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Jesse Norman's Adam Smith: Crony Capitalism vs Open Borders

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It takes guts for a politician to write about Adam Smith, who defined politicians as “that insidious and crafty animal vulgarly called statesman or politician, whose councils are directed by momentarily fluctuations of affairs” (WN IV.ii.38). Politicians care only about how they look in the eyes of others: they build roads to nowhere to impress nobles (WN V.i.d.16), and let “formidable” interests “intimidate” them (WN IV.ii.43). Yet, Jesse Norman seems to rise above Smith’s accusations, and reflects more what Smith defines as “the science of the legislator” (WN IV.ii.38). Norman seems able to detach himself from his political position and read Smith, including his analysis of political corruption, in a scholarly way.

Smith’s own understanding of the *Wealth of Nations* is indeed a “very violent attack [against] the whole commercial system of Great Britain” (Letter to Andreas Holt: 26 Oct 1780). Today we would say, as Norman rightly says, that Smith’s *Wealth of Nations* is a powerful attack against crony capitalism.

Smith, pretty early in the *Wealth of Nations*, tells us that masters and working poor have not only different bargaining power but also different political powers. The masters, being few and in proximity of each other, can easily collude and conspire against the working poor and society in general (WN I.x.27 and WN XI.p.10). The working poor have few remedies to this. They cannot hold out as long as the master can (WN I.viii.12). And if they ever try to collude, the masters will loudly protest and make sure that the law against the collusion of the working poor is implemented as severely as possible. There are no laws against the collusion of the masters. The masters have very strong political ties. The working poor have none (WN I.viii.13).

This asymmetry of bargaining power that masters have is exacerbated when combined with asymmetry of information. Masters manufacturers and merchants know very well how to enrich themselves. Politicians want to enrich the country, but do not know how. Merchants and manufacturers claim they know how to enrich the country giv-

en that they know how to enrich themselves (WN I.x.c.25). And the politicians buy into these lies. They are lies because merchants and manufacturers know very well that to enrich themselves they need to buy inputs at low prices, sell final products at high prices, and reduce competition as much as possible. Exactly the opposite of what would benefit society: more competition and lower prices for consumption goods (WN I.xi.p.10). Yet, the wealth and the power of these interests groups is so large that they can shame and push around politicians into following their advice, even to the point of “extortion” (WN IV.viii.3, WN IV.viii.4, WN IV.viii.17).

And so we have what Smith calls “the mercantile system”, a pathology, in Norman’s words, of commercial societies. And a pathology it is, even in Smith’s eye. He called the colonial trade, *the* most mercantile instrument of special groups’ enrichment, an overgrown organ which can cause convulsions or even death. And the fear of the bursting of this sick organ is so great that even the Invincible Armada or a French invasion are not intimidating in comparison (WN IV.vii.c.43).

Yes, the *entire* British Empire is for Smith a construction of the mercantile interest, and thus deserving his most ferocious attacks. These special interest groups build an empire “employing the blood and treasure of their fellow citizens” (WN IV.vii.c.63): the skyrocketing debt that Britain had was the result of British colonial wars meant exclusively to create and protect the monopolies that benefited British merchants and manufacturers (WN IV.vii.c.64).

For every tax or subsidy that Smith analyzes, there is a special interest group that lobbied for it so they would benefit at the expense of society. The damage to society occurs on multiple fronts. Consumers have to pay a higher price. They have to pay for the subsidy, or the war. And they have to face a more slowly growing economy, given that markets are reduced by monopolies: prosperity depends on the division of labor, and the division of labor on the extent of the market. When markets are constrained, opulence is constrained. Britain grew so much during the expansion

of the empire not because of the empire but despite it (WN IV.vii.c.47-55)!

Norman picked up all of this. He also picked up Smith's solution: incorporate the colonies into Britain. Give them full representation in parliament and create a Union, just like it was done with Scotland (WN IV.vii.c.68-74). This would create a huge internal market where all the tariffs on foreign goods and subsidies on domestic ones requested by special interest groups would have to disappear. And the now huge market would bring huge opportunities for the division of labor and immense universal opulence (WN V.iii.68-92).

Norman is remarkable also in seeing the parallels between Smith's time and ours. Where I wish he would have been more vocal is in a possible solutions which he does not mention: the abolition of cronyism, at least in regards to international matters, is achieved with the abolition of borders. One of the techniques of mercantile interests is to demonize foreigners, to justify the building of walls to restrict markets:

nations have been taught that their interest consisted in beggaring all their neighbours. 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).

Open borders imply an inability to tax "foreign" goods and subsidize "domestic" goods. It also implies an increase in competition which is what, for Smith, keeps markets in check. It is competition for workers that prevents American masters from cartelizing. And the wages of the American working poor are remarkably high (WN I.viii.23). Open borders would decrease the powers of cronies and also be an additional solution for global inequalities.

Not by accident, Smith strongly condemns the Poor Laws, laws that prevented poor from migrating to different parishes in search of work. Substitute "parish" with "country":

we never meet with those sudden and unaccountable difference in the wages of neighboring places which sometimes we find in England, where it is often more difficult for a poor man to pass the artificial bound-

ary of a parish, than an arm of the sea of a rich of high mountains, natural boundaries which sometimes separate very distinctly different rate of wage in other countries. To remove a man who has committed no misdemeanor from the parish where he chuses to reside, is an evident violation of natural liberty and justice (WN I.x.c.58-59).

Smith favored the Union between England and Scotland. Opening the border between the two countries brought prosperity to both, especially the then poorer Scotland. He favored the same for the colonies. He favored free movement of capital and of people, both on efficiency and on moral ground. The step to suggest open borders today is not that long. Yet the same consideration he made for his proposal to create a Union with the colonies may apply to open borders today:

The private interest of many powerful individuals, the confirmed prejudices of great bodies of people seem, indeed, at present, to oppose to so great a change such obstacles as it may be very difficult, perhaps altogether impossible, to surmount. [...] Such speculation can at worst be regarded but as a new Utopia, less amusing certainly, but not more useless and chimerical than the old one (WN V.iii.68).