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## Adam Smith on money, mercantilism and the system of natural liberty

RYAN PATRICK HANLEY *and* MARIA PIA PAGANELLI

On first glance, the study of Adam Smith's understanding of money would seem to be an unrewarding pursuit. In an early draft of *The Wealth of nations*, Smith himself insisted that with regard to the nature, origin and history of money, he had 'little to say that is very new or particular'.<sup>1</sup> Yet modern readers should take care not to be misled by Smith's modesty. For while Smith's understanding of money is indeed derivative of several previous accounts, it plays a crucial role in his development of one of the conclusions for which he is most famous today: the superiority of the system of natural liberty to mercantilism. In what follows, we argue that Smith's theory of money is a central component of his argument staking out this claim.

We start with an exposition of different ways in which social order was conceived in the eighteenth century as a way of setting in context Smith's preference for a social order predicated on natural liberty. We then suggest that his theory of the origins and evolution of money is intended to illustrate the superiority of this natural order to institutions which infringe upon natural liberty. By examining his critique of three proto-monetary policies of his day, we present Smith's understanding of how intervention in the monetary order damages society. We then turn to the role of his theory of money in his critique of one particular proto-monetary policy, mercantilism, which Smith himself regarded as an illustration of the dangers of intervention. Here we argue that his demystification of the mercantilist monetary fallacy was intended as further support of his argument for the superior beauty and order of the system of natural liberty. We end with an examination of the role of the 'science of the legislator' in promoting the realisation of this system. Based on this analysis we conclude that despite the seeming unoriginality of Smith's conception of money, his analysis lies at the heart of the

1. Adam Smith, 'Early draft of part of *The Wealth of nations*', in *Lectures on jurisprudence*, ed. R. L. Meek, D. D. Raphael and P. G. Stein (1978; Indianapolis, IN, 1982), p.575. See David Laidler, 'Adam Smith as a monetary economist', *Canadian journal of economics* 14:2 (1981), p.186; and Douglas Vickers, 'Adam Smith and the status of the theory of money', in *Essays on Adam Smith*, ed. Andrew S. Skinner and Thomas Wilson (Oxford, 1975), p.483-84, 503.

fundamental project of *The Wealth of nations*: the demonstration of the advantages of a system of natural liberty over the artificial order established by the mercantilist system of eighteenth-century Britain.

### Theories of order and Smith's theory of money

A brief review of the fundamental categories of the eighteenth-century debate over man's capacity to create social order will help establish a context for understanding Smith's preference for a natural system of liberty, as exemplified in his theory of the nature and origins of money.<sup>2</sup> Enlightenment deliberations over the nature and development of social cohesion took different forms. Jonathan Israel remarks on the genealogy of an 'unprecedented intellectual turmoil which commenced in the mid-seventeenth century, with the rise of Cartesianism and the subsequent spread of "mechanical philosophy" or the "mechanistic world-view"', which fed into the onset of the Enlightenment.<sup>3</sup> Brian Singer has described the conception of social order associated with mechanistic philosophy as challenging the notion of something 'given from without by a divine Other, as subjected to a sphere of transcendence that alone provides it with its form, finality and meaning'. On this account, 'The social order is given to be accepted on faith. The divinity appears at the origin of society, and His presence is manifested in the continued, orderly existence of that society.'<sup>4</sup>

2. The literature on this topic is of course extensive. On eighteenth-century ideas of social cohesion, see, among others, Carl L. Becker, *The Heavenly city of the eighteenth-century philosophers* (1932; New Haven, CT, 1974); Ernst Cassirer, *The Philosophy of the Enlightenment* (1951; Princeton, NJ, 1979); Roger Chartier, *The Cultural origins of the French Revolution*, trans. Lydia G. Cochrane (Durham, NC, 1991); Chiara Continisio, 'La "politica" aristotelica: un modello per la convivenza ordinata nella trattatistica politica italiana dell'Antico Regime', *Cheiron* 11:22 (1994), p.149-65; Joachim Fest, *Der zerstorte Traum: vom Ende des utopischen Zeitalters* (Berlin, 1991); Michel Foucault, *The Order of things: an archeology of the human sciences* (1970; New York, 1994); Daniel Gordon, *Citizens without sovereignty: equality and sociability in French thought, 1670-1789* (Princeton, NJ, 1994); Jonathan I. Israel, *Radical Enlightenment: philosophy and the making of modernity, 1650-1750* (Oxford, 2001); Arthur O. Lovejoy, *The Great chain of being* (1936; Cambridge, MA, 1982); Robert Nisbet, *History of the idea of progress* (New York, 1980); Roy Porter, *The Creation of the modern world: the British Enlightenment* (New York, 2000); Brian C. J. Singer, *Society, theory and the French Revolution* (New York, 1986); Franco Venturi, *The End of the Old Regime in Europe, 1768-1776: the first crisis*, trans. R. Burr Litchfield (Princeton, NJ, 1989); Franco Venturi, *The End of the Old Regime in Europe, 1776-1789*, trans. R. Burr Litchfield, 2 vols (Princeton, NJ, 1991) (translations of *Settecento riformatore*, vol.3. *La Prima crisi dell'Antico Regime (1768-1776)* [1979]; vol.4, *La Caduta dell'Antico Regime (1776-1789)*, vol.1, *I Grandi stati dell'Occidente* [1984], and vol.2, *Il Patriotismo repubblicano e gli imperi dell'Est* [1984]). On their influence on economics, see William Oliver Coleman, *Rationalism and anti-rationalism in the origins of economics: the philosophical roots of 18th century economic thought* (Aldershot, 1995).
3. Israel, *Radical Enlightenment*, p.14.
4. Singer, *Society, theory and the French Revolution*, p.13-14.

An alternative understanding of philosophy introduced a different account of social order and its origins. This view 'sought to sweep away existing structures entirely, rejecting the Creation as traditionally understood in Judeo-Christian civilisation, and the intervention of a providential God in human affairs'.<sup>5</sup> As a result, social order was reconceived as a human construct, the consequence of rational deliberation. Political society itself was seen by the contractarians as a reasoned agreement among human beings to create an ordered system capable of advancing their collective interests and well-being. One particularly important consequence of this conception was the conclusion that reason and creation render men able and morally obliged to improve the society that they created. Such a position in time served to justify several philanthropic and utopian projects to combat social ills such as poverty, unemployment and social inequality.<sup>6</sup>

Of course this emerging view of man's capacity to shape social order did not go unquestioned, but faced a variety of reactions from moderate to extreme. William Coleman has explored the 'anti-rationalism' of the eighteenth century,<sup>7</sup> and most relevant for us is a version of a moderate 'rationalist' Enlightenment, in which the world is seen as a system, even if not, admittedly, the 'system of hierarchy' favoured by Cartesian rationalists. Rather it is a system of 'mutual interdependence'.<sup>8</sup> The moderate reaction particularly sought to stake out a middle ground between the theological understanding of order as divinely ordained and the anti-theological view that sought to deny any role for providence and harmony.

One significant moderate position of importance as a precursor to Smith's was taken by Montesquieu. In *The Spirit of the laws* (1748), Montesquieu presented morals and laws as man-made rather than God-given, but neither consciously nor rationally constructed. Society is therefore a result of human conduct, though it cannot be said to be its conscious result. Laws are context-specific and emerge from individual interests, and yet, without a conscious intention, they generate a stable social order. Bernard Mandeville also made an analogous point before Smith. In *The Fable of the bees*,<sup>9</sup> Mandeville maintains that from private

5. Israel, *Radical Enlightenment*, p.11.

6. See Fest, *Der zerstorte Traum*.

7. Coleman notes: 'To anti-rationalists our only source of knowledge is the reports of our senses (where "senses" include not only the five "external" senses but also our feeling and appetites). The intellect cannot constitute a fundamental source of knowledge, since the "mind's eye" can only see what was previously deposited there by the senses' (*Rationalism and anti-rationalism*, p.4).

8. Coleman, *Rationalism and anti-rationalism*, p.65.

9. Mandeville initially published the poem under the title *The Grumbling hive: or, Knaves turn'd honest* in 1705. In 1714 he reprinted the work together with a commentary as *The Fable of the bees: or, Private vices publick benefits*; he added further sections in editions of 1723 and 1724.

vices public virtues are achieved, claiming that a functioning and prosperous social order is not the consequence of a conscious design but the unintended result of self-interested individual actions.

We share the view that sees Adam Smith and Montesquieu as examples of moderate ‘anti-rationalism’. Smith’s published works, *The Theory of moral sentiments* (TMS)<sup>10</sup> and *The Wealth of nations* (WN), though on seemingly different topics, are both grounded in a common understanding of society: namely that it may function and thrive without any conscious human design.<sup>11</sup> *The Theory of moral sentiments* describes how it is not reason, but our senses, emotions and passions that generate canons of behaviour that keep society together and promote both individual and social moral flourishing. *The Wealth of nations* is an enquiry into the ways in which our individual interests, emotions and passions, rather than reason, generate economic phenomena and forces at the macro level that sustain the economy and facilitate individual and social material prosperity.

On Smith’s account, the human mind may aspire to understand the social order, and yet the weakness of human reason is such that even the limited process of trying to grasp it seems daunting.<sup>12</sup> Attempts to change this order through rational intervention would be unlikely to bring success. Nevertheless, Smith leaves some space for what he calls the ‘science of a statesman or legislator’ (WN IV.intro.I) to promote the enrichment of the entire nation.

Consistent with the view that successful social institutions are not the product of conscious rational design, Smith presents the origin of money as a natural social occurrence and not as a conscious human creation. It is on this claim that our analysis of Smith’s theory of money will focus, rather than aspiring to provide a comprehensive account of his understanding of money.<sup>13</sup> His fundamental claim in this regard is that money

10. Smith [1759]; *The Theory of moral sentiments*, ed. D. D. Raphael and A. L. Macfie (1976; Indianapolis, IN, 1982). References in the essay to Smith’s works are given parenthetically to the Glasgow edition as republished by the Liberty Fund according to the standard paragraph numbering system of this edition. WN = *An Inquiry into the nature and causes of the wealth of nations*; TMS = *The Theory of moral sentiments*; LJ = *Lectures on Jurisprudence*.

11. The question of whether the lack of human design implies a divine design or no design at all is beyond our scope here. Furthermore, this ambiguity has been widely discussed in the literature on Smith and still has not reached agreement. For a treatment of this literature, see Leonidas Montes, *Adam Smith in context: a critical reassessment of some central components of his thought* (New York, 2004).

12. For a detailed account of this view, see Coleman, *Rationalism and anti-rationalism*. For an account of the difficulties in understanding the physical order, see Eric Schliesser, ‘Wonder in the face of scientific revolutions: Adam Smith on Newton’s “proof” of Copernicanism’, *British journal for the history of philosophy* 13:4 (2005), p.697-732.

13. For such accounts, see Jacob H. Hollander, ‘The development of the theory of money from Adam Smith to David Ricardo’, *Quarterly journal of economics* 25:3 (1911), p.433-41; and

is in fact an epiphenomenon of commerce, a social institution that developed in an attempt to decrease the inconveniences of the double coincidence of wants and barter. Barter, he explains, is a human propensity that originally afforded incentives to specialise and to further trade. Those engaged in trade then needed to find a means of exchange that ‘few people would be likely to refuse in exchange for the produce of their industry’ (WN I.iv.2). Precious metals frequently began to be used as money and, in time, Mints were founded to make easier their weighing and assaying (WN Liv.7), and eventually the weight and fineness of these metals came to be stated on them as well (WN I.iv.9). Thus presented, the history of money is not the result of the rational design of a particular individual, but rather of the interactions of a multitude of individuals over time who collectively developed a mechanism to render simpler those transactions intended to further the pursuit of their self-interest. The same forces that generate social, moral and economic order thus also generate money.

### Smith’s critique of proto-monetary policies

Smith’s critical analysis of what might be considered the proto-monetary policies of his day, like his theory of money itself, is consistent with his view that social and economic growth is not the product of conscious design. Thus, his analysis further develops his claim that the order generated by individuals in the course of pursuing their private interest generally produces more desirable results than do schemes of particular individuals to improve the economy or social order.<sup>14</sup> He continually reminds his readers that a market order ought to be preferred to a constructed order, both in the best and in the worst case scenario of the latter. The best case would be the situation that would obtain under what we would call a benevolent dictator. Smith claims that even the most well-intended legislator cannot outperform the invisible hand of the market, insisting that natural ordering is a more effective means of production and distribution than even the most effective scheme that an omniscient and well-intended ruler might propose. In the worst case scenario, when social policies are developed by interest groups rather than those genuinely concerned for the well-being of the society, the ‘public’ policies that result benefit only particular segments of society, while doing widespread harm to the whole.

This claim is the foundation of Smith’s critique of three specific

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more recently Vickers, ‘Adam Smith and the status of the theory of money’; and Laidler, ‘Adam Smith as monetary economist’.

14. For an account of the strength of these orders, see Maria Pia Paganelli, ‘Adam Smith: why decentralized systems?’, *The Adam Smith review* 2 (2006), p.203-208.

eighteenth-century proto-monetary policies. These approaches are not, strictly speaking, monetary policies as we would consider them today, since they generally differ in both motivation and implementation from modern forms. We think in terms of controlling the money supply to encourage or at least to fine-tune the economy through the actions of a central bank. But in Smith's time, attempts to control money supply in an effort to better the economy were in their infancy and central banks as we know them today had not yet been created. Nevertheless, efforts were made to control the money supply through certain proto-monetary policies – debasement, paper credit money, and tariffs – and Smith was critical of all of them.

The first proto-monetary policy considered by Smith is debasement. Debasement consists in decreasing the amount of metal in a coin while keeping its denomination constant. We hesitate to call this action 'policy' because it was generally meant explicitly to benefit the sovereign, and not to advance the general interests of society. Smith himself insists that debasement is not a public policy but a forcible abuse of power for the sake of personal benefit. It is indeed 'the avarice and injustice of princes and sovereign states' that promotes debasement to help debtors (the king) and ruin creditors (*WN* I.iv.10).

The second proto-monetary policy considered by Smith is the use of paper credit money. Smith recognises the necessity of paper credit money in the economy. The role of paper in domestic markets as a substitute for metallic money promotes the freeing of productive resources that would be otherwise unusable. Metals can be employed abroad while paper money is not accepted far from the place of issuing. Thus it is 'by rendering a greater part of that capital active and productive than would otherwise be so, that the most judicious operations of banking can increase the industry of the country' (*WN* II.ii.86). Yet paper is not a policy instrument because the 'judicious operations of banking' are not the result of rational planning, but the consequence of the uncoordinated operations of a multitude of private banks independent from and acting in competition with each other. Here again economic growth is the unintended consequence of a multitude of individual actions. Furthermore, when Smith has to face the possible use of credit as a policy instrument, he dismisses it as either a failure or an absurdity. In 1696, he pointed out, the Bank of England had to be obliged to suspend payments on its notes (*WN* II.ii.80), which exemplified the fact that when a central rational plan for banking is attempted the socio-economic order falls apart.<sup>15</sup> Smith even dismisses John Law's

15. Smith refers here to events of 6 May 1696, during the Recoinage, when a run on the Bank of England forced a partial suspension of cash payments. Two days earlier, clipped coins

paper experiments and his Mississippi Scheme, the most majestic of the rational schemes at the time. To improve the economy by increasing the money supply would be a disaster for industry, and Smith dismisses them as ‘the most extravagant project both of banking and stock-jobbing that, perhaps, the world ever saw’ (*WN* II.ii.78).<sup>16</sup> As Smith is reported to have explained in the lecture notes of his students: ‘[Mr Law] thought that national opulence consists in money, and that the value of gold and silver is arbitrary’. (*LJ*, p.270) Law’s failure was inevitable because of ‘the vanity of both these imaginations’.<sup>17</sup>

The third proto-monetary policy that Smith extensively analysed was mercantilism, to which he dedicated the whole of *WN* IV. Among the central mercantilist tenets was a commitment to increase the quantity of money in the economy in order to maximise the power of a country (in a zero-sum conception of economic rivalry).<sup>18</sup> The only form of money that mercantilists regarded as legitimate was precious metals. Paper is a mere shadow of metals, as it derives its value from representing gold and silver. To achieve their goal of increasing the quantity of money (that is, gold and silver), the mercantilists sought to limit imports (payments for which implied the exiting of gold and silver from the country) and to incentivise exports (which brought gold and silver into the country in the form of payments). The results of these policies, Smith argues, are catastrophic for at least two reasons. First he argues that the entire mercantile system rests on a fundamental misunderstanding of the nature and uses of money, namely the misperception that money is wealth: ‘it would be too ridiculous to go about seriously to prove, that wealth does not consist in money, or in gold and silver’ (*WN* IV.i.17). It follows that using resources to accumulate money not only prevents the allocation of those same resources to accumulating further wealth, but it is wasteful because ‘Upon every account...the attention of government never was so unnecessarily employed, as when directed to watch over the preservation or increase of the quantity of money in any country’ (*WN* IV.i.15). Second, mercantilism is based on special interests, not on general interest. Pursuing the betterment of one specific group at the

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had ceased to be accepted by law but the Bank had insufficient stores of reminted money to answer demand. See Sir John Clapham, *The Bank of England: a history*, vol.1, p.32, 35-36.

16. For a detailed account of Smith and paper credit see Maria Pia Paganelli, ‘Vanity and the Daedalian wings of paper money in Adam Smith’, in *New voices on Adam Smith*, ed. Eric Schliesser and Leonidas Montes (London, 2006), p.271-89. For a critical account of Smith’s analysis see Athol Fitzgibbons, *Adam Smith’s system of liberty, wealth, and virtue: the moral and political foundations of the Wealth of nations* (Oxford, 1995).
17. Smith, ‘Early draft’, in *Lectures on jurisprudence*, p.42.
18. For a review of the central claims of mercantilism, see Jacob Viner, ‘English theories of foreign trade before Adam Smith’, *Journal of political economy* 38:4 (1930), p.249-301; and Mark Blaug, *Economic theory in retrospect*, 4th edn (Cambridge, 1985), p.10-18.



expense of the rest of society, Smith argues, necessarily leads to the impoverishment rather than the enrichment of society as a whole.<sup>19</sup> In illustrating the practical consequences of this aspect of mercantilist thought, Smith presents his fullest statement of the superior beauty and order of the system of natural liberty to a rationally constructed order.<sup>20</sup>

### Mercantilism and money

Smith opens *WN IV* with a description of the mercantilist conception of money: 'That wealth consists in money, or in gold and silver, is a popular notion which naturally arises from a double function of money, as the instrument of commerce, and as the measure of value' (*WN IV.i.1*). Examination of this fallacy dominates the entirety of *WN IV.i*, which leads him into an eventual apology that he thought it 'necessary, though at the hazard of being tedious, to examine at full length this popular notion' (*WN IV.i.34*; see *Liv.18*). In both places Smith calls attention to the fact that mercantilism rests on an unexamined opinion, an 'ambiguity of expression' in 'common language' that mercantilism's supporters have exploited to gain legislative support for their proposals (*WN IV.i.34*).<sup>21</sup> Smith's own strategy in arguing against mercantilism was to expose this sleight of hand, and thereby encourage his readers to pursue a more careful enquiry into the true nature of both money and wealth.<sup>22</sup>

19. See, among others, Jerry Evensky, 'The evolution of Adam Smith's views on political economy', *History of political economy* 21:1 (1989), p.123-45; Evensky, *Adam Smith's moral philosophy* (Cambridge, 2005).
20. In this sense, Smith's treatment of the mercantile misunderstanding has philosophical as well as economic significance, insofar as it is shaped by his understanding of epistemology. An important attempt to locate *The Wealth of nations* within Smith's wider philosophical commitments is offered in Samuel Fleischacker, *On Adam Smith's Wealth of nations: a philosophical companion* (Princeton, NJ, 2004), esp. p.21-31, which is particularly sensitive to Smith's commitment to the advantages of an epistemology grounded in 'common sense' rather than simple scepticism.
21. Smith's emphasis on the mercantilists' confusion of money and wealth has been noted by several commentators; see for example Laidler, 'Adam Smith as monetary economist', p.193; Viner, 'English theories of foreign trade before Adam Smith', p.264f; Donald Winch, *Riches and poverty: an intellectual history of political economy in Britain, 1750-1834* (Cambridge, 1996), p.110; Peter McNamara, *Political economy and statesmanship: Smith, Hamilton, and the foundation of the commercial republic* (DeKalb, IL, 1998), p.61-62; and Evensky, *Adam Smith's moral philosophy*, p.185. For Smith's sensitivity to the use and abuse of rhetoric in political and economic argument, see especially Andrew S. Skinner, 'Adam Smith: rhetoric and the communication of ideas', in *Methodological controversy in economics: historical essays in honour of T. W. Hutchison*, ed. A. W. Coats (London, 1983), p.71-88; Vivienne Brown, *Adam Smith's discourse: canonicity, commerce, conscience* (London, 1994); Charles Griswold, *Adam Smith and the virtues of Enlightenment* (Cambridge, 1999); and Fleischacker, *On Smith's Wealth of nations*, ch. 1.
22. In discussing *The Wealth of nations IV*, McNamara writes that 'Smith's inquiry is founded

Smith's attempt to bring his audience from a popular opinion concerning money to a true understanding of it depends on his ability to demonstrate that money is a matter of convention. In a passage Smith knew well, Aristotle had insisted that there is a fundamental distinction between money (*nomisma*, from *nomos*, or 'law' or 'custom') and wealth, which is tied to a natural capacity or need.<sup>23</sup> Smith's own discussion of money rests on the same distinction. The problem at the heart of the mercantile conception of money is that in it 'two values' are 'intimated somewhat ambiguously by the same word' – that is, money is taken to represent both the instrument of exchange and genuine wealth (*WN* II.ii.17). Consequently, what is needed is to move beyond the 'ambiguity of language' (*TMS* VII.ii.4.11)<sup>24</sup> – a call repeated in Smith's insistence in *WN* IV that 'we must in all cases attend to the nature of the thing, without paying any regard to the word' (*WN* IV.v.a.40).

In reconsidering the mercantile understanding of money, Smith thus seeks to move his audience beyond the false appearances of mere conventions, and instead encourages in them an appreciation of what is natural. The widespread success of the mercantile fallacy derived from the fact that its reliance on certain conventions appealed to the natural human propensity to prefer the plain and visible to the obscure and

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upon an attempt to reach beyond the ordinary understanding of things by inventing a technical language for discussing the subject matter of political economy' (*Political economy and statesmanship*, p.63). The view developed below agrees with McNamara's claim that Smith sought to move his audience beyond the 'ordinary understanding' that the mercantilists exploited – a claim also made by Fleischacker, *On Smith's Wealth of nations*, p.16-17, who notes that the mercantilists 'appealed to a popular confusion', and Evensky, who argues that on Smith's account 'the mercantilists' sophistry was successful because they took advantage of an asymmetry of information' (*Adam Smith's moral philosophy*, p.190). But our argument below is that Smith's remedy for this practical problem lay principally neither in an 'invention' nor, on the other hand, in returning to 'thoughts couched in common language' (Fleischacker, *On Smith's Wealth of nations*, p.24-5), but rather in seeking to expand the vision of his readers.

23. See Aristotle, *Politics*, 1257b5-15; *Nicomachean ethics*, 1133a25-32; see Smith, *WN* I.iv.7.

24. Smith frequently notes confusions of words and calls attention to the limitations of popular understandings of terms (see, for example, *TMS* VI.iii.33-34; *TMS* VII.ii.1.10). In this sense his conception of speech parallels his treatment of money. Speech and commerce are both natural systems of exchange employing instruments of conventional value as a means – money in the case of commerce, and words in the case of speech – and in both cases the conventional instruments of each system are prone to misunderstanding. See especially Andreas Kalyvas and Ira Katznelson, 'The rhetoric of the market: Adam Smith on recognition, speech and exchange', *Review of politics* 63:3 (2001), p.568f; Charles Bazerman, 'Money talks: the rhetorical project of the *Wealth of nations*', in *Economics and language*, ed. Willie Henderson, Tony Dudley-Evans and Roger Backhouse (London, 1993), p.189, 194-95; and James Otteson, *Adam Smith's marketplace of life* (Cambridge, 2002), p.258-89. Especially helpful in elucidating this comparison is Otteson's analysis of how an 'unintended order' is discernible in the development of language (see p.270, 274).

abstract (see for example *LJ* vi.13). Money, like other visible objects, is trusted for its physical appearance. Smith admits that it is 'more natural' for 'the greater part of people' to make judgments on the basis of 'a plain palpable object', as opposed to an 'abstract notion, which, though it can be made sufficiently intelligible, is not altogether so natural and obvious' (*WN* I.v.5). Indeed for a butcher, brewer or baker, 'It is more natural and obvious' to estimate the value of a product 'by the quantity of money, the commodity for which he immediately exchanges them, than by that of bread and beer', and for this reason 'the exchangeable value of every commodity is more frequently estimated by the quantity of money, than by the quantity either of labour or of any other commodity which can be had in exchange for it' (*WN* I.v.6). This preference for the palpable is what explains the attractions of the mercantile fallacy, as it seems natural to ordinary people to trust tangible, seemingly 'lasting' gold to 'perishable' or 'consumable' commodities whose value appears unreliable (*WN* IV.i.19).<sup>25</sup>

Thus, Smith concludes, in ordinary economic transactions, 'we generally look no farther than money' (*LJ* vi.146). Yet sight, Smith knows, is a double-edged sword. The visible may have the advantage of being readily apprehended, but this can be a disadvantage if appearances are mistaken for the whole truth. As Smith seeks to show, if one hopes to understand a system in its entirety – and particularly the complex system of international political economy – one must take a broader view that encompasses more than that which is readily apparent.<sup>26</sup> Thus Smith does not mean to disabuse ordinary economic agents of their instinctive understanding of money; the common sense perspective, he notes, 'though not exact, is sufficient for carrying on the business of common life' (*WN* I.v.4). Rather, his intention is to expose how economic policy-makers, and the mercantilists in particular, have exploited this instinctive but imprecise understanding, and it is in this spirit that he warns of

25. In this respect Smith's treatment of the appearance of money parallels his treatment elsewhere of the natural reverence that men have for moral appearances, in which he emphasises that money and wealth are desired less for their intrinsic utility than for the sake of how they make their possessor appear in the eyes of others (*TMS* Liii.2.1; *WN* I.xi.c.31). Likewise Smith notes that in moral life we are frequently seduced by the 'dazzling' appearance of ornament and beauty, which often leads us to prefer 'the gaudy and glittering' to the solid and substantive (*WN* IV.vii.b.7; *TMS* Liii.3.2), even though all that glitters is not necessarily good (*WN* IV.vii.a.17).

26. For an excellent discussion of Smith's subtle discrimination between the familiar but limited perspective of common life and the expanded vision of the philosopher, see Fleischacker, *On Smith's Wealth of nations*, p.30-31. On the problems of vision in Smith more generally and his debt to Bishop Berkeley's theory of vision see David M. Levy, 'Bishop Berkeley exorcises the infinite: fuzzy consequences of strict finitism', *Hume studies* 18:2 (1992), p.511-36; and Levy, 'The partial spectator in the *Wealth of nations*: a robust utilitarianism', *European journal of the history of economic thought* 2:2 (1995), p.299-326.

the dangers that come from erecting 'the sneaking arts of underling tradesmen' to the level of 'political maxims for the conduct of a great empire' (WN IV.iii.c.8).<sup>27</sup> Smith consistently emphasises that to judge on the basis of appearances is to judge in terms of partial and often incorrect knowledge. It is precisely this limited judgement, apt to promote intervention into complex systems, which he calls his audience of potential economic policymakers to transcend. By gradually bringing this audience to a more precise understanding of money, beyond that afforded by the popular understanding embodied in ordinary language, Smith encourages the development both of an appreciation of the significance of money beyond what its appearances reveal,<sup>28</sup> and, in turn, an awareness of the intricacy and complexity of the economic system as a whole. By so doing he hopes to foster an understanding which will render his readers less inclined to intervene in the economic system.

### The science of the legislator

At the same time that Smith exposes the error in the understanding of money characteristic of mercantilism, he also means to provide a remedy for it. It is to this remedy that we now turn. Smith summarised the opposing approach to legislative intervention in his discussion of the man of system who, 'wise in his own conceit', thinks he can manage men as he can manipulate pieces on a chessboard (see *TMS* VI.ii.2.17). Lost in this reductive vision, Smith argues, is the moderation, scepticism and caution that are fundamental to the art of economic legislation. The moderate alternative to the approach of the man of system he calls the 'science of a statesman or legislator'.<sup>29</sup> The science of the legislator, applied to political economy, 'proposes to enrich both the people and the sovereign', and on these grounds alone it can be distinguished from mercantilism (WN IV.intro.1). Like the men of system, the merchants and manufacturers who support mercantilism are incapable of accounting for any interests beyond their own; all of their efforts are dedicated to advancing their own partial interests, and 'to know in what manner it enriched the country, was no part of their business' (WN IV.i.10). A great gap in fact separates these men from the general interest of the nation, as

27. On the misuses of mercantilism, see Evensky, 'The evolution of Adam Smith's views on political economy', and Evensky, *Adam Smith's moral philosophy*.

28. On the 'vulgar prejudices' on which mercantilism depends for its support, see for example, WN II.iii.25; IV.i.1; IV.vi.32; IV.ix.3.

29. For full explications of the 'science of the legislator' and its relationship to both natural jurisprudence and economic statesmanship, see Knud Haakonssen, *The Science of a legislator: the natural jurisprudence of David Hume and Adam Smith* (Cambridge, 1981), p.83-98; Winch, *Riches and poverty*, p.90-123; and McNamara, *Political economy and statesmanship*, p.77-94.

they in their ‘sophistry’ are ‘always demanding a monopoly against their countrymen’, in their effort to further interests ‘directly opposite to that of the great body of the people’ (*WN* IV.ii.38; IV.iii.c.10).<sup>30</sup> He explains that they are ‘an order of men, whose interest is never exactly the same with that of the public, who have generally an interest to deceive and even oppress the publick, and who accordingly have, upon many occasions, both deceived and oppressed it’ (*WN* Lxi.p.10). At their worst they even threaten political stability; hence his likening of them to ‘an overgrown standing army’ and his claim that ‘they have become formidable to the government, and upon many occasions intimidate the legislature’ (*WN* IV.ii.43; see IV.v.a.28). Insofar as they cannot consider interests beyond those of their own class, the mercantilists fall victim to the most vulgar sort of partiality that blinds them to the benefits of the system as a whole.

Smith seeks to counter such selfishness and partiality by encouraging his audience to cultivate an appreciation of this system in its entirety. Thus, where the mercantilists imposed on the simplicity of gentlemen in order to manipulate them (*WN* Lxi.p.10), Smith seeks to direct their generous and expansive imaginations to a vision of the beauty and order of the system as a whole, an appreciation of which he regards as the best defence against economic intervention. By so doing, he means to encourage their decent desire to promote rather than obstruct the improvement of the estates of their neighbours – that is to say, their intuitive anti-mercantilist appreciation of the fact that improvement is mutual (*WN* IV.ii.21).<sup>31</sup> Smith identifies an antecedent of this process in his description of how the principle of sympathy enables individuals to transcend the narrow egotism on which Hobbes and Mandeville founded their systems. Despite our natural preference for ourselves, he here explains, social order requires that we correct the ‘otherwise natural inequality of our sentiments’. Thus, he explains,

to the selfish and original passions of human nature, the loss or gain of a very small interest of our own, appears to be of vastly more importance, excites a much more passionate joy or sorrow, a much more ardent desire or aversion, than the greatest concern of another with whom we have no particular connexion. His interests, as long as they are surveyed from this station, can never be put into balance with our own, can never restrain us from doing

30. Smith is referring here to the situation in France under Colbert, although it is generally applicable as an example.

31. Smith’s contrast between genuinely public-spirited political economy and the self-interested policies of the merchants and mercantilists is nicely developed in Jerry Z. Muller, *Adam Smith in his time and ours: designing the decent society* (Princeton, NJ, 1993), p.79-83; Winch, *Riches and poverty*, p.102-103; and Evensky, *Adam Smith’s moral philosophy*, p.189-95, 201-204.

whatever may tend to promote our own, how ruinous soever to him. Before we can make any proper comparison of those opposite interests we must change our position. (*TMS* III.3.3)

Social order requires that we take a wider perspective beyond self-interest. It is precisely this perspective that he calls his would-be economic legislators to take in *WN* IV, in contrast to the narrow perspective adopted by mercantilism's advocates. Put this way, it is clear that Smith's appeal to the generosity of his audience is not addressed to their beneficence. Beneficence is not wholly absent from his anti-mercantilism,<sup>32</sup> yet in general his goal is not to encourage the sort of pity that leads to public activism, but rather the opposite: by revealing to his audience the intricacy and complexity, and thus the beauty of the system of international political economy as a whole, Smith hopes to encourage a reverence for this system and hence a temerity, humility and reticence to intervene in it – the direct opposite of the aggressive arrogance characteristic of the mercantilists.<sup>33</sup>

Smith explains this approach in *The Theory of moral sentiments*. The improvements that 'promote the public welfare [do not] always rise from pure sympathy with the happiness of those who are to reap the benefit of it'. Rather it is the case that these great systems, when taken as a whole, are themselves 'noble and magnificent objects', and that since 'We take pleasure in beholding the perfection of so beautiful and grand a system', we 'are uneasy till we move any obstruction that can in the least disturb or encumber the regularity of its motions'. This leads him to conclude that if one hopes to persuade men to support public policies which are genuinely public-spirited, one should not preach benevolence but rather one should 'describe the great system' that procures public advantages – 'the connexions and dependencies of its several parts, their mutual subordination to one another, and their general subserviency to the happiness of the society'. Most importantly, it is best

if you show how this system might be introduced into his own country, what it is that hinders it from taking place there at 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

32. See *WN* IV.ii.35; IV.viii.4; IV.viii.17.

33. A point nicely developed in the account of the 'epistemic limits of statesmanship' given by Griswold, in which he explains that the science of the legislator, as developed by Smith, is itself 'a knowledge of ignorance, or of imperfection' (*Smith and the virtues of enlightenment*, p.304 and 309); see also Ryan Patrick Hanley, 'Enlightened nation building: the "science of the legislator" in Adam Smith and Rousseau', *American journal of political science* 52:2 (2008), p.219-34 (220-23, 230-31).

feel himself animated to some degree of public spirit. He will, at least for the moment, feel some desire to remove those obstructions, and to put into motion so beautiful and so orderly a machine. (*TMS* IV.1.11)

Smith's own anti-mercantilist argument in *WN* IV closely follows this advice.<sup>34</sup> By detailing the impediments and artifices of the mercantilists and their detrimental effects, he provides a blueprint for removing those obstructions that have impeded the realisation of the beauty and order of the system of natural liberty.

*The Wealth of nations* IV indeed traces a process in several stages, each of which successively expands the horizons of its audience and leads them from the natural, though partial, perspective of the mercantilists to the broader, more comprehensive perspective of the genuine legislator. He begins, as we have seen, by encouraging his audience to see the shortcomings of the common sense understanding of money gleaned from its appearances. But after having revealed the failings of this ordinary perspective, he then moves on to the dangers of the nationalistic perspective, turning from 'private interest and the spirit of monopoly' to those risks that arise as the consequence of 'national prejudice and animosity' (*WN* IV.iii.a.1). Having ascended to this more encompassing view, Smith goes on to show the shortcomings of the ordinary perspective when it is manifested at the national level, in which 'each nation has been made to look with an invidious eye upon the prosperity of all the nations with which it trades, and to consider their gain as its own loss. Commerce, which ought naturally to be, among nations, as among individuals, a bond of union and friendship, has become the most fertile source of discord and animosity' (*WN* IV.iii.c.9). As Smith hopes to show, a true understanding of the benefits of unhindered international trade can be achieved only when the system is regarded from the widest possible position: not from the perspective of that which is immediately visible, but from the point of view of 'the whole globe of the earth' (*WN* IV.iii.c.16).<sup>35</sup> Such cosmopolitanism is presented not as the product of global benevolence, but from Smith's attempt to put his imaginative audience in mind of the beauty and natural order of the system of international political economy. 'Were all nations to follow the liberal system of free exportation and free importation, the different states into which a great continent was divided would so far resemble the different

34. See Winch, *Riches and poverty*, p.95-6.

35. Evensky, *Adam Smith's moral philosophy*, esp. p.204-12, does an excellent job of demonstrating Smith's commitment to transcending the narrow-mindedness characteristic of mercantilism, yet as we have sought to argue, Smith's goal seems less the recovery of the nationalistic perspective characteristic of civic humanism (as Evensky sometimes suggests; see p.205, 212) than the cultivation of a 'larger, international perspective' (as Evensky elsewhere emphasises; see p.207).

provinces of a great empire' (WN IV.v.b.39). For this reason, Smith presents the ordered beauty of the 'liberal system' as an alternative to the reductive jealousy, prejudice and 'national animosity' that characterises the mercantile system.

In this chapter, we have shown how Smith employs his theory of money to exemplify the superiority of market orders to rationally constructed orders. Smith's account of the history of money demonstrates that its evolution is the successful result of the undirected interactions of many individuals, rather than the fulfilment of one individual's rational project. He also shows how government intervention in the monetary order leads to results inferior to those produced by natural market forces. Smith's energetic intellectual commitment to the dismantling of mercantilism exemplifies his conviction that constructive orders would impoverish society, while the wealth of nations would increase only through the restitution of the system of natural liberty. In his treatment of money, indeed, Smith seeks to impress on his audience the beauty of the system of natural liberty so that they will both rescind the artificial obstacles to natural order created by men and also possess a degree of humility sufficient to prevent them from thinking that they can tamper with the system itself.



