

# Is Adam Smith Outmoded?

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THE question of Adam Smith's relevance for the present is calculated to spark heated controversy. To some the relevance is clear in the sense that a re-examination of the dicta that earned Smith the title of the founder of modern economics might well disclose the point of departure—"where we went wrong." To others, Smith's idealistic abhorrence of the dominance of political expediency over economic wisdom is simply hopelessly out of date in this age of the pragmatist and the "realist". While there are those who, rightly, if irrelevantly, would point to Smith's own errors, such as his propounding of the Wage Fund Theory and his ambivalence, shared later by Spencer, on the subject of Rent.

Perhaps the most obvious area of relevance is in Smith's forthright and devastating exposition of the evils of mercantilism. Consider his careful delineation of the benefits of freedom in trade in general and of the fallacies inherent in the policies of "restraint upon importation", in the interests of protecting local manufactures and in favour of "those countries with which the balance of trade was supposed to be disadvantageous." Listen to him as he enlarges his argument that "nothing can be more absurd than this whole doctrine of the balance of trade." Then reflect on the modern involvement of prime ministers in the practice of jetting from one world capital to the next, like salesmen, in the sole interest of preserving this mythical "balance".

And what does he say of relevance on the subject of lobbying? "To expect, indeed, that the freedom of trade should ever be restored in Great Britain is as absurd as to expect an Oceania or Utopia should ever be established in it. Not only the prejudices of the public, but what is more unconquerable, the private interest of many individuals irresistibly opposed to it."

How accurately he describes the present world condition in his discussion of the history of the management of the public debt. "When national debts have once been accumulated to a certain degree, there is scarce I believe a single instance of this having been fairly and completely paid. . . . The raising of the denomination of the coin has been the most usual expedient by which a real public bankruptcy has been disguised under the appearance of a pretended payment." Nowadays, of course, the technique has been modernised and regularised, not to say sanctified, by the condition of permanent inflation and the worldwide acceptance of the theory of currency control, by which governments play beggar-my-neigh-



bour with each other, using the weapon of the threat of devaluation.

Let us turn to taxation. The famous "maxims" governing Smith's conception, or philosophy of taxation in general have long since been incorporated in the taxation philosophy of most civilised societies—in theory, at any rate. At least it has long been the practice in English-speaking countries to pay legislative lip-service to them, and they are, of course, the yardstick adopted by such guardians of the rights of the individual victim of taxation as taxpayers' associations.

Rightly, or wrongly, the theory of "ability to pay" is the accepted *modus operandi* in respect of the general right of governments to tax their "subjects". We do not dispute the theory that a tax must be "fair", i.e., it must be "certain and not arbitrary"; or that it must be "levied at the time, or in the manner in which it is most likely to be convenient for the contributor to pay it", however much these propositions fail to operate in reality. As to the fourth "maxim": "every tax ought to be so contrived as both to take out and to keep out of the pockets of the people as little as possible over and above what it brings into the public treasury." How bravely do our politicians proclaim their allegiance to this noble sentiment—when in opposition; and how blatantly do they deny it when in office.

How modern is his conclusion that "a tax may obstruct the industry of a people and discourage them from applying to certain branches of business which may give maintenance and employment to great multitudes."

As to the darker side of the general theory of taxation, "An injudicious tax offers great temptation to smuggling" says Smith; "the law, contrary to all ordinary principles of justice, first creates the temptation and then punishes those who yield to it."

Finally, he refers to "the odious examination of the taxgatherers" and of "the unnecessary trouble, vexation and oppression" they cause. And when it comes to the concept of a tax upon income, his horror is equalled only by his naive confidence that such a tax could never gain acceptance among civilized people. "An inquisition into every man's private circumstances, and an inquisition which, in order to accommodate the tax to them, watched over all the fluctuations of his fortune, would be a source of such continual and endless vexation as no people could support."

Consider what Adam Smith has to say on the

topic of Rent as a subject for taxation. True, he failed to pursue the theory of rent as revenue to its logical conclusion, for reasons on the nature of which one can only speculate. But he was at least unequivocal in setting out the nature of rent as a fit subject on which to base part, at least, of the national revenue. "The quantity and the value of the land which any man possesses" he says "can never be a secret, and can always be ascertained with great exactness." "As soon as the land of any country has all become private property, the landlords, like other men, love to reap where they never sowed and demand a rent for its natural produce. The wood of the forest, the grass of the field, and all the natural fruits of the earth, which, when land was in common, cost the labourer only the trouble of getting them come even to him to have an additional price fixed upon them. He must then pay for the licence to gather them, and must give up to the landlord a portion of what his labour either collects or produces. This portion, or what comes to the same thing, the price of this portion, constitutes the rent of land, and in the price of the greater part of commodities makes a third component part." On the subject of the landlord and tenant relationship, Smith says that the landlord endeavours to leave him (the tenant) "no greater share of the produce than that which is sufficient to keep up the stock from which he furnishes the seed, pays the labour, and purchases the cattle and other instruments of husbandry, together with the ordinary profits of farming stock in the neighbourhood." This, he says "is evidently the smallest share with which the tenant can content himself without being a loser, and the landlord seldom means to leave him any more." The rent of land, therefore, "considered as the price paid for the use of the land, is naturally a monopoly price. It is not at all proportioned to what the landlord may have laid out upon the improvement of the land, or to what he can afford to take; but to what the farmer can afford to give."

The reference herein to land as the basis of agriculture only was consistent with the facts of the day—before the industrial revolution. His definition of rent and his argument on its nature and the relative positions of landlord and tenant are just as valid, of course, in terms of industrial and/or commercial use of land. It is safe to say that the colossal "industry"



of real estate, or "property" exploitation, which characterises our own day, and which contributes so much to the inherent imbalance of modern society,

would have filled Adam Smith with amazement at the madness which could so confuse a people as to the real nature of wealth and of the national economy. The spurious profits of the trade in land values would surely have horrified him and there is little doubt that he would have brought to bear upon the phenomenon a most devastating elucidation of its economic stupidity as of its moral danger.

Smith believed that "ground rents and the ordinary rent of land are, therefore, perhaps the species of revenue which can best bear to have a peculiar tax imposed upon them." And "ground rents even more suitable than the ordinary rent of land" for the former are "altogether owing to the good government of the sovereign." He also showed that such a tax could neither be passed on by the landowner—as could every other form of tax—to the consumer, nor affect in any way the value of the wealth produced. History had demonstrated for him that from time immemorial the land of a society was the producer of the revenue of the sovereign; he had observed that it had been so in China and in India, and there could be no doubt whatever that he knew the meaning and the implication of the ancient dictum "The land is Mine, and shall not be sold for ever."

He also knew that, from the time of the Conqueror, the lands of Britain had provided the sovereign's revenue, and no doubt had taken note of the fact that, in the course of centuries, the proportion of such revenue had diminished as the landlords' political power had increased and taxation was diverted to other sources. He did not, unfortunately, point the moral of this progressive deterioration in the economic condition; possibly because he lived before the onset of the industrial revolution, possibly for other, less satisfactory reasons; he must have been only too conscious of his dependence upon the patronage of the very class which comprised the fortunate recipients of the rent. Herbert Spencer was, later, to face this dilemma in sharper outline and to compromise both his logic and his honour.

It was left to a later exponent of the liberal tradition, Richard Cobden, to detail the process of this progressive robbery of the nation's patrimony, which he did in a speech in Parliament in 1845, in which he challenged the "landed oligarchy" to justify the Corn Laws. From the situation in which the whole of the revenue was drawn from the lands of the nation, in the time of William I, the proportion had declined until, in Cobden's day, it was but 1/25th—"notwithstanding the immense increase in the value of the rentals."

Adam Smith had studied with interest the theories of the French "Economists", later known as the Physiocrats, and had discussed them at length in *The Wealth of Nations*. But, whereas he acknowledges the soundness of the *produit net*, and expounded it himself in precise terms, he failed to follow its implications to the logical end and, instead, devoted considerable space to exposing the illogic of

the Physiocratic argument that industrial and commercial activity, as distinct from that of agriculture, was "non-productive", the absurdity of which is self-evident. As Henry George explains, in his *The Science of Political Economy*, their strange error arose simply from the concept of agriculture as the generative or reproductive principle while industrial and commercial activity was concerned with "merely changing things in form, place or ownership." The error, as George said, has been effectively used to discredit their system, which, this aberration apart, laid the foundation of the true political economy.

Neither Adam Smith, nor Ricardo, nor John Stuart

Mill nor even Marx, followed the logic of their own perception to the end of a national revenue based solely upon the *produit net*, the surplus product. Others, like Patrick Edward Dove (1815-1873) in *The Theory of Human Progression*, Dr. Thomas Nulty, Bishop of Meath, in an address to the clergy and laity of his diocese, in 1881, and, of course, Henry George, did so. Posterity preferred Marx, the revolutionary socialist, and Keynes, his unacknowledged neophyte.

Nevertheless, there can be little doubt as to the relevance of the author of *The Wealth of Nations* for the bewildered world of 1977.

## How the Indians Regard the Land

RUUD MOORS

(From an article in *Ons Erfdeel*, translated from the Dutch by Basil Butterworth).

FROM the deep south of South America to the North Pole there were Indian cultures that differed more from one another than America and Russia do now.

One thing, however, they had in common and that was that the land everywhere was common property; whether it was an agricultural, fishing or hunting culture there was no talk anywhere of individual property in land.

Chief Seattle of the Duwamish tribe spoke as follows, in 1854, about a proposal by the President of the United States to buy the land on which his tribe lived:

"The great Chief in Washington has spoken: he wants to buy our land. The great Chief has also spoken words of friendship and peace. That is very good of him, as we know that he does not need our friendship.

"But we shall consider your offer, since we know that if we do not sell our land, the white man with his weapons will come and take it.

"How can you buy or sell the air, the warmth of the land? That is difficult for us to imagine. As we cannot possess the freshness of the air and the rippling of the water, how can you buy them from us? We shall in due time take a decision on this.

"Every piece of this land is sacred to my people. Every spruce tree that shines in the sun, every sandy beach, every mist in the dark woods, every

buzzing bee is sacred in the thoughts and memory of my people. The sap that rises in the tree carries the memory of the red man.

"The red man has always retreated before the advancing white man, as the mist on the hills flees before the sun in the morning. But the ashes of our fathers are sacred. Their graves are consecrated ground, so are the hills and these trees. This part of the earth is holy ground for us. We know that the white man does not understand our way of life. For him one piece of land is just like another, as he is a stranger who comes in the night and takes what he wants of the land.

"The earth is not his brother but his enemy. And when he has conquered it he moves on. He gets nothing from it. He forgets the grave of his father and the inheritance of his children. He treats his mother, the earth, and his brother, the air, as merchandise, that he can exploit and sell again like cheap coloured beads.

"His hunger will eat the earth bare and leave only a wilderness behind."

A remarkable prophecy from a man whose people were considered "savages". And now, more than a century later, the rivers are fouled, as is the air and parts of the land.

But the conquest still goes on.

A newspaper report in 1971 gave a laudatory account of the Brazilian government's plan for the Amazon region. The region was to be transformed into pasture for the benefit of wool production and of the great landlords, who had all claimed parts of it and "cleaned" it of Indians. The first step in this gigantic project was to drive a road across the Amazon region from the west to the east coast.

Property in land is theft of community property, not only from the "civilised" people, but also from the natives, who have always had a reverence for life, and for their land and are one with it. We too must again become one with the world about us, realising that the earth is part of us, to be used only to sustain life and not to turn into marketable property so making life almost impossible for others.

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### SOCIALIST TURNS TO FREE ENTERPRISE

NOT all critics of nationalisation can claim personal experience of its operation at such a high level as can Sir Richard Marsh, former Chairman of the British Railways Board who, in a recent speech, deplored any further extension of nationalisation, except as anything other than a last resort, and even then "with feelings of gibbering terror and foreboding." He said he had found his ten years of working in the public sector had left him with a convinced belief in free enterprise.