

# How Adam Smith's Lack of Originality Led to the Founding of Economics

**Luke Hosford, Senior Sophister**

*Adam Smith is often referred to as the Father of Economics, and to many, this logically means his ideas were the first of their kind in establishing the economic discipline. Luke Hosford refutes this claim and clearly shows that the ideas of Smith were rooted in the theories of earlier economists, including William Petty and David Hume. Luke goes on to outline how Smith's real genius wasn't in his originality but in his ability to synthesise the ideas of others to create a coherent whole. By organising its theorems and providing a hard border to the discipline, Political Economy could finally be recognised as a science.*

## Introduction

The Irish economist Liam Delaney described in a Kilkenny speech that “It is hard to say Adam Smith invented economics, but he was definitely the last person to invent it” (Delaney, 2018). Smith may not have discovered the concepts and ideas of political economy, but he did establish political economy as an academic discipline. He synthesised a great many ideas of his predecessors and grounded them in a natural law philosophy of the individual.

Defining an academic discipline as internally cohesive, but externally valid fits Biglan's Classification of an academic discipline along Hard/Soft and Life/Nonlife lines (Stoecker, 1993). I argue Smith gave the discipline a hard border, creating a body of theory that satisfied most in the discipline, through his ability to synthesise others' arguments in an internally coherent whole. His basis in individual motivations grounded political economy in a broader life science, making it externally valid at a time when this philosophy and method was popular, during

the Scottish Enlightenment. I argue that Smith laid the foundation for future studies in political economy, independent of political or special interests and motivated by the quest to explain theories of value, distribution and competition through an economic science.

Roncaglia (2006) and Backhouse (2002) agree that Adam Smith founded economics as a science. Others, like Rothbard (1995), disagree as to his influence, but nonetheless, Adam Smith's legacy cannot be disproven. Answering who founded the discipline is important to trace the lineage of concepts we study and methods we use in investigating economic problems today, to see if the past can shed light on an issue previously misunderstood. Modern theories of value, distribution and equilibrium can be tested in older economists' theories to see if their thoughts are relevant. It is also important to ascertain who came up with these ideas, to ensure their methods set a good precedent and that subsequent developments were not influenced by ideology or special interests.

This essay argues that key ideas of William Petty and David Hume appear in Smith's work, but Smith's genius lies in his synthesis of these ideas into a coherent whole, that was popular with readers and inspiring to economists. Through his principles of sympathy, (which can be traced to David Hume's work) and self-interest, these individual emotions led to a general theory of the economy and a consistent discipline is seen in the *Wealth of Nations* (WoN). Whether these influences have been positive or negative is not for discussion, my point is that it was Smith's synthesis of predecessors' ideas that caused these changes and avenues of discovery.

## **1. Petty's Labour Theory of Value and Surplus**

A major part of Smith's economics derives from the labour theory of value, which is seen explicitly in Petty's work. Petty's conception of wealth included stocks and flows, a durability hierarchy - money being the most durable - and providing output as the core meaning of wealth (Aspromourgos, 2008). These are seen in Smith's writings.

The importance of labour in Petty's determination of wealth is explicated through his calculation of national income. He hypothesized that it is made of human and non-human wealth, and that the inequality between national expenditure and income from non-human wealth can be explained by labour and its income (Murphy, 2009). He was the first advocate of an income tax, promoting the reallocation of resources away from labour, which induced inequality, and into land.

However, his lack of interest in exploring these macroeconomic opportuni-

ties he uncovered meant they went unexplored. He was not motivated to develop the field of economics. Due to his landholdings, he was interested in supporting a regime that had land interests at heart. Despite the lineage between this and Smith's Labour Theory of Value, Smith is given the credit for its foundational effect in political economy. It was part of an effort to make the field more cohesive, worthy of study in its own right and not motivated by special interests or policy agendas. With Petty, the only justification was that it helped him and his landowning friends.

In addition, Petty was one of the first to adopt a surplus approach to the subjects of production and distribution (Aspromourgos, 1996). He believed taxation was possible due to the surplus created within society. His concept of real value was defined in terms of the excess labour employed above the required labour needed to undertake a task. This was not an active theory of natural price.

This distinction between output and necessary input is the basic concept of surplus. If labour consumption was greater than subsistence, more people would become involved in the production of this good. There would be less labour time for other purposes, so part of this surplus labour was used to produce the extra consumption for workers. Smith's work on surplus does not advance this position much further. He had a concept of surplus theory of rents, seen in his distinction between productive and unproductive labour, and his ranking of industries according to their surplus created. Without a profit theory of surplus, Smith cannot be considered superior to his predecessors when it comes to surplus theory (Aspromourgos, 1996). He integrated the manufacturing industry into his production theory and placed capitalism at the centre of his distribution theory by including a rate of profit on capital (rent) as part of normal production costs. In doing this he popularised the idea of a surplus approach to value due to the predominance of the capitalist class at the time (Aspromourgos, 1996). Smith's model of the economy of markets is founded on his general theory of surpluses (Allais, 1992).

## 2. Why Smith?

Smith's work had much in common with his predecessors', so what is it about Smith's writing that makes him the founder? I've shown how his Labour Theory of Value was not new but contained original interpretations and synthesis. The popularity of the WON came from the method and organisation he brought to political economy. His natural law philosophy posits a positive view of human nature that differed with his predecessors and put the individual at the centre of his economic theory. These factors led to his economic influence that would lay

the foundation for the discipline for years to come.

## 2.1 EXTERNAL VALIDITY – THE THEORY OF MORAL SENTIMENTS

Much of the WoN's success is explained by the grounding of his economic theory in a wider philosophy of human science, particularly natural law philosophy, which places the individual at the centre of his analysis. Previously, focus was on the objective nature of human socio-economic relations. Smith brought a subjective theory of motivations. His positive view of human nature highlighted how large-scale human cooperation and coordination can improve the situation of the poorest members of society, contrasting the Hobbesian and Lockean view of humans as combative and individualistic. His theory of individual behaviour is outlined in a ToMS and built on in WoN. The role of sympathy, self-interest and their combination explained key economic concepts, such as the 'invisible hand'. These emotions create the moral rules for a society and placed obligations on the state to protect them.

### 2.2.1. SYMPATHY

Smith's sympathy was his "cement of society" (Macfie, 1959) and based his economic theory on this social bond. Smith's conception of sympathy can be traced to David Hume. They both saw it operating at two levels – individual and society - and saw the desire for praise as intrinsic to human nature. They both sought to answer the question; how to base the moral rules of a society in human emotion if feeling is subjective and cannot lead to objective moral rules? They recognised the need to find an objective basis for moral judgment (Morrow, 1923). Hume found this in sympathy, as it communicated sentiments between individuals and transcended subjectivity. It was based upon individual feelings as they are influenced by other citizens' feelings towards their actions. While Hume saw a direct link between sympathy and motivation for moral rules, Smith added an original contribution by combining sympathy with reason. This is the 'impartial and well-informed spectator' (Macfie, 1961), the normative principle for the phenomena of individual sympathies. It personifies the permanent, universal, rational phenomena of sympathy in every individual. This is concern for the opinion of others when deciding how to act. It is an act of imagination that becomes habit through repeated interactions with fellow humans' praise or criticism (Levy & Peart, 2004). Smith's vision of sympathy was closer to how a commercial society could survive, as it allowed for the 'deceptions' of the economy to cause people to act in their own self-interest. This self-love was benefitting society, through the 'impartial spectator'. This 'impartial spectator' role gradually builds up to form a system of moral rules and customs for a society. It allows for selfish people to exist in a society together, as we never view our own actions without bias (Back-

house, 2002).

Sympathy allows for commercial society to prosper, despite members of society not showing affection for each other. This was a sound, individually motivated answer to a key emerging question of the day. Due to the selfish bias of individuals, they often need guidance as to where to direct their actions. Moral rules provide the backbone to this economic and political structure of Smith's, preserving the liberty and freedom of individuals. While his conception of sympathy is like that proposed by Hume, Smith's is united with reason in the operation of the 'impartial spectator'. This highlights Smith's originality in interpreting others' ideas. Sympathy's interaction with reason acts to create social institutions. As Macfie (1959) outlines, without sympathy, reason would be powerless, and without the 'impartial spectator', sympathy is useless. Social institutions are formed through this reflection of sympathy in public opinion.

### 2.2.2. SELF-INTEREST

However, Smith knew that concern for others' expectations was not enough for the functioning of a commercial society, as seen from this excerpt of Book 1 of *WoN*:

"It is not from the benevolence of the butcher, the brewer, or the baker, that we expect our dinner, but from their regard to their own interest. We address ourselves, not to their humanity but to their self-love, and never talk to them of our own necessities but of their advantages." (Smith, 1776)

This outlines the self-interest causing the economy to run according to his principles. The pursuit of self-interest leads to outcomes benefitting society (Roncaglia, 2006). He pointed out the complementary nature of the self-interest of individuals and moral rules in the sound operation of public life in a commercial society. This brought economics into the fold of social science. The ethical theory present in *ToMS* is often called the 'deceptive' theory, where the 'deception' of wealth and pleasures may be vain, and pursuit of them selfish, but these 'deceptions' find justification in the 'harmonious movement of the system'. The pursuit of wealth and material gains serves society by informing other members of society what is useful, appropriate, good. People's actions may be guided by faulty or undesirable motivations, but their gradual operation can be changed and formed by social experience, and eventually form social institutions (Macfie, 1959).

The role of the 'invisible hand' is related to self-interest and sympathy. The 'invisible hand' controls individual conflicts and the excesses of competition and safeguards the public good through healthy competition of free individuals in a market (Macfie, 1959). This theory is akin to a viewpoint of 'moral sense philoso-

phers' who believe in a 'moral sentiment'. His theory of the 'invisible hand' leaves out the assumption of benevolence as it ran contrary to common sense. People serve the collective interest because they are guided by self-interest. This natural law philosophy played a significant role in the birth of classical political economy, and scientifically justified civil society, independent of a state power (Screpanti & Zamagni, 2005). This was different to the Macchiavellian and Hobbesian views that civil society begins through repeated acts of obedience. Smith is more optimistic about human nature and grounds his theory in a broader scientific and philosophical paradigm.

The reaction of economists across Europe following Smith shows the optimism he created with his new science (Screpanti & Zamagni, 2005). People like Godwin and Condorcet realised they were speaking the same language and had similar ideas. Smith created a theoretical homogeneity, and almost all economists making original contributions were working within one of Smith's components of thought. How this internal cohesion was created is examined next.

### **2.3 INTERNAL CONSISTENCY – THE WEALTH OF NATIONS**

Writing just before the publication of *WoN*, in 1771 Verri noted how political economy was close to becoming a science, all it needed was method and organisation of its theorems (in Aspromourgos, 2008). This demand was met by Adam Smith five years later. The internal consistency Smith brought to the study of political economy is foundational on the scope of the discipline for future generations. Smith owes a lot to French economists of the 18th century, but his main achievement was his linking of theories together. It was a work of synthesis, not originality. He recognised general concepts and bases of modern analysis, paving the way for future investigations.

The absence of an ideological slant to his work can partly explain this impact. Before, there was a policy issue or special interest involved in the motivations of thinkers, including Petty. This work only served those interested in economics. He criticised government intervention and provided a theoretical justification for the classical liberal ideology that would dominate Europe (Allais, 1992).

The fundamental principle Smith believed government should act on was to protect the liberty of individuals. This underlines his passion for liberty and freedom. The central theme of Smith's work made him a forerunner of modern economic analysis (Allais, 1992). This core was, economic freedom and the operation of a decentralised commercial economy are necessary conditions for a prosperous economy and economic development. This concept motivated economists at the time and for many years. While his ideas were not original, he avoided the errors of his predecessors (Allais, 1992). Smith's work covered more subjects and ideas,

fine-tuned the thoughts of previous writers, and grabbed the attention of various economists. He was the first to unite the discipline through a set of common ideas and practices. It was a motivating work that drew the discipline closer.

## **Conclusion**

Smith may not have been the most original economic writer, but he effectively synthesised the ideas of many authors – including Petty and Hume which I have shown here. His original interpretations - such as combining Hume's sympathy with reason to conceive of the 'impartial spectator' - led to the development of a coherent internal method and organisation which the discipline had not seen before. His economic theory was grounded in a moral philosophy stressing the importance of individual behaviour, which was valued in human science circles at the time due to the influence of the Scottish Enlightenment. His interpretations inspired future economists, from Ricardo and Marx, to 20th century economists and started debates the subject had not experienced. While his ideas may have spawned theories that would later prove inaccurate or misleading, the legacy of his conceptions and syntheses are indisputable. Future work can examine whether this legacy was positive or negative to the development of the subject. Nonetheless, it was a perfect storm that led to the fame of Smith's writing, cementing his place in the foundation of Political Economy as an academic discipline.

## Reference List:

1. Allais, M., 1992. The General Theory of Surpluses as a Formalization of the Underlying Theoretical Thought of Adam Smith, His Predecessors and His Contemporaries. In: M. Fry, ed. "Adam Smith's Legacy". His place in the development of modern.. s.l.:s.n.
2. Aspromourgos, T., 2008. The Science of Wealth: Adam Smith and the framing of political economy. 1 ed. s.l.:Routledge.
3. Aspromourgos, T., 1996. On the Origins of Classical Economics. Distribution of Value from Petty to Smith. s.l.:s.n.
4. Backhouse, R., 2002. The Ordinary Business of Life: A history of economics from the ancient world to the twenty-first century. s.l.:s.n.
5. Brewer, T., 2002. Richard Cantillon: Pioneer of economic theory. s.l.:Routledge.
6. Delaney, L., 2018. economics, psychology, policy. [Online]
7. Available at: <http://economicspsychologypolicy.blogspot.com/search?q=father+ted>
8. Groenewegen, P., 1969. Turgot and Adam Smith. *Scottish Journal of Political Economy*, 16(3), pp. 271-87.
9. Hollander, S., 1966. Some Technological Relationships in the Wealth of Nations and Ricardo's Principles. *Canadian Journal of Economics and Political Science*, 32(2), pp. 184-201.
10. Levy, D. & Peart, S., 2004. Sympathy and approbation in Hume and Smith: a solution to the other rational species problem. *Economics and Philosophy*, 20(2), pp. 331-349.
11. Macfie, A., 1959. Adam Smith's Moral Sentiments as Foundation for his Wealth of Nations. *Oxford Economic Papers*, Volume October, pp. 209-28.
12. Macfie, A., 1961. Adam Smith's Theory of Moral Sentiments. *Scottish Journal of Political Economy*, 8(February), pp. 12-27.
13. Morrow, G. R., 1923. The significance of the doctrine of sympathy in Hume and Adam Smith. *The Philosophical Review*, 32(1), pp. 60-78.
14. Murphy, A. E., 1986. Richard Cantillon: Entrepreneur and Economist. s.l.:Oxford University Press.
15. Murphy, A. E., 2009. The genesis of macroeconomics: new ideas from Sir William Petty to Henry Thornton. s.l.:Oxford University Press.
16. Price, L., 1893. Adam Smith and his Relations to Recent Economics.

- Economic Journal, 3(10), pp. 239-54.
17. Roncaglia, A., 2006. *The Wealth of Ideas*. s.l.:Cambridge Books.
  18. Rothbard, M. N., 1995. *Economic Thought before Adam Smith: An Austrian Perspective on the History of Economic Thought*, Vol. 1. Brookfield: Edward Elgar.
  19. Screpanti, E. & Zamagni, S., 2005. *An Outline of the History of Economic Thought*. s.l.:Oxford University Press on Demand.
  20. Smith, A., 1776. *An Inquiry into the nature and causes of the wealth of nations*. London: Printed for W. Strahan; and T. Cadell.
  21. Stoecker, J., 1993. The Biglan classification revisited.. *Research in Higher Education*, 34(4), pp. 451-464.
  22. West, E., 1969. *The Political Economy of Alienation: Karl Marx and Adam Smith*. *Oxford Economic Papers*, 21(1), pp. 1-23.