

## Adam Smith : The Forgotten Agrarian

by John C. Médaille

*[The Agricultural System]... is, perhaps, the nearest approximation to the truth that has yet been published upon the subject of political economy, and is upon that account well worth the consideration of every man who wishes to examine with attention the principles of that very important science.*

Adam Smith, *The Wealth of Nations*

### The Smith Everyone "Knows"

Everyone knows Adam Smith. They know his great treatise, *The Wealth of Nations*. They know him to be the philosopher of "self-interest" who put avarice at the core of his values positing a mystical "invisible hand" which will take care of everybody so long as everybody takes care of themselves. They know him to be the philosophical mainstay of industrial capitalism in which the ever-greater "division of labour" reduces the worker to a mere "servo-mechanism" of the machine. They know him as the prophet of unrestricted free trade and the champion of a "laissez-faire", "get the government off the backs of business" polity. Indeed, the ideas of Smith are the very ground of the economic and political life that we lead; hence, we absorb Smith in the very air that we breathe, and know him so well that it is hardly necessary to read him at all; indeed, there are few who take the trouble to do so.

The only problem with this view is that, like so many things that everybody "knows", what they know does not happen to be so. In fact, there is no possible reading of Smith that will support the "readings" that Smith is usually given. In nearly every area that Smith is commonly cited, he expresses strong opinions against what has become the "common view" of Smith: Instead of praising greed, he warns against its pernicious effects; instead of denigrating labour, he puts it at the heart of all economic values; instead of supporting "capitalism" (a term he never uses), he warns that the mercantile class has interests which oppose the good of society. So then, was he not a supporter of laissez-faire (another term he never uses)? Yes, but a laissez-faire that means the opposite of what the term has come to mean. Was he not a supporter of our great manufacturing enterprises? Not really; such things were in the future, and Smith places not manufacturing, but farming and the well-being of the farm at the heart of the *Wealth of Nations*. And with that in mind, he deserves a re-reading, especially on those very points for which he is most praised or blamed, but only rarely understood.

### Adam Smith and Labour

At the heart of all economic values praised by Smith is the worker. Labour is the original foundation of all property, and therefore the most sacred (*Wealth of Nations*, p.129 \*). Indeed, in the original state of affairs, "which precedes both the appropriation of land and the accumulation of stock, the whole produce of labour belongs to the labourer (68)." However, as land was divided into private property, "the landlord demands a share of almost all the produce with the labourer can either raise, or collect from it (69)." Labour is also "the real measure of the exchangeable value of all commodities"(36), and "the only accurate measure of value".(43)

For Smith, the "liberal reward of labour"(86) is crucial to the success of society:

But what improves the circumstances of the greater part can never be regarded as an inconveniency to the whole. No society can surely be flourishing and happy, of which the far greater part of the members are poor and miserable. It is but equity, besides, that they who feed, cloath and lodge the whole body of the people, should have such a share of the produce of their own labour as to be themselves tolerably well fed, cloathed and lodged.(83)

Indeed, better wages improve the industry of the worker because that industry, "like every other human quality, improves in proportion to the encouragement it receives."(86) Thus, "If masters would always listen to the dictates of reason and humanity, they have frequently occasion rather to moderate, than to animate the application of many of their workmen."(87) Further, it is not high wages that are the cause of high prices, but high profits; wages have only an arithmetic affect on prices, but profits act geometrically (103), in a fashion similar to compound interest.(104)

Our merchants and master-manufacturers complain much of the bad effects of high wages in raising the price...They say nothing concerning the bad effects of high profits. They are silent with regard to the pernicious effects of their own gains. They complain only of those of other people.(104)

However, in the negotiation of wages, the worker is at a distinct disadvantage. In the first place, the law prevented him from joining with his fellows to bargain (71, 151); that is to say, unions were outlawed. Further, the law always favors the masters over the workers (151). Workers were prevented from joining in unions to raise wages, but the masters were not forbidden to unite to lower them; indeed, the law encouraged them to do so. This legal inequality particularly angered Smith, who noted that, "People of the same trade seldom meet together, even for merriment and diversion, but the conversation ends in a conspiracy against the public, or in some contrivance to raise prices."(137) But when the workers attempt to meet, it "generally end[s] in nothing, but the punishment or ruin of the ringleaders".(71)

The inequality is so great that: Whenever the legislature attempts to regulate the differences between masters and their workmen, its counselors are always the masters. When the regulation, therefore, is in favour of the workmen, it is always just and equitable; but it is sometimes otherwise when in favour of the masters.(151)

Finally, we cannot leave this subject without taking note of one of the gravest charges against Smith, that by supporting the "division of labour" as the key to the improvement of productivity, he supports a system which results in a mind-numbing alienation of the worker from his work. However, it must be remembered that Smith is writing before the industrial revolution; when he speaks of a "manufactory," he is thinking of something like a "master" and a dozen or two apprentices. Moreover, the term "manufacture" had something closer to it's original meaning, "hand-made." A manufactory was a place where people got together to make things by hand, with the help of such tools and rude machinery as was available at the time. The day of the great "mills" was in the future, and not within the compass of Smith's thinking.

### Adam Smith and the Capitalists

The introduction to the Prometheus edition of *The Wealth of Nations* states the common view that the book "still stands as the best statement and defense of capitalist economics." Yet it is difficult to

see to what, exactly, the introduction refers. Smith never uses the term "capitalist;" He is familiar with only two forms of "political economy": mercantilism and agricultural systems. The majority of the book is an attack on the former, and the later is the only system to which he can give his considerable intellectual support. It is likely that what the editor had in mind is the first section of the book, where Smith lays out such principles as supply and demand, the law of rents, the division of labour, etc. However, it is not clear to what extent such principles are exclusively "capitalist"; Supply and Demand is a law which applies apart from any system of politics; the distributist, the agrarian, even the socialist recognize such laws. So it is not so much a matter of Smith "defending" capitalism (which he never does), as it is of capitalists appropriating Smith, and often against his expressed wishes.

Smith does, however, comment at great length on the interests of the mercantile class. We have already seen how much he resents the privileges they possess in opposition to their workers and the influence they have in this regard with the legislature. We have also already seen that Smith realizes that it is profit, rather than wages, which drives high prices. But Smith goes much further. In fact, Smith states that the interests of this class run exactly counter to the interests of society as a whole.

This conflict between the interests of society and the interests of the "capitalists" (to use the modern term) works in two ways: the first is the tendency to seek, often with the connivance of the legislature, a "monopoly" price for their goods; and the second is that a rising economy actually lowers the return on capital. Each of these ought to be carefully examined.

The first of these conflicts can be seen in the pricing of goods. Pricing operates between two poles:

The price of monopoly is upon every occasion the highest that can be got. The natural price, or the price of free competition, on the contrary, is the lowest which can be taken, not upon every occasion indeed, but for any considerable time together. The one is...the highest which can be squeezed out of the buyers... The other is the lowest which the sellers can commonly afford to take... (65)

The monopoly price is most often sustained by "the exclusive privileges of corporations"(65) and by the host of subsidies, tariffs, drawbacks, and exclusive charters discussed in excruciating detail in 8 chapters of Book IV. Thus legislative power, and the privilege it may confer, is essential to improving the profits of the capitalist. But even this is not the most pernicious divergence of interest between the capitalists and the public. For that, we must look at the "natural interests" of the various classes of society.

For the purposes of economics, Smith divides society into three economic classes: the landlords, the labourers, and the merchants and manufacturers (448), or those who live by rent, those who live by wages, and those who live by profit (217). Now the interests of the first two classes are tied to the prosperity of the nation; economic expansion raises the value of land and increases the demand for labour and hence its wages. But exactly the opposite is the case with the third class, those who live by profit:

But the rate of profit does not, like rent and wages, rise with prosperity, and fall with the declension of the society. On the contrary, it is naturally low in rich, and high in poor countries, and it is always highest in the countries which are going fastest to ruin. The interest of this third order, therefore, has not the same connexion with the general

interest of the society as that of the other two.(219)

Thus the interests of the third class run contrary to the interests of the other two; expansion actually raises the cost of labour and rent and increases competition, thereby lowering profits, so much so that the ruination of a country is actually in the best interests of the third class:

But the wages of labour being lowered, the owners of what stock remains in the society can bring their goods at less expense to market than before, and less stock being employed in supplying the market than before, they can sell them dearer. Their goods cost them less, and they get more for them... The great fortunes so suddenly and so easily acquired in Bengal and the other British settlements in the East Indies, may satisfy us that, as the wages of labour are very low, so the profits of stock are very high in those ruined countries.(99)

In this double-barreled indictment, Smith takes on both the capitalists and the colonialists who are, then as now, usually the same persons. Far from being a friend of the capitalist, he precisely locates the dangers we face from them:

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.(219-20)

### Adam Smith and the Farmers

Smith divides all systems of economics (or "political economy") into two kinds: the mercantilist systems and the agricultural systems. Concerning the former, he devotes considerable portion of his treatise to destroying its pretensions and concludes:

Consumption is the sole end and purpose of all production; and the interest of the producer ought to be attended to only so far as it may be necessary for promoting that of the consumer...But in the mercantile system, the interest of the consumer is almost constantly sacrificed to that of the producer; and it seems to consider production, and not consumption, as the ultimate end and object of all industry and commerce."(444)

On the other hand, it is, for Smith, the agricultural system which is "the Principle Source of the Revenue and Wealth of Every Country."(446) The particular formal system which Smith examines is the one put forward by the French economists, especially as propounded by François Quesnay. In this system, only the worker and the landlord contribute to the wealth of society; the merchants and manufacturers constitute the "barren" or "unproductive" class, whose labour only generates enough to support their expense.(450) However, the class is useful, indirectly, to farmers because they make things it would be unprofitable for the farmer to make for himself, and do so at a lower cost.(453) Thus they do contribute to the productivity of the land. For this reason, merchants and manufacturers are not in any way to be restrained or discouraged in their trade.(454) In fact they are to be given perfect freedom of trade, as the best way of increasing the value of the produce of the land; for that produce is valued according to what it can purchase, and restraints of trade only increase the price of goods, thereby lowering the value of the produce of the farm.(455) Thus it is

only to serve the interests of the farmers, who generate all the wealth, that trade and manufacture is to be conducted in "perfect liberty".(454)

This "perfect liberty" is the basis of the "laissez-faire" argument (a term Smith never uses). Note however, that it refers not to the absence of regulation, but to the absence of subsidies inherent in the mercantile system. Thus its meaning was not, as is often heard today, "get the government off the backs of business," but rather "keep the merchants hands out of the public purse!" In other words, the term had the opposite meaning of the use we commonly find it. The tolls, tariffs and subsidies are despised not because they are in imposition on the businessman so much as they are a "tax" on the farmer.

Smith would differ with the economists over the question of whether merchants were productive. It is true, he agrees, that the natural price of a manufactured commodity is exactly equal to the labour, goods, and capital that went into it, so that the price only supports what it cost to make. However, at the end, there is a vendible commodity. Thus, although a commodity with a natural price of 10 pounds did consume 10 pounds worth of land, labour and profit in its production, there is at the end of the process a "vendible commodity" worth 10 pounds. Thus the total value to the economy is 20 pounds.(460-61) It is true, for Smith, that the manufacturers are not nearly as productive as the farmers, but that does not render them "barren".(460)

But aside from this quibble, it is the agricultural system alone which enjoys Smith's full support, so much so that it is, "the nearest approximation to the truth that has yet been published upon the subject of political economy, and is upon that account well worth the consideration of every man who wishes to examine with attention the principles of that very important science."(463)

### **Adam Smith and Avarice**

No examination of Adam Smith can be complete without touching on the issue of his alleged praise of "greed" in the form of "self-interest." The most common criticism on this question is expressed by G. K. Chesterton, who writes of "the mysterious doctrine that selfishness would do the work of unselfishness" (*Illustrated London News*, 9 Aug 1924) and that "God so made the world that He could achieve the good if men were sufficiently greedy for the goods." This is the only aspect of Smith's work upon which Chesterton ever makes any comment, which leads to the suspicion that Chesterton, like so many other commentators, had not actually read Smith. If he had read Smith, he might have discovered a distinction between "self-interest" and "private interests" which was identical to that which Chesterton himself believed. For if there is anything at all on which distributism is founded, it is an optimism that the "common man" is able to look after his own affairs, if only the "private interests" of governments and corporations would leave him any affairs whatsoever to look after; Chesterton trusts men with their own property, no matter flawed those men might be, and distrusts those who would expropriate their property, no matter how "benevolent" the purpose for such expropriation. On this question, Adam and Gilbert are of one mind.

Smith uses the terms "self-interest" and "private interests" always in opposite ways. For former, his most famous statements are "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"(20), and, "by directing [his] industry in such a manner as its produce may be of the greatest value, he intends only his own gain, and he is in this, as in many other cases, led by an invisible hand to promote an end which was no

part of his intention"(351). Concerning "private interests," Smith is not so sanguine; these private interests constitute the "spirit of monopoly"(371) which Smith so much detests. It should be clear by now, from what has been said before, that Smith is well aware of the dangers of avarice and especially so since the interests of capitalists diverge, in Smith's view, so much from the interests of the general public.

But what then of the "invisible hand?" Is this not an exercise in economic mysticism? But what is so peculiar about this invisible hand is that one sees it all the time. One can see it in the supermarket every day by watching the thrifty housewife compare prices. One sees it when businesses make investment and production decisions. For something invisible, it is something almost impossible not to see. However, where the "hand" is invisible is from the standpoint of government bureaucrats and corporate marketers; for these worthies, an activity that has not been measured, influenced and regulated is one not really seen. And no bureaucrat, governmental or corporate, can bear to see a human activity of which he is not in control. It is important to keep this in mind today, when all economic activities can so easily be recorded, and the last detail of our lives so easily examined by people from whom we might wish that it were indeed invisible.

### The Forgotten Agrarian

At this point, our aggrieved capitalist may complain, "But Smith was talking about mercantilists; we're capitalists! We're for free enterprise!" However, a glance at the laws and budgets of the national, state and local governments reveals a system of laws and subsidies identical to the ones condemned by Smith; the system under which we live is identical to the mercantilism of Smith's day. Indeed, it is an open question as to whether large-scale capitalism could ever be anything other than mercantilism. We cannot say for sure that it cannot be otherwise, but we can say for sure that it never has been otherwise. And the reason for this is fairly easy to locate.

As capitalism concentrates wealth, so it must always concentrate power, for money will always purchase power. To ignore this fact in one's economic and political calculations is to betray an unacceptable naiveté. The price of a politician, no less than the price of any other worker, is an investment that must have a return. The billions spent electing all the offices, from President and Prime Minister down to the town councilor, is a cost upon which the prudent investor demands a profit, and that profit comes in the form of favorable laws and subsidies, lax enforcement, and compliant courts. By and large, our investors have been repaid, many times over, and this happens regardless of which party is in power. And we should expect nothing less. The pernicious effect of this economic oligarchy is to offer us a "democracy" in which the choices on the ballot are confined to tweedledum and tweedle-dumber, both candidates having been previously vetted by the men with the money.

Now, one may be inclined to support such system, but one cannot use Adam Smith to support it. The major use of Smith has been a misuse; he is made to bolster a system he worked to undermine. The system that Smith did envision was one based firmly on the farmer, with the manufacturer and the merchant freely competing for his produce. This free competition strongly implies the dispersion of economic power rather than its aggregation. In other words, Smith is a natural distributist and an agrarian, and the case he makes is a potent one. Readers of his works will find an economic philosopher of great power and detailed demonstration. But they will not find, should they take the trouble to read him, a supporter of the present system. Indeed, it may be Smith's fate to be the most often quoted but least actually read of all the modern philosophers.