

**WORKING PAPER**

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THE WEALTH OF NATIONS --- VISION AND CONCEPTUALIZATION

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## THE WEALTH OF NATIONS -- VISION AND CONCEPTUALIZATION

"The failure of the social sciences to think through and to integrate their several responsibilities for the common problem of relating the analysis of parts to the analysis of the whole constitutes one of the major lags crippling their utility as human tools of knowledge."

-- R.S.Lynd, Knowledge for What?, 1939. p.15

Adam Smith's place in the intellectual heritage of the present-day economists is unquestionable. Smith's 'invisible hand', mentioned only once and almost in passing in the Wealth of Nations, has held successive generations of economists in firm grip. His picture of the apparent chaos of competition transmuted into an orderly system of economic cooperation by means of which the community's needs are met and its wealth increased has provided the 'basic' model for the later economists to analyse.<sup>1/</sup> The bicentennial of the Wealth of Nations -- the most famous and also the most unread book in economics -- should be an occasion not only to pay homage to its author but to be introspective. Such introspection is particularly necessary because by sheer accident the bicentennial has happened to fall during a period when economic theory has entered into the phase of a 'second crisis'.<sup>2/</sup> The 'state of the art' is being questioned in the highest quarters of our profession. Yet the current state of our discipline cannot be understood without linking it with the genesis and the evolution of our subject. By examining afresh Smith's own approach to the problem he posed for the later economists to analyse, we may understand better the current malaise. The present paper is an attempt in that direction.

Current Disquiet about the 'State of the Art'

The present happens to be the period when many leading members in the profession have expressed serious disquiet about the state of the subject.<sup>3/</sup> Doubts on the part of economists about their own activities have, of course, persisted in arising from the earliest period. Economists' self-assessment of their role as scientists varies depending upon whether economy seems to be performing 'well' or is experiencing rough weather. Yet the fact that the phases of optimism and pessimism have shown a distinct trend, with the latter phase becoming more frequent, persistent and pronounced, would seem to suggest that the 'crisis in economic theory is deepening.

Implicit in the current disquiet about the state of our discipline is the acceptance of economics as a 'policy science'. Economic thought has been influenced by the economic issues of the day and in the development of economics as a positive discipline need for policy has played a significant role. In the writings of the classical economists, description and analysis of facts were not sharply distinguished from policy prescription; the latter-day economists have been more wary. Yet the latter are as much concerned with the real world whether or not all of them 'prescribe for the real world.' Most economists would claim that their purpose in seeking to understand economic phenomena is to contribute, if not directly, to solutions of practical problems. Those who do not claim this and are satisfied with their self-chosen field of 'theory' are also not found emulating G.H. Hardy who once attempted to justify pure mathematics by explicitly proclaiming its 'uselessness'.

The concern of the economists who have expressed themselves on the current state of the subject, except for Kaldor, is with 'the evident bankruptcy of economic theory which has nothing to say on the questions that to everyone, except economists, appear to be most in need of an answer.' <sup>4/</sup> The problems referred to are co-existence of unemployment and inflation, poverty in affluent countries, problems of poor countries, environmental problems, quality of life etc. <sup>5/</sup> The dissatisfaction is all the greater because of the gap between 'the increasing power of economists to elaborate trains of subtle and rigorous reasoning and build complex models' and 'the slow advance of their power to diagnose and prescribe for the problems of the day.' <sup>6/</sup>

Kaldor, on the other hand, is not concerned with success or otherwise of economics in 'prescribing' for the problems of the day. He sets for economics as a science a more 'modest' task in keeping with the concept of economics as a positive science. Using the term 'science' in the sense of 'a body of theorems based on assumptions that are empirically (emphasis in the original) derived (from observations), and which embody hypotheses that are capable of verification both in regard to the assumptions and the predictions' (emphasis added), Kaldor argues that 'equilibrium economics' is 'barren and irrelevant'. It cannot explain how economic forces operate -- except in a purely logical sense -- and therefore cannot serve as a basis for 'predicting' the likely consequences of economic changes, whether induced by exogenous factors or policy variables.

Yet unlike natural scientists, economists are not induced by 'crisis' or recurring disquiet to go back to 'sources of knowledge' in their field. The current phase of pessimism is no exception. The reason suggested for the imbalance between 'formidable progress in techniques' and 'the performance of economics' is 'the weak and all too slowly growing empirical foundation which cannot support the proliferating superstructure of pure or .....speculative economic theory.'<sup>7</sup> Differences, of course, are there but the main thrust of the argument is on the need 'to widen the empirical foundations of economic analysis' (emphasis added).

Joan Robinson attributes the 'bankruptcy of economic theory' to tackle the questions which 'appear to be most in need of an answer' to the dominance of the notions of equilibrium and <sup>of</sup> the rationality of a market economy. Her disquiet is all the greater because the lessons of the Keynesian revolution on the plane of theory have been forgotten. The traditional dichotomy between 'real' and 'monetary' theory, which Keynes sought to break down, has reappeared in the form of micro and macro theory. Keynes' success in 'breaking out of the cocoon of equilibrium' and in considering 'the nature of life lived in time' has proved short-lived and equilibrium is once again back in the saddle.

Kaldor questions 'equilibrium economics' even as a conceptual framework for 'explaining' the behaviour of decentralised economic system because some of its assumptions are unverifiable (e.g. 'maximizing postulate'), others are contrafactual (e.g. perfect competition, linear and homogeneous production function, perfect foresight) and some of the concepts are not operationally defined (e.g. commodities, processes of production). He attributes the present none-too-happy state of

economics to the concentration on the allocative functions of market to the exclusion of their creative functions - to the fact that the theory of value holds the centre of the stage.

Both Joan Robinson and Kaldor would seem to be seeking to substitute equilibrium by 'history' but there is a difference. Joan Robinson sees the 'crisis' in the difficulty of reconciling Walras and Keynes - the failure to integrate micro with macro theory which even those who espouse 'equilibrium economics' regard as one of the major scandals of current price theory.<sup>8/</sup> Kaldor, integrating Smith-Young doctrine of increasing returns with the Keynesian doctrine of effective demand, finds that the distinction between resource allocation and resource creation has no validity except for short-run problems.

Those who regard the achievements of equilibrium economics as 'both impressive and in many ways beautiful' would seem to be schizophrenic.<sup>9/</sup> For instance, Hahn admits that 'it cannot be denied that there is something scandalous in the spectacles of so many people refining the analyses of economic states which they give no reason to suppose will ever, or have ever, come about.' Yet he maintains that equilibrium is so 'singularly well suited to study' and has produced 'technically best work'.<sup>10/</sup> While rightly emphasizing that 'equilibrium economics' is 'not engaged in description /of a real world economy/ at all', he maintains that 'it' is of great practical significance simply because it is of the greatest relevance to action in the present state of economic debate, and can serve as 'a starting point from which it is possible to advance towards a descriptive theory.'<sup>11/</sup>

Neo-Classical Economics and Adam Smith

The 'price-theoretic' theorems of equilibrium economics constitute one of the important components of the 'formidable progress in techniques' referred to earlier. 'The prestigious status of the purest of pure economic theory' is in no small degree due to these theorems. Logical theory of rational choice from which these theorems have been derived would seem to have fulfilled Jevon's ambition to reform economics on the lines of natural science.<sup>12/</sup> Yet equilibrium economists do not claim Jevons as their source of inspiration but Adam Smith! They claim to be 'making precise an economic tradition which is two hundred years old and deeply ingrained in the thinking of many'<sup>13/</sup> Adam Smith's hypothesis of 'invisible hand' is interpreted as implying that 'a decentralized economy motivated by self-interest' leads to coherence and not chaos, coherence being taken to imply 'disposition of economic resources that could be regarded, in a well defined sense, as superior to a large class of possible alternative dispositions.'<sup>14/</sup> The purpose is not so much to verify the hypothesis as to make it precise.<sup>15/</sup> The equilibrium economics, therefore, seeks to work out the 'basic assumptions' necessary for the existence of equilibrium set of prices that is unique, stable and meets the condition of Pareto optimality - a situation where it is not possible to make any one better off without making someone else worse off through any reallocation.



The interpretation put on Adam Smith's hypothesis of 'invisible hand' in equilibrium economics would seem to make him a precursor of Walras on positive side and Pareto on normative. Smith, in fact, is hailed as a 'creator of general equilibrium theory'.<sup>16/</sup> It is undeniable that in the Wealth of Nations Smith provided a pioneering description of the mechanism by which a society of 'perfect liberty' maintains internal cohesion and stability. Yet neither the concept of equilibrium implicit in General Equilibrium economics<sup>17/</sup> nor the concept of autonomous 'maximizing' individuals with given resources, tastes and technology implicit in the General Equilibrium system including Pareto-optimum is to be found in Adam Smith's work. It is the purpose of the following sections to argue that the interpretation put by the latter-day economists on Adam Smith's work in terms of their own epistemological preconceptions has failed to capture both his vision and his conceptualization of economic problem.

### 'Ideological' Element in Scientific Knowledge

Empirical facts constitute the basis of all scientific knowledge and theories are mental constructs imposed on these empirical facts. Yet the choice of a particular field of investigation, the choice of a given range of concepts for investigating that field, the way in which observations are organized depend on the scientists's 'presuppositions' and is subjective in that specific sense. The subjective factor in this sense enters even in the study of natural sciences and is related to the socio-historically conditioned environment in which man operates.

This socio-historical interpretation of 'ideological' element in development of scientific knowledge must be distinguished from

Schumpeter's concept of Vision. According to Schumpeter

'every comprehensive 'theory' of an economic state of society consists of two complementary but essentially distinct elements.....the theorist's view about the basic features of that state of society, about what is not important in order to understand its life at a given time /which is his Vision/ and the theorist's technique, an apparatus by which he conceptualizes his vision! 18/

Schumpeter's concept of 'vision' which 'enters on the very ground floor, into the pre-analytic cognitive act' is 'ideological almost by definition /since/it embodies the picture of things as we see them' and according to Schumpeter 'the way in which we see things can hardly be distinguished from the way in which we wish to see them' 19/ Schumpeter would thus seem to be stressing the hopes and aspirations of the observer rather than his socio-historically conditioned perspective. This also leads him to draw what would seem to be a spurious distinction between 'Political Economy' and 'Economic Thought' as ideologically conditioned and 'economic analysis' proper as independent and objective.

In the development of a new field, social needs and values play a major role in determining the problem on which the early practitioners concentrate. The concepts and methods they use in solving problems are, on the one hand, influenced by the specific features of the period and, on the other -- and to a large extent -- conditioned by the prevailing philosophical tradition and also by the most prestigious contemporary science. The choice of a particular field of investigation, conceptualization of the problem and the technique of analysis are therefore interrelated. They reflect the scientist's 'Vision' interpreted not in the Schumpeterian sense but in the sense of the 'world view' which is socio-historically conditioned.

The recognition of the 'ideological' element in economic thought should make it easy to understand why the interpretation of the doctrines of the earlier writers has been beset with pitfalls. There are certainly areas like policy-making in which using other man's framework can prove dangerous. Unless, however, the doctrines of the earlier writers are judged in the context of their own framework and in the light of the questions they were interested in, there is a risk of misinterpreting them. In the case of Adam Smith, the risk is all the more. The Wealth of Nations marked 'the dawn of a science' in economics. That 'much of what / Smith / presented /\_should seem / imperfect' and more of it 'loosely articulated' is hardly surprising, because 'a body of principles grows like a living body'. A present-day economist is bound to feel impatient with what Smith offered as 'laws' which were often 'unverified' theories. 'Limpid style, picturesque details.....emotional warmth' cannot also make up for logical inconsistencies, even though there is a lot to be learnt even from the errors of an able thinker. In fact the passages which would receive a high rating by the literary standards of the eighteenth century are not likely to find favour with the present-day reader more at home with writings replete with axioms, theorems and lemmas. Besides Smith was more than an economist. That the Wealth of Nations contains diverse topics -- aspects of medieval life and civilization, economic development of Europe since the fall of the Roman Empire, evolution of temporal power of the church -- reflects more than Smith's own penchant for facts and historical perspective. The Wealth of Nations belongs to an age when intellectual division of labour was limited.

## Historical Context of the Wealth of Nations

The central theme that inspires the Wealth of Nations is the accumulation of capital. Smith's reliance on free competition to ensure 'optimum' allocation of resources within and between industries was prompted by his belief that such a system would ensure extension of division of labour by widening the scope of the market. He attaches great importance to division of labour because of its dynamic effect in promoting accumulation of capital. It is not so much that he was 'the spokesman of manufacturing interest' -- in the ordinary sense of the word 'spokesman' -- as the 'prophet of industrial revolution'. To counter this by citing either his harsh denunciation of the manufacturing interests -- 'the mean rapacity, the monopolizing spirit of merchants and manufacturers who neither are, nor ought to be the rulers of mankind' -- or his failure even to mention the inventions which were revolutionizing textile and coal industry <sup>31/</sup> is to fail to realise that the historical context of the Wealth of Nations was far too complex to be implied by a particular phrase or by the mention of a particular fact.

The Wealth of Nations belongs to period of transition. With the sharpening of the conflict of interests as the upcoming bourgeoisie sought freedom from the feudal institutions and 'mercantilist' policies which were /constraining the growth of productive forces, the old order was breaking up. The new order based on fully developed capitalist relations was yet to take shape. Capital accumulation and technical progress were still confined predominantly to agriculture. Even here wages, profit and rent were still not clear-cut categories of income because functional differentiation was still imperfect. In the field of



industry, capitalists who were benefitting from the gradual concentration of the means of production were not industrialists but merchants for whom industry was only a form of trade. 'Manufacture', as Marx called the early forms of industrial organisation, was still an exception. The basic social pattern of landlords, labourers and capitalists which figures in the Wealth of Nations was developing in some of the commercial and industrial centres like Glasgow but for the country as a whole it was certainly not typical.<sup>22/</sup> Smith, of course, was not the only economist to become aware of 'profit on capital' as a general category of class income which accrued to all who used 'stock' in the employment of wage-labour, and which was qualitatively distinct both from the rent of land, and from the wages of labour.'<sup>23/</sup> He deserves, however, credit for having appreciated its enormous significance much more than any of his contemporaries and discerned the potential for the release of productive forces held in the new socio-economic relations which were then developing.

#### Role of Markets in the Wealth of Nations

In characterizing Adam Smith as 'a creator of general equilibrium system', reference is made to his discussion of the equalization of rates of return as enforced by the tendency of resources to move from less to more remunerative uses. This is taken to imply that the markets play a role in Smith's analysis analogous to that in equilibrium economics. This contrasts rather sharply with Allyn Young's emphasis on the creative functions of markets in Smith's analysis implied by the central role of the principle of division of labour in his work.<sup>24/</sup>

It is not that markets do not play allocative function but this function of the market is complementary to and dominated by their basic creative function and the nature of the 'allocative' problem is also different. The role of competitive markets is not that of improving the allocative efficiency to satisfy given wants within a given productive framework but that of increasing the physical productivity of labour and the total volume of economic activity. The physical output approach of the labour theory made the proportion in which labour is used in 'productive' and 'unproductive' purposes crucial, the allocation between the two being supposed to be determined by the requirements of increasing the volume of physical output of commodities with 'value-in-use'. The creative function of the markets, on the other hand, is to be seen in the fact that the impulse to change is transmitted through interdependence between markets. The fact that the very process of allocation provides impetus to economic change makes change endogenous to the system. The fact that change is 'progressive and propagates itself in a cumulative way' also makes the notion of 'equilibrium of costs and advantages' irrelevant, as Allyn Young's elaboration of Adam Smith's proposition about division of labour in terms of increasing returns clearly brings out. The recognition of the interdependence between resource allocation and resource creation does not, however, require that the theory of value should be displaced from the centre of the stage, as Baldwin's criticism of equilibrium economics would seem to suggest. The interdependence between markets explains only the mechanism through which the change propagates. The role of prices in relation to the interdependence between resource allocation and resource creation can be seen in proper perspective only by looking at Smith's characterisation of the 'changaloss'

### Vision and Conceptualisation

While Adam Smith grasped the prospects of complex relations of trade and industry of a developed economy, the 'early and rude state of society', which he took as the starting point of his analysis was suggested by a primitive community of self-employed peasants, largely self-sufficient and requiring only a rudimentary system of exchange. The importance which Smith attached to the size of the annual produce of labour is to be attributed to his concentration on the essential nature of economic life — physical process in which commodities are annually produced and consumed. Not only was production treated as consisting of transformation of natural resources into physical products but satisfaction was also thought of primarily in terms of physical properties of commodities or their 'value-in-use.'

The central role which capital accumulation plays in Smith's analysis is to be attributed to its implications for the two major determinants of the size of the annual produce which Smith emphasised viz., (i) 'the skill, dexterity, and judgement with which.....labour is generally applied' and (ii) 'the proportion between the number of those who are employed in useful labour, and that of those who are not so employed.'<sup>25</sup> While the former was linked to the possibilities of increasing productivity through division of labour, the latter was linked to the possibility of increasing the supply of labour by increasing the 'productive' use of labour. 'Productive' use of labour basically meant use of labour for investment in circulating capital or 'advances to labour'. Thus the crucial factor is the proportion of labour used for the production of basic necessities, because it

increases both the total volume of economic activity and also the physical productivity of labour. The very process of production increases the production potential, the larger the proportion of labour used for 'productive' purposes. While analysing the mechanism of exchange Smith recognises that in addition to increase in physical productivity, exchange makes possible a further gain:

'It gives a value of their superfluities, by exchanging them for something else, which may satisfy a part of their wants, and increase their enjoyments.' 26

Yet, this argument is neither developed fully not integrated into the main analysis. In fact by emphasising conditions of production, Smith definitely shifted the focus away from exchange relations which had held the centre of the stage under the 'mercantilist' influence.

It is possible to explain the physical output approach in terms of economic conditions existing at the time when Smith wrote. On the one hand, wage goods consisted of a few basic necessities which could be lumped together into a single commodity 'corn' and distinguished from 'luxuries'; on the other, a large part of the luxury consumption took the form of direct personal services. With land assumed to be fixed and limited role of fixed capital in economic life, social output could be treated as consisting of a single commodity and as a function of quantity of labour. Yet Adam Smith's expository device of a society as if it were one giant firm employing mainly one variable factor labour and producing a single 'commodity' was more than a method of abstraction. It implied his specific views about 'individual in society' as a component of his Vision.



In the case of Adam Smith it is necessary to consider explicitly his Vision because for Smith himself his work was not primarily economic but social. Even in the Wealth of Nations Smith was not merely an economist. As common with the other writers of the Enlightenment, he did not draw a sharp distinction between philosophy and science. In conformity with the Scottish tradition in economic thought, Smith would have regarded economics as only one component of the study of individuals living in societies involving psychology, ethics, law, politics and social philosophy.<sup>27/</sup>

The fundamental doctrines of the Wealth of Nations, particularly in regard to the economic motive and natural liberty, have served as the basis for characterizing Smith as 'apostle of individualism' or even 'self-interest'. These cannot however be understood independently of Smith's Theory of Moral Sentiments which, on the one hand, reflects the common ethical background of the eighteenth century and on the other, Smith's own individual contributions within that common framework. Relationship between the two books has been a matter of controversy. For instance, Viner sees 'irreconcilable conflict' between the two on the ground that 'a beneficent state which [Smith] dreamed about in the Theory of Moral Sentiments' (on the basis of the natural harmony of private interests as safeguarded by a benevolent and all-wise Deity) is quite different from 'the economic order under the system of natural liberty' in the Wealth of Nations.<sup>28/</sup> Croxsey, on the other hand, argues that the two books are not inconsistent, both being based on the same deterministic psychological explanation of human conduct accepted in the eighteenth century, according to which the controlling force behind human motivation is 'passions' or

or 'instincts'.<sup>29/</sup> The fact that there are conflicts and inconsistencies within both books and that too the same major ones would seem to be more relevant for our purpose.<sup>30/</sup> The eighteenth century thinkers, following synthetic as against analytic approach, neither regarded consistency as a necessary virtue nor found it feasible to practice it in dealing with facts of experience in totality.<sup>31/</sup>

### Concept of Man

Adam Smith traces Division of Labour to the basic human 'propensity to truck, barter and exchange' by making a simple observation:

'Nobody ever saw a dog make a fair and deliberate exchange of one bone for another with another dog!'<sup>32/</sup>

For him the ultimate economic propensity is not, however, 'trucking dispositions', as it is assumed because of the central role which division of labour plays in the Wealth of Nations, but self-love which is the source of exchange activity.<sup>33/</sup> Smith remarks that man who has 'almost constant occasion for the help of his brethren' would in vain expect 'from their benevolence only'. He is more likely to succeed by appealing to 'their self love in his favour' and talking to them not of his necessities but of their advantages.<sup>34/</sup> Reading in Smith's analysis 'maximising postulate' has involved interpretation of self-interest in the present-day too exclusively subjective sense<sup>and</sup> of 'economic man' (a phrase which Adam Smith never used) in terms of 'instrumental rationality'. Yet the Wealth of Nations reflects the philosophy implicit in the Theory of Moral Sentiments and it is more appropriate to regard self-interest of 'economic man' as the economic counterpart of self-love of prudent man of the Theory of Moral Sentiments.

Adam Smith's concept of man involved his eclectic views of both human nature and of the purpose of human existence.<sup>35/</sup> The starting point is his view (like that of Aristotle and Hume) that man is by nature social and like Hume he regarded the dominant human end as the interests or 'welfare' of society. His emphasis on natural liberty of the individual (reflecting the influence of the concept of life according to Nature of the Stoics) acquires a different significance when seen in the context of his view that man is socially motivated, though he need not be conscious of it. That he recognised the importance of self-love, of urge to 'better our conditions' is obvious from his criticism of both Mandeville and Hutcheson, of the former for a merely selfish interpretation of self-love, of the latter for not giving due weight to the importance of self-love in human affairs in his benevolent system. He himself did not regard self-love as necessarily anti-social and tried to show how self-love could develop into socially valuable prudence in a free society made up of critical but social individuals. He did not play down human inadequacies - 'the coarse clay of which the bulk of mankind is formed' - nor did he rely on altruism. He recognised that man's self-love needed outlet. His theory of graduated individual values begins with vanity, the common human motive in its lowest form and moves from vanity to pride and from pride to magnanimity. Education is supposed to direct vanity into proper channels. He made out a case for inducing active self-love, if necessary by 'illusions', because he believed man could be expected to act for social benefit, being by nature social.

One of the 'illusions' is 'the pleasure of wealth and greatness' which is dubbed as 'self-deception' but is recognised as force 'which

rouses and keeps in continual motion the industry of mankind! The other is to be found in the concept of 'the impartial and well-informed spectator.' The link between the concept of the prudent man with his self-love and of the society as the prudent man's ultimate end is provided through sympathy and reason. For Smith it is 'a sense of propriety quite distinct from the sense of utility' which is the basis of 'virtue', 'approbation' or judgement of the good. Utility is no more than a means. Smith's positive doctrine of the nature of 'virtue' has two basic components: (i) individual's regard for the 'order' of society, for the 'beauty' of the 'well-contrived machine' and (ii) 'virtue' lying 'not in any one affection, but in the proper degree of all affections' with the 'natural' and original measure of this proper degree lying in sympathy and not utility. For Smith it is sympathy and not utility which is the bond for society, and he put justice as prior to utility.<sup>37/</sup> Between justice and benevolence also he accorded priority to justice because benevolence cannot be forced whereas utility depends on justice being enforced.

'Society may subsist, though not in the most comfortable state, without beneficence but the prevalence of injustice must utterly destroy it.'<sup>38/</sup>

He accepted Hume's view of sympathy as the moralizing factor but put rational content into it by interpreting it as the sympathy of the 'impartial and well-informed spectator'. The subjective side of the moral activity implied in the sympathetic feelings of the 'impartial and well-informed spectator' is the conscience, 'the man in the breast' who can 'imagine' himself in another man's position. The 'man in the breast' has a double function: he provides individuals with criteria for judgements of the conduct of others and also with standards for their own actions. Smith rejected Hutcheson's intuitive

view of 'moral sense': He traded it to experience of social life and social rules which man observes because he has innate desire for social approbation and fear of social disapprobation. The objective side of moral activity is rationalized social rules - the reflection of sympathy in informed public opinion and in a code of social behaviour. The obvious 'illusion' involved in putting ourselves in their situation' implies that rational sympathy and proper self-regard (or enlightened self interest) are the basis for gradual building up of a system of moral rules, customs, conventions and institutions which provide the bond for society and also the basis of progress of society.

That Adam Smith created the 'economic' man as an abstraction which typifies social behaviour in the market place cannot be denied. But he is a very different 'creature' than the one later invented by the economists. Even in the Wealth of Nations, where he is transformed into a down-to-earth man of the world from the 'disembodied creature with hypersensitized sympathies' (of the Theory of Moral Sentiments), he reveals four different levels of conduct: (i) seeking to gratify physical needs; (ii) pursuing his self-interest in the context of which he is proud, vain, wilful, indolent, acquisitive, (iii) Using his 'resources' (fortune and talent) in a more calculating manner to acquire the highest returns in terms of a wide range of objectives (iv) thinking about the proper ends to pursue. The last is regarded as the highest level of conduct because through it the environment in which the 'economic' man operates is consciously changed. Thus the kind of choices he makes involves selecting from among different modes of conduct the particular one which conforms best with his nature as a social individual, although his behaviour is not necessarily rational.

The Wealth of Nations need not be regarded as 'simply a special case - the economic case - of the philosophy implicit in the Theory of Moral Sentiments,<sup>39/</sup> but it is the Wealth of Nations which makes more clear the nature and the limitations of the Vision. The two 'illusions' which provide the link between social and individual interest in the Theory of Moral Sentiments are weaker because the gap between the two is particularly obvious in economic affairs. The more explicit counterpart of economic motives for 'place' and the 'trinkets' is 'the uniform, constant, and uninterrupted effort of every man to better his condition.' The clashes of self-interest are sharper and more frequent when we come down to the market place. The impartial spectator is replaced by the impersonal market. The subjective side of moral activity implied in the 'sympathetic feelings of the impartial and well-informed spectator' is weaker if not absent; the objective side of the 'sympathy-spectator' mechanism implied by public opinion, fair play, justice is replaced by business ethics, conventions and legal redress which is a slow process. Smith, as a result, relies on the stabilizing operation of a theoretical perfect machine --- natural liberty and free markets --- to reconcile the conflict of individual interests. The exceptions that he himself lists to the harmonizing influence of this economic stabilizer are so numerous and substantial<sup>40/</sup> as to make 'optimality' -- in the Smithian sense -- of 'perfect' competition a hypothesis to be verified by facts.

Yet ultimate natural harmony is an important component of Smith's vision and it is essential to be clear about its source. The invisible hand would seem to play in Adam Smith's work a role comparable in importance to the mechanism of dialectics in Marx. The natural theism

is not, however, basic in Smith's inductive moral theory based on sympathy-spectator mechanism, interpreted in the context of gradually evolving societies. In fact the theistic invisible hand type of argument plays hardly any role in the Wealth of Nations. The actual phrase 'an invisible hand' is used only once where its purpose is to show how the individual is led by 'nature' to benefit society by a deception:

'Every individual is continually exerting himself to find out the most advantageous employment for whatever capital he can command.....he intends only his own gain, and he in this, as in many other cases, led by an invisible hand to promote an end which was no part of his intention! 41'

The invisible hand is used as a metaphor for the beneficent outcome of the process of competition, the emphasis being on the mutual advantage of free exchange.

It would seem that the source of the ultimate natural harmony would have to be sought not in resolution of conflicts but in the concept of society as a 'well-contrived machine'. Smith constantly talks of the beauty, of 'fitness', of the 'well contrived machine' which provides 'a thousand agreeable effects', while a rusty jarring one 'would displease' and be 'necessarily offensive'. The aesthetic delight in the perfect system or machine derived (along with rationalism) from Platonism is reflected in Smith's statement:

'Human society, when we contemplate it in a certain abstract and philosophical light, appears like a great, an immense machine, whose regular and harmonious movements produce a thousand agreeable effects.' (emphasis added).

The source of the concept of natural harmony would again seem to be theo-logical because the source of society as a 'great machine' is said to be God, described as 'All-wise architect and conductor'. In this

Smith reflected the prevailing attitude of his period, influenced by the development of Newton's 'System of the World' which showed the universe as a great machine.

Yet Smith more often uses the analogy of the judge (who is not infallible) and the law than the watch-maker and the watch or the engineer and the machine. This can be interpreted as implying that he also wanted to stress that society as a 'great machine' may not be perfect. It would seem more appropriate to seek the philosophical basis (without denying its theistic roots) for the theory of natural liberty (with its corollary of free and fair competition) in the Wealth of Nations in the concept of Order in society or Social Balance. That 'the society persists' does not, however provide an adequate basis for inferring about the nature of Order or the process by which it is ensured without an adequate theory of society. As the most general interpretation that can be put on the concept of equilibrium is Order, in respect of which the present-day economists can claim two hundred years old tradition, the adequacy of Adam Smith's theory of society becomes a crucial issue.

### Theory of Society

A word about Smith's method of investigation would be necessary for this purpose. Some of the inconsistencies within his two major works can be traced to the combination of deductive and inductive method. Smith did not explicitly discuss his method of investigation. His description of the inductive method in the Theory of Moral Sentiments would seem to suggest that he regarded it as scientific:



"We observe in a great variety of particular cases what pleases or displeases our moral faculties .....and by induction from this experience, we establish the general rules."

On the basis of some of Smith's posthumously published essays, Bittermann has argued that Smith denied the possibility of a priori knowledge.<sup>42/</sup> He did not deny the possibility of discovering laws but these were to be induction from sense data implying that for him experience alone provided the basis for causal connections.

Smith was influenced by many thinkers among whom Hume was one of the most important. It would seem reasonable to presume that Hume, whom he called 'by far the most illustrious philosopher and historian of the present age' and from whom, according to him, he differed 'a little',<sup>43/</sup> might have influenced him in his empirical method. The fact that Newton's System of the World was Smith's ideal also acquires a new dimension as a result. It represented not only the religion of the Enlightenment but also the possibility of developing a 'system' or a 'theory' in the form of empirical generalizations. Smith's emphasis on the importance of induction did not involve careful distinction between the functions of deductive and inductive reasoning but by 'induction' he probably meant the Newtonian method which Jevons called 'inverse deduction'. Newton's 'experimentalism' combined both methods - inductive and deductive - but its merit was supposed to be its inference of causes from effects as opposed to the purely 'rationalistic' procedure which derived 'conjectural inferences from uncertain premises.'

Without denying frequent normative overtones in Smith's Theory of Moral Sentiments, the inductive moral theory contained in it can be interpreted as being designed to 'explain' the causes of moral decisions

taken as data.<sup>43/</sup> Smith's theory was more descriptive and 'explanatory' than normative. Inductive nature of the Wealth of Nations would suggest that his static equilibrium should be interpreted as a posteriori construct of actual economic order at any point of time taken as datum. The purpose is not to evaluate but to 'explain' the result of economic activity. The concept of static equilibrium, if interpreted otherwise, would be out of place in the study of societies regarded as 'natural growths in their own unique environment' which requires 'historical approach. Yet in economic theory of the Wealth of Nations, prescriptive elements are embedded in descriptive-predictive 'system'. Order in Society has both positive and normative connotation about it so that the adequacy of Smith's theory of society becomes important.

Society is the 'natural' and the ultimate unit for Smith as for the other Scottish thinkers of his period. Theory of society requires, however, a precise concept of society. Appropriateness of the concept depends on the purpose for which it is to be used. If the interest is in the mechanism that permits a society to exist, functional concept of society as a social system may be adopted. On the other hand, if the interest is in different types of social order and in the way in which they change over historical time, the concept of society as a process -- an evolving entity -- is more relevant. Social disorder instead of being taken as prior to and different from social order needs to be interpreted as the result of the same elements, although occurring in different combinations. Dynamics of social order focuses on the mechanism by which social order is transformed, using the framework of the same conditions which determine its continuity. In either case the problem of the relation between individuals and society has to be faced.

Society is neither an aggregate of individuals nor an entity sui generis. At the same time society as a living organism does not represent a unity of the integrated whole unless it is merely used as a frame of reference. It is a working mechanism. Various conditions are essential to the continuance of society and the functioning of the social mechanism underlying such continuance. As such the study of the interdependence of the component parts of the system is indissolubly linked with how the component parts work in relation to one another and to the whole.

Adam Smith's concept of society is of growing -- or more appropriately an evolving -- society, embodying 'virtues of system and balance.' Smith, the empiricist, took the 'civil society' -- the concept of society as an entity distinct from and prior to state, which was the product of the Age of Reason -- as given. Unlike some of the thinkers of the Enlightenment, Smith did not use the 'philosophic fiction' of the state of nature and the social contract for discussing the nature of human relations in the absence of government.<sup>45/</sup> Such a 'philosophic fiction' can be interpreted in two ways. It reflected the fact that the Enlightenment thought was founded on the concept of reason and the method of reason is analytical. Whole has to be reduced to fundamental parts so that it can be built by a process of deduction from 'laws' governing parts. Secondly, it was an attempt to derive social coherence and order from the basic human faculty of reason. State could be as a result shown to be a dependent sector of a larger social order. This involved resolution of the problem of conflicting ends by postulating metaphysical concepts like natural rights, natural identity of interests or spirit of sociability. As such the ultimate premise continued to be 'war of all against all' -- social disorder which Hobbes used as a starting point for analysis of possibility of social order.

Smith's frequent use of the terminology of natural law has resulted in his being bracketed with those thinkers of his period who used such a 'philosophic fiction! Yet he rejected the notion of both the state of nature and the social contract. In the Glasgow Lectures of 1763, he wrote:

'It in reality serves no purpose to treat of the laws which would take place in a state of nature, or by what means succession to property was carried on, as there is no such state existing.

He also rejected Rousseau's notion of an original contract — more of it later — and its corollary of an implied contract existing in modern states. His rejection is partly to be attributed to his empirical method of investigation. There is also another, and perhaps more important, reason. Order did not imply for Adam Smith absence of conflict between the interests of individuals or groups. In the Theory of Moral Sentiments the absence of conflict is ascribed only to benevolent actions. The qualifications to the theory of natural liberty in the Wealth of Nations are all related to conflict of interests.

Yet it would be difficult to include Smith's concept of society in the category of 'conflict theory', which regards society as a product of 'antagonistic cooperation' of competing organisms. The basic element in 'conflict theory' is that men as organisms must compete for access to the resources of life and the theory therefore has ecological perspective. The theory seeks to explain not only how conflict is stabilized, or regulated but also how the 'rate' and direction of change of society is related to the nature and



substance of conflict. While Adam Smith's man-against-nature view of economic problem is consistent with the concept of society as 'a device for regulating the struggle for existence and for relating man to his environment', his concept of man being by nature social is not.

Smith's concept of 'individual in society' ruled out Mandeville's notion of the fall from man's 'primitive innocence' as the cause of his becoming 'that sociable creature he is now'. Societies were not created to protect individuals from dangers posed by the vices of individuals. The factors binding individuals in society are emotional and moral and not merely biological:

'Man, it has been said, has a natural love of society....The orderly and flourishing state of society is agreeable to him, and he takes delight in contemplating it.'

The 'fellow-feeling' or sympathy is even more important in the sociality of man, because it is the essential condition to the development of morality. Smith rejected the abstraction of a Robinson Crusoe 'from his birth' because moral issues could not arise for him. He would neither have interests beyond his own nor standards for comparison. Adam Smith's letter to the Edinburgh Review of 1755, with its apparently strange juxtaposition of Rousseau and Mandeville, was designed to stress man's essentially social nature and at the same to deny that man is a priori a 'social' being and 'moral' person. <sup>46/</sup>

Yet in another sense Rousseau and Mandeville do stand in juxtaposition vis-a-vis Smith. Both Rousseau and Mandeville emphasize the basic contradiction of 'civil society' which lies in the fact that social relationships in 'civil society' are not based on mutual solidarity but rather on competition. Of course, for Mandeville 'private vices' are 'public benefits' and the pursuit of his own selfish

interest by each man forms the basis of national prosperity. The contradictions of 'civil society' which provide the basis of Rousseau's critique of it are in fact exalted by Mandeville. Also for Mandeville 'man is an animal in permanent conflict with his kind', while for Rousseau it is the advent of private property which drives a wedge between interests of different individuals. Thus Mandeville's concept of man is ahistorical while Rousseau's is not. <sup>457/1</sup> On the other hand, Smith's concept of 'individual in society' makes both his concept of man and of society ahistorical. The fact that for Smith the starting point of investigation is individual although society is the ultimate unit is not surprising because individual is regarded as socially motivated. It is in social life and in the creation of good social customs, conventions and institutions that individual finds his 'propriety' and happiness, whether he intends it or not. With the concept of a socially motivated individual, learning from social experience and guided by internalised social conscience, the difficulties faced by the Benthamites in passing from individual to social utility do not arise for Smith. Smith's concept of society is better classified as 'one in many and many in one' -- philosophical rather than sociological and therefore ahistorical.

The inadequacy of Adam Smith's theory of society lies precisely in its underlying concept of society. Smith shared with the other members of the Scottish Historical School interest in the study of the 'natural history' of society. <sup>487/1</sup> In the Glasgow Lectures Smith treats history as a sequence of epochs identifying four main stages through which various societies had passed: hunting, pasturage, agriculture and commerce. Each is defined in terms of 'mode of subsistence' with 'inequality of fortune' owing to the institutions of private property and government

to defend it developing in the second stage. 'Till there by property', Smith remarks, "there can be no Government, the very end of which is to secure wealth, and to defend the rich from the poor". The causal connection between 'mode of subsistence' and property relationships on the one hand and the juridical and political system, on the other, is pointed out. The transition from one stage to another is also traced to changing economic conditions. Yet this 'materialist conception of history' does not lead to more explicit analysis of the nature of conflict. Smith recognises ubiquity of conflict but antagonistic cooperation is supposed to be regulated by sympathetic reason. Emphasis is on gradual evolution of moral rules, customs and institutions which regulate conflict of interest without ever resolving them completely. Smith's reply to Mandeville's sharp satire may be 'rather flat and feeble,' <sup>49/</sup> but while Mandeville rejoices in the selfish interest which he calls a vice, Smith pins his faith in the possibility of the same, which he calls 'virtue' developing into enlightened self-interest. If his solution of Mandeville's paradox is only apparent, all the more so because he puts the problem in a much sharper focus, it is better explained by linking it directly to the inadequacy of his theory of society rather than his 'theory of harmony' as Colletti does. <sup>50/</sup> The 'vulgar economics' has read in Smith's doctrine of harmony resolution of Mandeville's paradox but Lydal's contention that in the doctrine of 'harmony', 'the possibility of conflicts of interest is simply ignored,' <sup>51/</sup> is not valid for Smith. As pointed out earlier not only is conflict of interest recognised, but resolution of conflicts is also not implied in Smith's concept of harmony.

That Smith should have neglected the role of conflict in determining the direction and 'rate' of change of society should not be a matter of surprise. Even Adam Ferguson, the Scottish historical sociologist, who stressed the importance of social conflict, drawing particular attention to the possibility of revolutionary change shared the belief common to the thinkers of the Scottish Historical School that 'society -- developed blindly'. Changes were regarded as 'the result of human action but not the execution of any human design.' <sup>52/</sup> Even John Hiller who in his Origin of the Distinction of Ranks more explicitly used 'materialist' approach to the study of society stressed that it is "by gradual advances in rendering their situation more comfortable /that/ the most important alterations are produced in the state and condition of a people'. He stressed 'a natural progress from ignorance to knowledge, from rude to civilized manners 'in human society'. <sup>53/</sup>

Smith himself emphasized the gradual and continuous character of social development <sup>54/</sup> relating 'individual's morals to the stage in moral stature society has reached.' There was a hope or belief in future growth and social improvement through 'the slow influence and unfolding of reason' over historical time. It would be more appropriate to say that Smith had a philosophy of history rather than a theory of society. While Smith brought to the study of man's relations to one another in society historical approach, history would seem to have stopped for him with the advent of 'civil society'. What remained was sure, even if slow, march to progress not as a result of 'conscious deliberate planning' but 'as a by-product of the development of society.' <sup>55/</sup>



In the 'optimistic' quietism' of Smith is 'the desire for better men',<sup>56/</sup> rather than for economic growth in the present-day sense of the term.

Distribution not a 'puzzle' in Smith's Analysis

With society as the ultimate unit, it is not surprising that Smith regarded the level of average output, together with its growth as the aim of social policy. It would be more appropriate to characterize the prime objective of Smith's social policy as 'maximization' of the rate of growth of average output rather than 'maximization' of the level of average output. There is, of course, no basic conflict between the level of average output and the rate of growth of average output in Smith's physical output approach. Yet 'maximisation' of rate of growth of average output would seem to be regarded as more crucial. Smith mentions that the wage earner was better off in a progressive state in which capital was growing faster than population, its complement. In a stationary state, by contrast, the wage earner's lot was hard and dull.<sup>57/</sup> A developing society is also more consistent with his method of relating individual moral to the stage in moral stature a society had reached.

Adam Smith's treatment of the division of labour has been much discussed by the later writers. Adam Smith has been credited with two views on the division of labour on the basis of the apparent contradiction between the analysis of the gains from division of labour in the Book I and of the reference to the deleterious effects of the division of labour on the work force in the Book V. More important fact to note is that the division of labour is looked upon 'as a process which had not only an historical but necessarily also an important social dimension.'<sup>58/</sup> Given the fact that division of labour is the dynamic force in Smith's analysis, it is interesting to note that it is judged in terms of its implication for society. The very process which increase the 'collective intelligence

society' causes the 'inferior ranks of people' to become 'stupid and ignorant.' The brunt of the deleterious effect falls on the industrial labour force. The scope for division of labour is limited in agricultural sector and the upper ranks of a society are insulated because they do not derive their incomes from menial activities. The nodal level of understanding is low, the dispersion of understanding is greater but the collective level of intelligence is greater. Smith attached greater importance to the potential for growth through improved creativity of the society.

With society treated as the ultimate unit, production - the level and growth of output - was Smith's main concern. Distribution is not a 'puzzle' in Smith's analysis. Smith took differences in rank, inequality in distribution of wealth and income, differences in consumption pattern and the consequent differences in composition of output, as given. Smith's limited analysis of sociological implications of division of labour as related to dynamics of capitalist production can be easily understood. While he tried to reconstruct the evolutionary process in the development of human artifacts on the basis of 'conjectural history', he could not have been expected to foresee fully its future course. In any case, at least in the early stages of development, division of labour could be expected to increase the worker's dexterity and alertness, if not intelligence or understanding. The picture in regard to distribution however is different even in the early stages of capitalist development.

The 'uniform, constant and uninterrupted effort of every man to better his condition' is regarded as the driving force of individual action. The reason why man pursued riches, avoided poverty and put forth every effort after his elementary wants have been satisfied is traced to man's

'regard to the sentiments of mankind'. Vanity, emulation, desire for favourable notice, aspirations to advancement in rank are emphasised as psychological determinants of human behaviour. Both the hierarchy of wants<sup>59/</sup> and the insatiability of wants other than the basic ones are clearly recognised.<sup>60/</sup> The desire for these 'non-basics' is regarded as being governed by socio-economic conditions external to the individual and not fixed by his elementary needs. Yet there is no analysis of composition of output in terms of pattern of demand as determined by distribution of income. Consumption is, of course, mentioned as 'the sole end and purpose of all production'. That is however in the aggregate sense and that too in the context of making out a case for the more numerous as against the less numerous groups.<sup>61/</sup> Monopoly is both injurious to the consumers and also wasteful because it harms the interests of capitalists seeking advantageous outlets.<sup>62/</sup> From the view point of increasing output, consumption is regarded as what is necessary for production.

Difficulties in having 'fair' and 'free exchange are recognised.

'Peoples of the same trade seldom meet together, even for meriment and diversion, but the conversation ends in a conspiracy against the public, or in some contrivance to raise prices.'<sup>63/</sup>

The weaker position of the workers vis-a-vis employers is recognised.

Though the employers cannot reduce wages below a certain level, they have a decided advantage.

'Masters are always and everywhere in a sort of tacit, but constant and uniform combination, not to raise the wages of labour above their actual rate.....Masters too sometimes enter into particular combinations to sink the wages of labour even below this rate.'<sup>64/</sup>

The interests of the workers are linked with the interests of society. Yet

'in the public deliberations,.....his voice is little heard and less regarded, except upon some particular occasions, when his clamour is animated, set on, and supported by his employers, not for his, but their own particular purpose.'<sup>65/</sup>

Yet economic problem is conceptualized as a problem of production rather than distribution. The reason is not far to seek. Man's universal desire of bettering 'his own condition' is to Smith, a 'powerful..... principle capable of carrying on the society to wealth and prosperity.'

As we noted earlier Adam Smith had criticised Rousseau (along with Mandeville) in a letter to the Edinburgh Review of 1755, stressing man's essentially social nature. Yet Rousseau's original contract 'was not designed to derive social order from 'war of all against all'. Rousseau's purpose was to distinguish between inequality of men (which he called natural because men are not exactly alike even at birth) and inequality among men which depended on a kind of convention - agreement among 'free' individuals who have no power over each other. Underlying Rousseau's original contract was the concept of 'democratic individualism' .. of a society of free and equal individuals, free because equal. His broad conclusion was that the advent of property and inequality in wealth marked the beginning of a new psychology of man. Smith's criticism of Rousseau cannot be attributed merely to the fact that the 'philosophical fiction' of state of nature was anathema to his empirical approach. Smith regarded inequality as functionally necessary if society is to grow. Given the importance of capital accumulation for increasing employment and average output, conditions favourable to accumulation of capital (including its optimum use) assume a crucial significance. To Smith even the landlord's prodigality would seem to be a worthwhile price to pay if it can induce him to play an effective role in the process of capital accumulation. His consumption of 'nonbasics' cuts into the surplus over and above the necessary consumption but it is not on par with the support of idle retainers and 'unproductive' labourers. The maximum output potential of a society would also seem to be regarded as determined by the stage of its development, - by the forces of production -- and as independent of its institutional structure.

In the Theory of Moral Sentiments Smith always adds the rules of 'fair play' and the system of justice to his advocacy of natural liberty. In the Stoic tradition 'fair play' has reference to the game of life. Playing fairly implied that an individual 'may run as hard as he can, and strain every nerve.....to outstrip all his competitors /but not/ juggle, or throw down any of them.' In the Wealth of Nations 'the second duty of the sovereign' is that of 'protecting, as far as possible, every member of the society from the injustice or oppression of every other member of it, or the duty of establishing an exact administration of justice.'<sup>67/</sup> Smith is not explicit whether he meant the justice implied by the law of property, contract or some ideal ethical justice. In view of the discussion above, it would seem that the laws of justice are the legal requirements. They may be criticized in terms of social ideals and policy but are to be treated as binding so long as they prevailed. It is in the course of social progress that they would be revised to embody the higher moral stature to which progress would carry the society.

In the same way that Adam Smith underestimated the psychological costs of division of labour and their sociological implications, he underestimated the potential for wealth to breed and to perpetuate inequality and privileges. It would seem that he had even less reason to do so. Yet he shared the belief common in his century that innate ability was fairly equally spread and consequently opportunities were more or less equally distributed.<sup>68/</sup> Rousseau's inequality of men was not important and inequality among men was not only socially useful but could be accepted insofar as there was equality of opportunity. There was a belief that a 'general plenty diffuses' itself through all the different ranks of society' and that there was enough social nobility so that the problem of ranks did not need to be investigated.

A thinker has to be understood in the context of his times. Bertrand Russell's advice that 'in studying a philosopher, the right attitude is neither reverence nor contempt, but first a kind of hypothetical sympathy, until it is possible to know what it feels like to believe in his theories; is no less true in regard to a scientist. Adam Smith's theoretical advocacy of freedom for the individual can be understood better when seen as a reaction to the kind of society he lived in. It was mainly rigid, stratified on both economic and religious basis, controlled by out-of-date practices and institutions. The development of productive forces was hampered by powerful vested interests, in particular by the feudal aristocracy acting directly or through the government and aided by entrenched commercial monopolies. On the other hand, the classical ethical background of the eighteenth century - Platonic-Aristotelian-Stoic - provided the vision of a rational and free society made up of critical but social individuals. Economic individualism and political democracy were two inseparably connected aspects of the same vision of free society. Smith, like other classical economists, was fighting not only for something but also -- and perhaps more -- against something. He, like other thinkers of the period, refused to accept the values of the society he lived in, though he could not transcend the historical limitations of his own time. One need not subscribe fully to Goethe's generous saying that 'a man's defects are the faults of his time, while his virtues are his own,' <sup>169/</sup> but even the most prophetic minds have not been able to transcend the limitations of their own time. Kepler mingled 'mysticism with his science' <sup>70/</sup>. Rousseau's critique of 'civil society' was far ahead of his time but his 'egalitarianism' did not encompass inequality of men. He emphasized the need for social recognition of the individual's 'merits' and not of 'needs' as Marx later did. <sup>71/</sup>

It would be wrong to seek in Smith's concern with order in society the spectre of Hobbes which haunted the eighteenth century, although statements supporting such an interpretation can be found in the Theory of Moral Sentiments<sup>72/</sup> It would be equally wrong to read a Ricardian finale to the growth process in Smith's reference to the countries that have acquired their 'full complement of riches' or attribute to him a notion of alienation, which Marx later formulated, on the basis of his reference to the deleterious effects of division of labour on the work force. Smith was a 'progressist', to use Pareto's terms, but without 'progress' implying the present-day narrow concept of economic growth. Not only did he foresee the potential for development of productive forces in the emerging bourgeois order, recognise the need to throw off the crippling fetters of the feudal society if the potential was to be realized but he also expected that the 'internalised social conscience' would create a free society. Yet Smith had no illusion that the 'optimum' would be ever attained. To him to expect it 'is as absurd as to expect that.....Utopia should ever be established.....' He recognised that even if the entrenched prejudices of the public against free competition could be overcome, the more formidable resistance of vested interests would prevent the possibility of establishing harmonious social order.<sup>73/</sup>

### What is Wrong with Economics?

In the Kuhnian sense the mainstream economics has never had a major revolution.<sup>74/</sup> It has been dominated throughout its history by a single paradigm in characterizing which both the implications of the concept -- 'way of viewing the world' and 'puzzles' -- need to be kept in mind. In fact the two are closely interlinked in a science like economics which is a policy science and in which 'experimental' work in the sense which it has in physical sciences is not possible. The 'puzzles' present

themselves as a result sometimes in the form of 'stylized facts', (like historical constancy of the share of wages in national income) which then serve as assumptions and sometimes in the form of concrete issues. As such what may be called the 'basic' puzzle and the 'world-view' implicit in it become all the more important. Keeping in mind this inter-relation, the single paradigm which has dominated mainstream economics can be characterised in terms of two components: the 'basic model' implies commitment to liberal philosophy and the basic puzzle is production rather than distribution.

Economic theory has concentrated on 'improving' the articulation of the paradigm implicit in Adam Smith's philosophy of history. It is doubtful whether the 'conscious efforts to improve' has been 'progression from error to truth' as is often alleged.<sup>75/</sup> Adam Smith's sociological approach has given way to analysis of economic process as 'isolated system'. His empirical method in the sense of 'inverse deduction' and historical approach have given way to equilibrium analysis. In place of rational society is substituted the concept of rational market resulting in the problem of economic life being approached from the the viewpoint of market process abstracted to a varying extent from the underlying social relations. Economics as a general science of rational activity, the principles of which apply even to Robinson Crusoe can incorporate social relationships, if at all, in the process of exchange. As such it has lost its point of contact with political economy as a science dealing with laws of economic development, i.e., the processes of production and distribution in the course of which relationships among men are generated through material objects.



Adam Smith's concept of socially motivated individual transmitting (through 'internalised social conscience') the accumulated social experience to the next generation has been replaced by that of atomistic individual standing in isolation from his predecessors, contemporaries and successors. His concept of society as an evolving entity embodying 'virtues of system and balance' has been replaced by society as an aggregate of atomistic individuals. Reading in Smith's analysis 'maximizing postulate' has involved interpretation of self-interest in the present-day too exclusively subjective sense and of 'economic man' in terms of 'instrumental rationality'. The postulate of 'economic man' with the implicit concept of means - ends relationship not only endows man with rationality, although he is often irrational and rationalizing, but also ~~assumes away~~ the more difficult problem of choice of ends by assuming them as 'given'. The highest level of conduct of Adam Smith's social individual viz., thinking about the proper ends to pursue, has no place in the decision-making of 'economic' man. This is as much true of 'satisficing' interpretation of rationality as of 'maximizing'. While the former does recognize that the alternatives are not given but must be sought, the reference is to the inadequate information about his environment on the part of the 'economic' man. While the emphasis has rightly shifted from equilibrium to the processes and mechanisms through which the adaptation takes place, the environment itself remains outside the pale of analysis. The trend towards value-free analysis in the interest of 'objectivity' has resulted in the existing scale of values being taken as given.

It would be tempting to see in the concept of atomistic man, choosing from 'given' ends, the alienated man of capitalist society.<sup>76/</sup> Such interpretation would be unwarranted for two reasons. On the one hand it would conceal the deeper process of alienation involved in the fragmented mode of

scientific activity as determined by the institutionalized framework of the capitalist mode of production. On the other, it would imply failure to recognise that unlike Adam Smith's concept of socially motivated man which was based partly upon the behaviour properties he imputed to man and partly upon the behavioural tendencies he inferred from the activities of man, the concept of atomistic man is a pure abstraction. The recognition that man is not socially motivated but socially conditioned should have logically led to questioning the basic postulate underlying liberal philosophy.

Economics has in fact ceased to be 'an empirical science'. The liberal case for capitalism in terms of individual initiative is a nostalgic yearning in the context of the bureaucratic structure of managerial capitalism, emphasis on 'consumer sovereignty' in the midst of 'hidden persuaders', on the devolution of power implicit in decentralised decision-making in the midst of centralization and concentration of capital, on the state as 'an impartial arbitrator' in the midst of symbiotic relationship between corporations and the state, are suggestive of economic theory having lost its link with contemporary reality.

The concept of atomistic man has to be understood as a component of analytical method. It is not just an accident of history that the method of static equilibrium in the Book I of the *Wealth of Nations* provided the basis for the later more mechanistic interpretations. It suited the analytical approach and the deductive method which triumphed in the century that followed the *Wealth of Nations*. The Enlightenment thought was founded on the concept of reason and the method of reason is analytical. Treatment of economics as 'isolated system' reflects not only the growing intellectual division of labour but the fact that analytical method requires analytical boundary even though 'reality is seamless'. Consequently

economics becomes a technical exercise which ignores the relations of production and the role of conflict, power and coercion in economic process, while political theory ignores the basic economic forces. Deductive method also requires that the whole should be reduced to fundamental parts so that it can be built by process of deduction from 'laws' governing parts. In the course of 'improving' the articulation of the paradigm implicit in Adam Smith's philosophy of history, emphasis has come to be placed on technique of analysis.

The participants in the current debate on the 'state of the art' have also focussed essentially on two issues: (i) empirical foundations of economic theory and (ii) technique of analysis. The interdependence between resource allocation and resource creation involves the question of mechanism through which change is transmitted and productive forces grow. The difficulty of reconciling Walras with Keynes is also partly a matter of techniques of analysis. The theorems derived from conventional assumptions of independence among individual units cannot be applied when there is interdependence in aggregation. Equilibrium and history as techniques of analysis cannot also coalesce. The former seeks to carve a path of rigorous deduction from the part to the whole without implying 'causality'; the latter either infers cause from effect by using the method of 'inverse deduction' or concentrates on the mechanism by which the whole operates by postulating direction of casual relationship in terms of the behavioural properties of the whole (e.g., in the Keynesian theory economic activity tends towards a level where savings and investment are equal and investment determines savings.)

Interestingly enough neither the boundary of economic process (the scope of economics, to use the old-fashioned phrase) nor the underlying Vision has been questioned.<sup>77/</sup> Lynd's critical diagnosis more than thirty five years ago of the crippling state of social sciences because of their operating as 'isolated systems' hardly seems to have had any impact on the economists. In fact compartmentalization of social sciences is breaking down precisely in that dimension which is making all of them 'barren and irrelevant'. With the extension of the neo-classical theoretical framework to the analysis of political behaviour, public choice and decision-making in general, all social analysis is getting reduced to a common denominator in terms of technique of analysis. Yet this expanding 'academic imperialism' of economics has also implied more rigidly-drawn boundaries for all of them. Compartmentalization of social sciences in the more basic sense of splitting up of investigation which prevents the underlying determinants of the social formation from coming into view has strengthened.

Compartmentalization is in fact defended. In contrast to Wicksteed who emphasized that 'economic laws must not be sought and cannot be found on the properly economic field' and that 'economics must be the handmaid of sociology'<sup>78/</sup> the latter-day economists have insisted on autonomy and specialization of economic analysis. Duesenberry defends the neglect of psychology on the ground that 'it allows one to avoid getting on a psychological limb which may collapse at any moment.'<sup>79/</sup> Stigler rejects the case for interdisciplinary work on the ground that 'specialism' is necessary for efficiency in intellectual as in economic life.<sup>80</sup> The exclusive concern with technique of analysis reflects the deeper process of alienation involved in the fragmented mode of scientific activity. The present-day social scientist seeks 'know-how' but.....not.....the know-why, nor the know-what-for.' <sup>81/</sup>

Efficiency in intellectual life, as in economic life, cannot, however, be conceived independently of ends and the ends are to be sought in the kind of questions which appear to be most in need of an answer. The problems of poverty and affluence, unemployment and unutilised capacity, stagnation and inflation, environmental disruption and international disorganisation represent not only the growing contradictions of capitalist system as it has evolved since the time of Adam Smith but the crisis of liberal philosophy. The problems reflect the conflict between 'socialized' production and 'individual appropriation' in the context of which the basic postulate of the liberal philosophy -- the postulate of social harmony (in the sense of, if not, identity of interests, at least absence of 'irreconcilable conflict of interest') -- stands exposed.

If economic activity is viewed as an extension of man's biological evolution, the dual nature of man's evolution -- physical and ideational -- would require economic process to be treated as an open system in continuous interaction with social and physical environment. Economic problem would also need to be conceptualised as the problem of distribution. The interdependence between resource allocation and resource creation has implications not only for the mechanism through which productive forces grow but also for distribution of product among individuals. Production and distribution are, of course, two different aspects of the same process but it is distribution which determines what is produced and by whom it is determined. The fact that the needs and, therefore, commodities can be arranged in a hierarchical order with near-identity for all individuals upto a level is significant from the viewpoint of distribution. In 'natural' economy it would determine the composition of output and also the dynamics of the structure of relative 'prices'. If 'corn' can be used to produce 'bread' which meets primary need and 'cake' which satisfies

less essential need, output-mix will shift in favour of cake only after the primary need has been met. The shift in the pattern of corn-use would be brought about by the rise in the 'price' of cake relative to that of bread. The 'natural' mechanism does not in fact operate because of unequal distribution of 'corn' and its implications for the pattern of demand, composition of output and structure of relative prices. Concentration on relations among commodities without any reference to 'relations of production' would be inadequate in the context of the problem of distribution.

Economists may not set out to lay bare the law of motion of society but they cannot analyse problem of distribution without relating economic process to social environment. Without a sociological perspective and dialectics of social change based on explicit recognition of conflict of interest and of power as a ubiquitous social process, the questions which are surfacing to social awareness today cannot be answered. To analyse the interdependencies and cumulative causation, treatment of economic process as a self-contained and self-sustaining system has to be discarded and so also the equilibrium technique of analysis. The most important, however, is the need to discard the basic postulate of social harmony which the bourgeois economists have adhered to for two hundred years inspite of mounting evidence to the contrary. Yet 'socialized production' and 'individual appropriation' must present a rationaly insoluble problem until it is decided to solve it practically. The 'crisis' of economic theory is the crisis of capitalist system itself. If, following Marx, we accept that theory is itself practice or life in the sense of being both one of its parts and also its form<sup>82/</sup> (in the sense that it reflects it), the resolution of two crises is inter-related. Adam Smith's historically-conditioned Vision belongs to periodical

of transition. The hope-for 'better' men in a society which is basically characterised by antagonistic contradictions is out of tune with contemporary reality. The best homage we can pay to Adam Smith is to respond effectively to the challenge of our period as Adam Smith did to those of his.

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## NOTES AND REFERENCES

1. Economists' box of tools consists of two components: the 'basic' models relating to an unspecified social space and 'augmented' versions of the basic models provided after the phenomena sought to be explained has occurred - 'ingenious devices which take the form of general, flexible, ex post facto explanatory schemata!' See Papandreu, A.G., Economics as a Science, U.S.A., Lippincott, 1958, p.139.
2. See Robinson J., 'The second crisis of Economic Theory' American Economic Review, 62, May 1972, pp.1-10.
3. See (i) Leontief, W., 'Theoretical Assumptions and Nonobservable Facts', American Economic Review, 61, March 1971, pp.1-7; (ii) Phelps Brown, E.H., 'The Underdevelopment of Economics', Economic Journal, 82, March, 1972, pp.1-10. (iii) Worwick, E.D.N., 'Is Progress in Economic Science Possible', Economic Journal, 82, March 1972, pp.73-86; (iv) Kaldor N. (a) 'The Irrelevance of Equilibrium Economics', Economic Journal, 82, December 1972. pp.1237-55. (b) 'What is Wrong with Economic Theory?' Quarterly Journal of Economics, 89, August 1975, pp.347-57. (v) Robinson, op.cit.
4. Robinson, op.cit. p.10
5. Ibid, pp.6-8. See also Leontief op.cit. p.1 and Phelps Brown, op.cit p.1.
6. Phelps Brown op.cit. pp.6-7, emphasis added. See also Worwick.
7. Leontief, op.cit. p.1; emphasis added; see also Phelps Brown.
8. See Arrow K.J., 'Samuelson collected', Journal of Political Economy, 75, October, 1967, pp.730-7.
9. See Hahn, F.H., 'Some Adjustment Problems' Econometrica, 38, January 1970 pp.1-17.
10. ibid. p.1; emphasis added.
11. See Hahn, F.H. 'The Winter of Our Discontent' Economica, 40, August 1972, pp.322-30; emphasis added.
12. Jevons had written to his sister. '.....does it not strike you that just as in physical science there are general and profound principles deducible from a great number of apparent phenomena, so in treating Man or Society there must also be general principles and laws.....?' vide Jevons, W.S. Papers and Correspondence of William Stanley Jevons, Black 1903 (ed.), London, Killy, 1973, Vol.II. p.361.
13. Hahn (1973) op.cit. p.324.
14. Arrow, K.J. and Hahn, F.H. General Competitive Analysis, San Francisco: Holden-Day and Edinburgh: Oliver and Boyd, 1971, pp.vi-viii.
15. 'It is important to know not only whether it is true but also whether it could be true', Ibid., p.vii.
16. Arrow and Hahn, op.cit. p.2.



17. The definition of equilibrium is: 'prices and input-output combinations are said to be equilibrium prices and input-output combinations if, when they rule, no economic agent has any inducement to change his method of production and no input or output is in excess demand. See Hahn, F.H. The Share of Wages in the National Income, London, Waidenfold and Nicholson, 1972, p.3.
18. Schumpeter, J.A.: Ten Great Economists, London: Allen and Unwin, 1952, p.4 emphasis added.
19. Schumpeter, J.A., History of Economic Analysis, New York: Oxford University Press, 1954, pp.41-2; emphasis added.
20. Ibid, p.38.
21. See Blaug, H. Economic Theory in Retrospect, London: Heinemann (1962) 1971 p.39.
22. See Meek R.L. Economics and Ideology and Other Essays, London: Chapman and Hall, 1967, pp.23-8.
23. Ibid. p.18.  
See,
24. Young A., 'Increasing Returns and Economic Progress', Economic Journal 38, December 1928, pp.527-42.
25. See Smith, A. The Wealth of Nations (1776) (ed. Cannan), London: Methuen, 1930, Vol.I, p.1, emphasis added.
26. Ibid, p.413.
27. See Macfie, A.L. The Individual in Society, London: Allen and Unwin, 1957, pp.19-21.
28. Viner J. 'Adam Smith and Inisseez-Faire' in Adam Smith 1776-1926, New York: Kelly, (1928), 1966; p.149.
29. Cropsy, Polity and Economy, Hague: Martinus Nijhoff, London: Batsford, 1957.
30. See Macfie, op.cit. There were six editions of the Moral Sentiments between 1759 and 1790. Only the last edition involved extensive revision of the text without however any basic change in arguments. In the last edition Smith explained in the preface that the Wealth of Nations (published in 1776) was to be regarded as partial fulfilment of the promise to publish a work on justice. This would seem to suggest that Smith himself regarded his two works as complementary.
31. See Macfie, op.cit., pp.22, 107-8, 126-9.
32. Smith, Vol. I op.cit. p.15; emphasis added.
33. Trucking propensity is described as being possibly cultural instead of originally-natural.
34. Smith, Vol.I., op.cit. p.16.
35. The references to the Theory of Moral Sentiments are carefully compiled by Macfie from all editions. The quotations without citations in this and next section are from the Theory of Moral Sentiments as taken from Macfie. See Macfie, op.cit. pp.42-125.

36. 'Society may subsist among different men.....from a sense of its utility, without any mutual love or affection [but it cannot] subsist among those who are at all times ready to hurt and injure one another.' Thus Smith was not a utilitarian even in the sense of Hume who regarded utility to society as 'a foundation of the chief part of morals, which has reference to mankind and our fellow creatures.'
37. 'Justice.....is the main pillar that holds the whole edifice.'
38. Justice carried implication of 'fair play' interpreted most broadly to refer to the game of life in the Stoic tradition. The Stoics considered 'human life.....as a game of great skill.....In such games, the stake is commonly a trifle and the whole pleasure of the game arises from playing well, from playing fairly, and playing skillfully'. The second duty of the sovereign (next to defense) is mentioned as 'protecting, as far as possible, every member of the society from the injustice or oppression of every other member of it, or the duty of establishing an exact administration of justice; vide, Smith, Vol.II, p.202.
39. See Macfie, op.cit. p.75.
40. See Viner, op.cit.
41. Smith, Vol.I., op.cit. pp.419-421.
42. Bittermann, H.J., 'Smith's Empiricism and the Law of Nature', Journal of Political Economy, 48, August and October, 1940, 487-520 and 703-34.
43. Smith Vol. II., op.cit. p.275.
44. It is interesting to note that Smith explicitly states:  
".....the present inquiry is not concerning a matter of right, .....but concerning a matter of fact. We are not examining upon what principles a perfect being would approve of the punishment of bad action; but upon what principles so weak and imperfect a creature as man actually and in fact approves of it.
45. Smith's 'early and rude state of society' resembles the state of nature of Locke and Pufendorf in its economic organisations. It corresponds however to what was known of primitive cultures, even allowing for some element of 'conjectural history'. In any case its analytic function was different.
46. Edinburgh Review, July 1955 to January 1956, Second edition, 1818, "A letter to the Authors", pp.121-35.
47. See Colletti, L., "Mandeville, Rousseau and Smith", in From Rousseau to Lenin, London: NLB (1969) 1972, pp.195-216.
48. See, Meek, op.cit. pp.36-46.
49. Robinson, J., Economic Philosophy, London, Watts, (1962) 1966, p.18.

50. Colletti, op.cit. pp.208-14.
51. Myrdal, G. The Political Element in the Development of Economic Theory, London: Routledge and Kegan Paul, 1953, p.44.
52. See Meek, op.cit. p.38.
53. Ibid., p.41
54. Smith, Vol.I., op.cit., pp.389-90.
55. Hutchison, T.W. "Positive"Economics and Policy Objectives, Cambridge: Harward University Press, 1964, p.130.
56. Stigler, G.J. Five Lectures on Economic Problems, 1950, p.4.
57. Smith, Vol.I., op.cit. pp.71-5.
58. See Rosenberg, N., 'Adam Smith on the Division of Labour: Two Views or One?', Economica, 32, May, 1965, 127-39; emphasis added.
59. Smith, Vol.I, op.cit., pp.162-5.
60. 'The desire of food is limited in every man by the narrow capacity of the human stomach; but the desire of the conveniences and ornaments of buildings, dress, equipage and household furniture, seems to have no limit or certain boundary', Ibid., p.165.
61. Smith, Vol.II., op.cit. p.159; Smith regards it as self evident that the interest of the consumer should have primacy over that of the producer. He emphasizes it because "in the mercantile system the interest of the consumer is almost constantly sacrificed to that of the producer."
62. Smith, Vol. I, p.63, and Vol. II, op.cit. p.245.
63. Smith, Vol.I., op.cit. p.30
64. Ibid., pp.68-69.
65. Ibid., pp.248-9
66. 'The distribution of the necessities of life /is the same as it would have been/ had the earth been divided into equal portion among all its inhabitants! vide the Theory of Moral Sentiments, 1st ed. pp.349-50.
67. Smith, Vol.II, p.202.
68. 'The difference between the most dissimilar characters; between a philosopher and a common street porter, for example seems to arise not so much from nature, as from habit, custom, and education! vide Smith, Vol.I., op.cit. p.17.
69. Quoted in Durant W. and Durant A. The Age of Reason Begins, New York, 1961, p.599.
70. Ibid.,
71. See, Colletti, op.cit. 'Rousseau as Critique of 'Civil Society'', pp.187-9.

72. For instance, Smith writes: 'the peace and order of society is of more importance than even the relief of the miserable.'
73. Smith, Vol. I., op.cit. p.435.
74. See Kuhn, T.S., The Structure of Scientific Revolution Chicago University Press, (1962), 1970. Crucial to Kuhn's 'catastrophist' conception of scientific progress are two concepts: dominant paradigm which provides the framework for extending the knowledge of 'relevant' facts and improving the articulation of the paradigm itself and revolution through paradigm change.
75. See Knight, F.H., 'The Ricardian Theory of Production and Distribution' in On the History and Method of Economics, Chicago University Press, 1956.
76. See, Fromm, E., The Sane Society, London: Routledge & Kegan Paul, (1956), 1959, pp.78-208.
77. Even Joan Robinson's questioning of the rationality of a market economy does not go to the heart of the problem beyond saying that 'all economic answers are only political questions.'
78. Wicksteed, P.H., 'The Scope and Method of Political Economy in the light of the "Marginal" Theory of Value and of Distribution' Economic Journal, 24, March, 1914, pp.11-12.
79. Duesenberry, J.S. Income, Saving and the Theory of Consumer Behaviour, Harvard University Press, 1949, p.15.
80. Stigler, G.J., 'Specialism: A Dissenting Opinion', AAUP Bulletin, 1951/52, p.651.
81. Fromm, E., op.cit. pp.169-172.
82. See Marx K., A Contribution to the Critique of Political Economy, Moscow; Progress Publishers, 1970, pp.20-1, and also, Colletti, op.cit. 'Marxism as a sociology', pp.10-12.