MURRAY ROTHBARD
CONFRONTS ADAM SMITH

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A noteworthy feature of Murray Rothbard’s monumental history of economic thought is his vigorous denunciation of Adam Smith and the *Wealth of Nations*. Smith was “an inveterate plagiarist,” but one who “plagiarized badly, adding new fallacies to the truths he lifted.” Smith’s “economics was a grave deterioration from his predecessors, from Cantillon, from Turgot, from his teacher Hutcheson, from the Spanish scholastics, even . . . from his own previous works” (Rothbard, pp. 435–36). Smith’s book distracted people away from these meritorious earlier works. The “*Wealth of Nations* is a huge, sprawling, inchoate, confused tome, rife with vagueness, ambiguity and deep inner contradictions” (Rothbard, p. 436).

In the following, we will review Rothbard’s principal criticisms and add some that he overlooked. However, he has failed to take note of some of the positive virtues of *The Wealth of Nations*. We will also refer to relevant aspects of the works of Cantillon and Turgot, whom Rothbard praised highly.

Rothbard’s commentary follows the sequence of *The Wealth of Nations*, and we will do the same.

**DIVISION OF LABOR**

“It is appropriate to begin . . . with the division of labor, since Smith himself begins there” (Rothbard, p. 441). Not quite. Smith’s initial point is that the wealth of the nation is its output of goods and services, and division of labor is analyzed as a major contributor to national productivity (Smith, p. Iviii). In Rothbard’s view, “for Smith the division of labor took on swollen and gigantic importance” (Rothbard, p. 441). In Smith’s Book 1, “division of labor alone accounts for the affluence of civilized society” (Rothbard, p. 442). However, Smith soon makes it clear that division of labor depends critically on capital, and that capital is the engine of growth. In Smith’s eyes, division of labor creates the basic problems of information and motivation, which in turn require an explanation of how a market economy works to guide economic activity. Smith also expects growth of capital to generate technological progress (Smith, p. 260). But Rothbard is entirely correct in noting that Smith was totally

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oblivious to the technological changes going on around him.¹ We might particularly have expected him to be aware of James Watt and the steam engine.

Rothbard claims that Smith “failed to apply his analysis of the division of labor to international trade” (Rothbard, p. 442). But international exchange is present in Smith’s very first sentence, where he notes that economic well-being arises from “the immediate produce of labor . . . or . . . what is purchased with that produce from other nations” (Smith, p. lvii). It enters Smith’s panegyrical “the accommodation of the most common artificer or day-laborer in a civilized and thriving country,” which involves, among many other things, recognizing

how much commerce and navigation in particular, how many ship-builders, sailors, sail-makers, rope-makers, must have been employed in order to bring together the different drugs made use of by the dyer, which often come from the remotest corners of the world. (Smith, p. 11)

And division of labor figures prominently in Smith’s defense of free international trade.²

Rothbard also contends that Smith neglected “the more significant division of labor among industries” (Rothbard, p. 442). However, numerous industries and occupations are cited in introducing the topic (Smith, pp. 11–12, also, 14, 17–18, 86).

Moreover, Smith highlights the role of the market mechanism in directing people into occupations:

If in the same neighborhood, there was any employment evidently either more or less advantageous than the rest, so many people would crowd into it in the one case, and so many would desert in the other, that its advantages would soon return to the level of other employments. (Smith, p. 99)

PRODUCTIVE AND UNPRODUCTIVE LABOR

Rothbard has an easy time showing the semantic defects of Smith’s analysis of productive and unproductive labor.³ When the topic is fully developed, in chapter 3 of book 2, the context has been clearly set forth—it is the accumulation of physical capital. Smith makes it clear that “unproductive” labor can have both public and private value.⁴ I find no support for Rothbard’s claim (undocumented) that “Smith . . .

¹Equally true, though perhaps more defensible, for Cantillon and Turgot.
²International division of labor is particularly celebrated in Smith’s assessment of the impact of the discovery of America: “By opening a new and inexhaustible market to all the commodities of Europe, it gave occasion to new divisions of labor and improvements of art, which in the narrow circle of the ancient commerce, could never have taken place” (Smith, p. 416; see also pp. 424, 590).
³Somehow Rothbard glossed over (Rothbard, p. 393) Turgot’s similar but even less fruitful claim that only agricultural works were productive.
⁴Speaking of “menial servants,” Smith remarks “The labor of the latter, however, has its value and deserves its reward” (p. 314). Speaking of government employees, he notes, “Their service, how[ever] honourable, how[ever] useful, or how[ever] necessary . . . produces nothing for which an equal quantity of service can afterwards be procured” (p. 315). See also his favorable remarks on people who “amuse and divert the people by painting, poetry, music, dancing; by all sorts of dramatic representations and exhibitions” (p. 748).
excludes all production of immaterial services from the annual product” (Rothbard, p. 445; contrary evidence appears at p. 448, quoting Smith, p. 30). What Smith does say over and over is that increase in the national product results primarily from saving, investment, and productive labor (Smith, pp. 320–23, 464, 574, 577, 640–41). The harm done by mercantilism results partly from reduction of investment and misallocation of what remains (Smith, pp. 325, 562, 570–73, 594–95, 637–38).

Rothbard documents more persuasively his view that Smith had a “Calvinistic scorn of consumption” (Rothbard, p. 447), but this can be tempered by passages in *The Wealth of Nations* (pp. 325–29, 459, 569, 726–27, and 748.).

Rothbard’s claim that Smith “was not content to abide by free-market choices between growth . . . and consumption” would be difficult to prove and diverts our attention from Smith’s emphasis on the harmful deviations from free-market outcomes arising from government. Rothbard accuses Smith of a bias against durable consumer goods, but this seems clearly contradicted by *The Wealth of Nations* (pp. 329–32).

Ultimately, of course, Rothbard is criticizing Smith because his distinction between productive and unproductive labor, and his materialistic analysis of development, easily led to the perversions developed by Marx. From these origins can be traced the Stalinist neglect of services and the helter-skelter pursuit of growth through forced investment undertaken with little regard to cost or allocation.

**THE THEORY OF VALUE**

According to Rothbard, “Smith’s doctrine on value was an unmitigated disaster” (p. 448). In particular, *The Wealth of Nations* was inferior to Smith’s earlier expositions in his lectures. In *The Wealth of Nations* value in use is distinguished from value in exchange; whereas, in the lectures, Smith had easily explained the diamond-water paradox by reference to relative scarcity.

And with scarcity gone . . ., subjective utility virtually drops out of economics as well as does consumption and consumer demand. Utility can no longer explain value and price, and the two sundered concepts will reappear in later generations as left-wingers and socialists happily prate about the crucial difference between “production for profit” and “production for use.” (Rothbard, p. 449)

As if this were not bad enough, Smith “was almost solely responsible for the injection into economics of the labor theory of value” (Rothbard, p. 453)—that is, the argument that products exchange in proportion to the labor (direct and indirect) embodied in each. Rothbard exaggerates the degree to which Smith viewed labor

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5Rothbard does not comment on the fervent denunciations of “luxury” that appear in Cantillon (pp. 193–99).

6“It is the highest impertinence and presumption . . . in kings and ministers, to pretend to watch over the economy of private people, and to restrain their expense, either by sumptuary laws, or by prohibiting the importation of foreign luxuries. . . . If their own extravagance does not ruin the state, that of their subjects never will” (Smith, p. 329).

7Although Cantillon did not advance a labor theory of value as such, he was clearly on the same track, basing “intrinsic value” on “the quantity of land and labor entering into the production” (Cantillon, p. 29). Note this was a theory based on input quantities, not values or costs (see Brems 1978).
input as the *determinant* of value. Most secondary treatments more plausibly note that Smith tried (not very successfully) to use labor command as a *measure* of value. But it is still broadly true that Smith set the stage for Ricardo and Marx by passages which presuppose that labor is the source of all value, and that property incomes are somehow diversions which may be morally and functionally dubious. While Smith does indicate why payments for the use of physical or money capital are appropriate, he never indicates that landowners perform any useful activity that would warrant their rent incomes.

Rothbard clearly acknowledges that Smith’s primary theory is that products tend, in the long run to exchange at values equal to the factor costs (direct and indirect) of each, where those factor costs reflect the “normal” values for services of land, labor, and capital.8 Although this is now (with appropriate elaborations) standard doctrine in undergraduate textbooks, Rothbard does not think highly of it: “Value and price theory shifts, because of Adam Smith’s unfortunate and drastic change of focus . . . , from prices in the real world to a mystical non-existent price in the never-never land of long-run ‘equilibrium’” (Rothbard, p. 450).

Rothbard acknowledges that “The long-run normal price is important but only for explaining the directional tendencies and the underlying architectonic structure of this economy” (Rothbard, pp. 450–51).

“But only” indeed! Smith’s theory of value is in reality his vision of the determination of the composition of output and the allocation of resources in a self-correcting market economy. This general-equilibrium point of view is effectively developed in many sections of *The Wealth of Nations*.9

Both Cantillon and Turgot had earlier presented theories of long-run normal price. Cantillon’s referred to “intrinsic value” of a product, which is “the measure of the quantity of land and of labor entering into its production.” But he devoted a lot of attention to the determination of market prices by supply and demand.10 Turgot argued that the “fundamental value” of a product was its unit cost (specifically allotted to wages, profits, and raw materials) (Groenewegen, p. 181).

Smith repeatedly stresses the adjustment process underlying resource allocation. Moreover, although subjective utility is indeed neglected, the pattern of

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8 By implication, Rothbard criticizes Smith’s theory because it cannot account for the values of items “which have no cost because they are not produced” (Rothbard, p. 452). Smith does briefly look at the pricing of items “which it is scarce in the power of human industry to multiply at all,” and clearly identifies demand as the determinant (Smith, p. 218).

9 The point is strongly stated in Hollander (1973) and amplified in Trescott (1997).

10 Rothbard’s discussion of Cantillon, while somewhat lopsided, at least acknowledges both elements (Rothbard, pp. 349–51). Murphy asserts that Cantillon “considered intrinsic value to comprise the costs of the factors of production plus normal profit” (Murphy, p. 252). Aspromourgos has a similar view (pp. 81, 95). However, this is never clearly developed in the *Essai* (see Cantillon, pp. 29–31). It appears Cantillon intended his intrinsic-cost analysis to be a guide to mercantilistic regulations (see *Essai*, p. 233).
resource allocation is demand-driven: "The quantity of every commodity brought to market naturally suits itself to the effectual demand" (Smith, p. 57).\textsuperscript{11}

Rothbard grudgingly acknowledges these passages (Rothbard, p. 451), but maintains that "only the market price is the real price" (Rothbard, p. 450). His judgment is clouded by his fixation on price determination, whereas Smith's real concern is with quantities.

Smith returns the reader to this general-equilibrium perspective at many points. He reiterated the tendency for the price of any factor of production to become equalized in its various uses as each resource owner shops around for the most advantageous employment.\textsuperscript{12} This is the point of departure for the famous chapter 10 of book 1, which examines "equalizing differences" in reward which tend to persist (Smith, pp. 99–143). Here also Smith uses his general-equilibrium approach as a basis for denouncing the "policy of Europe," by which rent-seeking behavior leads to interventions that create unfair monopoly rents and misallocate resources (Smith, pp. 118 ff.). This criticism resumes, with emphasis on the misallocation of capital among sectors, in chapter 5 of book 2 (see esp. pp. 352–53) and the little-read book 3. Profit-seeking in a free market will lead each individual to employ his capital "in the support of that industry of which the produce is likely to be of the greatest value, or to exchange for the greatest quantity either of money or of other goods" (Smith, p. 423). A sophisticated perception of demand underlies Smith’s brilliant "Digression Concerning the Corn Trade and Corn Laws," where he explains the rationing function of high prices during a period of shortage, with particular attention to spreading out consumption over time (Smith, pp. 491–510).

**THE THEORY OF DISTRIBUTION**

The pricing of the factors of production is critical to the pricing of products. Rothbard believes that "Smith’s theory of distribution was fully as disastrous as his theory of value" (Rothbard, p. 458). Here much of Rothbard’s criticism is well warranted.\textsuperscript{13} Smith indeed had no adequate theory of the rate of return on capital (though he talked sensibly, if not very originally, about the close link between that rate of return and the market interest rate). His analysis of rent is muddled.

\textsuperscript{11}The general notion of a demand-driven general equilibrium recurs with regard to labor (Smith, p. 80) and precious metals (Smith, pp. 403–6). Rothbard might appropriately reply that the optimality of a demand-driven allocation can only be established with explicit reference to subjective utility, as in discussions of Pareto optimality. However, much of the "production for use instead of for profit" literature came from people like Veblen, who were thoroughly familiar with, but disdained, the role of subjective value. Cantillon does not indicate that free-market outcomes are optimal (see Cantillon, pp. 87–93).

\textsuperscript{12}There are hints of a general-equilibrium perspective in both Cantillon and Turgot (see Aspromourgos 1996, p. 156). But the principles are evident to a modern reader who already understands the concept; eighteenth-century readers would hardly have learned them from these remarks.

\textsuperscript{13}Cantillon’s analysis of factor prices is even less impressive. Aspromourgos (1996) attributes to him the assumption of an exogenous real wage (p. 82). Cantillon has numerous passages involving labor-market disequilibrium, but these never entail equilibrating movements of wages (see pp. 61–65, 73, 87, 91–93).
However, Rothbard misrepresents both the content and merit of Smith’s wage theory.\textsuperscript{14} Smith reminds the reader at many points that the basis of wages is the productivity of labor.\textsuperscript{15} Chapter 8, book 1, “Of the Wages of Labor,” begins with the blunt assertion that “The produce of labor constitutes the natural recompense or wages of labor” (Smith, p. 64). We are briefly informed that labor productivity depends in part on human capital (pp. 265–66, 641), but Smith mainly emphasizes the role of growth of capital in raising demand for labor. Increase in the capital stock raises labor productivity, and there are also hints of a primitive kind of Keynesian macroeconomic multiplier (esp. Smith, pp. 69–74).

Wages also depend on the supply of labor, reflecting the size of the population. Wages cannot remain below subsistence, since labor supply will be impaiired. On the other hand, high wages will reduce death rates and thus spur population growth. Rothbard attributes to Smith the view that “wages tend to settle at the minimum subsistence level for the existing population” (Rothbard, p. 458). This is a serious misrepresentation, losing as it does the entire thrust of Smith’s optimistic view concerning economic growth (below). Smith demonstrated that wages in Britain were well above the biological subsistence level (Smith, pp. 74–81). To be sure, high wages encourage population growth. But this is no bad thing. Smith had a far more sensible view of these matters than had Malthus and Ricardo. Labor supply adjusts very slowly, so the (minimum) subsistence wage will come about only in countries where “wealth . . . has been long stationary,” where “long” means “several centuries” (Smith, p. 71; also pp. 94–95). And food output should have no difficulty in keeping pace with population (p. 187).

Smith’s chapter on colonies brilliantly sketches the manner in which abundance of land in newly settled areas affects relative wages (high), land values (low), and social relationships (egalitarian) (Smith, pp. 532–33, 551–53).

**THE THEORY OF MONEY**

Rothbard is on sound ground in finding Smith’s discussions of money very defective. In particular, Smith failed to transmit the essence of Cantillon’s and Hume’s specie-flow models of price-level and international-trade adjustment, although his lectures show he was familiar with these.

Part of Rothbard’s criticism of Smith stems from Rothbard’s antipathy toward fractional reserve banking, reflecting the Hayek–Mises theory of business cycles. In truth, fractional reserve banking is one more example of a spontaneous social development that has enhanced economic productivity by creating a more efficient system of payments and credit.

\textsuperscript{14} An especially outrageous assertion is that “Richard Cantillon’s theory of wages is dependent on population in a way that was copied almost word for word by Adam Smith” (Rothbard, p. 352). While Cantillon’s discussion of population is impressive (Rothbard, pp. 352–53) the link with wages is quite unclear. At most, Cantillon simply asserts that wages tend to subsistence, where the latter term is clearly conventional and customary rather than biological (pp. 31–41). Smith acknowledged Cantillon’s argument that wages could not be below the subsistence level. Beyond that, Smith’s discussion has no counterpart in Cantillon. In particular, Smith’s analysis linking capital, growth, and wages appears quite original.

\textsuperscript{15} This is clear in the discussion of professional incomes at p. 717.
RISK AND ENTREPRENEURSHIP

Rothbard is appropriately critical of Smith’s neglect of the special qualities of entrepreneurship. Cantillon had dealt with this at length, stressing the nature of market risks and the importance of “undertakers” operating in a world of uncertain information. Smith simply credits progress and prosperity to the “effort of every man to better his condition” (p. 326; see also pp. 594–95). When merchants and manufacturers come in for separate discussion, it is usually a criticism of their political role (Smith, pp. 128, 249–50, 429, 438, 460).

SMITH AND LAISSEZ-FAIRE

Rothbard finds that “in The Wealth of Nations . . . laissez-faire becomes only a qualified presumption rather than a hard-and-fast rule, and the natural order becomes imperfect and to be followed only ‘in most cases’” (Rothbard, p. 465). Rothbard criticizes Smith’s concessions regarding national defense, education, and usury laws. Further, Smith’s twelve-year career as customs commissioner does not reveal him as a practical champion of free trade.

There is here a sense that Rothbard is displeased because Smith has denounced only 90 percent of harmful government interventions rather than 100 percent. Let us remember that it is the virtues of free markets and limited government that receive the emphasis in the beginning sections of The Wealth of Nations—the sections of a nine-hundred-page work most likely to influence readers. Remember, too, the double-barrelled nature of Smith’s argument. One element is that the system of “perfect liberty” leads to good economic and social outcomes.

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16 However, Aspromourgos argues that Cantillon’s vision of entrepreneurship is “pre-capitalist” and gives no real analysis of profit as a distributive share nor of capitalists as a social class (pp. 82, 121). Smith occasionally salutes creative entrepreneurship (see pp. 115, 384–85, 491–510). But contrast his negative view of “prodigals and projectors” (pp. 339–40).

17 Rothbard’s list of Smith’s exceptions to laissez-faire (Rothbard, p. 466) could be even longer. In addition to favoring government suppression of small bank notes, Smith also approved the Dutch practices of requiring commercial settlements in banknotes and relying on municipal guarantee of bank reserves (Smith, pp. 447–48, 453–55). He approved of “premiums given . . . to artists and manufacturers who excel in their particular occupations” (p. 489). He was willing to countenance temporary grants of monopoly to joint stock companies in “remote and barbarous” areas, as well as similar monopoly privilege to inventors and authors (p. 712).

18 In contrast, “When Turgot became finance minister in France in 1774, his first act was to decree freedom of import and export of grain” (Rothbard, p. 367).

19 It is especially illuminating to compare Rothbard’s treatment of Cantillon, whose Essai is shot full of the crudest kind of mercantilist fallacies, including bullionism. Rothbard claims that “the entire thrust of Cantillon’s work was in a free trade, laissez-faire direction” (Rothbard, p. 359). Quite the contrary. Cantillon clearly felt that his real-cost analysis provided guidance for state controls of trade to gain maximum advantage over foreigners. He states that

It is by examining the results of each branch of commerce singularly that foreign trade can be usefully regulated. It cannot be distinctly apprehended by abstract reasons. It will always be found . . . that the exportation of all manufactured articles is advantageous to the state . . . [and] that the best returns or payments imported are specie. (p. 233)

20 Smith states that

Without any intervention of law . . . the private interests and passions of men naturally lead them to divide and distribute the stock of every society, among all the different employments
other is an oft-repeated analysis of “government failure.” Paranoid nationalism, national rivalries and oppression of colonial domains are part of this failure.21 Stylistically, some of Smith’s finest rhetoric is employed in exercising this double-barrelled weapon.22

According to Rothbard, Smith’s “devotion to the militarism of the nation-state . . . induced him to take the lead[,] in the pernicious modern view of excusing any government intervention that might plausibly be labelled for “the national defense”” (Rothbard, p. 465). Smith referred to “the art of war” as “certainly the noblest of all arts” (Smith, p. 658). He argued that “It is only by means of a standing army . . . that the civilization of any country can be perpetuated, or even preserved for any considerable time” against invasions from the Tartars or other barbarous hordes (p. 667).

However, Smith was hardly a militarist. He saw that military force was essential for the protection of trade and commerce, a lesson which Thomas Jefferson was soon to learn the hard way. Britain had no conscript military and relied primarily on a volunteer navy for its defense. Smith’s support of “martial spirit” should be seen as an implicit defense of a volunteer military service (Smith, pp. 735, 738–39). Smith’s concession that “defense . . . is of much more importance than opulence” (p. 431) concluded a two-page discussion of the navigation acts (aimed at supporting that volunteer navy), in which Smith noted their economic disadvantages. Those disadvantages were the principal thrust of his subsequent discussion of the navigation acts in the context of colonial policy (Smith, esp. pp. 562–65 ).23

According to Smith, government has a duty “of erecting and maintaining those public institutions and those public works, which, though they may be in the highest degree advantageous to a great society, are, however, of such a nature, that the profit could never repay the expence to any individual or small number of individuals” (Smith, p. 681). These would include projects to facilitate commerce: “good roads,
bridges, navigable canals, harbours" (p. 682). But how do we know which ones are "in the highest degree advantageous?" Smith advocates relying on user charges as much as possible, recognizing that through this use of the market mechanism, "they can be made only where the commerce requires them, and consequently where it is proper to make them" (p. 683).

Smith also felt that government should supply some educational services, but again stressed the importance of user charges in motivating the teachers (pp. 716–21). Smith clearly expected that market forces would provide the society with most of the needed education. His affirmative mandate for government’s role in education appears to embrace two different concerns. The first anticipates the lofty goals of liberal education as often encountered in college catalogues (Smith, pp. 734–35, 740). The second involves "the most essential parts of education . . . [:] to read, write, and account." He does not directly recommend compulsory school attendance, but suggests a kind of qualifying examination before a man "can obtain the freedom in any corporation, or be allowed to set up any trade either in a village or town corporate" (Smith, pp. 738, 748).

While Smith’s agenda for government actions involving commerce and education may appear extensive, his qualifications regarding user charges were strong and consistent, reflecting his concern for "incentive-compatible" outcomes (see also Smith, p. 767). In neither area does he appear to contemplate government monopoly.

Taken in its entirety, The Wealth of Nations enumerates a vast array of government measures that Smith disliked. Restrictions (or artificial preferences) on imports and exports are probably the chief target. Others include special privileges of guilds and corporations, systems of apprenticeship, limits on geographic and occupational mobility, wage controls, and currency debasement. Governments are condemned for condoning slavery and systems of primogeniture and entail. We are told that government employment can have morally degrading effects and that government extravagance diverts resources from saving and investment. Smith denounced government interventions in grain markets, such as price controls, discrimination against middlemen and restrictions against "engrossing." While extolling benefits from the discovery of America, Smith condemned at great length the abusive treatment of colonies. These specific references are intermixed with analytical principles that support the optimality of economic activity constrained by competition and by protection of public order, property, and contracts. On numerous occasions, the reader is reminded of the limitations and incapacities of government. Rothbard’s commentaries do not communicate this quality to the reader.

**AN INSPIRATION FOR MARX**

Rothbard justifiably argues that Smith provided much ammunition for Marx and other socialists. Smith helped promote the labor theory of value, even if on balance he did not believe in it. His discussions of rent, interest, and profits failed to provide

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24Rothbard notes that one of Smith’s educational goals was to inculcate obedience to government (Rothbard, p. 466). Considering that Smith has just presented several hundred pages of strong criticism of many government policies, one might better interpret his remarks as a preference for peaceful and orderly methods of political action.
a functional defense for property incomes. Smith’s strictures on government anticipated many elements of the modern theory of public choice, but they also presented a rather stark social-class interest-group analysis of political action. From his erroneous notion that profit rates decline with economic growth, Smith argued that the self-interest of capitalists was thus opposed to progress. He tended to equate the functional shares of income going to land, labor, and capital, with separable social classes. Many of his references to businessmen were extremely hostile (see Ginzberg 1934). His characterization of productive and unproductive labor paved the way for the Marxian neglect of services. Marx’s muddled view, which identified the flow of wage payments with “capital,” bears some resemblance to Smith’s early version of the wage fund theory.

The chief contrary argument would be, of course, that Smith consistently argued that the growth of capital raises real wages and operates to the benefit of the working class, which is protected by competition in the labor market. It was Malthus and Ricardo who turned economics into a dismal science by their gross exaggeration of diminishing returns and resource constraints.

INTRINSIC ADVANTAGE IN CAPITAL ALLOCATION

Surprisingly, Rothbard neglects one of Smith’s most serious analytical defects. Smith’s analysis of capital often holds that there are intrinsic advantages in using capital in some sectors rather than others. Most obvious is his contention (clearly derived from the Physiocrats) that investment in agriculture is always preferable to commerce or manufacturing.25 He claims that

the capital employed in agriculture . . . not only puts into motion a greater quantity of productive labor than any equal capital employed in manufactures, but in proportion too to the quantity of productive labor which it employs, it adds a much greater value to the annual produce . . . Of all the ways in which a capital can be employed, it is by far the most advantageous to the society. (Smith, p. 345)

In a similar manner, Smith went on to differentiate between home trade, foreign trade of consumption, and carrying trade.

This mode of discourse is not a mere aside, but provides a major part of Smith’s critique of mercantilism and the “policy of Europe” in books 3 and 4 (pp. 343–55, 421–23, 566–73, 593–94). To be sure, Smith’s underlying argument is against deviations from the free-market allocation of capital. But the exposition is hardly felicitous.

SMITH’S ANALYSIS OF ECONOMIC GROWTH

Rothbard’s assessment of Smith neglects the fact that The Wealth of Nations is in large measure a book about economic growth and development. As noted, Smith’s wage theory is presented in the context of economic growth. Capital formation is the engine of growth, helping in turn to improve division of labor and (occasionally) to

25 Cantillon had presented an extreme argument that most economic magnitudes “depend on” the actions of the landowners. For Turgot, only agricultural activity was “productive.”
promote technological improvement. The process is benign; it raises wages and thus benefits the common people. Higher wages will of course tend to speed up population growth, but Smith sees no real problem with this. Smith clearly recognized the phenomenon that came to be called diminishing returns, viewed in a dynamic context with reasonable technological improvement (Smith, pp. 60–61, 154–57, 175, 217, 235). But he explicitly argued that corn, the basic subsistence food, would not be subject to diminishing returns (p. 187). Thus, Smith avoided the near-paranoid concern with food shortage and resource constraint that marred the work of his successors.

Smith also found important benign aspects to the process of economic development. Smith argued that

commerce and manufactures gradually introduced order and good government, and with them, the liberty and security of individuals, among the inhabitants of the country, who had before lived almost in a continual state of war with their neighbors, and of servile dependency upon their superiors. (Smith, pp. 384–92 at 385)

And he dwelt at length on the beneficial effects of the discovery of America in extending division of labor and introducing new products.

In contrast, neither Cantillon nor Turgot dealt with economic growth. According to Murphy (1986), “Cantillon had a static interpretation of economic processes” (pp. 8, 279). Aspromourgos (1996) concluded that

whatever the extent of the Quesnay–Turgot influences upon Smith, his integration of distribution, value, and capital accumulation in a quite comprehensive treatment of capitalist economic development better captured the essentials of the prevailing trend of historical development than had any of his predecessors. (p. 157)

CONCLUSIONS

Rothbard’s forty-page chapter on Smith focuses on the latter’s deficiencies so much so that there is no pretense of giving a systematic overview of The Wealth of Nations. Rothbard cites Schumpeter as one of the first to mount an authoritative deflation of Smith’s exaggerated reputation. But Schumpeter also said that The Wealth of Nations “is a great performance all the same and fully deserved its success” (1954, p. 185).

Rothbard’s treatment of Smith’s work is unfair and inaccurate. His treatment of Cantillon is distorted in the opposite direction. Ironically, many of Rothbard’s specific criticisms of Smith would also apply to Cantillon and Turgot.

While it is not difficult now to find “origins” for many of Smith’s ideas, his work is far superior to that of the predecessors. Often this superiority lies in making explicit what was only implicit, and in explaining rather than merely asserting. There are two major analytical achievements of The Wealth of Nations. The first is the comprehensive depiction of a self-adjusting general-equilibrium system embracing product markets and factor markets and extending to international as well as domestic activities. The second is a representation of benign economic growth. These analytical devices then form the basis for a comprehensive criticism of government economic interventions, supplemented with a powerful analysis of
"government failure." The analysis is conducted with a consistently humanitarian viewpoint and presented in numerous passages of superb rhetoric which reflect moral passion, humor, sarcasm, and simple explanatory patience and clarity.

REFERENCES


