Scottish Enlightenment and Public Governance of the Economic System

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Maria Pia Paganelli

The Scottish Enlightenment and public governance of the economic system
Often the idea of a "natural system of liberty" is associated with Adam Smith and other Scottish philosophers of his age. Often the idea of a "natural system of liberty" is associated with the idea of a free economic system that, thanks to the self-interest of all individuals, is self-regulating and generates opulence and freedom. If only individuals were left alone, they would be able to generate, unintentionally, an economic system that leads to prosperity for all. This vision is correct but it may not be complete. While it is true that the "system of natural liberty" described in the Scottish Enlightenment is a natural system, it is also true that there are other natural forces that undermine the development and the stability of this natural system. What is natural in the "natural system of liberty" is therefore ambiguous. There are many conflicting forces and tendencies in human nature; the outcome of their interactions can be welcome or dreadful. How natural, then, is the 'natural system of liberty' envisioned by the Scottish Enlightenment?

Understanding how natural the "natural system of liberty" is is relevant because it may help us understand if and how it is possible to enhance it in the parts of the world that have experienced it, to protect it in the parts of the world where it is threatened, and to replicate it in parts of the world that have not experienced it yet. Additionally, we can try to understand why, if this system is natural, it has taken so long for it to emerge in some parts of the world or why in some other parts of the world it has not emerged at all. And if it is not so natural, does it make sense to try to export it to countries that did not experience it and ask them to adopt it?

In this essay I will concentrate on Adam Smith, a key figure of the Scottish Enlightenment, and the most prominent expositor of the system of natural liberty. To understand the role of public governance on the economic system, I will try to understand Smith’s idea of the "system of natural liberty" and how public governance may interact with it by looking at it in four possible ways:
natural as normal, natural as good, natural as perfect, and natural as "good enough." I claim that for Smith, a "system of natural liberty" is neither normal nor perfect, but rather that it is good and that it can work even under acceptable but non-ideal conditions.

One way in which we can read the emergence of the "natural system of liberty" is that, since the system is natural, it is which we should expect to happen. Natural is what normally happens.

There are at least two loci in the Wealth of Nations that can be used to show that, if individuals are left alone, good institutions and opulence will emerge: one is Smith's description of the emergence and development of towns and cities; the other is the working of the invisible hand. The natural system of liberty is natural because we regularly see the growth of opulence connected with the growth of cities and towns, as well as the growth of opulence connected with the working of individual self-interest.

Smith claims that the natural system of liberty started to emerge with the fall of the feudal and ecclesiastical powers and the introduction of the commercial system, thanks to the growth of towns and cities. This development was not planned but emerged spontaneously. No individual, no government policy was responsible for this growth. As a matter of fact, the silent and unplanned revolution of commerce was able to achieve what no army, rational plan, or public governance would have been able to achieve. «All the violence of the feudal institutions could never have effected, the silent and insensible operation of foreign commerce and manufacturers gradually brought about».

Similarly:

But, as Joseph Cropsey states, «there is nothing in the nature of things which will or might 'inevitably' lead to the coming into being of the natural of the most expedient social arrangement»3. Indeed, while this development seems to be the natural one, Smith points out that this natural development is not natural at all, and that what is natural is not the norm at all. The description of "How the Commerce of the Towns contributed to the Improvement in the Country" is the fourth chapter of Book III of the Wealth of Nations, where Smith describes the "natural order of things" that brings the progress of opulence to different countries. In the introductory chapter of Book III, titled "Of the natural Progress of Opulence," Smith explains that «the cultivation and improvement of the country, therefore which affords subsistence, must necessarily, be prior to the increase of the towns, which furnishes only the means of conveniency and luxury»4: exactly the opposite of what he illustrates in chapter 4. In fact, three of the four chapters of Book III tell the story of how the natural order of things was inverted. Smith explicitly warns his readers of this inversion of the natural course of things at the end of the first chapter: «But though this natural order of
things must have taken place in some degree in every society, it has, in all modern states of Europe, been, in many respects, entirely inverted»5.

The economic system linked to the progress of opulence took centuries and centuries. It developed in unpredictable forms. It happened only in certain part of Europe, and even there not stably. India and China were rich as well, but they did not enjoy the same freedom as some parts of Europe. If prosperity and freedom are the natural outcome of the natural order of things, why did they take so long to emerge? And why only in some parts of the world? How is that possible? Smith seems to indicate at least two possible causes: bad policies and bad luck. These explanations open the door for more questioning of the nature of the natural order. Is there a natural order in nature at all? Even if there is a natural order in theory, would its historical actualizations reflect it in any way? What if David Hume is right? What if the institutional setting of Britain is unique to Britain, rather than the normal thing to expect from every country? What if the system of natural liberty is indeed the result of peculiar circumstances and historical accidents? What if freedom and prosperity are generated simply by good luck? Smith does not seem to be able (or willing?) to exclude that possibility.

Pratap Bhanu Mehta presents this same point in the following way:

The bulk of The Wealth of Nations is devoted to the thought that for much of their history human beings have not acted on their interests; at least, they have set up systems of regulation and restraints such that only the interests of a few were served. Most important... the interests of humans are in conflict. For Smith, there is in a sense, nothing natural about the ’system of natural liberty’. If mankind had by degrees, unevenly and uncertainly, emerged from tutelage, it was less of a testament to the power of interest than to unanticipated consequences of actions or to fortuitous combinations of interests7.

With this I am not saying that Smith denies a natural order of things. He states that it does exist. Yet, it is not necessarily what we observe in reality. The same thing applies when we consider the natural system of liberty as an expression of the working of the invisible hand. For Smith the invisible hand does exist. It is true that the pursuit of individual self-interest leads to the betterment of society, as is suggested by the idea of the invisible hand. It is also true that the introduction of commerce and manufactures brings along «order and good government, and with them, the liberty and security of individuals […] This, though it has been the least observed, is by far the most important of all their effect»8. The ”regular administration of justice” is generated by commerce and is the foundation of commercial prosperity. Fundamental for the sustaining of a system of natural liberty is indeed a functioning system of justice and that system of justice does emerge9. But Smith seems also to ask whether nature assures us that this is the end of the story. Does the invisible hand instead have to wrestle with other natural forces?

Unfortunately, Smith tells us, it is true that individual interests can be harmonized in the market, but it is also true that individual interests may collide with each other and destroy or prevent the development of the cherished system of natural liberty. Markets generate and are held together by a functioning system of justice. The laws of justice are laws that favor the majority of the people, not just a small group. If that is
not the case, the system of justice becomes a system of monstrous injustice, poisoning the beautiful system of natural liberty and destroying the benefits that markets generate. Indeed «Sometimes the interest of particular orders of men who tyrannize the government, warp the positive law of the country from what natural justice would prescribe»\(^{10}\). Or: «To hurt in any degree the interest of any one order of citizens, for no other purpose but to promote that of some other, is evidently contrary to that justice and equality of treatment which the sovereign owes to all the different orders of his subjects»\(^{11}\).

So, while the self-interest of the butcher, baker, and brewer seems to be the source of the natural development of commerce and of a prosperous economic system, the self-interest of great merchants and manufacturers also causes the system of justice to degenerate into a system of lobbies, and the system of lobbies becomes a source of the most severe injustices. The government grants favors to organized interests at the expense of the rest of society, and the laws become so unjust that

the cruellest of our revenue laws, I will venture to affirm, are mild and gentle, in comparison of some of those which the clamour of our merchants and manufacturers has extorted from the legislature, for the support of their own absurd and oppressive monopolies. Like the laws of Draco, these laws may be said to be all written in blood\(^{12}\).

Mercantilist policies, meant to grant monopolies to rapaciously ambitious merchants and manufacturers, are not in the best interest of society. They increase the fortune of a few at the expense of the many, impoverishing society\(^{13}\). Merchants and manufacturers are, in fact, «an order of men whose interest is never exactly the same with the public, who generally have an interest to deceive and even oppress the public, and who accordingly have, upon many occasions, both deceived and oppressed it»\(^{14}\).

And again: «Their interest is, in this respect, directly opposite to that of the great body of the people»\(^{15}\).

Examples of the virulent dangers of interest groups are, among others, in *Wealth of Nations*, IV.i.10; IV.ii.38; IV.iii.c.10\(^{16}\). And an additional source of worry for Smith is that concentrated interests are able to convince the government and the public that special organized groups are not enemies of society but defenders and promoters of the wealth of the country\(^{17}\). The natural force of self-interest can generate marvels of wealth and liberty for all, but it can also destroy the natural order of things and the system of natural liberty. The problem is that the deleterious concentrated interest groups are just as natural as the invisible hand. Indeed

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. It is impossible indeed to prevent such meetings, by any law which either could be executed, or would be consistent with liberty and justice\(^{18}\).

The concentrated interests of great merchants and manufactures are therefore strong; they are destructive, and they are inevitable. The naturalness of the natural system of liberty is counterbalanced by the naturalness of conflicting interests. The same seed that seems to generate the natural system of liberty seems also to generate its natural lethal threat. The natural economic system of commerce and the natural
system of liberty that comes with it, therefore, do not seem to be the normal outcome of nature.

It may very well be that, as Mehta claims

Establishing the "system of natural liberty" under which every man is "left perfectly free to pursue his own interest his own way" is thus for Smith a task, rather than something that comes naturally (WN, IV.ix.51). The paradox is that the very motive, self-interest, that allows that system to produce the beneficial consequences it does, constantly threatens to undermine it. It is the pursuit of their interests that leads merchants to demand monopolies and privileges that harm society; yet, those very same interests can, under the right institutional conditions, produce beneficial outcomes. *The Wealth of Nations* is an account of how the interests of all might be harmonized, not a claim that they are always, or naturally, in harmony19.

Yet, even if the system of natural liberty is a task, it is not an easy task to achieve. Who is going to do it? Why should anyone do it? We are left in the hands of our weak civic spirit and of a legislator who is exhorted not to fall for the flattery of the lobbyists but rather to preserve the system of natural liberty out of reverence toward its beauty20. Unfortunately, this seems to be just a dream. And in fact, Smith is convinced that the «formidable» powers merchants and manufacturers have «intimidate the legislature»21 so much that

[1]o expect, indeed, that the freedom of trade should ever be entirely restored in Great Britain, is as absurd as to expect that an Oceana or Utopia should ever be established in it. Not only the prejudices of the publick, but what is much more unconquerable, the private interests of many individuals, irresistibly oppose it22.

Once privileges are granted, they will not be taken away. The invisible hand is in a constant struggle with the formidable powers of concentrated interests.

And just to add another pessimistic note, Smith often speaks of an economic system as a living body, with economic privileges granted by the government functioning like diseases. Privileges granted by the government make a body sick. They can even kill it.

The whole system of her industry and commerce has thereby been rendered less secure [by the monopoly of the colony trade], the whole state of her body politick less healthful, than it otherwise would have been. In her present condition, Great Britain resembles one of those unwholesome bodies in which some of the vital parts are overgrown, and which, upon that account, are liable to many dangerous disorders scarce incident to those in which all the parts are more properly proportioned. A small stop in that great blood-vessel, which has been artificially swelled beyond its natural dimensions, and through which an unnatural proportion of the industry and commerce of the country has been forced to circulate, is very likely to bring on the most dangerous disorders upon the whole body politick. The expectation of a rupture with the colonies, accordingly, has struck the people of Great Britain with more terror than they ever felt for a Spanish armada, or a French invasion... The blood, of which the circulation is stopt in some of the smaller vessels, easily disgorges itself into the greater, without occasioning any dangerous disorder; but, when it is stopt in any of the greater vessels, convulsions, apoplexy, or death, are the immediate and unavoidable consequences23.

Additionally, all living bodies, by nature, grow, reach maturity, and die. David Hume describes this process of growth and decay in the arts. And Smith seems to indicate that, indeed, all major forms of civilization eventually perish, either explicitly by human hand or by the events of history. If the feudal system and the temporal power of the church have been brought down by...
the silent revolution of commerce and the childish vanity of the nobles and the high clergy, why couldn’t the commercial system be brought down by the loud attacks of lobbies? After all, Smith tells us that an economy that has been in an expansionary state may not be expansionary forever. It may become stationary or even recede. North America, in Smith’s time, was an example of an expansionary economy, China of a stationary, and Bengal of a declining one. When the economic system is overgoverned and the invisible hand is paralyzed by interest groups, an economy may very well decline. In his words: «The difference between the genius of the British constitution which protects and governs North America, and that of the mercantile company which oppresses and domineers in the East Indies, cannot perhaps be better illustrated than by the different state of those countries»24. The natural progress of things toward the natural system of liberty is not commonly observed.

Maybe Cropsey is right when he states that «Since history is not the rational expression of nature but in principle may conflict with nature, there arises the need for a statement of the strictly natural, which of course is the substance of the Wealth of Nations, a book that delivers the truth about nature»25.

And if that is the case, what is strictly natural includes the presence of multiple forces and passions, which lead equally to positive and negative outcomes. Yet, even if the natural system of liberty is not the norm, it may still be the underlying tendency toward which we stumble when we are somehow able to balance our natural conflicting passions. The natural system of liberty is a good representation of our humanity. And, when possible, it should be achieved or preserved, because it is the system under which our natural tendencies may find the most fertile ground for balance, peace, and prosperity. To understand this, let’s go back to how the commerce of towns contributed to the improvement of the country, according to Smith.

Smith credits David Hume for being the first to realize «the most important of all…the effects [of commerce]»26: that the commercial system brings about the natural system of liberty. Smith does not simply report Hume’s analysis; he adds to it. Smith grounds his analysis in the nature of mankind27. It is thanks to a lucky coincidence
of events, and in particular of human passions, that the old feudal system collapsed and that commercial societies occurred.

Human beings are caring, benevolent, public spirited, and virtuous, but they are also self-interested, vain, proud, shortsighted, and deluded, just to mention some of our characteristics that Smith takes pain to describe. Human beings are motivated by a variety of conflicting passions, not all of which are good. Yet, the combination of these passions can, unintentionally, generate good outcomes: nature has implanted in the human breast conflicting passions, and it is good that it has, because under the right conditions, those conflicting passions allow us to gain opulence and freedom.

Smith's description of the emergence of the economic system based on commerce is again indicative of the potentially positive effects of these conflicting and possibly negative characteristics of human beings. The fall of the oppressive system of feudal lords and the emergence of the natural system of liberty seem to be linked to the unintended consequences of these apparently negative traits of humans.

All for ourselves, and nothing for other people, seems, in every age of the world, to have been the vile maxim of the master of mankind. As soon, therefore, as [the great barons] could find a method of consuming the whole value of their rents themselves, they had no disposition to share them with any other persons.28

Similarly, in the analysis of the decline of the temporal power of the church, Smith claims that «[i]n the produce of arts, manufacturers, and commerce, the clergy, like the great barons, found something for which they could exchange their rude produce, and thereby discovered the means of spending their whole revenues upon their own person.»29. The barons and the high priests are described as being motivated by their «most childish, the meanest and the most sordid of all vanities» which hopelessly attract them to the glitter of a «pair of diamond buckles perhaps, or […] something as frivolous and useless»30. The lords run after «trinkets and baubles, fitter to be the play-things of children than the serious pursuit of men»31.

Yet, it is for the vain and childish desire of these ”trinkets and baubles” that the great proprietors, barons or clergy, are willing to sell their great authority. «[Foreign commerce and manufactures] gradually furnished the great proprietors with something for which they could exchange […] the maintenance, or what is the same thing, the price of the maintenance of a thousand men for a year, and with it the whole weight and authority which it could give them». By this exchange, «they gradually bartered their whole power and authority»32. They will eventually have to sell their birthright and their estate, which rich merchants are more than happy to buy. According to Smith, therefore, the ”folly” of gratifying ”the most childish vanity” brings down the feudal system and allows for the growth of the system of natural liberty. No government, no rational plan, no army, just the vanity of the barons and the self-interest of the merchants.

Additionally, it is still vanity combined with self-interest that not only leads to the childish dissipation on frivolous trinkets of power, family wealth, and what was supposed to go to help the poor, but also, unintentionally, creates incentives to improve the cultivation of the land. We are told that indeed «merchants are commonly ambitious of becoming country gentlemen, and
when they do, they are generally the best of all improvers” because they carry that bold entrepreneurial spirit, which the “old” proprietors lack.

Smith seems indeed to indicate that, despite all of our limits and conflicting passions and forces, and bad luck, we still naturally have the ability to improve our life and society. So, for example, even when Nature “in its anger has visited [us] with ambition,” and even when we are deluded regarding what makes us happy, we are able to generate steps that lead us toward that beautiful system of natural liberty and economic prosperity. What I think is telling here is how Smith explains this development: it is well that Nature made us as we are made.

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. And it is well that nature imposes upon us in this manner. 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 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. The earth by these labours of mankind has been obliged to redouble her natural fertility, and to maintain a greater multitude of inhabitants. (Emphasis added.)

The system of natural liberty, therefore, may not be the norm, but when we achieve it, it makes miracles. It may not be the norm, but it may be the best system, which accommodates the diverging and conflicting human passions, all our limitations, and still generates positive results.

The imperfections of the human beings that Smith describes are reflected also in the imperfection of the institutions in which we live. Aiming for perfection, both in human character and in social institutions is unrealistic and wasteful. And that is acceptable. We do not need perfection. We are able to achieve an economic system that leads to prosperity and liberty even with our imperfect means. The system may not be perfect, but it still works.

Tony Aspomourgos presents a convincing argument that “Smith expresses here a conviction that even under second-best (or worse) constitutions, regimes and policies, ‘nature’ is still in play, working away for the good.” I will follow him in presenting a long citation of Smith as evidence.

Some speculative physicians seem to have imagined that the health of the human body could be preserved only by a certain precise regimen of diet and exercise, of which every, the smallest, violation necessarily occasioned some degree of disease or disorder proportioned to the degree of the violation. Experience, however, would seem to show that the human body frequently preserves, to all appearance at least, the most perfect state of health under a vast variety of different regimens; even under some which are generally believed to be very far from being perfectly wholesome. But the healthful state of the human body, it would seem, contains in itself some unknown principle of preservation, capable either of preventing or of correcting, in many respects, the bad effects even of a very faulty regimen. Mr. Quesnai, who was himself a physician, and a very speculative physician, seems to have entertained a notion of the same kind concerning the political body, and to have imagined that it would thrive and prosper only under a certain precise regimen, the exact regimen of perfect liberty and perfect justice. He seems not to have considered that in the political body, the natural effort which
every man is continually making to better his
own condition, is a principle of preservation ca-
pable of preventing and correcting, in many re-
spects, the bad effects of a political oeconomy, in
some degree, both partial and oppressive. Such
a political oeconomy, though it no doubt retards
more or less, is not always capable of stopping al-
together the natural progress of a nation towards
wealth and prosperity, and still less of making it
go backwards. If a nation could not prosper with-
out the enjoyment of perfect liberty and perfect
justice, there is not in the world a nation which
could ever have prospered. In the political body,
however, the wisdom of nature has fortunately
made ample provision for remedying many of
the bad effects of the folly and injustice of man;
in the same manner as it has done in the natural
body, for remedying those of his sloth and in-
temperance.

The role of public governance seem
therefore to be to avoid interfering with na-
ture and its course, should that be possible.
To cite Aspromourgos again:

No policy is offered to ensure that result: it is
rather conceived of as the natural outcome of a
competitive economy exhibiting rapid accumu-
lation and growth…Or, one may perhaps better
say that commercial society—with the rule of law
enforcing property rights free competition and
so on—is the policy for bringing about general
opulence, though nothing in this formula guar-
antees high accumulation, other than human
nature.

Smith seems, therefore, to be both
moderately pessimistic and moderately op-
timistic about the power of nature to gener-
ate and sustain a natural system of liberty.
On the one hand, there is nothing that can
guarantee the emergence or sustainment of
an economic system that generates and
maintains prosperity and freedom. History
indeed seems to show how rare that emer-
gence is and how difficult its maintenance
is. On the other hand, nature seems to be
powerful enough to allow us to achieve it,
however imperfectly.

In his discussion of colony trade, Smith
reminds us

we must carefully distinguish between the effects
of the colony trade and those of the monopoly of
that trade. The former are always and necessar-
ily beneficial; the latter always and necessarily
harmful. But the former are so beneficial, that the
colony trade, thought subject to a monopoly, and
notwithstanding the hurtful effects of that mo-
nopoly, is still upon the whole beneficial; though
a good deal less so than it otherwise would be.

To conclude, I believe that in Smith
there is a strong presence of a natural order
of things that leads to a system of natural
liberty. But movement toward that system
is not necessarily linear. Human history
is convoluted and zigzagging. The natural
system of liberty interacts with accidents
of history, such as, say, the barbaric inva-
sions, which inverted the natural order of
development of Europe, as well as all of our
natural yet destructive human passions,
such as, say, those that generated the mer-
cantilist protectionist policies. Yet, despite
all its imperfections and limitations, many
today can say with Smith: «and yet it may
be true, perhaps, that the accommodation
of an European prince does not always so
much exceed that of an industrious and
frugal peasant, as the accommodation of the
latter exceeds that of many an African king,
the absolute master of the lives and liber-
ties of ten thousand naked savages».

2. Ivi, V. i.g. 24–25, p. 803.


5. Ivi, IV. i.g. 25, p. 803.


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