around him, admires the condition of the rich. He finds...” [TMS, p.180, continuing to p.183.]

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In great detail, Smith describes the breadth and depth of sufferings that someone will put up with to accumulate property. To this end, society encourages new ideas to create wealth with privileges as a reward for these ideas.

“The greatest part however of exclusive privileges are the creatures of the civil constitutions of the country. The greatest part of these are greatly prejudicial to society. Some indeed are harmless enough. Thus the inventor of a new machine or any other invention for the space of 14 years by the law of this country, as a reward for his ingenuity, and it is probable that this is as equal an one as could be fallen upon.” [LJA, pps.82-83.]

Many writers following Smith have focused on this incentive structure, especially as a means of explaining economic growth. By turning the ambition of individuals to the task of wealth production, society has benefited.

“The ultimate effect [of patents]...is the stimulus given to inventive activity.”  
[Sidgwick, 1887, p.83.]

“Realizing that a hope of financial reward serves to encourage inventing genius, the United States in common with all other civilized nations permits inventors and authors to enjoy a monopoly of their products.” [Thompson, 1924, p.183.]

“Of all the species of property which a man can possess, the faculties of his mind and the powers of his body are most particularly his own.” [McVickar, 1966, p.58.]



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Through privileges, (which Smith abhors elsewhere), new ideas are encouraged to flourish. Taussig clearly sees these innovators as self-interested economic agents that seek personal wealth through the generation of new production relations.

“Almost all inventors and men of science are subject in some degree to the self-regarding motives which affect so profoundly the life about them. They work the more strenuously and effectively in proportion to the expected reward. This is the principle underlying the whole system of patents, copyrights, and trade-marks, nay the whole system of competitive industry and private property.” [Taussig, 1939, p.476.]

Accumulation is not only the end (status, etc...), but the process itself is of interest to Smith. The satisfaction of finding another ‘useful’ object is as important as the gratification of searching. We find that Smith acknowledges that it is not the happiness that is conveyed by ownership, but the belief that property may convey the means of happiness. This deception is critically important to several different aspects of Smith’s analysis.

"How many people ruin themselves by laying out money on trinkets of frivolous utility? What pleases these lovers of toys is not so much the utility, as the aptness of the machines which are fitted to promote it. All their pockets are stuffed with little conveniences. They contrive new pockets, unknown in the clothes of other people, in order to carry a greater number.... Nor is it only with regard to such frivolous objects that our conduct is influenced by this principle; it is often the secret motive of the most serious and important pursuits of both private and public life." [TMS, p.180.]

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The motive for finding new ‘baubles’ underlies more than the baubles. It carries people to extremes in the belief of a happiness that will occur if they succeed in one more acquisition. This acquisitiveness results in great levels of activity, all motivated by a belief in eventual satisfaction.

“He thinks if he had attained all these, he would sit still contentedly, and be quiet, enjoying himself in the thought of the happiness and tranquillity of his situation. He is enchanted with the distant idea of this felicity. It appears in his fancy like the life of some superior rank of beings, and, in order to arrive at it, he devotes himself for ever to the pursuit of wealth and greatness.” [TMS, p.181.]

“If we examine, however, why the spectator distinguishes with such admiration the condition of the rich and the great, we shall find that it is not so much upon account of the superior ease or pleasure which they are supposed to enjoy, as of the numberless artificial and elegant contrivances for promoting this ease or pleasure. He does not even imagine that they are really happier than more people: but he imagines that they possess more means of happiness.” [TMS, p.182-183.]

Interpreters of the early 20<sup>th</sup> Century had not fully enamored themselves with the black-box of utility maximization and were intrigued by Smith’s non-useful utility, and the relationship between accumulation as both a virtue and a result, changing and changed by economic development.

“Economic desires...furnish the constant motives to economic action, though they are supplemented by instincts, impulses, and other motives not so well understood.” [Carver, 1921, p.15.]

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“By their nature, frugality and hard work are virtues of a development process. They are virtues because they make us each work for the greater good, as Adam Smith defined it, of an increasing national revenue. This view seems to invert the relationship suggested between process and end. After all, the ideal of how we lead our lives was meant to be the goal, development the process of getting there. Here, however, the ideal of frugality and hard work derives from the process of development. This leaves us without a goal, or with the growth process as an end in itself.” [Levine, 1995, p.179.]

The same ambitions that cause people to undergo hardships will drive industry, and it will result in the production of real wealth. This matter is important enough for Smith that he offers policy recommendations to achieve this motivation in people.

“Would you awaken the industry of the man who seems almost dead to ambition,... If you would hope to succeed, you must describe to him the conveniency and arrangement of the different apartments in their palaces; you must explain to him the propriety of their equipages, and point out to him the number, the order, and the difference offices of all their attendants. If any thing is capable of making impression upon him, this will.” [TMS, p.187.]

People need to be convinced that their ambition will be rewarded. The laws of Britain, which Smith criticizes as biased to certain classes, do have one successful outcome, security.

“That security which the laws in Great Britain give to every man that he shall enjoy the fruits of his own labor, is alone sufficient to make any country flourish, notwithstanding these and twenty other absurd regulations of commerce;

and this security was perfected by the revolution, much about the same time that the bounty was established. 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 encumbers its operations; though the effect of these obstructions is security.” [WN, p.540.]

“The whole model depends on ‘individuals’ striving to better his condition, and on a favorable legal framework (especially regarding property and land tenure).” [Hutchison, 1990, p.88.]

Once the motivation occurs, the legal system becomes part of Smith’s prescriptive political economy. Much of this view is founded in his ‘natural’ approach. Here, ‘natural’ implies a derivation from an agreed upon truth found in society.

“If therefore we account the right of inheritance to be a real right, as it certainly is, all other exclusive privileges will for the same reason be accounted real rights, as the right of monopolies, which is privilege constituted entirely by the civil law, the right of an author to his book, the right an inventor of a machine or medicine has to the sole vending of making of a machine or drug. These often make the greatest part and sometimes the whole of ones estate, and they are all creatures of the civil law in each country. There are several others that have their origin in natural reason, as the right one has to hunt down the game he has started and such like; but the most considerable of all the exclusive privileges that are

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founded in nature is succession, which as we shall show hereafter is altogether agreeable to the constitution of nature." [LJA, p.11.]

We see the repetition of several themes throughout Smith. First, bettering one's condition is a 'natural effort,' but exists in a social setting. This setting is a significant determinant of the expected outcomes of this 'natural effort.' Second, when ambition is absent, it can be inspired by property as a status object. This may occur as a result of the impartial spectator, or may result from the virtue to save. Finally, property is a means to an end, not only the end, and policy makers will evaluate their own performance by their ability to manipulate the pieces of the system.

"And it is the ingenious and artful adjustment of those means to the end for which they were intended, that is the principal source of his admiration." [TMS, p.183.]

These create a fine line for property to walk. First, property is a form of status, and how we handle property has a social status and may be a potential virtue. It also motivates people to accumulate, but to what end? To improve our characters, or, are we being deceived? Raising ambition in the indolent causes economic growth, but Smith admired the humble security of someone whose needs were met?

"It is then, in the last dregs of life, his body wasted with toil and diseases, his mind galled and ruffled by the memory of a thousand injuries and disappointments which he imagines he has met with from the injustice of his enemies, or from the perfidy and ingratitude of his friends, that he begins at last to find that wealth and greatness are mere trinkets of frivolous utility, no more adapted for procuring ease of body or tranquillity of mind than the tweezer-cases of the lover of toys; and like them too, more troublesome to the person who

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carries them about with him than all the advantages they can afford him are commodities.” [TMS, p.182.]

This certainly sounds like a critique of accumulated personal property.

It is at the end of their lives that people may discover the secret of their accumulation.

“Power and riches appear then to be, what they are, enormous and operose machines contrived to produce a few trifling conveniences to the body, consisting of springs the most nice and delicate, which must be kept in order with the most anxious attention, and which in spite of all our care are ready every moment to burst into pieces, and to crush in their ruins their unfortunate possessor. The owner becomes absorbed in maintaining them.” [TMS, p.182.]

Continuing from the same passage, Smith’s nature imposes a deception upon us. This process of motivation, emulation, approbation, all fails to actually bring happiness for Smith’s individual. It sets in motion a larger sequence of events that do benefit society, and its members.

“The pleasures of wealth and greatness, when considered in this complex view, strike the imagination as something grand and beautiful and noble, of which the attainment is well worth all the toil and anxiety which we are so apt to bestow upon 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; which have entirely changed the whole face of the globe, have turned the rude forests of

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nature into agreeable and fertile plains, and made the trackless and barren ocean a new fund of subsistence, and the great high road of communication to the different nations of the earth." [TMS, pps.183-84.]

For all its individual drawbacks, property serves as the great motivator even if the older generation becomes aware of the deception. They will be unable to communicate it to the younger because it is a natural phenomenon. Society has benefited from this deception and therefore has no desire to see this deception removed. This also raises the possibilities of complicity by society to drive individuals to accumulate even if the private benefits may not be sufficient to justify the activity because of the significant social benefits to this deception. These benefits occur to a wider range of recipients than the people immediately affected by the production process. The types of goods available to society will change. Once property is developed to forms beyond necessities, luxury items take on a set of characteristics (covered elsewhere) necessities another. Smith recognizes the advantages to being wealthy in the allocation process, and applies these differences, and recognized advantages, to luxury goods.

“The rich only select from the heap what is most precious and agreeable. They consume little more than the poor, and in spite of their natural selfishness and rapacity, though they mean only their own conveniency, though the sole end which they propose from the labors of all the thousands whom they employ, be the gratification of their own conveniency, though the sole end which they propose from the labors of all the thousands whom they employ, be the gratification of their own vain and insatiable desires, they divide with the poor the produce of all their improvement. They are led by an invisible hand to make

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nearly the same distribution of the necessities of life, which would have been made, had the earth been divided into equal portions among all its inhabitants.”  
[TMS, p.185.]

This distinction of necessities transforms a conflicting relationship between classes to one of mutual advantage. The wealthy can only consume a certain sum, but they set in motion a considerably larger sum of activity in Smith’s system. This idea was picked up by the interpretive literature.

“He [Smith] sincerely believes in the delusiveness - so far as the individual is concerned - of the common struggle to get rich, and holds that happiness is equally distributed among the different ranks of society in spite of their vast inequalities of wealth.” [Sidgwick, 1887, p.20.]

It is this mechanism of dividing the results of improvements with their workers (though the share may be quite small) that results in improved standards of living for all involved in the productive process. These improvements yield further incentives and capacity for further gains.

“and thus without intending it, without knowing it, advance the interest of the society, and afford means to the multiplication of the species.” [TMS, p.185.]

"A savage who supports himself by hunting, having made some more arrows than he had occasion for, gives them in a present to some of his companions, who in return give him some of the venison they have caught; and he at last finding that by making arrows and giving them to his neighbor, as he happens to make them better than ordinary, he can get more venison than by his own hunting, he lays it aside unless it be for his diversion, and becomes an arrow-maker." [LJA, p.348.]

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Property is put to work for further gains. Accumulated assets will ‘naturally’ find their way into uses. Those with productive capacity will attract this accumulated stock from the owners of capital. The objective becomes further accumulations. Just as the arrow maker and the division of labor show the application of particular skills and property, the owner of capital specializes in the application of capital to production ends.

“The key to this kingdom is capital, output that is not consumed but rather saved and reinvested in enterprise.” [Quinn, 1994, p.108, using WN pps.161, 162, 237-42.]

“As soon as stock has accumulated in the hands of particular persons, some of them will naturally employ it in setting to work industrious people, whom they will supply with materials and subsistence, in order to make a profit by the sale of their work, or by what their labor adds to the value of the materials.” [WN, pps.65-66.]

This accumulation process, through specialization, unequal distribution, and a structure of influences that drives individuals to repeat this process for ever-increasing levels of output is often described as one of Smith’s great contributions to the philosophy of capitalism.

“The genius of the Wealth of Nations lies in its discovery of a single principle that when applied to the organization of society, will encourage both greater efficiency of productive labor and the growth of the productive sector at the expense of the unproductive. This single principle is the following: Organize society around the purpose of profit seeking and wealth accumulation by placing society’s productive resources in the hands of persons (capitalists) devoted to

seeking profit and accumulating wealth. When we do this, we orient our lives around pursuit of wealth.” [Levine, 1995, p.39.]

Capital is provided with the hopes of further gains from trade. These gains are profits from risk as the owner of this property deserves compensation for this risk.

“In exchanging the complete manufacture either for money, for labor, or for other goods, over and above what may be sufficient to pay the price of the materials, and the wages of the workmen, something must be given for the profits of the undertaker of the work who hazards his stock in this adventure.” [WN, p.65.]

“The employer-capitalist is not paid because he hazards his stock, but he hazards his stock because he is paid for it.” [Cannan, 1967, p.158]

In this process, workmen see the valuations of their output in the market, and expect compensation. Improved outputs are split between the parties involved, and the process is repeated. Property is repeatedly put at risk, with the understanding that people will use this property to produce further goods. In this manner, property yields property, and prior increases will result in greater present production levels.

“The value which the workmen add to the materials, therefore, resolves itself in this case into two parts, of which the one pays their wages, the other the profits of their employer upon the whole stock of materials and wages which he advanced.” [WN, p.66.]

“Declining wealth, or, to be more particular, ‘the diminution of the capital stock of the society, or of the funds destined for the maintenance of industry’, raises profits, because it both reduces wages and raises prices.” [Cannan, 1967, p.218.]

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Expectations develop for this system of compensation. Investors will also want risk rewards if proportionally larger components of their property stock are to be invested.

“He could have no interest to employ them, unless he expected from the sale of their work something more than what was sufficient to replace his stock to him; and he could have not interest to employ a great stock rather than a small one, unless his profits were to bear some proportion to the extent of his stock.” [WN, p65.]

“[Returns to capital] must be treated as essentially a wage” [F.H. Knight, 1951, p.254.]

Later in Knight’s system, uncertainty of possession increases the rate of anticipated payment.

“[Interest] is the problem of the evaluation of productive property.” [F.H. Knight, 1951, p.258.]

The increased output from the division of labor means more output and more trade. For the first divisions to occur, sustainability of those laboring in the specialized area will demand an accumulated stock, further divisions can occur as wealth is developed for investment availability.

“The freedom to pursue private gain through use of private property, especially in the means of production”...makes “the potential to make the wealth of nations grow.” [Levine, 1995, p.155.]

In addition to Levine, Robbins interprets Smith’s division of labor and increasing capital stock as offering more than just increased incomes. Increased capital will mean

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changes in the infrastructure and incentives of the social system. These infrastructure improvements are especially important in the institutional structure of contracts, intermediate goods, and class relationships.

“Accumulation, thus conceived, is depicted as desirable because the capital stock to which it gives rise renders labor more productive - ‘facilitates and abridges’ is Smith’s phrase - and because it sustains development of the division of labor.” [Robbins, 1968, p.48.]

“Material wealth, in Smith’s view, comes primarily from the division of labor - laborers, combined with capital, concentrating on only one small aspect of the productive process.” [Quinn, 1994, p.108.]

“As the accumulation of stock must, in the nature of things, be previous to the division of labor, so labor can be more and more subdivided in proportion only as stock is previously more and more accumulated.” [WN, p.277.]

These accumulations imply divisions therefore requiring trade and the valuation of output. The division of labor, sufficiently extensive enough to be the subject of papers itself, is of concern here through its relationship with property. For division to occur, property must pre-exist. For further property accumulations, division of labor must occur. This interaction of property will appear again elsewhere. To this point, we have seen a similar symbiosis with the impartial spectator.

“But when the division of labor has once been thoroughly introduced, the produce of a man’s own labor can supply but a very small part of his occasional wants. The far greater part of them are supplied by the produce of other mens

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labor, which he purchases with the produce, or, what is the same thing. with the price of the produce of his own.” [WN, p.276.]

“accumulation and division act and react on each other” [McVickar, 1966, p.78.]

“Within the limits of natural aptitudes and the resources at his disposal, each is strongly disposed to produce what he thinks will command most in exchange for the other things he wants. His own wealth depends upon his producing efficiently what others want. Thus he is led by an Invisible Hand to work for the general good.” [Knight, 1942, p.9.]

This creates a problem if we use the LJ discussion on division of labor.

Accumulation must occur before division (WN, p.277.), and division must occur before accumulation (LJ, p.348.). What we find in both texts is that further societal advancements will require greater specialization than currently exists.

“As the division of labor advances, therefore, in order to give constant employment to an equal number of workmen, an equal stock of provisions, and a greater stock of materials and tools than what would have been necessary in a ruder state of things, must be accumulated beforehand.... As the accumulation of stock is previously necessary for carrying on this great improvement in the productive powers of labor, so that accumulation naturally leads to this improvement.” [WN, p.277.]

“Smith envisioned the development of property, labor, land, and civil society as commencing with the distinction between those who have property and those who do not, a distinction that gives rise to the necessity of government. In turn, the development of markets, the valuing of labor as a commodity, and the



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Subsequently, the phenomena lead to the division and specialization of labor and thus economic growth.” [Werhane, 1991, p.68.]

This seems to be implying social stages that are defined by the division of labor.

#### **D. Class Distinctions:**

Class distinctions will be part of the discussions in the following two chapters. It is included here as part of the incentive mechanism that drives individual activity. Individuals, whether they are deceived by property, or simply deriving pleasure from property with full awareness of the potential deceptions, have a set of interests in Smith’s system that are class dependent. Property accumulations in different forms will imply different expectations of the legal system. Similarly, a lack of accumulation will imply a set of interests.

In Smith’s production process, accumulations will lead to specialization, and subsequently generate revenue. Smith identifies that some people will have revenues sufficient to rely only on their stock’s profits.

“He endeavors, therefore, both to make among his workmen the most proper distribution of employment, and to furnish them with the best machines which he can either invent or afford to purchase. His abilities in both these respects are generally in proportion to the extent of his stock, or to the number of people whom it can employ.” [WN, p.277.]

Once a productive process is settled on, the owner of this capital can then move to a new economic class. By having enough accumulation, the holder can retain enough for

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“But when he possesses stock sufficient to maintain him for months or years, he naturally endeavors to derive a revenue from the greater part of it; reserving only so much for his immediate consumption as may maintain him till this revenue begins to come in. His whole stock, therefore, is distinguished into two parts. That part which, he expects, is to afford him this revenue, is called his capital. The other is that which supplies his immediate consumption; and which consists either, first, in that portion of his whole stock which was originally reserved for this purpose; or, secondly, in his revenue, from whatever source derived, as it gradually comes in; or, thirdly, in such things as had been purchased by either of these in former years, and which are not yet entirely consumed; such as a stock of cloaths, household furniture, and the like. In one, or other, or all of these three articles, consists the stock which men commonly reserve for their own immediate consumption.” [WN, p.279.]

Interpreters have long recognized this interaction (see Knight and McVickar above). Interestingly, there is a perception of the existence of a relative importance for the two halves of our clapping hands. Myint dismisses capital accumulation as only necessary for division of labor machinery and useful for returns to scale for labor. Capital accumulation implies that increased labor can be supported. The importance of labor numbers is part of Myint's interpretation of Smith's *labor command* theory of value.

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“Smith had ended by using the ‘labor commanded’ measure of value as the long-term index of the secular change in the wealth of society.” [Myint, 1948, p.45.]

With increased labor numbers available, the ability to *embed* labor into production is increased. Using WN, p.72, Myint quotes, “The most decisive mark of the prosperity of any country is the increase in the number of its inhabitants.” Accumulations occur as a result of productive labor and the materialistic bias of particular, tangible goods acting as storehouses of labor.

“Though all capitals are destined for the maintenance of productive labor only, yet the quantity of that labor, which equal capitals are capable of employment; as does likewise the value which that employment adds to the annual produce of the land and labor of the country. [WN, p.360.]

For people to move into this new propertied class, they will require others to have no such accumulations to work for them. Stanlis takes this relationship a bit further, and argues a causal event.

“Adam Smith expounded the radical thesis that wealth and poverty are proportionately related, an idea which implies that the wealth of the rich is a cause of the poverty of the poor.” [Stanlis, 1965, p.173.]

If the notion of differing interests as a result of this relationship is accepted, further outcomes can be expected. Among these outcomes are: the relative power of participants in the system, the inter-generational effects of inheritance laws, and the ability of participants to affect the outcomes through their actions or criticisms. Dickens,

and others, used Smith's ideas to criticize the aristocracy as Smith observed that established interests often run counter to emerging property forms.

“An analysis which distinguished different interests in society, and contested an aristocratic hegemony in government was uncomfortable.” [Hay, 1996, p.286.]

Cassel, writing in the 1930s, is concerned for the accumulation of capital (owned goods capable of aiding production) during a period he characterized as under-utilization rather than overproduction was causing a depression. Economic cycles are class dependent phenomena in this approach. The level of capital activity has become the principal factor in defining business cycles, both their downturns and upswings.

“...a stock of goods must be stored up somewhere before any production of capital can begin.” [Cassel, 1967, p.588.]

In 1925, Taylor offered a similar view on economic downturns, but with the objective of describing the success of the U.S. economy.

“The accumulation of capital is favored by the existence of large incomes, by conditions which insure to capital the expected advantages of saving, and by the presence of suitable social machinery to aid in caring for and investing accumulations.” [F.M. Taylor, 1925, p.116.]

While inactivity at the social level may be cause for concern, the reason people accumulate in Smith's system is to avoid personal activity. Rooke observes this conflict that exists in Smith's propertied classes.

“Indeed, the chief end of all national wealth is that of deriving income from capital, which, when once realized, of itself brings in an income in the

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future, without requiring any exertion on the part of its owner.” [Rooke, 1969, p.92.]

“Public wealth would, therefore, appear to owe its origin to the opposing desires to man, continually prompting him to consume and to produce: the desire he has to spend, to avoid labor, and to replenish the earth with inhabitants, opposed to the desire he has of the means of spending. To acquire these means he must accumulate capital, and avail himself of the assistance that capital is capable of imparting to persevering industry and skill.” [Rooke, 1969, p.107.]

Rooke, and others, find an outcome of this internal conflict is a social and economic class capable of supplying themselves with consumption without resorting to the use of their stored capital. Their stored capital increases others’ productivity, a portion of which is claimed by the property owner. This stored capital can also be fixed on non-productive objects that are without enduring value (servants, etc....), but the stored capital will dissipate. A person can accumulate property to use the division of labor for further gains in property, but the same person is accumulating for the expressed purpose of consuming.

“The intention of the fixed capital is to increase the productive powers of labor, or to enable the same number of laborers to perform a much greater quality of work.” [WN, p.287.]

Interpreters have expended significant efforts to demonstrate the differences between capital accumulation, and agricultural storage. Recalling Smith’s example for the early specialization of labor, it was precisely because of this storage of food that division of

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labor, exchange, and property accumulation took place. For these interpreters, there was something distinctly different between accumulations of different historical stages.

“The storing of food-stuffs undergo, by reason of the periodicity of agriculture, is, in its nature, in sharp contrast with that different kind of storing which Adam Smith and many others have cited as a typical mode of originating capital. This supposed store is made distinctly for ‘laborers,’ and it is made only by capitalists.” [J B Clark, 1899, p.152.]

For Smith, the ultimate determination of the economic well being of a person or society depends on the resolution of the conflict between accumulation and consumption, regardless of the historical period.

“A man grows rich by employing a multitude of manufacturers: He grows poor, by maintaining a multitude of menial servants. The labor of the latter, however, has its value, and deserves its reward as well as that of the former. But the labor of the manufacturer fixes and realizes itself in some particular subject or vendible commodity, which lasts for some time at least after that labor is past. It is, as it were, a certain quantity of labor stocked and stored up to be employed, if necessary, upon some other occasion. That subject, or what is the same thing, the price of that subject, can afterwards, if necessary, put into motion a quantity of labor equal to that which had originally produced it. The labor of the menial servant, on the contrary, does not fix or realize itself in any particular subject or vendible commodity.” [WN, p.330.]

Wealth is the incentive of the laissez faire system, and this incentive is both the initiator and result of the process. While Myint held that number and specialization of

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laborers are more important to the process of accumulation, the accumulation is more important in other interpretations.

“Interest [is the] embodiment ... of a certain quantity of labor of the subsistence goods on which the laborer lives while performing that labor.” [F.H. Knight, 1951, p.254.]

“Adam Smith, on the other hand, contended that in all cases, 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 greater.” [Twiss, 1847, p.192.]

Those unable to properly engage in improvements will fail to thrive in an environment where others are using their property to yield more property. Twiss held that parsimony was more important than industriousness in the save/consume conflict. Contrary to Twiss, Smith would appear to favor industriousness over parsimony in WN. Landowners were saving a significant portion of their productive wealth over long periods of time. These estates operated without any incentives to industrious behavior making them less productive assets.

“There still remain in both parts of the united kingdom some great estates which have continued without interruption in the hands of the same family since the times of feudal anarchy. Compare the present condition of those estates with the possessions of the small proprietors in their neighborhood, and you will require no other argument to convince you how unfavorable such extensive property is to improvement.... If little improvement was to be expected from such great

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proprietors, still less was to be hoped for from those who occupied the land under them. In the ancient state of Europe, the occupiers of land were all tenants at will.” [WN, p.386.]

“The key to the high income societies of the western world is still the one that Adam Smith propounded more than two hundred years ago. And increasing specialization and division of labor necessitates the development of institutional structures that permit individuals to take actions involving complex relationships with other individuals far removed from personal knowledge and extending over long periods of time.” [North, 1997, p.90.]

A careful attention to the application of accumulated property is necessary to have the most productive possible outcomes. Several laws hindering this attention are cited and critiqued by Smith, as are nearly all obstructions to accumulation.

“In Europe, the law of primogeniture, and perpetuities of different kinds, prevent the division of great estates, and thereby hinder the multiplication of small proprietors. A small proprietor, however, who knows every part of his little territory, who views it with all the affection which property, especially small property, naturally inspires, and who upon that account takes pleasure not only in cultivating but in adorning it is generally of all improves the most industrious, the most intelligent, and the most successful.” [WN, p.423.]

The transformation of this position reaches some interesting results that do not appear exactly the same as Smith.

“Societies act both unfairly and unwisely when they limit opportunities of economic enterprise.” [Tawney, 1948, p.21.]

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Laws that direct capital to uses other than the most productive are also berated. This redistribution of capital is similar to the primogeniture laws discussed above. The legal system has encouraged conduct that prevents accumulations.

“Every derangement of the natural distribution of stock is necessarily hurtful to the society in which it takes place; whether it be by repelling from a particular trade the stock which would otherwise go to it, or by attracting towards a particular trade that which would not otherwise come to it.” [WN, pps.632-633.]

F.M. Taylor would apply the previous quote to offer his own recipe for economic progress. A surplus income must exist to have savings occur. This starts the entire accumulation process. The government needs to protect interest/profits; and the economy has significant, protected relative returns compared to the opportunity costs. A banking structure with prudent action history implies further property security. This would pool smaller investors' resources, in conservative but active investment.

In an extended discussion, Taylor's property is initiative; demands security; facilitates accumulation; and changes social institutions. [F.M. Taylor, 1925, discussion on pps.116-118.]

Smith's derangement in the capital allocation results in several applications for laissez-faire policy advocates.

“In the year 1776 Adam Smith published his ‘Wealth of Nations’, combating vigorously the restrictive policy of European governments. He showed that private individuals could acquire large profits by supplying some real social need; and that men, in pursuing their own personal interest, were

commonly increasing the wealth of society. Moreover, he proved that many of the restrictions placed upon private enterprise resulted, not in furthering social interest, but in preventing men from serving each other. He argued most ably that the desire of men to promote their individual interests, by establishing business enterprises and trading with their fellows, would usually produce results beneficial to society. He urged that the true way for a nation to become rich is to leave its citizens free to conduct business as they desire.” [Bullock, 1900, p.487.]

“He (Adam Smith) also showed, far more clearly than any of his predecessors, the relation between the pursuit of private wealth and the utilization of public wealth. He proved that the former was a most powerful agency for furthering the latter; that the actions of men in the pursuit of money-making were a means of serving others even when they had no intention of consciousness of so doing.” [Hadley, 1897, p.10.]

“a freely competitive organization of society tends to place every productive resource in that position in the productive system where it can make the greatest possible addition to the total social dividend as measured in price terms, and tends to reward every participant in production by giving it the increase in the social dividend which its co-operation makes possible... a specification of utopia” [F.H. Knight, 1951, p.48.]

If a closed system lacks any developed capital, the replacement is easier, but the revenues from it are less. Smith defines modern societies as having significant stored, developed, capital reserves. Their productivity is from having large property holdings, which in turn will yield larger property holdings. Property implies property, and acts as

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an incentive for those who are low in accumulations and motivation for those seeking to retain their status.

“But antiently, during the prevalency of the feudal government, a very small portion of the produce was sufficient to replace the capital employed in cultivation. It consisted commonly in a few wretched cattle, maintained altogether by the spontaneous produce of uncultivated land, and which might, therefore, be considered as a part of that spontaneous produce. It generally too belonged to the landlord, and was by him advanced to the occupiers of the land. All the rest of the produce properly belonged to him too, either as rent for his land, or as profit upon this paltry capital. The occupiers of land were generally bondmen, whose persons and effects were equally his property.” [WN, p.334.]

Social changes can occur, but only after accumulation. This discussion will be covered more extensively during the ‘stages of history’ discussion in a later chapter. Presently, it is of note because of the importance that accumulations would have in changing productive processes through the division of labor.

“The productive powers of the same number or laborers cannot be increased, but in consequence either of some addition or improvement to those machines and instruments which facilitate and abridge labor; or of a more proper division and distribution of employment. In either case an additional capital is almost always required. It is by means of an additional only that the undertaker of any work can either provide his workmen with better machinery, or make a more proper distribution of employment among them.” [WN, p.343.]

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“The general industry of the society never can exceed what the capital of the society can employ.” [WN, p.453.]

“When the capital stock of any country is increased to such a degree, that it cannot be all employed in supplying the consumption, and supporting the productive labor of that particular country, the surplus part of it naturally disgorges itself into the carrying trade, and is employed in performing the same offices to other countries.” [WN, p.373.]

In some regions, land is not as productive, and should be generally avoided as a means of generating revenues. Chapter four will discuss this issue of property preferences in the context of the relative abilities of different resources to exercise coercion.

“To purchase land is every where in Europe a most unprofitable employment of a small capital. For the sake of the superior security, indeed, a man of moderate circumstances, when he retires from business, will sometimes [132] choose to lay out his little capital in land. A man of profession too, whose revenue is derived from another source, often loves to secure his savings in the same way. But a young man, who, instead of applying to trade or to some profession, should employ a capital of two or three thousand pounds in the purchase and cultivation of a small piece of land, might indeed expect to live very happily, and very independently, but must bid adieu, for ever, to all hope of either great fortune or great illustration, which by a different employment of his stock he might have had the same chance of acquiring with other people.” [WN, p.423.]

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This role of property is related to the more modern question of individual resource allocation. Increasing the wealth of nations was the primary subject matter of WN, and it is there that property as an incentive appears in three primary sets of passages. The first set of these, as cited by interpreters, uses property as giving rise to industry in those that receive compensation on the basis of their ability to produce things of value. Another coincides with the public/private interest to yield productive property applications. The last set focuses on the effort to modify private interests to engage in competitive conduct, Smith's joint-stock company discussion.

“The institution of long apprenticeships has no tendency to form young people to industry. A journeyman who works by the piece is likely to be industrious, because he derives a benefit from every exertion of his industry. An apprentice is likely to be idle, and almost always is so, because he has no immediate interest to be otherwise. In the inferior employments, the sweets of labor consist altogether in the recompense of labor. They who are soonest in a condition to enjoy the sweets of it, are likely soonest to conceive a relish for it, and to acquire the early habit of industry.” [WN, p.139.]

Apprenticeships have the disadvantage of removing compensation from productivity by eliminating the incentive to produce.

“They were not, however, capable of acquiring property. Whatever they acquired was acquired to their master, and he could take it from them at pleasure.

Whatever cultivation and improvement could be carried on by means of such slaves, was properly carried on by their master. It was at his expense. The seed, the cattle, and the instruments of husbandry were all his. It was for his benefit.



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Such slaves could acquire nothing but their daily maintenance.” [WN, pps.386-387.]

“[Smith] stated categorically that the desire to better our condition ‘comes with us from the womb, and never leaves us till we go into the grave.’” [Reisman, 1982, p.221, citing WN, p.192.]

Shapiro uses this incentive role to the near exclusion of other roles, and he is not alone in this effort. Shapiro’s “striving to better their condition” [Shapiro, 1993, p.8.] is repeated as the theme of his research.

Although George is more interested in land issues, he identifies the role of human efforts to change nature. As part of this exertion, the effort is made to fit objects to personal gratification.

“Natural products that have been secured, moved, combined, separated, or in other ways modified by human exertion, so as to fit them for the gratification of human desires.” [George, 1946, p.147 and George, 1949, ch.2, and see pps.164-5 for similar ideas.]

This effort is “essential to national opulence” [George 1946, p.146] because of its basis as part of the incentive structure of society. George uses Smith citations: B4 c5 p540; B3 c3 p405; B5 c1 p709. He goes further to carefully describe the existence of government to protect wealthy and implies progressive taxation.

“We might term Adam Smith the first and last Utopian capitalist” [Kanth, 1986, p.123.]

For Kanth, property accumulation acts as the incentive to a smoothly functioning, ideal model of an economy.

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If property is the result of effort, then eliminating the causal relationship will reduce effort. Smith reinforces this idea of maximizing consumption when no effort is required to attain it with his apprentice discussion.

“A person who can acquire no property, can have no other interest but to eat as much, and to labor as little as possible.” [WN, p.387.]

Smith reintroduces the idea of private interests and the property incentive two more times. Once to show the hazards of monopoly which misdirect resources to areas with artificial profits.

“That this monopoly of the home-market frequently gives great encouragement to that particular species of industry which enjoys it, and frequently turns towards that employment a greater share of both the labor and stock of the society than would otherwise have gone to it, cannot be doubted.” [WN, p.453.]

Finally, when the payment of a manager of a monopoly requires private interests.

“In several different parts of Europe the toll or lock-duty upon a canal is the property of private persons, whose private interest obliges them to keep up the canal. If it is not kept in tolerable order, the navigation necessarily ceases altogether, and along with it the whole profit which they can make by the tolls.” [WN, pps.725-726.]

Without a private interest, the incentive of property management is reduced.

“If those tolls were put under the management of commissioners, who had themselves no interest in them, they might be less attentive to the maintenance of the works which produced them.” [WN, p.725.]

“Private industry has a quasi-automatic check to this evil. The manager looks to money-making and will pay his labor no more than he can get it for; that is, no more than other labor secures.” [Taussig, 1939, p.483.]

The public managers have less need for efficiency with the public purse to support them. Therefore, as a government policy recommendation, retaining private interests is absolutely necessary.

“As the state, by our oppression, is a very great sufferer as well as ourselves, government is therefore, for its own sake as well as ours, bound to establish a law founded on the principles of justice, by which we may be secured, that the more we improve our farms, where we were born, and which we occupy, the more we shall enrich ourselves. Give us but such security, and the improvements of our farms, and the establishment of the country will in a short time prove that we are neither lazy nor unintelligent.” [John, 1969, pps.122-123.]

Several examples are used to reinforce this private/public point. The maintenance of canals in France and the joint-stock companies are the most extensively discussed by Smith.

“The directors of a joint stock company, on the contrary, having only their share in the profits which are made upon the common stock committed to their management, have no private trade of their own, of which the interest can be separated from that of the general trade of the company. Their private interest is connected with the prosperity of the general trade of the company; and with the maintenance of the forts and garrisons, which are necessary for its defense. They

are more likely, therefore, to have that continual and careful attention which that maintenance necessarily requires.” [WN, p.737.]

The incentives from private capital are strong enough that Smith considers them the more competitive type of firm. When face to face, firms with private interest incentives are predicted to prevail.

“The trading stock of the South Sea Company, at one time, amounted to upwards of thirty-three millions eight hundred thousand pounds. The divided capital of the Bank of England amounts, at present, to ten millions seven hundred and eighty thousand pounds. The directors of such companies, however, being the managers rather of other people’s money than of their own, it cannot well be expected, that they should watch over it with the same anxious vigilance with which the partners in a private copartnery frequently watch over their own. Like the stewards of a rich man, they are apt to consider attention to small matters as not for their master’s honor, and very easily give themselves a dispensation from having it. Negligence and profusion, therefore, must always prevail, more or less, in the management of the affairs of such a company. It is upon this account that joint stock companies for foreign trade have seldom been able to maintain the competition against private adventurers.” [WN, p.741.]

This incentive structure determines the outcome of competitive situations. It directs private interests, and it supercedes the desire to consume as much and labor as little as possible, by providing a perception of reward to effort. That reward may be direct, the apprentice has no receipts on the basis of output; or indirect, social capital geared to productive allocations increases the number/level of outcomes for society if the



private interests are identified and used. Efficiency increases the level of production, but the reverse also holds. Similar to other interdependent situations cited in this dissertation, efficiency is also a function of production levels. This implies that the incentive for increased efforts at improving the efficiency of allocations will grow with production.

#### **F. Conclusions:**

Property serves as an operational filter for defining the actions to be interpreted by the impartial spectator, Smith's method of implementing moral conduct at the individual level within a social setting. The particular choice of incentive mechanisms for directing these internal moral voices has led interpreters to a variety of sources. Through this discussion, interpreters have consistently arrived at the same instrument, property. One of the formal objectives of this dissertation is to show that the mutual exclusiveness of interpreters' positions is not as significant as one might expect from a survey of the literature. Whether Young's vanity that requires flattering with objects, Brahmananda's need for distinction through possessions, Taussig's self-regarding motives for accumulation (greed), or Myint's stages analysis for the employment of labor supplies, each raises their flag on the underlying ground of property. Additionally, the relative importance of property roles will serve to distinguish several positions in this literature. Authors following Brahmananda's approach may be less interested in the incentive role of property that drives individual economic activity, but do not argue that it does not exist. Rather, Brahmananda is more interested in property accumulation and the development of social classes via economic differentiation. In the modern editorial pages, Thomas Sowell is more interested in the incentive role of property as a reward for effort, and not particularly interested in the underlying psychological motives for



accumulation. People may be driven by vanity, social distinction, or greed; Sowell is most interested in the fact that they are driven to action.

Once actions are classified as acceptable or disreputable within Smith's moral system, virtues are identified by particular actions on a relative performance basis. This leads to the defining of personal character through levels of parsimony, ambition, and industry exhibited by the individual. These are founded in property definitions, and hold accumulation in the highest regard.

By identifying the underlying institutional structures of Smith's moral code, a better understanding of the social relationships is possible. The norms of conduct for the individual are defined by the manner in which property is acquired and handled, but property requires the individual's recognition before it becomes something to be respected. It is this interdependence of definition that makes Smith's analysis of a moral code such an interesting problem. Virtuous conduct is defined by property, but property is itself defined through conduct. This mutual interdependence will be discussed further in Chapter Four as the process of recognition is important in shaping the moral, social, and economic outcomes of Adam Smith's system.

## **Chapter 3**

### **Property and Society**

#### **A. Introduction:**

This chapter will identify the ‘national’ or ‘macroeconomic’ roles of property. First considered will be Smith’s method of redefining wealth by changing from money-metallic measures to a goods measure and using this measure to define the performance of the national economy. Although tangible goods are a significant part of the property definition of wealth, Smith’s definition includes intangible goods. Once wealth is defined in that way, government, seen as a necessity for the security and protection of national wealth, becomes dependent on what constitutes property. From this, a legal-economic relationship develops where property rights in Smith, and many interpretations of Smith, forms the basis for jurisprudence, historical analysis, and social structures. Much of Smith’s work in jurisprudence is focused on the definition, origin, and evolution of property and rights, and has received significant attention from interpreters. In particular, some attention will need to be paid to the ‘stages of history’ discussion that influenced a wide range of subsequent authors, including the likes of Schumpeter, Rostow, Marx, and the Clarks. Within Smith’s evaluation of historical systems, and those evaluations of many interpreters, differing forms of social and legal structures were identified. These systems were usually defined by their property, and especially by the level of individual security.

Concerns for justice will vary between the differing social structures, although Smith appears to have ultimately settled on a particular definition, as it regards property.

The symbiosis that is prevalent between property and the impartial spectator will similarly appear in notions of justice. Each depends on the other for definition, and is part of a potential mutual manipulation for meaning. As justice will be discussed in the context of the social structure, this topic will be addressed in this chapter. It will become necessary to refer to the impartial spectator discussion of the previous chapter, as individual notions about what constitutes a just outcome will depend on the individual's morality, a definition dependent on the impartial spectator.

#### **B. Real Wealth and National Economies:**

Property is used to define real wealth. Most of Smith's predecessors would appear (as far as Smith was concerned) to have used the sum of gold and silver in a region to measure the relative wealth of that region. Smith brought questions to this discussion that would revise the public and policy-makers' perceptions of wealth.

“Others admit that if a nation could be separated from all the world, it would be of no consequence how much. or how little money circulated in it. The consumable goods which were circulated by means of this money, would only be exchanged for a greater or a smaller number of pieces; but the real wealth or poverty of the country, they allow, would depend altogether upon the abundance or scarcity of those consumable goods.” [WN, pp.430-431]

The abundance of consumable goods measure of wealth would be reflected in the subsequent economic literature. Wealth is not measured by the product of price times property, but by the ability of the property to satisfy wants. [In particular, see de Sismondi, 1966, p.16.]

The result of this change in social definitions was addressed in the retrospective literature of the 19<sup>th</sup> century.

“The perception of this relation between acquisition of property and the production of wealth has several important consequences.” [Hadley, 1897, p.10.]

Hadley would go on to list them. It changed the attitude of the public toward trade, the people engaged in trade, and the attitude of economists toward state interference in trade. In particular, Hadley sees the move to markets as a socially recognized transition from an adversarial to a mutually beneficial system of exchange. He appears to assign a great deal of understanding to economic agents.

“In ancient times trade was regarded as a fight between buyer and seller; to-day it is looked at as a means of mutual service.” [Hadley, 1897, pp.10-11.]

Hadley identifies the presence of government in any market as a new participant rather than omnipresent in its preservation of the economic rules. This position will be examined in more detail in Chapter Four. For now, Hadley assumes that government is only present in markets when it directly changes particular rules of markets. This position ignores the passive presence of government, perpetually ‘waiting in the wings’ to preserve an existing arrangement through direct action.

Hadley’s Smith convinced people to consider political economy a science, instead of an art, with a definite set of areas in which prescriptive analysis can be made.

“Adam Smith and his successors showed that the bulk of this legislation had a very different effect from what was intended. Instead of preventing extortion, it prevented mutual service.” [Hadley, 1897, p.11.]

Also, he [Hadley's Smith] split economic analysis into two uses of the term law; a body of natural laws to describe human behavior, and positive laws which would be subject to verification and enforcement by government. Lastly, Hadley argues that Smith's approach introduced the philosophy of self-reliance into economics.

“In modern economics we have seen that society is made richer by allowing individuals, as far as possible, freedom to get rich in their own ways.” [Hadley, 1897, pps. 13-14.]

If the system is defined by the property it generates, the assessment of performance, regulation, protection, and expansion are all property dependent. This theme of assessing the government's performance on the basis of economic performance is used by Taylor to describe the reasons for the success of the U.S. economy.

“The accumulation of capital is favored by the existence of large incomes, by conditions which insure to capital the expected advantages of saving, and by the presence of suitable social machinery to aid in caring for and investing accumulations.” [F.M. Taylor, 1925, p.116.]

Taylor describes the particular conditions suitable to economic growth that existed in the U.S. A precondition for capital accumulation was the presence of a surplus income for current period savings to occur, and the government protected interests/profits for those accumulating these surpluses. The economy had exhibited good returns relative to opportunity costs. And, finally, the banking structure had a prudent action history of investing and safeguarding individual savings, implying security, effective pooling of smaller investors' resources, and conservative but active investment agents. In his extended discussion, Taylor's interpretation of Smith results in property becoming a

catalyst for individual initiative, an object demanding security, facilitating accumulation. and changing social institutions. [See F.M. Taylor, 1925, discussion pp. 116-18.]

The following, often-cited passage identifies the logic of Smith's real/nominal position, and would force the definition of real wealth into his version of property. Smith starts with the exportation of precious metals to purchase commodities. These metals would have required the employment of capital in their production, either as the direct result of this capital or the indirect result of converting goods to commodity money. In either case, capital stocks would be actively seeking further production and would be reduced.

“On the contrary, it [capital stock] would, in most cases, be augmented.

No goods are sent abroad but those for which the demand is supposed to be greater abroad than at home. and of which the returns consequently, it is expected, will be of more value at home than the commodities exported. If the tobacco which, in England, is worth only a hundred thousand pounds, when sent to France will purchase wine which is, in England, worth a hundred and ten thousand pounds, the exchange will augment the capital of England by ten thousand pounds. If a hundred thousand pounds of English gold, in the same manner, purchase French wine, which, in England, is worth a hundred and ten thousand, this exchange will equally augment the capital of England by ten thousand pounds.” [WN, pp.490-491]

Smith then applies an individual situation to the aggregate economy. If all individuals are better off from the transactions, then the nation would benefit from the trades.

“As a merchant who has a hundred and ten thousand pounds worth of wine in his cellar, is a richer man than he who has only hundred thousand pounds worth of tobacco in his warehouse, so is he likewise a richer man than he who has only a hundred thousand pounds worth of gold in his coffers. He can put into motion a greater quantity of industry, and give revenue, maintenance, and employment, to a greater number of people than either of the other two. But the capital of the country is equal to the capitals of all its different inhabitants, and the quantity of industry which can be annually maintained in it, is equal to what all those different capitals can maintain.” [WN, p.491.]

Some interpreters, such as Levine, go further. It is not property that is important, but the institutional structure and knowledge that produces it which should be the focus of attention. According to Levine, wealthy societies must have more than property and access to goods. Such societies require social structures that store the knowledge for repeating such accumulations.

“Adam Smith insisted that what makes a wealthy society is not amassing wealth but gaining the knowledge of how wealth is made and building the institutions that embody that knowledge.” [Levine, 1995, p.157.]

This view results in changes to Smith’s personal definition of wealth being applied to the aggregate. Levine’s change, although not directly contradicting Smith, does modify the goods (tangible and intangible) measure of wealth for the social economy. This change raises an interesting question while deciphering the interpretive literature. Are subsequent authors, like Levine, attempting to redefine wealth as a social structure, or are they simply insisting that economists would be better fitted to focus their efforts on the

analysis of this social structure? This would imply an important redirection of economics into institutions and structural analysis for those who would wear “Adam Smith ties.”

‘Real’ wealth has been used above to describe Smith’s approach to national performance assessment. His continued discussion in WN reveals his understanding of the idea, even as it is generally used today.

“If importation was at all times free, our farmers and country gentlemen would, probably, one year with another, get less money for their corn than they do at present, when importation is at most times in effect prohibited; but the money which they got would be of more value, would buy more goods of all other kinds, and would employ more labor. Their real wealth, their real revenue, therefore, would be the same as at present, though it might be expressed by a smaller quantity of silver; and they would neither be disabled nor discouraged from cultivating corn as much as they do at present.” [WN, p.535.]

Cannan and Marshall take up this passage while addressing separate issues. Marshall was attempting to identify and define the capital stock and profits (the incentive for savers) in classical economics. Cannan looked to assess the performance of an economy and the operational structure. Marshall’s discussion would lead him to identify an extension in Smith’s usage of the term....

“personal wealth...to include all those energies faculties, and habits which directly contribute to making people industrially efficient.” [Marshall, 1920, p.37.]

Marshall appears to see this as causing possible confusion with the term wealth.

Cannan’s discussion of Marshall used a selected passage from [WN pps.279-280.] in



which any increase in the quantity of capital would increase income, while increases in stock (property) do not necessarily imply increases in income.

“In Book II, where Adam Smith for the first time goes into the question (defining capital and stock), the stock of an individual is the whole amount of personal property or property other than land, which he possesses at any given point of time, and the stock of the community is the sum of the stocks of its individual members. The capital of an individual is not identical with his stock, but is only that part of it which is to afford him a revenue...” [Cannan, 1967, p.44.]

Cannan’s own discussion would equate capital with property in his reading of Smith. This would provide a ready measure for the assessment of the economic outcomes. The accumulated capital stock would be a quantifiable object, subject to measurement, and it provides comparable levels within and between regions.

“The second conception [the first is capital = money], that in which the capital appears as the actual property possessed by the individual, is the more appropriate to the purposes of economic inquiry, and when Adam Smith proceeds to consider the capital of the community he keeps it very steadily before him.” [Cannan, 1967, p.47.]

Cannan later acknowledged the Malthusian problem, which focuses attention on the *per capita* level of economic output. Increased populations would require increased accumulations for individual holdings to remain (at minimum) constant. To expand this *per capita* output, increased fertility of soil and inventions would be necessary for increased stimulus to wealth production.

“A country will therefore be rich or poor, according to the abundance or scarcity with which these material objects are supplied, compared to the extent of territory; and the people will be rich or poor, according to the abundance or scarcity with which they are supplied, compared with the population.” [Malthus, 1964, p.34-35.]

Malthus has identified the assessment tool for the national and personal level with that single passage. The ability of the economy to provide the goods to the individual participants becomes the mechanism for defining the wealth of a country. This runs slightly counter to the earlier citation where the knowledge of how to provide the goods is the relevant device. Malthus used Smith’s social model for wage determination in his discussion. This can be described as a ‘corn-model.’ In these models, labor is dependent on the consumption of corn, and any price reductions in corn result in lower wage requirements.

“On the contrary, as the rise in the real value of silver, in consequence of lowering the money price of corn, lowers somewhat the money price of all other commodities, it gives the industry of the country, where it takes place, some advantage in all foreign markets, and thereby tends to encourage and increase that industry.” [WN, p.535.]

The adjusting, nominal prices will offer compensating moves in the trading power of a region’s output. The nominal prices result in relative price differentials. This results in real changes occurring to the markets. The policy implications of this real wealth definition are described later in WN.

“The most advantageous employment of any capital to the country to which it belongs, is that which maintains there the greatest quantity of productive labor, and increases the most the annual produce of the land and labor of that country.” [WN, p.600.]

Policy interpretations would take these discussions into other topics, namely, the implications of accumulated real wealth, and the application of this wealth to tasks. Muller was concerned with the living standards for the working classes.

“Smith argued that the aim of economic policy should be to increase the real purchasing power of the working majority by keeping the price of commodities low and wages high.” [Muller, 1993, p.60.]

Solo discussed more ambitious tasks for Smith’s property, namely, national power. Smith himself identified this same objective, especially as part of the goals of national leaders. To convince leaders to switch to his measure of wealth, Smith attempted to show policy-makers the convertibility of property wealth into military power.

“The real wealth of the nation lay in its power to produce the substance of welfare and, hence (the two were largely interchangeable), the sinews of war.... Because we [capitalists] are ambitious and ingenious and ready to invest our wealth and effort we will, if left alone, increase the productive capacity of the economy and, thereby, we will have augmented the power of the nation to raise great armies, to build great navies, and to wage war.

“These, he [Smith] argued, are the true paths to national power.” [Solo, 1974, p.28.]

Solo focused attention on productive capacity, and the policy of laissez-faire, as a prescription for international power.

This assessment mechanism (real property levels) is extended to the agency that regulates trade. Not only does the economy need to stand up to comparisons of national wealth, the outcomes will reflect the performance of the supervising authority and their particular interventions. Smith's recommendations were aimed at rebuking policies that might otherwise reduce the output that could be attained as capital is diverted from the most profitable trade. For example, monopoly licenses which may divert resources.

“The monopoly of the colony trade, on the contrary, by excluding the competition of other nations, and thereby raising the rate of profit both in the new market and in the new employment, draws produce from the old market and capital from the old employment.... But whatever forces into a branch of trade of which the returns are slower and more distant than those of the greater part of other trades, a greater proportion of the capital of any country, than what of its own accord would go to that branch, necessarily renders the whole quantity of productive labor annually maintained there, the whole annual produce of the land and labor of that country, less than they otherwise would be. It keeps down the revenue of the inhabitants of that country.” [WN, p.608.]

Smith, faced with trading monopolies, chose to demonstrate the problems of market restrictions by highlighting the problems associated with these monopolies. Rulers are encouraged to embrace the idea of unrestricted exchange. By eliminating monopolies, capital flow will maximize the value of output, and property (the measure of

real wealth) will be increased to its maximum. Smith makes this argument by appealing to the self-interested motives of rulers.

“He [a nation’s ruler] is in this manner most likely to increase both the quantity and value of that produce, and consequently of his own share of it, or his own revenue.” [WN, p.637.]

According to Smith, any system that restricts the allocation of property will run the risk of reducing the system’s productivity.

“The law which prohibited the manufacturer from exercising the trade of a shopkeeper, endeavored to force this division in the employment of stock to go on faster than it might otherwise have done.... But the law ought always to trust people with the care of their own interest, as in their local situations they must generally be able to judge better of it than the legislator can do.” [WN, pps.530-531.]

The presence of a monopoly violates the objective of wealth maximization. Not only do they redirect property from competitively viable activities, but they also result in the reduction of overall profitability that an industry could support. Additionally, several intangible goods, also considered property, would not be as actively pursued in the presence of monopolies. Innovations, resulting in patents, would not be as likely in Smith’s system. Such intellectual property, not necessarily the result of productive labor, is still a part of the property wealth of a system. Although the one company will enjoy higher than normal profits, the industry profits are reduced in Smith’s system.

“The monopoly raises the rate of profit, but it hinders the sum of profit from rising so high as it otherwise would do.” [WN, p.611-612.]

If a policy results in more property being diverted into a branch of industry than might otherwise occur, then it will reduce the national output, and thereby violate the performance assessment criteria of wealth (property) maximization. This maximization principle becomes the objective and the means. The direction of property to yield the greatest social wealth is a means of realizing all the individually beneficial outcomes.

“In the year 1776 Adam Smith published his ‘Wealth of Nation’, combating vigorously the restrictive policy of European governments. He showed that private individuals could acquire large profits by supplying some real social need; and that men, in pursuing their own interest, were commonly increasing the wealth of society. Moreover, he proved that many of the restrictions placed upon private enterprise resulted, not in furthering social interest, but in preventing men from serving each other. He argued most ably that the desire of men to promote their individual interests, by establishing business enterprises and trading with their fellows, would usually produce results beneficial to society. He urged that the true way for a nation to become rich is to leave its citizens free to conduct business as they desire.” [Bullock, 1900, p.487.]

Sympathy, time to participate in the social process, etc., these ends in TMS are lost in WN. The means of reaching a socially desirable situation has become the end to itself. This discussion would lead Cole to the following conclusion:

“The truly valid title to wealth and income rested on productive ability.”

[Cole, 1950, p.13.]

It cannot be emphasized enough how important this concept is. Earlier, government was defined as an institution that is symbiotically defined with property. The

performance of the government is assessed by the abundance of property and its failure is identified with inefficient resource allocation. This quote from Cole identifies that the moral persuasiveness of government, the ability to convince citizens under its jurisdiction to accept a legal structure restrictive of individual activity, rests with property. Not because participants have vested this power with their government, but because those people that have property, deserve property. These implications are derived from the phrase “truly valid.” Any alteration in the property allocations would imply a violation of validity. Government, if it is to be valid, would be required to minimize its ‘activist’ functions and to protect existing market outcomes.

With the advent of economics as a utility maximization process, interpreters would apply the same notions of property maximization to the generation of utility. Sidgewick appears to suggest that Smith required laissez-faire wealth maximization to look at utility, not material wealth. Essentially, his position is that people may choose nonmaterial goods if left on their own. In Sidgewick’s version of Smith’s world, serfs may produce less, but be happier, if free. [See Sidgewick, 1887, discussion pps.403-4.] In so doing, Sidgewick has turned Smith into a Utilitarian. This view is mirrored in Cannan’s identification of non-goods sources of wealth maximization.

“It is noteworthy that Smith seems to have felt that there was something novel in his plan of treating the condition of the people as the important thing.”

[Cannan, 1930, p.264.]

Both of these positions have changed the means-end relationship that appears in Smith. The method of reaching utility maximization has become Sidgewick’s goal. Cannan would retain the understanding that Smith envisioned an enlightened benevolent system

where mutual sympathies would drive conduct. Cannan still identifies the ‘condition’ as the end in Smith. As seen in the previous chapter, the condition is indicative of the increased level of sympathy and approbation, but not necessarily a guaranteed outcome. Some of the modern views of Smith’s governmental system would leave government entirely out of the process. Property is seen to imply markets which...

“are ‘good’ in an important social sense. They not only help build the ‘wealth of nations’ through an efficient allocation of resources, but they also constrain social behavior, help disperse economic power, allow for individual freedom, provide some reasonable means of sharing the fruits of productive activity, and offer relief of problems of the disadvantaged, especially over the long run.” [McKenzie, 1987, p.10.]

McKenzie is interested in government only insofar as it defines the rules structure for the participants in the system. Property has constrained behavior, dispersed power, allowed freedom, equalized the access to future property holdings, and is generating these significant positive externalities as a result of the government efforts at creating and enforcing the rules.

In Smith’s analytical approach, colonial structures were simply distant properties of the realm and still part of the ownership structure of the English Government. All the same concepts regarding investment, incentives, and expected outcomes were applied.

“Whatever money was sent out to them, it was said, came all back to us by the balance of trade, and we could never become a farthing the poorer, by any expense which we could lay out upon them. They were our own in every respect,



and it was an expense laid out upon the improvement of our own property, and for the profitable employment of our own people.” [WN, p.647.]

This colonial concept is important here because of the directing of assets. Smith appears to be less concerned with the location of the property as with the possessor's interests. Non-investment in distant, but profitable, ventures meant a decrease in real wealth at the investor's home location. The flow of goods through the production process has become more important than the movement of precious metals from the colonies to the controlling state. The success of the investments in one effort will contribute to the increasing value of society's investments. The holders of the capital would reap the profits, which are potentially higher than those that would result from ignoring these possibilities while looking only at domestic investments. To attract these distant investors, the security of the property resources must be assured. Illustrating this concern for security, we can either consider the earlier discussion regarding the occupant's security, or look to his discussion of foreign issues. When asked about the prospects of Ireland and policies conducive to its growth, Smith wrote in response:

“It wants order, police, and a regular administration of justice both to protect and to restrain the inferior ranks of people, articles more essential to the progress of Industry than both coal and wood put together, and which Ireland must continue to want as long as it continues to be divided between two hostile nations, the oppressors and the oppressed, the protestants and the Papists. Should the Industry of Ireland, in consequence of freedom and Good Government, ever equal that of England, so much the better would it be, not only for the whole British Empire, but for the particular province of England. As the wealth and

industry of Lancashire does not obstruct, but promote that of Yorkshire; so the wealth and industry of Ireland, would not obstruct, but promote that of England.”

[COR, pp.243-244.]

Productivity levels between and within a nation’s borders have been incidentally defined as the objective. After WN, Smith no longer felt the need to reassert his definition of what constitutes wealth. His correspondence was particularly interested in the means to an outcome for Ireland. The outcome was accepted without explanation.

### **C. Government:**

Once the national economy and individual performance expectations are established in terms of ‘real property,’ the role of government becomes one of protecting that property. This section will more explicitly identify the relationship between Smith’s government and property. The focus of his Lectures on Jurisprudence is the evaluation of systems of governance. Without parsing words, property is the reason for government.

"The first and chief design of every system of government is to maintain justice; to prevent the members of a society from encroaching on one another’s property, or seizing what is not their own. The design here is to give each one the secure and peaceable possession of his own property. {The end proposed by justice is the maintaining men in what are called their perfect rights.}" [LJA, p.5.]

Later, Smith repeats himself, but adds the clause defining justice in terms of property.

"The first and chief design of all civil governments, is, as I observed, to preserve justice amongst the members of the state and prevent all encroachments on the individuals in it, from others of the same society, - {That is, to maintain each individual in his perfect rights.} Justice is violated whenever one is deprived

of what he had a right to and could justly demand from others, or rather, when we do him any injury or hurt without a cause." [LJA, p.7]

Property, although a social phenomenon and subject to social construction, is natural in Smith. It has arisen through societal activities as part of the course of human progress.

"From the natural progress which men make in society." [LJA, p.207.]

While property is defined as natural, government is politically contrived. Solo interprets this construction as adversarial, and potentially aggressive. Laws would define the relationship between private property and public infringement. They exist to curtail the power of society relative to the individual. To the contrary, Werhane would turn the enforcement power in government into an instrument of economic growth. Through the protection of interests, a stable legal structure would yield an environment that allows complex economic relationships to increase productivity.

"The function of the law was not to check private greed nor to further group interests, but rather to protect private power (property) and prerogative (liberty) and, conversely, to check public intervention in any form." [Solo, 1974, p.31.]

Following Solo's reasoning, Smith's later discussions become particularly focused on the relationship between conflicting powers. Government arises as society changes, and reflects the contemporary property system.

Reading from the following passages, it would be hard to necessarily support Solo's view that laws are exclusively designed to intercede to protect property from government. Laws are to prevent incursions by any agent.

"I should also say that the age of shepherds is that where government first commences. Property makes it absolutely necessary. When once it has been agreed that a cow or a sheep shall belong to a certain person not only when actually in his possession but where ever it may have strayed, it is absolutely necessary that the hand of government should be continually held up and the community assert their power to preserve the property of the individuals." [LJA, p.208.]

Similarly,

"It is in the age of shepherds, in the second period of society, that the inequality of fortune first begins to take place, and introduces among men a degree of authority and subordination which could not possibly exist before. It thereby introduces some degree of that civil government which is indispensably necessary for its own preservation: and it seems to do this naturally, and even independent of the consideration of that necessity. The consideration of that necessity comes no doubt afterwards to contribute very much to maintain and secure that authority and subordination. The rich, in particular, are necessarily interested to support that order of things, which can alone secure them in the possession of theirs. All the inferior shepherds and herdsmen feel that the security of their own herds and flocks depends upon the security of those of the great shepherd or herdsman; that the maintenance of their lesser authority depends upon that of his greater authority, and that upon their subordination to him depends his power of keeping their inferiors in subordination to them. They constitute a sort of little nobility, who feel themselves interested to defend the

property and to support the authority of their own little sovereign, in order that he may be able to defend their property and to support their authority.” [WN, p.715.]

The alternative view of this relationship is that government is not necessarily contrary to property, but rather exists as a result of social arrangements to protect, and potentially increase the level economic activity (Werhane). To evaluate this view, we will examine the route that Smith takes through each stage of economic history (as he defined them) and the identified form of government for each.

Werhane’s view of Smith’s system brings the modern society together as a smooth progression through increasingly complex forms of property. She appears to ignore the role of interpersonal and institutional conflict in shaping this evolving definition by focusing the discussion at a high level of abstraction.

“Smith envisions the development of property, labor, land, and civil society as commencing with the distinction between those who have property and those who do not, a distinction that gives rise to the necessity of government. In turn, the development of markets, the valuing of labor as a commodity, and the notion of economic liberty evolve from the institution of property.... Subsequently, the phenomena lead to the division and specialization of labor and thus economic growth.” [Werhane, 1991, p.68.]

Werhane has reached a ‘stages analysis’ for economic history without needing any catalyst causing changes to occur. The evolving social systems appear as a natural process that would occur independent of any conflicts occurring in property relations. In her society, there is a division of people based on property, and these led to specialization and economic growth. While Smith may be interpreted as a ‘naturalist’ through his

occasional use of natural law phenomena, some of his interpreters appear to use this concept to justify property as a precondition for liberty. If liberty is defined as the ability to make choices independent of coercion, then property is identified by some interpreters (Werhane among them) as a necessary condition for choices to be made. Using this reasoning, there could have been no liberty in the early stages of Smith's evolving society as there was no property.

Werhane's interpretive view appears to have its problems in light of the following passage from LJ.

"In the age of the hunters a few temporary exertions of the authority of the community will be sufficient for the few occasions of dispute which can occur.

Property, the grand fund of all dispute, is not then known." [LJA, p.208.]

In lieu of increasing the relative harmony of society, as Werhane would appear to suggest, property is 'the grand fund of *all* dispute.'

This forms an interesting interpretive problem. Do we read Smith as offering a conflict theory of social cohesion? A system where antipathy over interests causes a 'disinterested' third party to intercede? Or, do we read the *fund of all dispute* as a cause for the eventual civility of people? As societies progress, they will have developed institutional structures capable of resolving these disputes. As people become habituated to a system, they accept the interceding authority's decisions as part of the socialization process. Rather than violating another's property, individuals are fearful of the occasional government interference that might occur. This deterrent would be a 'civilizing' factor of people's lives.

Alternatively, as it regards the social-progress hypothesis, the assumption of progress toward ‘civilization’ would appear in the economics literature in the 19<sup>th</sup> century. The manner of defining this civility would often use Smith’s approach of security.

“Another change, which has always hitherto characterized, and will assuredly continue to characterize, the progress of civilized society, is a continued increase of the security of person and property.” [Mill, 1865, v.2 p.273.]

The progress of wealth into differing forms will imply that differences among people will develop. To Mill’s Smith, it would appear that government exists to protect property from interpersonal conflicts through the use of laws. Once again, Solo’s argument that laws primarily exist to protect people from government does not appear to be a reasonable explanation of Smith given the historical stages discussion of LJ.

Once differences in property occur, Smith’s famous assertion highlights the adversarial nature of property rights.

"But here when in the manner above mentioned some have great wealth and others nothing, it is necessary that the arm of authority should be continually stretched forth, and permanent laws or regulations made which may ascertain the property of the rich from the inroads of the poor, who would otherwise continually make incroachments upon it, and settle in what the infringement of this property consists and in what cases they will be liable to punishment. Laws and government may be considered in this and indeed in every case as a combination of the rich to oppress the poor, and preserve to themselves the inequality of the goods which would otherwise be soon destroyed by the attacks





of the poor, who if not hindered by the government would soon reduce the others to an equality with themselves by open violence." [LJA, p.208.]

The quote above is commonly used in the interpretive literature. Kemp offers a concise view on Smith's government. Of interest is that Kemp used Viner (1927) as his supporting citation rather than going to Smith himself.

"Adam Smith, too, although he has been accused of being inconsistent at times, accepted Locke's position that government is instituted for the purpose of defending property rights: to protect the rich against the poor." [Kemp, 1974, p.124.]

For Smith, government exists because it is necessary, not only to protect property, but also to reaffirm the social relationships that may occur between people. To participate in society, rules establish, recognize, and regulate acceptable conduct. To participate in the social system, one must follow the rules.

"Either submit to the regulations we make or get you about your business, so the community may say to the individuals who are members of it, either make your behavior agreeable to our laws and rules or depart from amongst us." [LJA, p.209]

Laws are "in every case" a system to define conduct protective of property and the property. These same rules must be followed to remain part of a social system. Property has implied the presence of government, and necessitates laws to define individuals' roles and participation. The returns to participating are a stable social structure, which makes larger economic returns possible. As long as individuals believe in the potential for returns, they may be effectively assimilated into the system.

Young describes this choice of Smith's as an effective system of expansionary inclusion. Outsiders have a choice. By choosing to participate, protection is extended. By choosing to not participate, access to wealth (the greatest motivator, even in Young's vanity based interpretation) will be denied.

“The wealth of civilized nations exists to a great extent because of the ability to extend the ‘benevolent’ model to include strangers in the web of interpersonal and mutually beneficial division of labor and exchange. The essential ingredient in this accomplishment is the ability of civilized societies to protect property and contract with laws rooted in natural justice.” [J.T. Young, 1997, p.64, using LJA pps.36-7, and LJA pps.150, 181-82.]

Smith offers one of his most powerful observations of government in Lectures on Jurisprudence. [LJ, pps.208-209.] Solo's explanation of government and his concern over the control of the laws and government appears quite important. The definition of what is to receive protection is a necessary outcome of social systems. If protection is not extended to certain objects, we should expect that the distribution of that good will be based on ethics or threat of force. Ethics, or force, may prevent someone from engaging in actions not explicitly outlawed. This process of extending protection will be addressed in chapter four.

Many interpreters have offered insights into this particular passage of Smith (LJ, pps.208-209). In particular, government is categorized as a means of maintaining order, the structure of which will depend on that which needs protection. The social interpretation of this view seems to have followed two tracks; it protects those with property, or it repudiates those seeking it.

For the protection perspective, Cole's position uses several passages from Smith, but one in particular is provided below.

"The people who possess the most extensive property in the dependent, will in this case generally choose to live in the governing country." [WN, p.895.]

"The classical economists were simply taking for granted...an assumption of their studies the inequality of property claims and of earning powers, and tacitly assumed that the State and the law would protect such claims and punish offenders against them." [Cole, 1950, p.12.]

The repudiation perspective can be seen in the following series of writers. Of particular interest is the use of the same LJ, p.208 quote.

"Order-bestowing principle of subordination helps to quench the desire of the lower class to attack the property rights of the upper classes, and leads to the creation of government." [Clark, 1992, p.83.]

"Laws and Government may be considered in this and in every case as a combination of the rich to oppress the poor..." [Hay, 1996, p.285.]

"Laws of distribution always are and always must be based upon human will and human force." [George, 1946, p.435.]

"The greater part of the charge arising from social establishments, is destined to defend the rich against the poor; because, if left to their respective strength, the former would very speedily be stripped." [de Sismondi, 1966, p.95.]

As the propertied can devote their attention away from the immediate protection of ~~th~~ their own property, their efforts can be focused elsewhere. This reduced effort on

individual security implies the ability to engage in one of Smith's virtues, parsimony.

Interpreters have found alternative meanings for this particular discussion of Smith.

“Security of property refocuses attention to efforts to accumulate instead of protecting existing social forms.” [Randall and Charlesworth, 1996, p.4.]

Randall and Charlesworth suggest that the propertied have an incentive to prevent changes that would usurp their current position. Property has social status and conveys power in their system. They argue that the perceived security of the legal structure is an important factor in generating the ability to accumulate. This would be a continuing, common theme throughout the remainder of the 19<sup>th</sup>, and into the 20<sup>th</sup> Century.

“Of the increased security, one of the most unfailing effects is a great increase both of production and accumulation.” [Mill, 1865, v.2 p.274.], and

“Security of property is the first and most indispensable requisite to the production of wealth.” [McVickar, 1966, p.57.]

Similarly, Quinn argues on the necessity of security as regards only particular types of property, namely, that which is saved and devoted to future investments. The relative importance of the security of savings comes from Quinn's priorities of property types in a wealth seeking society.

“The key to this kingdom is capital, output that is not consumed but rather saved and reinvested in enterprise.” [Quinn, 1994, p.108.]

“Adam Smith, on the other hand, contended that in all cases, 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 acquite, if parsimony did not save and store up, the capital would never be greater.” [Twiss, 1847, p.192.]

Property rights are part of a ‘visible hand’ in some of the interpretive literature, and would evaporate without organized enforcement. This enforcement mechanism is the appearance of government power to protect particular rights. They appear to argue that the famous “invisible hand” is the market mechanism that operates without any particular presence being discernable. Public policy discussions have created the term “visible hand” for the discernable actions of a government. Cole’s position may not be convincing after the previous citations of Smith, but his discussion does highlight this enforcement mechanism even if he does not believe that Smith was cognizant of the necessary role of government in protecting property.

“[English Classical Political Economists] were quite unconscious that the private ownership of capital...was a ‘right’ dependent on state-recognition and police enforcement...” [Cole, 1950, p.14.]

Clark’s position recognizes wealth as both a legal and power-based outcome. Property occurs when either the authorities reaffirm the right, or when the holders possess the capability to enforce this right themselves.

“In order that the essential attribute of wealth, appropriability, may be realized, the rights of property must be recognized and enforced, either by personal prowess, or by the agency of legal foundations.” [J B Clark, 1887, p.12.]

Other interpreters focus on the necessity of rights protection as part of the social needs for justice. Reminiscent of earlier discussions, these interpreters often follow their

discussions of enforcement with that of the social progress resulting from accumulations that security should allow.

“Government...protect person and property - for Smith, the essence of justice.” [Muller, 1993, p.126.]

“[The function of government] is, protecting property, of securing a fair administration of justice” [de Sismondi, 1966, p.78.]

Recalling Bullock’s assertion, quoted earlier this chapter, if the *true way* to become wealthy was by the absence of direct intervention, than the lack of economic progress must be the fault of the intervening government and its failure to administer justice. The 20<sup>th</sup> century would see several political campaigns pitting the view of the activist government against those seeking to reduce its role. The novelty of this debate is described by Samuels [1989b]. In particular, the inevitability of the legal system in recognizing the rights of one party to the detriment of another results in an intervention. This position implies that one group may receive the active protection of a government that recognizes a complaint and intercedes into a situation that had previously been without an active government presence, or that the legal system will intercede to prevent a complainant from receiving any particular protection, in essence, the government passively intercedes during the administration of justice. In this interpretation of intervention, government is ubiquitous and protecting the rights of one group from the incursions of another. This view will be visited again in chapter four as the ability to change the government’s perceptions of what deserves protection would convey enormous economic power.

As long as the rules are not perceived as hindering property beyond a threshold, government will be accepted. Once that threshold is perceived as violated, people will expect to be able to change the rules or forego the government.

"Government was established to defend the property of the subjects, but if it come to be of a contrary tendency, yet they must agree to give up a little of their right. You must agree to repose a certain trust in them, tho if they absolutely break thro it, resistance is to be made if the consequences of it be not worse than the thing itself." [LJA, p.324.]

"In so far as private property was concerned there was relatively a great amount of security; this was due not merely to the efficient operation of the police powers of the state, but also to the restraint practiced by the State in regard to the policies of transfer or of public expenditure." [Brahmananda, 1959, p.154.]

This interpretation would find several more voices, particularly among the laissez-faire advocates. At times, these interpretations would offer the following, but as a qualified position.

"What line of policy was most conducive to the increase of the wealth of nations? The answer was again summed up in the term which has become famous: laissez-faire, the belief that the wealth of nations would increase most rapidly if every person was allowed the fullest opportunity to decide for his own individual self what was the best way to use his labor and whatever capital he possessed."

[Dorfman, 1967, p.49.]

Dorfman's view comes from interpreting not the passages regarding the invisible hand, but rather a reading of the incentive role of property in directing personal efforts in Wealth of Nations. J.M. Clark offered a very similar position.

“Adam Smith's philosophy centered in the belief that the competitive market could transform the pursuit of profit into an incentive to the making of more plentiful goods, in which the masses would share, and reducing profits to the smallest amount that would serve as an adequate stimulus.” [J.M. Clark, 1957, p.177.]

More commonly appearing in the literature than Dorfman's method of argument is Hadley's. The reference is unmistakable. Although Hadley would offer other insights into the contributions of Smith to changing attitudes toward wealth, economics, and economists; he relies on the invisible hand passage to relate the pursuit of private gain to the social objective of increased wealth.

“He (Adam Smith) also showed, far more clearly than any of his predecessors, the relation between the pursuit of private wealth and the utilization of public wealth. He proved that the former was a most powerful agency for furthering the latter; that the actions of men in the pursuit of money-making were a means of serving others even when they had no intention of consciousness of so doing.” [Hadley, 1897, p.10.]

The result of having the governmental system defined and defining property is the systems of laws and enforcement become based in property. The government's, and legislative system's, objective is summarized by Taussig:



“It is the aim of the legal system under which we live - the system of private property - to inhibit predatory doings.” [Taussig, 1939, p.27.]

Law and the legal system have become synonymous with property in this interpretation. It took one hundred and fifty years, but the generations of interpretations of Smith and private property results in the legal system becoming indistinguishable from the property system. This view makes use of Smith’s summation of government and legal structures.

"Even law and government have these as their final end and ultimate object. They give the inhabitants of the country liberty and security to cultivate the land which they possess in safety, and their benign influence gives room and opportunity for the improvement of all the various arts and science. They maintain the rich in the possession of their wealth against the violence and rapacity of the poor, and by the means preserve that useful inequality in the fortunes of mankind which naturally and necessarily arises from the various degrees of capacity, industry and diligence in the different individuals." [LJA, p.338.]

As property is a social construct, different societies imply different constructs, generating problems with establishing a science of political/economic rules. It is when the social constructions are quite similar that legislative scientists would hope that consistent rules might be found. Otherwise, if the systems generate different sets of property systems after following similar development processes, than finding a repeating pattern in human social behavior becomes enormously difficult. Alternatively, once a successful system is found, emulation may result in similar social constructions. If these similarly designed property systems result in very different development results, these same scientists would

be hard-pressed to rigorously explain the results. Smith uses the alternative development processes that have historically occurred as a basis for several interesting observations in different fields of inquiry. In particular, international trade will imply the confrontation of property systems. This raises a question analogous to the one of Samuels, noted above.

Namely, whose laws (and the underlying rights) will matter?

"It is to be observed that the rules which nations ought to observe or do observe with one another cannot be treated so accurately as private or public law. We find the rules of property pretty exactly established in every nation." [LJB, p.545.]

Although Smith would identify all these possible relationships between property and government, Clark would criticize Smith for having defined laws-makers as unproductive. Clark makes very clear his view of their productive role in society. Through the process of making laws, a set of behavioral guidelines directs activities. Laws will result in the production of wealth by directing activities to particular ends.

"Whoever makes, interprets, or enforces law produces wealth." [J B Clark, 1887, p.13.]

"These classes are protective of useful commodities, but are productive of wealth." [J B Clark, 1887, p.15.]

It is this role as protectors of wealth that necessitates a framework for enforcing protection; the legal structure.

#### **D. Law:**

While the previous section of this chapter looked at government, this section will

focus on legal structures. These are, in part, dependent on the social and governmental structures. This presence of different legal classes (slaves, serfs, or others defined less by personal rather than property protections) are often reflections of the government and participatory systems. Early in LJ, Adam Smith addresses the origin of different species of property. This discussion approaches the task in two separate ways. First, as an historical phenomenon, where:

“...it will be proper to observe that the regulations concerning them [origins of property rights] *must vary considerably according to the state or age society is in at that time.*” [LJA, p.14, emphasis added.]

“It is easy to see that in these several ages of society, the laws and regulations with regard to property must be very different.” [LJA, p.16.]

Hume is seen as having property as the result of complex human constructions, not simply the object of justice. [see Robbins, 1952, p.194, and the quote below.]

“The laws relating to this institution [property] and the contracts which can be made regarding it form part of the essential assumption of the Classical analysis of market relationships and their function.” [Robbins, 1976, p.29.]

Smith’s second method was an ahistorical discussion. Property is a process of legal extension. This process is identified by the relevant historical periods, but it is not historically dependant. This view can be seen in two particular passages.

“The more improved any society is and the greater length the several means of supporting the inhabitants are carried, the greater will be the number of their laws and regulations necessary to maintain justice, and prevent infringements of the right of property.” [LJA, p.16.]

Although historical stages are used, de Sismondi defines these stages by the holding of property, not the forms which property takes. [de Sismondi, 1966, p.39-46.] He sees himself as an update/elaboration of Smith, and he still has property as a historical tool for social development, but his approach is very different. This 'tool' is found through its application to increasing both the quantities of property and the changes in property forms, and forcing changes in society.

Smith uses the words 'any society' in his discussion. Therefore, we do not need to be in any particular stage of history. As the complexity of trade, production, and property increase, the need for more laws will be felt. This increase in trade tracks the changes in development stages.

The second of these ahistorical passages is the extended discussion of LJ on pages 27-36. Shepherds and hunters are used as examples, but the extensions into property forms will vary in different societies, even if they are in the same historical stage.

{Accession comes next to be treated of. These two are the original methods of acquiring property. The others are secondary, by which it is conveyed either from the dead to the living by will or succession, or by voluntary transference amongst the living.} This method of acquiring property has also undergone very considerable alterations in the different ages of society. {In the age of hunters there was no room for accession, all property at that time consisting in the animals they had caught." [LJA, p.27.]

"The terms of prescription being different, the circumstances necessary to confirm a right by a long possession are also different. In Scotland, as we observed, the term of prescription being pretty long, viz. 40 years, they have not

required that the possessor should be bona fide; they think that this must necessarily follow from the justus titulus and longa possessio non interrupta.”

[LJA, p.35.]

Smith’s discussion of the relationship between legal structures and property occupies a significant portion of his LJ. Early in his lectures, he describes his theory of property origins and extensions. Property is a real right, something protected by laws which will allow for compensation when damaged by others.

“We may observe that not only property but all other exclusive rights are real rights. Thus the property one has in a book he has written or a machine he has invented, which continues by patent in this country for 14 years, is actually a real right. During that time he can claim restitution, or shew for damages from any one who prints his book or copies his machine, so that he may be considered as having a real right to it.” [LJA, p.11.]

It would be difficult to present a complete view of Smith’s property without addressing his historical approach. Property originated in possession and occupation, where brute force in early human history determined the ownership of property. As societies evolved, and the age of hunters was replaced by the age of shepherds, property would become an interpersonal object. It required the owner’s claim, but also the recognition and support of the social structure.

“Smith demonstrated that the rights claimed by the natural-rights theorists were based on the development of social and historical institutions.” [Muller, 1993, p.114.]

Rooke sees Smith as an exclusively historical stages analyst. From the “rude state of society to the blessings of civil liberties.” [See Rooke, 1969, p.5, and the discussion that follows.]

“It probably never occurred to Adam Smith to speculate as to the possibility of society existing and enjoying necessities, conveniences, and amusements without separate property. Separate property was to him a “natural” institution, which existed in much the same form among savage tribes of hunters and fisherman as in eighteenth century England.... Consequently, in almost the whole of the doctrines of these writers (English Classical Political Economists), the existence of private property and the practice of exchange is assumed.” [Cannan, 1967, p.7.]

Supporting Cannan’s view (and others) is Smith’s identification of progress, civility, and property as mutually dependent institutions.

"Occupation. Before we consider exactly this or any of the other methods by which property is acquired it will be proper to observe that the regulations concerning them must vary considerably according to the state or age society is in at that time. There are four distinct states which mankind pass thro: -1<sup>st</sup>, the Age of Hunters; 2dly, the Age of Shepherds; 3dly, the Age of Agriculture; and 4thly, the Age of Commerce." [LJA, p.14.]

"As society was farther improved, the several arts, which at first would be exercised by each individual as far as was necessary for his welfare, would be separated; some persons would cultivate one and others others, as they severally inclined. They would exchange with one an other what they produced more than

was necessary for their support, and get in exchange for them the commodities they stood in need of and did not produce themselves." [LJA, p.15.]

As societies settled on land, Smith sees the potential for the accumulation of property as inevitable. For this potential to be realized, laws and regulations must exist.

"In the age of agriculture, they are not perhaps so much exposed to theft and open robbery, but then there are many ways added in which property may be interrupted as the subjects of it are considerably extended." [LJA, p.16.]

"At first property was conceived to end as well as to begin with possession. They conceived that a thing was no longer ours in any way after we had lost the immediate property of it." [LJA, p.19.]

As part of Smith's developing legal structure, the impartial spectator becomes necessary to move people to sympathize with the possessor. By doing so, individuals participate in a social expectation of mutual protection. As seen in the previous chapter, this impartial spectator is formed in a symbiotic relationship with property. As part of the socialization of the individual, property serves as a reference point for basing emotive reactions. The reversal holds as well, property depends on recognition by individuals to be deemed something worthy of sympathy. This recognition process will be a focus of attention in chapter four of this dissertation.

"If I was desirous of pulling an apple and had stretched out my hand towards it, but an other who was more nimble comes and pulls it before me, an impartial spectator would conceive this was a very great breach of good manners and civility but would not suppose it an encroachment on property. -If after I had got the apple into my hand I should happen to let it fall, and another should snatch

it up, this would be still more uncivil and a very heinous affront, bordering very near on a breach of a right of property. But if one should attempt to snatch it out of my hand when I had that actual possession of it, the bystander would immediately agree that my property was encroached on, and would go along with me in recovering it or preventing the injury before hand, even suppose I should use violence for the accomplishing my design." [LJA, p.19.]

Muller appears to find Smith's observations to be an important basis for understanding both property and the interpreted legal system.

"Smith shows how changing political and economic structures create standards and expectations which an impartial observer would hold. ... Smith saw the history of law as a storehouse of information about how shared standards have emerged over time. In his historical account of property rights he shows how impartial spectators in historically developed institutions come to respect property rights and to regard the keeping of contractual promises as 'reasonable expectations.'" [Muller, 1993, p.116.]

As violations of the personal impartial spectator occur, social triggers are engaged. First, as social progress develops a set of laws, these laws will embody the past transgressions that will need to be deterred. Secondly, just as the impartial spectator is dependent on the circumstances for development, the legal structure will both define and enforce what is identified as acceptable conduct. Early stages of legal systems would take very few steps to prevent the removal of the possessor from their property.

"When men first began to rear domestic animals, they would be all under the class of the mansuefactae, as there must have been others still wild. But even in this



case it would be absolutely necessary that property should not cease immediately when possession was at an end. The proprietor could not have all those animals about him which he had tamed; it was necessary for the very being of any property of this sort that it should continue some what farther. They considered therefore all animals to remain in the property of him to whom they appertained at first, as long as they retained the habit of returning into his power at certain times." [LJA, p.20.]

As part of his stages approach to history, Smith will define the legal system with these stages. This extended discussion in LJA (pps.19-28) is often cited within the secondary literature. Briefly, Smith describes the transition of civilization from early hunting/nomadic groups with possession rights in property to modern (18<sup>th</sup> Century), market systems with extensive property rights systems. The particularly relevant parts to this project are quoted below:

"But in the process of time, when some species of animals came to be nowhere met with but in the state of mansuefactae, they lost that name and became mansuetae. A farther extension was by this means introduced into the notion of property, so as that all those animals were esteemed to be in the property of their master as long as they could be distinguished to be his; although they had for a long time ceased to come into his power, yet still they were considered as fully his property. This was no doubt a great extension of the notion of property. But a still greater followed on the introduction of agriculture. It seems probable that at first, after the cultivation of land, there was no private property of that sort; the fixing of their habitations and the building of cities first introduced the division of

land amongst private persons. - The notion of property seems at first to have been confined to what was about ones person, his cloths and any instruments he might have occasion for." [LJA, p.20.]

"The introduction of shepherds made their habitation somewhat more fixed but still very uncertain. The huts they put up have been by the consent of the tribe allowed to be the property of the builder. For it would not appear at first why a hut should be the property of one after he had left if more than of another." [LJA, p.21.]

"The first origin of private property would probably be men taking themselves to fixed habitations and living together in cities, which would probably be the case in every improved society. The field they would cultivate when living together in this manner would be that which lies most contiguous to them. As their place of abode was now become fixed, it would readily appear to them to be the easiest method to make a division of land once for all, rather than be put to the unnecessary trouble of dividing the product every year." [LJA, p.22.]

This theme of 'fixing' property reappears in the later chapters of WN. Of particular interest is the ability of this fixed property to result in different levels of social and political power. This ability of property to convey power will be discussed further in chapter four, but it is useful to reference Smith's discussion here as the legal system, being a social construction, will depend on the ability of people to influence the laws that describe the objects that will be protected.

“The authority of riches, however, though great in every age of society is perhaps greatest in the rudest age of society which admits of any considerable inequality of fortune.” [WN, pps.711-712.]

Perhaps the most famous of the interpreters using this stages discussion is Marx. His is, however, far from being the only view on this issue. Marx’s interpretation results in a social and legal process being dependent on the production process. Legal conflicts are the result of challenges to a property system. In this view, the property relations and the production process exclusively define the legal and political relationships.

“The conditions which promote production to a larger or smaller degree, as in the case of Adam Smith’s progressive and stagnant state of society. To give this, which in Smith’s work has its value as an apercu, to give it scientific significance, research into the *degree of productivity* at various periods in the development of individual nations would have to be conducted...” [Marx, 1970, p.191]

If there was any doubt about the causal sequence in Marx’s system, it is erased with the following quotes. The second of these shows the process of social development as a conflict model of progress. This conflict is based on social desire for changes in the property relations and opposing structure of laws protecting existing interests.

“Each mode of production produces its specific legal relations, political forms, etc.” [Marx, 1970, p.193]

“At a certain stage of development, the material productive forces of society come into conflict with the existing relations of production or - this

merely expresses the same thing in legal terms - with the property relations within the framework of which they have operated hitherto.” [Marx, 1970, p.21]

Werhane offers commentary on both Smith and Marx with the following remarks. She is critical of Marx’s reading and the exclusive role assigned to property and production processes.

“Because Smith’s four stages of economic and civil progress represent stages of economic development whose character is the foundation for the notion of private property, property rights, and thus the economic. Smith is sometimes read as saying that society and civil government are defined by, depend on, and exist only as a result of the underlying economic base.” [Werhane, 1991, p.73]

Within historical stages, Smith’s analysis demonstrates a certain level of pragmatism. Objects defined by society as property have a status that is more important than the legal structure if there is no particular social mechanism that enforces the laws. The level of enforcement is important. If the social arrangements imply that there is little enforcement to protect property, or the circumstances prevent enforcement, then the authority will not be able to effectively prevent incursions. In particular, periods of extreme famine or military misfortune are used to demonstrate the difference between what the law says, and what it effectively does.

"One thing which strengthens the opinion that the property of land was settled by the chief magistrate posterior to the cultivation is that, in this country, as soon as the crop is off the ground the cattle are no longer kept up or looked after but are turned out on what they call the long tether; that is, they are let out to roam about as they incline. Though this be contrary to Act of Parliament yet the

country people are so wedded to the notion that property in land continues no longer than the crop is on the ground that there is no possibility of getting them to observe it, even by the penalty which is appointed to be exacted against. [LJA, p.23.]

In Gide, property again defines historical stages, six of them. [See Gide 1891.]

The final stage is the transformation of land into “paper property” which is transferable as readily as any other commodity and mobile as paper.<sup>3</sup> Muller and Marshall would be less ambitious (each having found only four stages in Smith), but realize the same pragmatism of Smith’s approach.

“He meant his stages of historical development to be taken as heuristic models to illuminate the relationship between forms of property, marriage, government, collective defense, and economic production.” [Muller, 1993, p.117.]

**In** Marshall’s last historical stage, capitalists appear to use stores of capital to generate **enough** productivity to justify their own salaries.

“Adam Smith said that a person’s capital is ~~that~~ part of his stock from which he expects to derive an income.” [Marshall, 1920, p.45.]

**Marshall** then proceeds to use historical stages for the evolution of capital development, **and** shows the changes of income into more distinguishable versions on the basis of their **origin**.

Contemporary to Marshall, Hadley would offer an overview in his assessment of **economic** reasoning.

“Their (modern economists) inquiry into the causes of the wealth of nations has connected itself with an inquiry into the results of the property rights of individuals and the motives connected with them.” [Hadley, 1897, p.10.]

Smith was to have introduced the early mechanisms that would ultimately result in economists using a model of self-interest and benevolence of the decision-makers. Interestingly, Hadley develops his own set of characteristics of economic goods, or wealth. Briefly, they are scarce and they require economizing:

“...it [the modern economic system] tends to the preservation of useful things.”  
[Hadley, 1897, p.31.]

The well-being of citizens is measured in these economic goods:

“The man who holds accumulated wealth can use it for the permanent advantage of himself and his children...” [Hadley, 1897, p.32.]

Men labor to produce them or try buy them, giving economic goods power in exchange. They are subject to property rights, society identifies wise men that are frugal with these goods, and they cause conflicts of interest among men:

“...accumulations of property, ...,create a conservative class in the community which stands on the side of law.” [Hadley, 1897, p. 32.]

Finally, economic goods give rise to questions of justice and equity. This list results from Hadley’s late-19<sup>th</sup> Century reading of Smith, and contains several subjects that would not generally concern modern economists about goods.

After the development of a social system that recognizes ownership of an object, laws increase in number and complexity. Smith demonstrates his expanding legal systems with the introduction of subterranean and affiliated/adjoining property rights.

The difficulties of defining the 'bottom' of a piece of property is one of several examples that Smith uses to demonstrate how quickly the social arrangements can result in complex property relations.

"Tho the opportunities of accession are but very few in the age of shepherds, yet they multiply to a number almost infinite when agriculture and private property in land is introduced. Then when the land was divided by the common consent of the state, the thing they would have in view would be to give each the property of the land in order that he might raise crops on it. But it would naturally arise from his having this principal part of property that he should have the property of all the trees, stones, and minerals also that were found in it. The reason at first might be that these could not be come at without injuring the surface. But as to minerals, a mine in one farm might be extended to that of another proprietor without injuring the surface, and would rather serve as a drain. But the connection betwixt the surface and the subterraneous parts is so great that it would soon come to be the rule that every thing betwixt the surface and to the center of the earth, if he could go so far, should be the property of the owner of the surface. - The right that was at first conveyed to the private proprietor was really that of plowing, sowing, reaping the fruits, or of pasturing upon it. This would be more easily expressed and as well conceived by saying that he had the property of the land, and the same would be the method or form of expression in sales or transference. As the surface was the thing of which the property thus came to be transferred, the soil and all in it would soon be considered as appertaining to the same proprietor." [LJA, p.28.]

Of interest in the following passage is Smith's observation on the different approaches in different countries. Smith was continuing to attempt to describe an ahistorical science of society, but recognized that societal choices will upset any attempt to apply a uniform model of jurisprudence to describe the different regions.

"In the same manner as the soil and other substances were considered as an accession to the surface, whatever was added by the retiring of the sea or the shifting of a river was considered as belonging to the proprietor of the field next adjoining. But these accessions has been differently regulated in different countries." [LJA, p.29.]

By reinforcing this statement, seen with others later in this chapter, we find that Smith is taking a much less naturalist approach to legal structures than we might expect. There appear to be two different Smiths while he is discussing law. There is the natural law theorist with inevitable legal developments following advances in civilizations.

"According to Smith, given a property rights structure like the one outlined in the natural law model, the phenomenon of the 'invisible hand' would follow." [Mattei, 1997, p.43.]

There is also a constructivist Smith. The legal framework is dependent on the choices made by the society. Fortunately, for this discussion, it is not relevant which approach to Smith is favored because both yield the same result for the present purposes of this dissertation. The legal framework defines the enforcement mechanisms that effectuate property. Laws are themselves determined by necessity as resolutions to property disputes. Resolving disputes requires the interpretation of laws and circumstances, and



will result in different possible outcomes. Each decision will define the environment for further conflict resolutions.

"In all cases of this sort there is no great difficulty in determining the proprietor of the accessions. The only case where there is any perplexity is where the accession is the property of a different person from the proprietor of the subject. {As when one makes a ship of another's wood, wine or another's grapes, or a cup of another's metal.} [LJA, p.29.]

Smith follows this example of intermediate goods with an explanation of differing contract laws that separate societies used. Smith would later show the social determinism of property by transference. Tradition was one component that is dependent on the prior choices of recognition methods.

"I come now to the last method of acquiring property, viz. voluntary transference. To this there are two things necessary: 1<sup>st</sup>, the will of the proprietor or transferrer, distinctly signified, that the thing should be transferred to the transferee; and 2<sup>dly</sup>, tradition, that is, that the thing the property of which is transferred should be put into the power of him to whom it is transferred. The will of the proprietor, without transference, can signify only that he has a design of giving the property to the other; but unless the transferee has got the subject once into his power he can not be said to have got the property of it. As occupation, by which property is originally acquired, can not take place unless the subject has been brought once at least into the power of the occupant, and becomes by that means separated from the common ones, so a thing that is the property of a certain

person can not become the property of another unless it be given into his power.”

[LJA, p.71.]

Ahistorical legal developments defined new methods of property transfer. These methods occurred in legal systems, but would require Smith’s historical stages for their existence.

“There was a method of transferring property lately in use in England wherein tradition was not necessary. It was thus introduced. In the feudal government, the landholders being often called out to war and obliged to leave their estate, they found it necessary in order to preserve their estates to transfer the use of it to some persons who should possess it till they came to claim it.” [LJA, p.75.]

Historical examples of the creation of alternative property rights systems intermittently occupy Smith’s attention during L.J.

“Conrad the second, the German emperor, was the first who introduced the perpetual tenure, which was called feudum. In his expedition into Italy, his soldiers (that is, his tenants, for then there were no others) complained that as they were going on a dangerous expedition into a distant country from whence it was uncertain if they should ever return, the wives and children of many of them would be entirely ruined. To satisfy these complaints and make them ease as to their service, he assured them that their wives and their posterity should be certain of the possession of those lands.” [LJA, p.52.]

“I have now considered the several real rights, not only property but also servitudes and pledges, and shown that these were originally merely personal

rights, though by the determination of the legislature, to prevent the confusion this was found to produce, they were afterwards changed into real rights.” [LJA, p.85.]

Contracts, pledges and servitudes, were not occurring anywhere except in laws, and these became real property. It is this extension of the definition of property that has shown the progress of legislative power. This legal protection power will be examined in chapter four. Keeping mind Clark’s comments quoted in chapter two, the legal system is producing wealth through this process of creating new property forms. For Smith, the ability to define new forms of property, dependent on legal protection and a government interested in taking action against violators, will be used to classify the progress of government.

“The progress of government and the punishment of crimes is always much the same with that of society, or at least is greatly dependent on it. In the first stages of society, when government is very weak, no crimes are punished, the society has not sufficient strength to embolden it to intermeddle greatly in the affairs of individuals.” [LJA, p.129.]

“But when society gathers greater strength, they not only exact a compensation but change it into a punishment. The punishments in this stage of society are always the most severe imaginable.” [LJA, p.130.]

In particular, Smith cites Draco’s replacement of the Athenian Laws, with the infamous draconian laws as a demonstration of the progress of the Greek city-states. Once the Greek city-state had made further progress, these draconian measures were replaced with more proportional systems of laws.

“When society made a still greater progress and the peace and good order of the community were provided for, and tranquility firmly established, these punishments would again be mitigated and by degrees brought to bear a just proportion to the several crimes. History affords up many instances of this.”

[LJA, p.130.]

Smith closes his discussion of property and government in LJ with the following assertion.

"It is to be observed in general, that the situation of a country, and the degree of improvement of which it is susceptible, not only in the cultivation of land but in other branches of trade, is favourable to the introduction of a republican government." [LJB, p.408.]

It is interesting to note that the U.S. State Department has used both the original and the reverse of this assertion. Recent engagement of foreign nations has been seen in these two methods. First, the Clinton Administration's policy of engagement with China and North Korea by promoting economic development was intended to disperse economic and, subsequently, political power. This view appears to argue that increasing the interests of a larger portion of each society in the legal system will result in access to this system. Individuals with property are expected to become more active in demanding access to the process of making the laws that protect property. Recently, former presidents Carter and Ford have actively worked on assuring 'fair, democratic elections.' It is argued that this will increase the likelihood of economic changes. The Carter Center has helped to oversee elections in Haiti, El Salvador, Peru, East Timor, and several African nations. It is argued that this increased participation in the political process will

result in regularly elected representatives interested in protecting civil, human, and property rights. With the advent of personal security in these regions, they appear to argue that similar political structures should result in some similarity of economic results.

Property implies markets which:

“are ‘good’ in an important social sense. They not only help build the ‘wealth of nations’ through an efficient allocation of resources, but they also constrain social behavior, help disperse economic power, allow for individual freedom, provide some reasonable means of sharing the fruits of productive activity, and offer relief of problems of the disadvantaged, especially over the long run.” [McKenzie, 1987, p.10.]

“With changes in economic conditions, proceedings that once seemed helpful to the promotion of the general welfare, and perhaps at one stage were helpful, cease to be so or remain so only in part.” [Taussig, 1939, p.28.]

Smith is also concerned with those that would appear to claim to have found ‘the system’ for national progress. Those that claim to have the ideal are criticized on two fronts. The conceit of someone claiming perfection to their ideas, and the willingness to ignore the social, evolutionary construction of the legal-economic framework.

"The man of system, on the contrary, is apt to be very wise in his own conceit; and 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. He goes on to establish it completely and in all its parts, without any regard either to the great interests, or to the strong prejudices which may oppose it....

Some general, and even systematical, idea of the perfection of policy and

law, may no doubt be necessary for directing the views of the statesman.... It is to fancy himself the only wise and worthy man in the commonwealth, and that his fellow-citizens should accommodate themselves to him and not he to them. It is upon this account, that of all political speculators, sovereign princes are by far the most dangerous. This arrogance is perfectly familiar to them. They entertain no doubt of the immense superiority of their own judgment." [TMS, pps.233-234.]

In practice, his ideas were used as part of the literature that was critical to the aristocracy.

"An analysis which distinguished different interests in society and contested an aristocratic hegemony in government, was uncomfortable." [Hay, 1996, p.286.]

"The doctrines of Adam Smith were founded upon the plainest and most fundamental facts of human nature and of the external world." [Tugwell, 1924, p.20.]

The landed aristocracy had retained political and economic power for centuries. This system had, on occasion, concentrated the legal authority in a small number of people. When property definitions are applied, and the power to interpret and enforce laws is held by the government to the exclusion of social input, property is arbitrary. Such an arbitrary property system is reflected in the social conditions for the least fortunate of society.

"The law, so far as it gives some weak protection to the slave against the violence of his master, is likely to be better executed in a colony where the government is in a great measure arbitrary, than in one where it is altogether free. In every

country where the unfortunate law of slavery is established, the magistrate, when he protects the slave, intermeddles in some measure in the management of the private property of the master; and, in a free country, where the master is perhaps either a member of the colony assembly, or an elector of such a member, he dare not do this but with the greatest caution and circumspection. The respect which he is obliged to pay to the master, renders it more difficult for him to protect the slave. But in a country where the government is in a great measure arbitrary, where it is usual for the magistrate to intermeddle even in the management of the private property of individuals, and to send them, perhaps, a *lettre de cachet* if they do not manage it according to his liking, it is much easier for him to give some protection to the slave; and common humanity naturally disposes him to do so.” [WN, p.587.]

In this kind of system, the protection of property is less important than being the protector. Alternatively, Smith offers his view on the importance of private decision-making during many different passages of WN. The following summarizes both this view, and makes use of many other assertions regarding the role of property.

“It is thus that the private interests and passions of individuals naturally dispose them to turn their stock towards the employments which in ordinary cases are most advantageous to the society. But if from this natural difference they should turn too much of it towards those employments, the fall of profit in them and the rise of it in all others immediately dispose them to alter this faulty distribution. Without any intervention of law, therefore, the private interests and passions of men naturally lead them to divide and distribute the stock of every

society, among all the different employments carried on in it, as nearly as possible in the proportion which is most agreeable to the interest of the whole society.”

[WN, p.630.]

In the above paragraph, property accumulation is the objective, both at the social level and for the individual. Individuals are motivated to action by property and wealth accumulation. Legal systems are supposed to focus the attention of people on this accumulation process.

“The key to the high income societies of the western world is still the one that Adam Smith propounded more than two hundred years ago. And increasing specialization and division of labor necessitates the development of institutional structures that permit individuals to take actions involving complex relationships with other individuals far removed from personal knowledge and extending over long periods of time....

“The essential institutional reliability means that we have confidence in outcomes increasingly remote from our personal knowledge.” [North, 1997, p.90.]

Some interpreters of Smith’s social system require that private interests be protected for the system to maximize wealth. At the same time, consideration is given to social decisions. Laws needed to have regard for the implications of unfettered property usage, and the existence of negative externalities.

“The founder of the utilitarians, Jeremy Bentham, took law reform for his life work... At this time, the age of Adam Smith and the great economists, individualistic ideas were too firmly fixed in men’s minds to be questioned... Everyone, he held, in the best judge of his own happiness. ‘Hence, legislation



should aim at a removal of all those restrictions on the free action of an individual which are not necessary for securing the like freedom on the part of his neighbors.” [Pound, 1921, pps.158-59.]

The allocation of resources to enforce laws internally and protect property externally requires social decisions in Smith’s system. These may run counter to decisions that would be reached privately as the provision of resources to police and defense are a social phenomenon. In particular, Smith appears concerned with international conflicts arising out of income differentials.

“Military exercises come to be as much neglected by the inhabitants of the country as by those of the town, and the great body of the people becomes altogether unwarlike. That wealth, at the same time, which always follows the improvements of agriculture and manufactures, and which in reality is no more than the accumulated produce of those improvements, provokes the invasion of all their neighbours. An industrious, and upon that account a wealthy nation, is of all nations the most likely to be attacked; and unless the state takes some new measures for the publick defence, the natural habits of the people render them altogether incapable of defending themselves.” [WN, pps.697-698.]

To provide for this eventuality, Smith assigns an authority to civil governments that people with property will have to accept. By accepting this concentration of power in government, it precludes individuals from needing to completely provide for their own security.

“Civil government supposes a certain subordination. But as the necessity of civil government gradually grows up with the acquisition of valuable property,

so the principal causes which naturally introduce subordination gradually grow up with the growth of that valuable property.” [WN, p.710.]

For Smith, the creation of government appears to result in increasing the regional wealth with an acceptable form of social control. His interpreters have frequently discussed this idea, but differ on the level of control the government should exert. They do appear to agree that economic progress results in social changes.

“He hoped in other words, via the free market mechanism, to harness the stallion of economic determinism to the plough of social reform.” [Reisman, 1982, p.222.]

“Smith would try to show that the moral values invoked to regulate economic activity could be more fully realized by a less regulated market.” [Muller, 1993, p.60.]

“Adam Smith’s Inquiry is all eventually held together, securely but flexibly, by the thread provided by a single type of model or ‘system’: what Smith called the ‘simple system of natural liberty’, or what we might call the freely competitive, self-adjusting, market model.” [Hutchison, 1990, p.87.]

For a legal framework to be effective, practical and enforced, it needed to have a basis in perceptions by sympathetic spectators. These spectators would develop a sense of appropriate conduct on the basis of the institutional system in which they live. Smith would appear to have a particular notion about what constitutes just conduct.

#### **E. Justice:**

Interpreters have assigned a significant role to the subject of justice in Smith’s writings. For Young, justice and property rights serve to link together the themes of Smith’s three primary works.

“...theories of justice and of the evolution of property rights as significant points of contact between these three discourses.” [J.T. Young, 1997, p.79.]

Quinn and Werhane view Smith’s justice as keeping the social machinery running smoothly. Earlier, we saw that Werhane offered a model of historical stages with a smoothly operating evolution of society and the forms of property changing with it. Maintaining her system will require the application of a just legal and social system.

“The struggle for personal gain, combined with a just legal system, could hold a society together.” [Quinn, 1994, p.109.]

“It is justice, not benevolence, that is the basic virtue in the TMS, and it is justice, too, that is a necessary condition for a well-functioning economy.” [Werhane, 1991, p.17.]

Smith appears to define justice in two ways. It is the application of laws, but also the perception of fair play by impartial spectators. This dual concept appears throughout most of Smith’s work with the notable exception appearing later in this discussion. Much of the subject of his discussion in LJ is the legal system, and it is from this work that most of his efforts to clarify a concept of justice are found. As there are aspects of justice that are dependent on Smith’s ethical framework, TMS also addresses the issue to some extent.

“Jurisprudence is that science which inquires into the general principles which ought to be the foundation of the laws of all nations.” [LJB, p.397.]

Smith appears to be concerned with *ought* components of laws. In doing so, he changes from a science of society that describes a historical process to his perceptions of the needs of justice. As seen in chapter two, and earlier in this chapter, property is a

social construction. Justice in every period of human development was something different. Not because our definition of justice was different, but because the object of protection (called for by justice) had changed. Smith's historical discussion offers a view into the organization of different forms of rights that varying degrees of justice will protect. These rights are organized into two main classes, imperfect and perfect. Within each of these, subclasses are developed.

“The word, it is to be observed, which expresses justice in the Greek language, has several different meanings; and as the correspondent was in all other languages, so far as I know, has the same, there must be some natural affinity among those various significations. In one sense we are said to do justice to our neighbour when we abstain from doing him any positive harm, and do not directly hurt him, either in his person, or in his estate, or in his reputation. This is that justice which I have treated of above, the observance of which may be extorted by force, and the violation of which exposes to punishment. In another sense we are said not to do justice to our neighbour unless we conceive for him all that love, respect, and esteem, which his character, his situation, and his connexion with ourselves, render suitable and proper for us to feel, and unless we act accordingly. It is in this sense that we are said to do injustice to a man of merit who is connected with us, though we abstain from hurting him in every respect, if we do not exert ourselves to serve him and to place him in that situation in which the impartial spectator would be pleased to see him.” [TMS, p.269.]

Smith identifies the absence of incursion on another's property as one form of justice, and the active diffidence shown in social situations as another set of expectations in a just society.

"There can be no proper motive for hurting our neighbor, there can be no incitement to do evil to another, which mankind will go along with, except just indignation for evil which that other has done to us. To disturb his happiness merely because it may be of equal or of more use to us, or to indulge, in this manner, at the expense of other people, the natural preference which every man has for his own happiness above that of other people, what no impartial can go along with. Every man is, no doubt, by nature, first and principally recommended to his own care; and as he is fitter to take care of himself than of any other person, it is fit and right that it should be so." [TMS, p.82.]

Werhane summarizes Smith's dual position regarding justice with the following phrase:

"Justice is both a negative principle that protects persons and their rights and property from harm and a positive principle of fair play." [Werhane, 1991, p.12.]

Smith appears to recognize that such a positive principle will be difficult to extract. His impartial spectator is expected to actively affect behavior. Consequently, all those factors influencing the operation of these spectators will set the level of just activity.

"And upon this founded that remarkable distinction between justice and all the other social virtues, which has of late been particularly insisted upon by an author of very great and original genius, that we feel ourselves to be under a stricter obligation to act according to justice, than agreeably to friendship, charity, or

generosity; that the practice of these last mentioned virtues seems to be left in some measure to our own choice, but that, somehow or other, we feel ourselves to be in a peculiar manner tied, bound, and obliged to the observations of justice."

[TMS, p.80.]

As part of a larger discussion regarding the basis of Smith's ethical system, Werhane would appear to argue that the impartial spectator is not intended to show how benevolence appears in a society. Instead, she appears to argue that Smith's interpersonal conduct mechanisms are founded in perceptions of justice.

Criminal law historians have attempted to apply Smith's treatment of imperfect rights to the application of criminal punishments.

"If it (immoderate punishment refutation) had fallen to his (Adam Smith) lot to treat of this matter, he would have brought out the truth that the society which sacrifices the life or the time of its members to the penal purpose without absolute necessity is acting quite as much against its interest as the owner who injures his animal by ill-treatment." [Pollack, 1979, p.280-81.]

"But those exertions of the natural liberty of a few individuals, which might endanger the security of the whole society, are, and ought to be, restrained by the laws of all governments; of the most free, as well as of the most despotical."

[WN, p.324.]

Not appearing to rely solely on the impartial spectator, Smith assigns a level of social cognizance to his citizens. This awareness is not motivated by any particular social feelings, but by an understanding that social stability will influence individual circumstances.

"He is sensible too that his own interest is connected with the prosperity of society, and that the happiness, perhaps the preservation of his existence, depends upon its preservation." [TMS, p.88.]

Regardless of the level of wealth, Smith identifies examples to show that everyone, at some time or another, has both depended and benefited from the actions of people in a just society. In particular, people of different ages offer more or less to the general economy by their consumption and investment decisions, but are dependent on social resources to provide protection.

"During the minority of a man of great fortune, he contributes commonly very little, by his consumption, towards the support of that state from whose protection he derives a great revenue." [WN, p.895.]

When a system lacks either the means to enforce justice, or is itself violating an excessive amount of 'natural liberties,' social resistance is expected. Smith offers examples to support his system as a description of historical reality rather than as a hypothesis about governance.

"It is to be observed that the right of resistance is more frequently exerted in absolute monarchies than in any other, because one man is more apt to fall into imprudent measures than a number. In Turkey eight or ten years seldom pass without a change of government. The same degree of ill usage will justify resistance to a Senate or body of men. It must be allowed that resistance is in some cases lawful, but its excessively difficult to say what an absolute sovereign may do or may not do, and there are different opinions concerning it. Mr. Locke says that when a sovereign raises taxes against the will of the people resistance is

lawful, but there is no country besides England where the people have any vote in the matter. In France the kings edict is all that is necessary, and even in Britain it is but a very figurative consent that we have, for the number of voters is nothing to that of the people. Exorbitant taxes no doubt justify resistance, for no people will allow the half of their property to be taken from them; but tho' the highest propriety be not observed, if they have any degree of moderation people will not complain. No government is quite perfect, but it is better to submit to some inconveniences than make attempts against it." [LJB, p.435.]

Smith's dual nature of justice is well described by Werhane's earlier observation. This duality depends on the splitting of rights, according to Smith, into two component parts, perfect and imperfect, dividing rights into those that are legally compelled and those socially expected. Over time, social expectations may develop an imperfect into a perfect right. Changing property forms will direct, in part, this changing set of rights.

"Perfect rights are those which we have a title to demand and if refused to compel an other to perform. What they call imperfect rights are those which correspond to those duties which ought to be performed to us by others but which we have no title to compell them to perform; they having it intirely in their power to perform them or not." [LJA, p.9.]

Smith would appear to identify closely with the merging of Aristotle's and Grotius' views of justice.

"The first sense of the word coincides with what Aristotle and the Schoolmen call commutative justice, and with what Grotius calls the *justitia expletrix*, which consists in abstaining from what is another's, and in doing voluntarily whatever



we can with propriety be forced to do. The second sense of the word coincides with what some have called distributive justice, and with the *justitia attributrix* of Grotius, which consists in proper beneficence, in the becoming use of what is our own, and in the applying it to those purposes either of charity or generosity, to which it is most suitable, in our situation, that it should be applied. In this sense justice comprehends all the social virtues. There is yet another sense in which the word justice is sometimes taken, still more extensive than either of the former, though very much a-kin to the last; and which runs too, so far as I know, through all languages. It is in this last sense that we are said to be unjust, when we do not seem to value any particular object with that degree of esteem, or to pursue it with that degree of ardour which to the impartial spectator it may appear to deserve or to be naturally fitted for exciting." [TMS, p.270.]

Muller would appear to ignore Smith's section on imperfect rights and reduced property (perfect) rights during periods of extreme military or economic conditions.

"The definition of justice as the protection of property and exchange seemed to ignore one of the central issues of the tradition of natural law, namely the claims of the poor on the rich in times of extreme dearth when famine threatened the very lives of the poor." [Muller, 1993, p.59.]

Other interpretations can easily create a bit of confusion. For Brown, impartial spectators would only approve of punishing transgressions if it deemed the underlying object as worthy of protection, but she takes this even further.

“Justice is a negative virtue. ...The impartial spectator’s approval of punishment for the violation of property does not imply an equivalent approval for the institution of property as such.” [Brown, 1994, p.50.]

If Brown is correct, then spectators would have to accept punishments for violations of property that the spectator does not view as property. This would imply that either the laws do not reflect the impartial spectators of society, or the impartial spectator does not regard the legal system as relevant.

Social expectations will decide most of the interpreters’ views of justice. As the social situation changes, so will views of just conduct. This is well represented in Young’s writings on exchange justice (see Young 1997, and 2000).

“As the relevant context changes so will the spectator’s judgement about what exchange justice requires.” [J.T. Young, 1997, p.124.]

Imperfect rights, Smith’s second category of rights, become part of his ethical system. Values are dependent on the interpretation of impartial spectators, and, consequently the property system.

“Imperfect rights, again, refer to distributive justice. The former are the rights which we are to consider, the latter not belonging properly to rights which we are to consider, the latter not belonging properly to jurisprudence, but rather to a system of moralls as they do not fall under the jurisdiction of the laws. [LJA, p.9.]

Within the system of imperfect rights, Smith identifies those of a personal nature.

“The next species of personal rights are those which entitle a man to a fair character, etc. The injuries which may be done to one in this way are commonly divided into those which are done by some action in presence of others, that tends

to make one meanly thought. These are called real affronts. The 2<sup>nd</sup> are those which are committed by words, these are called verbal affronts; lastly when they are put into writing, which are called libels.” [LJA, p.122.]

Several passages concerning the importance of property to the problems of legal applications occupy nearly a quarter of LJ. These include contractual obligations [LJA p.12.], restitution of damages [LJA, p.13.], currency valuation in repayment [LJA, p.100.], delinquency [LJA, p.103.], malice [LJA, p.104.], arson, theft, robbery and piracy [LJA, pps.126-127.]. Smith reminds us that as a social institution, property holds the most significant standing in his system. This is seen in the following passage, pulled from TMS, nearly identical to the closing discussion in LJ.

*“The most sacred laws of justice, therefore, those whose violation seems to call loudest for vengeance and punishment, are the laws which guard the life and person of our neighbour; the next are those which guard his property and possessions; and last of all come those which guard what are called his personal rights, or what is due to him from the promises of others.”* [TMS, p.84, italics added.]

Using Smith’s TMS passages, Tawney would take up Smith’s focus on the need for justice through the administration of secure property rights. Tawney’s social relationships require that members of that society hold property relations in the highest regard.

“The practical foundation of social organization has been the doctrine that the particular forms of private property which exist at any moment are a thing sacred and inviolable, that anything may properly become the object of property rights,

and that, when it does, the title to it is absolute and unconditioned.” [Tawney, 1948, p.52.]

Recalling the comment from earlier this chapter, there is one notable exception to Smith’s imperfect rights as a necessary part of any definition of justice. We find this in the following passage which differentiates merit from justice.

"Mere justice is, upon most occasions, but a negative virtue, and only hinders us from hurting our neighbor. The man who barely abstains from violating either the person, or the estate, or the reputation of his neighbors, has surely very little positive merit. He fulfils, however, all the rules of what is peculiarly called justice, and does every thing which his equals can with propriety force him to do, or which they can punish him for not doing. We may often fulfil all the rules of justice by sitting still and doing nothing." [TMS, p.82.]

Using the quote above, the rules of conduct with regard to the treatment/respect of one another changes as the means of causing injury change, therefore, justice changes. Property implies opportunities for injustice, and a civil society will develop a system of enforcement to protect property. Following the historical stages discussion, evolving property will result in evolving definitions of justice.

“They have an evolutionary or conventional account of the origin of property...the principles of commutative justice [exchanges and contracts] are divorced from the justification of the institution of property within which they function. As a consequence of separating the justification of the institution of private property and the justification of the roles which regulate its operation, the

rules of commutative justice are not required to serve even an indirect utilitarian end.” [Kelly, 1990, p.171.]

Kelly raises an interesting point from which to carry the possibilities further. If a significant separation occurs between the laws protecting property and the perception of what should justly be called property, then a potential for unsustainable laws may occur. By this, I am referring to Smith’s notion that as circumstances change, the legal environment may define justice under perfect rights that are behind the social progress of imperfect rights. This is reminiscent of Brown’s position earlier in this discussion. The difference is that laws may not generate positive social returns under certain circumstances. Brown appears to argue that the laws may serve a positive social role, but this does not necessarily imply that property serves such a role.

Interpreters often place perfect and imperfect rights together to define their view of justice. While discussing Bentham, Postema shows how necessary property is to Smith’s system.

“In his early discussion, Bentham seemed to follow the standard view of Hume, Smith, and others in the mid-eighteenth century, identifying justice with arrangements for the definition, stability, and protection of property.” [Postema, 1986, p.174.]

Bentham is identified by Postema as retaining the ‘ought’ expressions with regard to principles of legal systems. Brown’s view appears to offer a very similar interpretation, but has converted imperfect rights out of the realm of ‘ought’ and made them into a requirement for civil order.

“Justice is based not on *oikeiosis* or moral interdependence, but on the requirements for civil order and the protection of private property.” [Brown, 1994, p.112.]

With a system focused on property, incentives for accumulation will lead to acts of injury that are not directed at a person, but at their possessions.

“Among nations of hunters, as there is scarce any property, or at least none that exceeds the value of two or three days labour; so there is seldom any established magistrate or any regular administration of justice. Men who have no property can injure one another only in their persons or reputations. But when one man kills, wounds, beats, or defames another, though he to whom the injury is done suffers, he who does it receives no benefit. It is otherwise with the injuries to property. The benefit of the person who does the injury is often equal to the loss of him who suffers it.” [WN, p.709.]

If the social system is based on property, then Smith endorses an authority with the ability to enforce perfect rights. The greater the benefits enjoyed by the system, the greater the need for civil protection.

“But avarice and ambition in the rich, in the poor the hatred of labour and the love of present ease and enjoyment, are the passions which prompt to invade property, passions much more steady in their operation, and much more universal in their influence... It is only under the shelter of the civil magistrate that the owner of that valuable property, which is acquired by the labour of many years, or perhaps of many successive generations, can sleep a single night in security. He is at all times surrounded by unknown enemies, whom, though he never provoked, he can

never appease, and from whose injustice he can be protected only by the powerful arm of the civil magistrate continually held up to chastise it. The acquisition of valuable and extensive property, therefore, necessarily requires the establishment of civil government. Where there is no property, or at least none that exceeds the value of two or three days labour, civil government is not so necessary. [WN, p.709-710.]

Laws, an expression of social expectations of protection, are described in Smith's ethical system as a method of codifying an interpretation of natural laws. If society is perpetually seeking a system of perfect jurisprudence, then interpretations of this ideal state are made in the reality of property relations that exist at the time of the interpretation. Laws, expected by members of society to protect their property, are the public's method of identifying and classifying different forms of property and rights that are to be protected. Social expectations of justice through his system of approbation and disapprobation are a learned, social phenomenon. In TMS, Smith identifies civil governance as an attempt to arrive at some perfect system of jurisprudence even if an evolving property will require constant changes in this system, and the interpretations of law-makers and enforcers are subject to many problems of perception and self-interest.

"Every system of positive law may be regarded as a more or less imperfect attempt towards a system of natural jurisprudence, or towards an enumeration of the particular rules of justice. As the violation of justice is what men will never submit to from one another, the public magistrate is under a necessity of employing the power of the commonwealth to enforce the practice of this virtue. Without this precaution, civil society would become a scene of bloodshed and

disorder, every man revenging himself at his own hand whenever he fancied he was injured. To prevent the confusion which would attend upon every man's doing justice to himself, the magistrate, in all governments that have acquired any considerable authority, undertakes to do justice to all, and promises to hear and to redress every complaint of injury. In all well-governed states too, not only judges are appointed for determining the controversies of individuals, but rules are prescribed for regulating the decisions of those judges; and these rules are, in general, intended to coincide with those of natural justice." [TMS, p.340.]

Hay would suggest that Smith's legal system is protecting more than property. It would also preserve an existing class structure by criminalizing actions that would result in the merging of different classes and their associated status.

"Adam Smith and Sir James Fitzjames Stephen were fascinated observers of their own societies, and they were convinced that the criminal law was a central nexus of its class divisions, and helped to sustain them." [Hay, 1996, pps.288-89.]

It has been covered elsewhere, but it bears repeating here, that irregular enforcement will create property insecurity and reduce the willingness of people to trade. The following quote would also appear to support Hay's view. Here, irregular enforcement implies more than problems with the legal system. It anticipates the ability of a person's social standing to restrict the enforcement of perfect rights.

"...but above all, that irregular and partial administration of justice, which often protects the rich and the powerful debtor from the pursuit of his injured creditor, and which make the industrious part of the nation afraid to prepare goods for the



consumption of those haughty and great men, to whom they dare not refuse to sell upon credit, and from whom they are altogether uncertain of repayment.” [WN, p.610.]

In this case, it is not the criminal code that preserves class distinctions, but the ability to extract perfect rights as a reflection of social power.

#### **F. Conclusions:**

To start this chapter, definitions of criteria for national economic performance assessment were introduced. Recent discussions have argued that Smith, through the use of a ‘straw-man’ to prop-up a metallism opponent, was successful in turning national political economy into an analysis of the production of wealth as measured in property. Whether this metallism opponent was real or imagined, the end result is substantively the same. Smith was able to popularize the notion that the level of production and the access to goods was the more useful measure of national performance than the quantity of precious metals flowing into a region. To supervise social structures, governments would become necessary with the “first and chief design” [LJA, p.5 and p.7.] being to preserve justice and “prevent all encroachments.” [LJA, p.7.] As government is a social construction, the preferences of the social system will be reflected in the form of government. Changing property rights will change the social system, and therefore, the expectations of government. Within this section we also found that the performance of the economy, measured by its ability to ‘deliver the goods’, serves as a means of assessment of the government charged with its oversight.

The relationship between the citizens and their government is defined by the legal structure. This legal code appears in Smith’s works as a means of socializing the

expectations of the impartial spectators. As the social definitions of property are changed, the legal system is expected to do the same. Regardless of which approach to Smith's legal development scheme we subscribe to, historical or not, property plays the principle role in Smith's science of jurisprudence. It is the primary reason for government, the means of defining justice, and the assessment tool for the outcomes of the legal system.

Smith is careful to distinguish between justice that the legal system enforces, and justice enforced by social morality. The system of perfect rights encodes social expectations, and the imperfect rights are those that people anticipate but not require. Laws and expectations of justice define the relationships between people in Smith's system. Their relationship is regulated by the presence of a civil authority that has been extended the power to enforce the perfect rights that society, through its legal system, has come to require. Their regulatory system (government) reflects this set of perfect rights, and will be steered into further conversions of imperfect to perfect rights as the definition of property changes. The ability to change the range of perfect and imperfect rights, as well as the exercise of control over the varying forms of property, will be discussed in the next chapter.

## **Chapter 4**

### **Property and Power**

#### **A. Introduction:**

The following discussion will identify methods in which power, under different interpretations, can be realized in the social system described by Smith. To this end, three major approaches to defining power will be identified. It will be argued that each approach is particularly suited to a respective level of abstraction that can be found in Smith's works. The authors of each these three approaches have a total system to describe power, but it is analytically useful to split the subject material and associate each with a particular form of power. Each is selected on the basis of their explanatory clarity. Weber, Samuels, and Pareto have all addressed the three different levels of mutual manipulation and coercive influences, but each is particularly adroit in one. Their association with a single facet of this topic is for expository purposes, and is not intended to assign such a focus to their body of work.

Defining power has ostensibly occurred with the understanding that it represents some form of exercising control or being able to avoid the control of others. The reason for the differentiation in the usage of the term power can be found in the subject focus of the interpretive literature. Smith's Lectures on Jurisprudence, in part a study of the social relationships of citizens with their method of governance, has a different series of questions it tries to answer than Theory of Moral Sentiments, even though it too discusses the methods of codifying appropriate personal conduct in social settings. Each of the

approaches to analyzing power will be treated in turn, with the supporting citations from Smith provided to highlight the arguments being made.

The first of these three approaches is from Weber's [1968] Economy and Society. This approach deals with the most tangible aspects of power and manipulation. It starts with the exogenous provision of a set of rules governing the economic system and then raises the question of coercion.

“‘Power’ (Macht) is the probability that one actor within a social relationship will be in a position to carry out his own will despite resistance, regardless of the basis on which this probability rests.” [Weber, 1968, p.53.] This form of power identifies the ability to exercise control over the distribution of resources within a set of laws. Because this definition is *regardless of the basis*, economic actors could be in any number of legal environments. The environment is irrelevant; it is the probability that an individual will enjoy their preferred outcome that represents power.

The second definition of power comes from Samuels [1973]. This is more abstracted than Weber as it provides for a fluid set of rules over which economic agents will compete. It uses a legal-economic nexus with the simultaneous determination of the rules and the distribution.

“...in the **Wealth of Nations** the elements of a second and broader paradigm of choice and power, a model not just of economic actors allocating their limited resources so as to maximize their welfare but a model also of a struggle for command of resources and market position and thus of welfare maximizing through power and mutual coercion.... Smith understood the economy as a

system of mutual coercion with the state as both a dependent and independent variable insofar as power players and economics are concerned.” [Samuels, 1973, pps. 364-365.]

This form of power identifies the ability to exercise control over the government and the system of laws as an endogenous issue. This power simultaneously controls the distribution of wealth and the rules that guide the economic actors.

The third definition of power comes from an interpretation of Pareto’s system of mutual manipulation provided in The Mind and Society [1935].

“The doctrine of ‘public needs’ is useful to the governing class, or a class aspiring to power, as justifying its control and having it more readily accepted by the subject class... If then someone says that he is not conscious of any such need, he is told at once that he ‘ought’ to be.” [Pareto, 1935, p.1618.]

Similar to the previous hypothesis, Pareto’s calls for the simultaneous determination of two endogenous variables, the rules and the results, during the distribution of societal wealth. Additionally, this approach identifies the ability to exercise control over the social interpretation of imperfect rights and the process of social indoctrination as endogenously determined. The ability to convert a personal preference into a social preference represents the ability to influence the ethical system through the impartial spectator. This would grant the influencer the ability to control the evolution of perfect rights through the coercion process of the imperfect to the perfect.

Concluding this chapter will be an analysis of these alternatives as part of the broader topic, the role of property in the works of Adam Smith. By recognizing the implications of efforts to obtain and retain property, we may more fully understand

Smith's system of social control as much richer than simply a laissez-faire, market free-for-all where the builder of the better mousetrap will have a path to their door worn by approaching wealth. If the social, political, and/or economic system is subject to particular influence by individual agents that extends beyond their own outcomes, then these interpersonal effects will imply the possibility of control.

**B. Weber (Approach One):**

This approach emphasizes the ability to exercise control over resources within a legal framework. This approach isolates the development of the rules from the power that the rules condone.

“In general, we understand by ‘power’ the chance of a man or a number of men to realize their own will in a social action even against the resistance of others who are participating in the action.” [Weber, 1968, p.926.]

This approach asserts that the range of alternatives available to individuals depends on their ability to act without coercion from others. As the degree of subjection to coercion by others is increased, there is a loss of alternative courses of action.

“‘Freedom’ in the legal sense means the possession of rights, actual and potential.” [Weber, 1968, p.668.]

Quoted in the introduction to this chapter, Weber defines power as the exercise of coercion, the ability to influence the actions, activities, and decisions of others.

Inversely, freedom implies an absence of coercion. While Weber never explicitly cites Smith in Economy and Society, this section will use Weber's discussion as a basis for interpreting power in Smith's work.

“In an increasingly expanding market, those who have market interests [property] constitute the most important group. Their influence predominates in determining which legal transactions the law should regulate by means of power-granting norms.” [Weber, 1968, p.669]

**This** position will be mirrored in Samuels (see especially Samuels [1973]). It is **necessary** to keep in mind that Weber does not preclude the control over the legal system as **a** means of identifying the power relationships in economic systems. To the contrary, **Weber** appears abundantly clear on the subject. We need only look to his chapters on the *Forms of Creation of Rights*.

“The determination of legal personality is just as artificial as the legal definition of ‘thing’ – i.e. it is decided exclusively in accordance with expedientially selected juristic criteria.” [Weber, 1968, p.706]

The **definition** of both ‘people’ and ‘things’ that deserve designations and protections are **dependent** on the decision-making process. and, therefore, the people deciding. The **particular** use of Weber for this chapter comes from his discussion of pages 729-730. **This** passage focuses on the relations between propertied classes and those without, and is **echoed** in law literature.

“Thus the Constitution by itself does not prevent the weak from being forced by economic pressure into serving others unwillingly or from being deprived of some degree of liberty and much of their property by the superior bargaining power of others or from inequality in their legal property rights.” [Hale, 1952, pps.131-132.]

The ability to survive through periods of inactivity or economic uncertainty will grant an advantage to those people with property. Using the advantages conveyed by wealth, they extract agreements from people without self-sufficiency, and enjoy greater advantages in this relationship during future negotiations.

“The great variety of permitted contractual schemata and the formal empowerment to set the content of contracts in accordance with one’s desires and independently of all official form patterns, in and of itself by no means makes sure that these formal possibilities will in fact be available to all and everyone. Such availability is prevented above all by the differences in the distribution of property as guaranteed by law. The formal right of a worker to enter into any contract whatsoever with any employer whatsoever does not in practice represent for the employment seeker even the slightest freedom in the determination of his own conditions of work, and it does not guarantee him any influence on this process. It rather means, at least primarily, that the more powerful party in the market, i.e., normally the employer, has the possibility to set the terms, to offer the job ‘take it or leave it,’ and, given the normally more pressing economic need of the worker, to impose his terms upon him. The result of contractual freedom, then, is in the first place the opening of the opportunity to use, by the clever utilization of property ownership in the market, these resources without legal restraints as a means for the achievement of power over others.” [Weber, 1968, p.729-730.]

The example used by Weber, common to the literature, is the employer/employee relationship. Smith used this same example:



“In all such disputes the masters can hold out much longer. A landlord, a farmer, a master manufacturer, or merchant, though they did not employ a single workman, could generally live a year or two upon the stocks which they have already acquired. Many workmen could not subsist a week, few could subsist a month, and scarce any a year without employment. In the long-run the workman may be as necessary to his master as his master is to him, but the necessity is not so immediate.” [WN, p.66.]

**This** example demonstrates that although the ability to enter into relationships may be **legally** identical for each participant, it is the ability to choose not to enter into those **relationships** that shows the level of coercion affecting individuals. Similarly, the lack of **resources** in a preferred form may allow for the exercise of control over individuals. **Smith** uses the conversion of fixed property into more liquid forms to show that **possessing** the socially demanded forms of wealth is an important element in having **power**.

“As a man may have an opportunity of letting out his money but is not assured of its being on good security, he may take some part of the property of the person who owes the debt. By this means pledges or mortgages came to be established. There is not here any property acquisition, as in the former case, the mortgaged subject being considered as of equal value with the debt for which it is pledged, but he has property in it so far that the debt not being paid he can claim payment from the pledge.” [LJA, p.11.]

**Obviously**, the person who does not have the socially relevant asset will need to enter into a **negotiation** with the person who possesses such assets. Reminiscent of the

workman, the ability to hold out on the basis of accumulated stocks will be strongest with the person holding the preferred assets. The reason for using “socially relevant” to describe an asset comes from Smith’s later discussion in Lectures on Jurisprudence.

“When the barbarous nations of the north overran the Roman Empire, and settled in the western parts of Europe, property came to be very unequally divided. At the same time all arts were entirely neglected. This threw a great share of power into the hands of those who possessed the greatest property. *It will be evident also that the balance of property will make those who are possessed of it have far greater superiority in power, than the same share of property will give one in a more refined and cultivated age.*” [LJA, p.50, emphasis added.]

**The** subtlety of Smith’s position is quite clever. If someone wants to have the greatest **advantage** in the use of property to convey power, then they have an interest in **preventing** the further progress of property forms in society. Changes in the composition **of the** production process in the economy imply that the property relations would be fluid **as well**. Once a person accumulates a sum of property, in the socially relevant form, they **will want** to maintain that social system that lends power to their property. Smith was **aware** of this conflict of established versus emerging interests and used two historical **examples** to illustrate this point; the Roman Empire where high interest rates on loans left the **indebted** lending their votes where their creditors demanded [see LJ pps.196-198.], and **landlords**, especially during the transition from feudal to commercial society, who “**reap** where they never sowed.” [WN, p.67.] When the legal system changed, preventing the **imposition** of buying votes through financial slavery amongst citizens, the power **structure** in Rome was significantly changed. Similarly, Smith was careful to point out

the low returns to investing in land, and attempts to actively dissuade tradesmen who have recently accumulated wealth from converting it into land. Not only does land not offer a high enough return; it was the wealth measure of a different era. The social status obtained through land ownership was being reduced during Smith's lifetime, and buying land results in the accumulation of less desired assets.

"The point is that the change in the alignment of property rights from feudal to commercial society followed a change in the instruments of production." [Ayres, 1944, p.195]

While landlords were able to demand payments for the use of their property, a similar line of reasoning is applied to the more modern distributive relationships. Cannan identifies the same logic sequence occurring in capital-labor relationships as had occurred in land-labor relationships.

"We may say, then, that to Adam Smith profits appeared to be a deduction from the produce of labour, to which the labourer has to submit because he has no means of support." [Cannan, 1967, p.159.]

As social conditions changed, the ability of land to extract payment becomes less than that of capital. This change is marked by the progress of society into greater levels of labor specialization and exchange in areas outside of agriculture. Through this process, land has not lost any ability to extract payments, but its relative ability to control labor has been reduced. The objectives of society members have changed as the definition of property has changed.

In this interpretation of power in Smith's system, the ability to exercise control over particular assets results in the opportunity to have a wider range of alternatives when

choosing to either enter or avoid coercive relationships. This self-determination aspect of the control over valued assets will be seen as part of other interpretations. While this view looks only to the control over assets, rather than the rules or the conditions forming the perceptions creating rules, it still has interesting results. Property, defined in earlier stages of Western Society as the immediate possessions, residence, and land of a person, defines the power structure of the social system. Immediate possessions will not maintain a family for any extended period, and the lack of a developed manufacturing system will limit the ways that someone can obtain subsistence. Land was the primary source of non-labor inputs to the production process in pre-industrial economies, making it possible for those possessing land to enjoy the ability to choose which relationships they wanted to enter. As Smith's social history follows the progress of trade and the specialization of labor, non-labor inputs to the production process became less land-dependent, and this allowed other individuals the opportunity to enter or avoid relationships. By this definition of power, property sets the individual's level of power, and the social power structure. Power depends on the presence of property regardless of the social circumstances that set the desired form of property. As the form of desired property changes, so too will the social structure of power.

### **C. Samuels (Approach Two):**

This approach includes aspects of the earlier interpretation but offers the working rules of social conduct as an endogenously determined set of variables, subject to constant revision, and part of the objective function of economic agents.

“This is a model of the economy as a system of mutual coercion based on relative power, in which resource allocation is seen as a function of coercive

power in the market which in turn is partially a function of the legal definition and assignment–distribution of rights.” [Samuels, 1973, pps.363-364.]

To demonstrate an interpretation of Smith’s work in this light, Samuels chose to **use** the employer/employee relationship discussion. Again, this relationship is important **in** demonstrating the coercive ability of people with resources over those without.

**A**dditionally, Smith’s discussion of the ability to organize is cited.

“It is not, however, difficult to foresee which of the two parties [employer/employee] must, upon all ordinary occasions, have the advantage in the dispute, and force the other into a compliance with their terms.” [WN, p.66, cited by Samuels, 1973, p.367.]

**T**his much runs the course of *approach one*, but the quotation continues:

“The masters, being fewer in numbers, can combine much more easily; and the law, besides, authorizes, or at least does not prohibit their combinations, while it prohibits those of the workmen. We have no acts of parliament against combining to lower the price of work; but many against combining to raise it.” [WN, p.66, cited by Samuels, 1973, p.367.]

For Samuels, this provides the basis for asserting Smith has an:

“evident recognition of how opportunity sets, relative advantage and disadvantage, are a partial function of law...” [Samuels, 1973, p.367.]

**T**he **a**bility to have alternatives depends on access to resources, and the legal ability to **use** **t**hose resources. As noted in the previous section, having socially desirable resources **was** **i**mportant in determining the relative power of classes, because it allowed individuals to **e**xert influence over others in the sphere of economic activity. In this approach,

desired resources will be those holding the legal, authoritative status of protection, and will allow the exercise of economic and social-political control. If the legal environment changes, then the ability to take actions (deceive, and even to oppress – WN, p.250) will change. Power, exercising control over resources and/or avoiding the choices of others, will partially depend on the legal environment setting the rules of conduct. The results of market power are the distribution of wages, profits, and rents that establish the resource capability of participants to influence the laws pertaining to future distributions.

“Wage rates and income distribution are partially a function of legally grounded and/or reenforced positions of power operating through a process of mutual coercion in the market.” [Samuels, 1973, p.369.]

If the system results in a particular group seizing advantages through this process, the legal system will be protecting a particular set of interests. It is part of Samuels’ position that government is ubiquitous to the market, always protecting one set of interests to the detriment of others.

“What *Miller et al. v. Schoene* illustrates first of all, indeed what the Court so clearly perceived, is the ineluctable necessity of choice on the part of government. The state had to make a choice as to which property owner was to be made not only formally secure but practically viable in his legal rights. The Court, as part of the state, had to make a judgment as to which owner would be visited with injury and which protected.” [Samuels, 1971, pps.438-439.]

When the choices made by an individual have negative externalities, either through direct consequences or repercussions through multiple agents, the legal system must establish some system of deciding which externalities will be socially permitted. Influencing the

decision-making process either through those with the power to decide, or through the types of questions that they are allowed to consider, becomes an important objective of all economic classes.

“There must be **some** structure of rights and position, and their goal (like that of the landowners and wage earners) is to skew it to their own advantage.” [Samuels, 1973, p.376.]

**Whatever** structure of rights exists at any point in time, it represents a limited number of **interests**. Reminiscent of Clark’s position cited in Chapter 3, by controlling the legal **definitions** of property, wealth is both protected and created in this approach. Once a set **of interests** is established, it maintains a desired, but tenuous, protected status. The **protected** have the ability to enter into negotiated situations with the advantage of **property**. This makes their object receiving protection desired. Any change in what is **protected** would immediately alter the power structure in markets, hence the tenuous **nature** of power.

“It will be noticed, furthermore, that *Miller et al. v. Schoene* is *not* a case in which the issue is government or no government, or of laissez-faire or intervention. Government is present in either case: it is present with respect to the already existing law of property working as it turned out to the advantage of the red cedar tree owner, and it is present under the new, altered law of property working by legislative intent (and court acquiescence) to the advantage of the apple orchard owner. Damned if it did and damned if it didn’t, government had to choose between the effective promotion of one group or the other: government is

in both cases a participant in the economic decision making process.” [Samuels, 1971, p.441.]

This approach offers a new layer of possible concerns resulting from the tenuousness of power. As the government must constantly choose which sets of interests to protect, there is a perpetual market for influence over the system. Once the government makes choices, differences will exist in the wealth distribution outcomes and future abilities to extract influence.

“No wonder property means inequality: private property and civil government are correlated, and both emerge out of the system of mutual coercion and its companion and asymmetrical structure of social power.” [Samuels, 1973, p.373.]

Holding a superordinate position in society would be associated with the advantage of protection and rule making. In this model of Smith’s social system, government, power and property are three mutually dependent variables. Power implies control and, therefore, property. A protected status (property) implies economic and social power with the resources to affect the body of rules (government). Property becomes a method of deciding the power relationships between classes of people as it serves to affirm social positions. Such positions depend on a continuing control of the supervising authority, or they risk losing their protected status during the next round of conflicts. Power and property are mutually dependent, but both serve to clarify the complex relationships between people and their legal systems.

#### **D. Pareto (Approach Three):**

This interpretive view on a system of power comes from Pareto’s The Mind and Society [1935]. Pareto’s system uses a combination of psychic states and belief system



elements to describe the formation of the social definitions of morality and eventually property. Also, some theories masquerade as scientific, but are actually derivations (“non-logico-experimental theory” to use Pareto’s phrase). These depend on the psychic state of individuals for their foundation, but are the object of manipulation by power players in society.

“That group is produced, and once produced is consolidated, by a powerful force: the need that the human being feels for logical or pseudo-logical developments and which manifests itself in residues...” [Pareto, 1935, p.886.]

Persuasion depends on the appearance of logical arguments, which are themselves dependent on belief systems concerning the bias of argumentation methods. These non-logico-experimental theories represent the application of the established social codes that are affirmed in the relative positions of authority. This authority can be present in any social circumstances, and is often used to manipulate the public sentiments in favor of one group at the expense of another. Those with power are able to turn social and legal perceptions in their favor during the process of establishing future property rights. Below is a passage from Smith’s recommendations on public persuasion, and it is the last sentence that provides the link to Pareto.

“You will be more likely to persuade, if you describe the great system of public police which produces these advantages, if you explain the connexions and dependencies of its several parts, their mutual subordination to one another, and their general subserviency to the happiness of the society; if you show how this system might be introduced into his own country, what it is that hinders it from taking place there are present, how those obstructions might be removed, and all

the several wheels of the machine of government be made to move with more harmony and smoothness, without grating upon one another, or mutually retarding one another's motions. It is scarce possible that a man should listen to a discourse of this kind, and not feel himself animated to some degree of public spirit." [TMS, p.187.]

It is the possibility of arguing a position, not the basis of reality, but rather making sure that the rhetoric will *animate to some degree of public spirit*. Recalling the introduction to this chapter, by identifying an argument as part of the *public need*, individuals and classes are able to achieve particular outcomes in Pareto's description of the social system. Smith not only understood the power of arguing the *public need*, he recommends it as a way to reaching particular objects. Emotional ties to the community, whether they are Smith's public spirit or Pareto's psychic state of public need, are strong enough to direct individual activities in each of these two authors' social systems.

"The power that precepts have in a given society at a given time lies chiefly in the fact that they are accepted by the majority of individuals comprising that society, and that individuals who violate them experience a sense of discomfort, find themselves ill at ease. Such precepts are merely an expression, and no very exact one, of the residues operating in that society." [Pareto, 1935, p.1332.]

Utility, a socially defined term that is operational at the individual level, serves as the measure of prosperity in Pareto's economics. Self-definition implies all the direction of psychic states and belief structures into that single decision-making unit. "Am I satisfied?" or "Do I derive utility from this action?" become exercises in psychological

influences and social controls. Every decision carries the indoctrination of the system with it. Emulating the propertied class serves as part of Smith's incentive system. This is discussed in chapter two, and is useful to remember, in this context, as one of Smith's significant concerns corrupting morality.

“This disposition to admire, and almost to worship, the rich and the powerful, and to despise, or, at least, to neglect, persons of poor and mean condition, though necessary both to establish and to maintain the distinction of ranks and the order of society, is, at the same time, the great and most universal cause of the corruption of our moral sentiments.” [TMS, p.101.]

This corruption will be found in nearly everyone within Smith's system:

“In equal degrees of merit there is scarce any man who does not respect more the rich and the great than the poor and the humble.” [TMS, p.102.], and;

“It is from our disposition to admire, and consequently to imitate, the rich and the great, that they are enabled to set, or to lead, what is called that fashion. Their dress is the fashionable dress; the language of their conversation, the fashionable style; their air and deportment, the fashionable behavior. Even their vices and follies are fashionable; and the greater part of men are proud to imitate and resemble them in the very qualities which dishonour and degrade them.”

[TMS, pps.103-104.]

Utility, provided by this imitation process, may mean the loss of self-definition and the adoption of characteristics that are normally found repulsive. This activity provides the basis for a third level of abstraction when looking to Smith for an understanding of property and power. This approach recognizes the application of control to particular

objects as a means of exercising coercion over other economic agents. Similar to *Approach Two*, it also recognizes the importance of the working rules and the conflicts of those seeking to establish control over those working rules. What differentiates this interpretive approach is its explicit dependence on the process of developing social beliefs as the means to converting economic agents to particular views, and, subsequently, the conversion of individual perceptions into imperfect rights. From there, the system of power and control governing the creation of rules and the imposition of selective imperfect rights as perfect rights follows Samuels' analysis quite closely.

“If we assume that some of the ties imposed by public authority are suppressed without being replaced by others, an infinite number of positions of equilibrium with the provisos of individual maxima as indicated become possible. Public authority interposes to require some and prohibit others. Let us assume that it acts logically and with the sole purpose of achieving a certain utility. (That is rarely the case; but that fact we need not consider here, since we are envisaging not a real, concrete situation, but a theoretical, hypothetical one.) In such a case the government must necessarily compare – we need not now ask with reference to what criteria – the various utilities.... A government of course – as best it can, and that is often badly enough – compares all the utilities it is aware of. Substantially, it does at a guess what pure economics does with scientific exactness: it makes certain heterogeneous quantities homogeneous by giving them certain coefficients, thence proceeding to add the resulting quantities....” [Pareto, 1935, pps.1469-1471]

Those in the position of converting the heterogeneous to the homogenous have the power to decide **who** matters. Conversely, everyone's relative positions in society depend on those choices. Also, and as important, those in a position of converting residuals to particular perspectives have the power to decide **what** matters. Yes, as per *Approach Two*, the conflict over whose utility counts is important, but underneath that, we find an entirely new layer of manipulation. This is done not only through the application of economic power, but also through the power of derivations. Control, social, economic, and political, rests with those capable of seizing control of the sentiments of individuals in society. Smith is not quite so blunt, but does offer this possibility with his perspectives on education. In addition to his observation that education is to "direct vanity to proper objects," funding these institutions becomes dependent on their ability to answer a particular series of questions. Most notably:

"Have they directed the course of education towards objects more useful, both to the individual and to the publick, than those to which it would naturally have gone to of its own accord?"

*Useful objects* is a matter of perspective. Is the university directing opinion in a way that useful to the existing social hierarchy? Are we instead to ask, "Are those receiving this education generating more value from their discounted future earnings from output than they otherwise would have?" If either question is to be asserted, then we return to the problems in *Approach One* of determining the social relevance of output. The conflict over interests would leave the system open to manipulation by those deciding **what** will matter in the future.

As an example of Pareto's conflict over controlling sentiments, modern technology has raised concerns for intellectual property. With on-line music services offering access to 'free-music,' the original composers of this music have lost some control over its reproduction. Through the litigation process, the on-line service representatives argued that property definitions had changed through the transitions of technology. Although they ultimately lost their court battle, they were successful in redefining property in the sentiments of many computer users. Although it is now illegal, the practice continues with many other service providers. This was a highly age- and education-specific issue. Computer users under the age of twenty-five were nearly 20 to 1 in favor of the new definition. Non-regular computer users over the age of 35 were nearly 20 to 1 against changing the definition [polling results posted to CNN.com and Time.com, June 28, 2001]. As the social arrangements are changed through new technologies, the interests of established property relations come into conflict with new positions. The process of individual socialization that sets the emotional attachment to a position becomes important. If people are made to feel that a particular position should be their own, they will use their own power to protect that interest. Interestingly, Pareto's system of manipulation does not require any consistency of logic for those with property to try and maintain their position. To the contrary, Pareto is very clear that the appearance of logic is all that is necessary. This becomes apparent by returning to the same intellectual property example of electronically reproduced music. Sony Corporation, the largest manufacturer of MP3 devices that use the illegal music, was also a principal litigant to make the production of MP3 recordings illegal. They were able to manipulate individuals to identify a particular need for purchasing the recording devices,

and yet were able to move legal sentiments to make the primary method of producing these recordings illegal. Two, apparently mutually exclusive, property rights held by the same economic entity both received protection.

Smith understands that there will be legal positions of a dubious nature appearing in society. He appears less concerned about faulty positions than an apathetic public.

“Even the weakest and the worst of them [political disquisitions] are not altogether without their utility. They serve at least to animate the public passions of men, and rouse them to seek out the means of promoting the happiness of the society.” [TMS, p.187.]

These efforts in the public sector are a social positive in Smith’s system because of the resulting social interest that is created in the public. The power to turn people to another definition of *public need* results in an active, but perhaps deceived, public that seeks to promote the happiness of society what whatever ‘ought’ to be needed.

#### **E. Conclusions:**

As a result of these three particular interpretive models of Smith’s system, there are three levels at which the exercise of power occurs in Smith’s works. In *Approach One*, the ownership of socially relevant resources will imply the capability of choosing which relationships to enter or avoid. Economic power is then the result of property. As the production methods change in a society, we anticipate changes in the relative power of property holders, even if their absolute power is unchanged.

In *Approach Two*, the ability to be a protected interest serves to define the property relations of a society. Gaining control over the power of recognition becomes vitally important. In this level of analysis, power results in property, but is itself

dependent on property resources to be realized. In this view, whose interests will count becomes the issue requiring resolution for the distribution of wealth to be determined.

Finally, *Approach Three* describes methods of manipulating classes of people who are in turn, competing for control of the rule-making capacity. Controlling the perceptions of the impartial spectators will direct Smith's vanity to proper objects. As part of the motivation and ambition discussion, impartial spectators are inclined to sympathize with property and will, therefore, lend themselves to manipulation that is consistent with the interests of the propertied. Power is found in the control of these psychic states and belief systems appearing in society. This approach requires answering two questions to determine the power structure of society. As per *Approach Two*, "Whose interests count?" reflects control of the legal authority. "What should matter?" indicates control of the socialization process.

As interpreted, the three models of power each address a slightly different set of objectives that were outlined at the beginning of this dissertation. *One* is an analysis of the interrelationships of social classes because of the differences in property holdings. Property offers participants power to choose the combination of social relationships they wish to enter. These relationships subsequently reaffirm the existing status quo until progress in the fields of production and exchange change the relative power of propertied classes. *Two* addresses two sets of relationships, the production, distribution and appropriation of wealth between classes through the production process, and the positioning for power by classes to gain legal recognition and protection by the authorities. This system requires two tasks of property, establishing relationships between classes of private interests, and between private interests and their government.



Property will have a third role of play in *Approach Three*. Property acts as a significant social psychic phenomenon to manipulate the impartial spectators that ultimately define the ethical code for society. This ethical code creates the imperfect rights defined in the previous chapter. Controlling the ethics of society will also grant power over the redefinition of imperfect rights as perfect rights, requiring legal recognition and protection. Through this process, inter-class, class-government, and intra-personal relationships are established.

## Chapter Five

### Summary of Findings and Conclusions

Adam Smith had something in mind when he used the term *property* in his work. Interpreters have used his conception of property in various contexts, and they have developed a series of different, and occasionally contradictory, views of Smith. Two major categories of conclusions regarding the roles of property are reached in this dissertation. One set of conclusions regards Smith's interpreters, the other, Smith himself. This chapter will address these conclusions and organize a single model to explain the roles of property in Smith's works.

Recalling from Chapter One, conclusions regarding Adam Smith included:

1. There is a synthesis of the several roles of property as part of Smith's social system. This synthesis yields a particular concept of property.

Property plays a diverse set of roles in the different works of Smith. Addressing them sequentially will clarify why there is a logically consistent concept within his work. Theory of Moral Sentiments develops an individual ethical system of conduct, and then expands this system to describe a social system of ethics. The impartial spectator is the method by which individuals internally register information about their own circumstances, and determine their appropriate conduct on the basis of those events. These impartial spectators work out the rules of the system through the participation of individuals in the economic and legal development processes. In addition to his other contributions, Smith's system is remarkably new with this approach. The spectator pushes individuals in two different ways. Internally, property plays the role of driving

self-assessment and motivation to action. Externally, there are two avenues to consider, how an individual views others around them, and how others will view this individual. In Smith's ethical system, individual perceptions will be deceived by greed and ambition, but virtuosity, as seen by non-deceived individuals, will be identified by the productive use of resources and the allocation of wealth in a parsimonious way. The system still holds with predominantly vain people. Their consumption of frivolous trinkets will drive the industry of those people supplying such trinkets. Individuals assess others in favorable ways by the presence of wealth and virtuous conduct with property, and they expect to be viewed in the same manner. Property, in TMS, serves to convince people that approbation is appropriate, and this approbation is part of an incentive system to drive people to action. Along the way, property is not Smith's preferred method of defining virtue, but he does describe it as the reality of the world, and, "the complaint of moralists in all ages." [TMS, p.62.]

In his Lectures on Jurisprudence, available through two sets of notes taken during Smith's stint in the classroom, property is found in a different set of contexts. In both LJA and LJB, we find that Smith's property is not inconsistent with that of TMS, but rather it finds new roles to fill. At the social level, property describes the settings in which individuals act, and it is part of the means of influencing these settings. Property, a significant part of the legal system, is the basis for defining and assessing the government and its performance. Government reinforces the socially relevant rules of conduct through its policing of the participants in the system. By determining what receives protection, the government helps to create wealth and thereby determines the distribution of this wealth. Property serves a dual role in these discussions; it is the

objective for those seeking control over their fellow citizens, and it is a means of exercising this control.

An Inquiry Into the Nature and Causes of the Wealth of Nations brings property to a variety of applications. Property is an incentive mechanism to inspire industrious activity. Individuals seeking personal gain through advantageous exchanges drive the system. This is similar to TMS discussions although the deception of happiness is not an extensive part of the analysis in WN. Deception will be more a part of the manipulation and control of interests in WN. Property is both a means and end to economic activity. Accumulations provide the basis for capital goods and further production. This further production is expected to result in advantageous exchanges and greater accumulations. In WN, property is part of a description of the interpersonal relationships taking place within an economy. This description attempts to explain a different set of objects than his other works. TMS focuses on the individual's means of self-assessment and judging the conduct of others. LJ describes the social system in which individuals act, and appears to attempt to initiate a study of a scientific jurisprudence, the development of a 'best set' of rules that would maximize social benefits. WN describes the interaction of individuals, some with resources (landlords and business owners) and others with few resources (laborers).

By identifying a different set of objectives for each inquiry, it becomes understandable that different roles for property would emerge. In the introductory chapter, Hadley's quotation provided the basis for this division of the roles of property. Hadley has two major classes of roles.

“Their [modern economists’] inquiry into the causes of the wealth of nations has concerned itself with an inquiry into the results of the property rights of individuals and the motives connected with them.” [Hadley, 1897, p.10.]

Hadley splits the discussion into the results of the system, and the motivation of economic agents. The approach for this dissertation splits the discussion into the individual (motivation and assessment), the interpersonal (production and exchange), the social (governance and laws), and the means of influencing these three categories.

2. Property can be understood to serve a conceptual purpose for Smith as an operational filter to define one’s self within social settings. He seems to have felt that individuals define, through property, their position in society, their relationships with others, the appropriateness of their conduct and that of others, their legal and governmental structure in which they live, and their ability to affect those structures.

Examining this second conclusion, we find several clauses to be addressed.

*...an operational filter to define one’s self within social settings...*

Early in chapter two, we found the impartial spectator as the principle method of self-definition of good conduct. Property serves as the basis for driving ambition, motivating the idle (either through the deception of happiness, or the gratification of social approbation) each along certain lines and not others. The impartial spectator is the method of implementing an ethical system in Smith’s society, but is dependent on the social settings in which it rests. Wealth, property, is a principle determinant of the impartial spectator’s mechanism.

“Adversity... necessarily depresses the mind of the sufferer much more below its natural state, than prosperity can elevate him above it.” [TMS, p.45.]

*...individuals define, through property, their position in society...*

The class system of analysis, present in much of English Classical Political Economy, is part of Smith’s work. Individuals are classified by the amount of property they hold, and by the form it takes. This amount of property serves as the basis for social positioning.

“...as property is introduced, one can be eminent not only for his superior abilities and renowned exploits but also on account of his wealth and the estate he has derived from his forefathers.” [LJA, p.216.]

The level of property holdings serves, however unjustly, as the acknowledged method of placing individuals into the social hierarchy.

“This disposition to admire, and almost to worship, the rich and the powerful, and to despise, or, at least, to neglect persons of poor and mean condition, though necessary both to establish and to maintain the distinction of ranks and the order of society...” [TMS, p.62.]

Individual are placed in their social status by the level of wealth they hold. Greater wealth will imply greater status, and less wealth implies less status.

*...their relationships with others...*

Individuals are confronted with two methods by which this occurs. First, the approbation/disapprobation can be expressed to others and serves as part of the educational process of others’ impartial spectators. Additionally, property influences the dependency of people, and their willingness to express their views.

“Frequent those who are independent of you, who can value you only for your character and conduct, and not for your fortune.” [TMS, p.154.]

*...the appropriateness of their conduct and that of others...*

In TMS, Smith asked, “What makes a praiseworthy character?” and “How will we know it?” His answer required the definition of virtue, which is founded in parsimony, industriousness, and prosperity.

“Among those primary objects which nature had recommended to us as eligible, was the prosperity of our family, or our relations, or our friends, of our country, of mankind, and of the universe in general.” [TMS, p.274.]

Property is the object of esteem, and carries an obligation to people that will require them to acquire it. Property exists as it is, but also as people are taught to see it. In this vein of thought, vanity and virtue are defined by, and contribute to defining, our methods of acquiring, maintaining, and improving our holdings of property. We apply this measuring rod of self-assessment to others. We admire those who are ‘successful’ in Smith’s system if they have accumulated more, rather than less, property.

*...their legal and governmental structures in which they live...*

The social system in Smith’s works has a stages approach. As civilizations have changed the forms of socially defined property holdings, new stages and social relations have developed.

Smith is interested in redefining wealth in his own period as the abundance of goods, and the productivity generating those goods, rather than an abundance of precious metals. By changing to this measure, economics becomes concerned with the application of existing material resources to producing ever-greater levels of output. Assessing the

performance of the economy implies an assessment of the governmental system designed to protect participants (especially their property).

“The most advantageous employment of any capital to the country to which it belongs is that which maintains there the greatest quantity of productive labor, and increases the most the annual produce of the land and labour of that country.” [WN, p.600.]

Policies that would preclude the outcome cited above are criticized. Government is to maintain justice, prevent encroachments, and permit exchange between individuals. Government will change, as will the legal system designed to implement governmental policies, as property changes, and vice versa.

“From the natural progress which men make in society.” [LJA, p.207.]

Recalling from chapter three, property and societal stages of development are mutually interdependent concepts.

“It is easy to see that in these several ages of society, the laws and regulations with regard to property must be very different.” [LJA, p.16.]

Particular laws will develop as a reflection of impartial spectator sentiments, and as part of an inevitable series of conflicts which property will cause. Laws will offer the creation of new rights and will be founded in the historical path of the society in which they are made, keeping in mind that there is still an element of choice and that laws are not a singular function of history. Emotive reactions, defining the results of spectator analysis, are founded in perceptions of property. Similarly, recognition is required for property to exist.



Justice is the 'ought' component to Smith's discussion of government and laws, and is itself a social construction via its dependence on property relations. Justice was different in each period of human development because the objects demanding protection (called for by justice, or by dominant groups) have changed.

*...and their ability to affect those structures.*

This ability to affect the distribution of wealth was identified through three different methods. In the first, the possession of resources allows for wider opportunity sets of choices within a given legal framework by enabling the owner to opt out of entering exchange relationships and to attempt to change the legal rules. Additionally, by exercising the choice to not agree to an exchange, coercive influence can be exercised to extract economic surpluses from people with fewer resources. The second approach identified the evolving property rights that receive legal protection. This affects the definition of wealth by defining the objects to be protected and, therefore, objects of economic value. Differing economic interests will attempt to direct the legal definitions into self-advantageous outcomes. Property implies protection, and a set of interests to be defended against future changes. If legal control is lost, then redefinitions may establish protections for contrary interests and result in different distributions of wealth. The third approach identifies the socialization process of individuals as an object of control. The impartial spectator is a significant element of Smith's ethical and legal system. It sets the basis for guiding self-assessment, and it is the basis for interpersonal recognition of circumstances requiring sympathy. Legal systems depend, in part, on the social expectations of security and justice. By influencing the socialization of individuals, coercive agents can change the recognition process of the impartial spectator. This will

then modify the outcomes of perceptions and the expression of sympathy in the legal process.

Conclusions regarding the interpretive literature are:

1. Interpretive literature that appears mutually exclusive is not necessarily so. The goals of interpreters differed and, as such, their subject matter reflects this difference. Just as different jurists hearing the same arguments may arrive at different conclusions, all interpreters will be subject to the problems of perspectives.

There are some conflicts in the literature that are simply irreconcilable. The primary example of this is found in the introductory discussion of this dissertation. Harper's admonition of Smith that claims that Smith failed to discuss property is going to run counter to Berle and Means, Belloc, and Hadley which found Smith to be extensive in his discussions of property and property rights. Where the differences can be understood and especially well reconciled are found in the range of topics within the interpretive literature. For Young and Skinner to describe the impartial spectator and the motivation of individuals through desires for approval will not work to the exclusion of Knight's description of the returns to property. By identifying the relevant aspects of the social model that each interpreter is attempting to discuss, it becomes easier to identify the particular differences of opinion regarding the relative importance of subject matter. It is also possible to recognize, barring the use of comparatives like 'most' or 'least' by interpreters, that many views differ in their chosen application of property rather than in their view of what property does. Young has not argued that interest and profits are compensation to property holders and represent the ability of one party to extract a

greater share of the distribution of wealth, and, therefore, power. In his interpretation of Smith, property serves the purpose of both deceiving individuals and motivating them to action. Brahmananda suggests an alternative view, people are motivated to accumulate property to be distinctive, but property still serves as the basis for motivation.

Differences in interpretations can, in part, be explained as a result of the application of analytically useful devices to different theoretical circumstances. Within a particular topics, many of the differences appear as a result of differing selections of source material from Smith. Obviously, interpretive differences will exist because each individual approaching Smith's works will bring a different personal background to their reading, but they also bring different objectives to be accomplished. The historical-stages analysis highlights this interpretive problem. Marx approached Smith from the perspective of critique and rejection, trying to find an alternative system to offer. Rostow's reading of historical stages was self-identified as a rebuttal of Marx's approach and an alternative to a socialist interpretation of industrial history. Rostow is more interested in the increased levels of wealth generated by the division of labor and accumulated capital stocks, while Marx appears more interested in the sociological implications of separating the laborer from the final product of their efforts through this division process.

2. The term 'property' serves the purpose of the moment. By using property to define historical stages, and to act on the 'internal spectator,' Smith left a wide range of particular discussions for interpretation.

Addressing this particular conclusion can be done in a similar manner as the previous. Smith addressed a wide range of subject matter within each of his works, and it

would be reasonable to expect that interpretive interests are going to select particular topics for application to individual issues. There is not a high demand for explanations of papal election processes, even if this is part of the historical discussion in WN. On the other hand, the usage of the term 'invisible hand' has started a significant series of debates as to the meaning and importance of this concept. Ethicists are more likely to be interested in the implications of the role of property in the development of Smith's virtuous conduct definition in TMS rather than the LJ discussions of the origins of governmental systems as methods of protecting evolving property interests.

3. Interpreters do not offer generalized models for defining property in Smith.

The few attempts to provide models of property using Smith have generally taken a 'mode of discourse' position. This has produced the unsatisfying result that 'property is as property does' with social models taking property as a given, exogenous concept and not part of what needs to be explained.

In the 'mode of discourse' position, property is a rhetorical tool applied by Smith to nearly every circumstance. For this interpretation, property becomes many things, and, therefore, loses any particular meaning. Without any particular meaning, property is an exogenously given set of concepts whenever an economic model requires the use of this term. As discussed in this dissertation, especially Chapter Four, this is too narrow of a view of the presence of laws and government. When the legal system protects the interests of one party against the actions of another, the government is present. In other words, the working rules of the system are omnipresent in all transactions, hence, government, as manifested in its determination of whose rights matter, is also ubiquitous. These working rules establish the rights of participants, and the distribution of wealth that

these rights will convey. This changes the presence of property from an exogenously determined variable where participants strive to reach an efficient level of resource allocation through markets and prices, to a part of the objective function in the rules determination process. Cannan's interpretation ignores Smith's understanding of the symbiosis of property and power, and extends this interpretation to assign the lack of inquiry into property to all of the English Classical Political Economists.

“Consequently, in almost the whole of the doctrines of these writers [English Classical Political Economists], the existence of private property and the practice of exchange is assumed.” [Cannan, 1967, p.7.]

Property, in Cannan's interpretive view, loses its place as an object of analytical interest and is merely part of the assumed social structure persistent through the period.

Smith appears to have had a particular idea of how to answer the question that would be asked by later authors, “What is property?” This dissertation set out to construct a synthesis of property roles in the works of Adam Smith while recognizing the various perspectives that have arisen in the interpretive literature. By constructing this synthesis, a view of property emerges that simultaneously clarifies these roles, and many of the interpretive approaches. At the individual level, property is a means of self-definition through an ethical system couched in a participatory system of governance. At the social level, property is mutually determined with justice, the system of laws and government, and the means of comparing the relative performance of these systems. Opportunities to control the results of the distribution of wealth are inherent in these processes. This control is dependent on the conversion of property, through different levels of mutual manipulation, into coercive power.

No author can escape from the many problems of interpretation present in any analysis of another's works. Even in the presence of these problems, the richness of the subject matter is evident, and Smith has enjoyed a recent reemergence following the expansion in the literature of property rights analysis. This model provides a framework for classifying and analyzing the discussions, and is offered to clarify the complexity of perspectives on Adam Smith and property.

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