

## **Adam Smith and Economic Development: theory and practice.**

Maria Pia Paganelli (Trinity University; mpaganel@trinity.edu)

Adam Smith describes at least two models of economic development—the 4 stages of development model and the development of town and cities. The models present an unfolding view of economic growth from primitive to advanced. But Smith's historical example systematically contradicts his models. Is Smith, then, endorsing models of economic growth or criticizing them?

### **Adam Smith and Economic Development: theory and practice.**

What do we make of theoretical models when none (or very little) of the empirical data fit the model? Considering economic development models in Adam Smith independently from the historical empirical evidence he offers with them is problematic. Smith offers clear models of economic development both in his Lectures on Jurisprudence and in the Wealth of Nations. Yet, Smith also presents lists of historical examples which contradict his theories, maybe questioning the general validity of those models.

I first look at the theory of the four stages of development as presented in the Lectures on Jurisprudence, then at some of the historical examples of development in the Wealth of Nations which are exceptions to Smith's theoretical model.

LJ

The clearest exposition of Smith's theory of development comes from his Lectures of Jurisprudence. In these lectures we can find what is known as the four stages of development theory. The four stages theory was a common construct of the Scottish Enlightenment. Smith explains we start from hunting societies (LJ 14). By eventually realizing that domesticating animals are an easier source of food, we arrive at the age of shepherds. Population growth would follow a more stable supply of food and would push for a more steady provision. So, after having enough flocks and herds to be able to afford to cultivate some land, we get to the agricultural stage. And after having enough produce to support themselves, people will have superfluous products with which will start to trade, developing into the age of commerce. Each stage of development has its appropriate form of justice and of government and its appropriate customs. And from each stage a society will carry into the following stage. This is "the normal process of development". The theory is simple, clear, and quite reasonable.

If I were to give an historical example to explain and corroborate this model, I would say: take country x. During century y, people were few and they were hunters. As population increased, they became shepherds. In century yy, they started to cultivate land extensively and now, x is in its commercial age. But this is not the way Smith gives empirical support to his theory. He tells his students that North American Indians are an example of the first stage of development "tho they have no conception of flocks and herds, have nevertheless some notion of agriculture" (LJA15). "The Tartars and Arabians subsist almost entirely by their flocks and herds. The Arabs have little agriculture, but the Tartars none at all" (LJA 15). And France is offered as an example of commercial society, without any previous stage of it being mentioned. We do encounter the Tartars and the Arabs again in later lectures. But here Smith tells his students that this natural gradual development somehow stalled with them as they are "two great nations who have been merely shepherds as far back as we can trace them and still are so without the least agriculture" (LJA 213).

So Smith tells his students there is a model of development and offers them examples of societies that do not develop.

WN

In the WN the explicit mention of the four stage of development disappears. There are references to hunters, shepherds, agricultural and commercial societies, and the development from one stage to another, especially in Book III and V, but not a model as clear as the one used with his students.

Assuming the implicit presence of a 4 stages model, what does Smith tells us of civilizations that have evolved over time? Take Rome. Smith tells us “Rome...was originally founded upon an Agrarian law” (WN IV.vii.a.3). Where is that age of shepherds, not to speak of the age of hunters, which precedes the age of agriculture?

Book III is a broad account of the feudal era. Here Smith tells us that “the cultivation and improvement of the country, therefore which affords subsistence, must necessarily, be prior to the increase of the towns, which furnishes only the means of conveniency and luxury” (WN III.i.2). He also tells us that “According to the natural course of things, therefore, the greater part of the capital of every growing society is, first, directed to agriculture, afterwards to manufactures, and last of all to foreign commerce. This order of things is so very natural, that in every society that had any territory, it has always, I believe, been in some degree observed” (WN III.i.8). This seems to echo his lectures: first one develops agriculture (the country) and then, with the surplus products, one starts trading and developing trading centers such as cities.

The theoretical model of stage development is back. The chapter where this idea is presented is indeed titled “Of the natural Progress of Opulence.” But Smith describes the development of Europe as “unnatural and retrograde” (WN III.i.9). Rather than going from the agricultural stage to the commercial one, we went from an agricultural stage back to a barbaric stage, to then jump into a commercial stage, following which agriculture improved. Europe developed foreign trade first, then manufacturers, and only later agriculture. This is not a minor point Smith makes. He spends three of

the four chapters of Book III telling his readers the story of how the natural order of things is inverted. He explicitly warns his readers of this inversion: "But though this natural order of things must have taken place in some degree in every society, it has, in all modern states of Europe, been, in many respects, entirely inverted" (WN. III.i. 9).

A combination of exogenous events such as the barbaric invasions and of local politics, ranging from primogeniture laws to privileges the kings would grant to cities for support against the nobility, gave incentives to people to cluster in cities for protection, to develop trade, then manufacturers, and only later on to export to the countryside the entrepreneurial spirit of commerce which develops the country, rather than vice-versa. This is why the European development had been "unnatural and retrograde." The historical data we are offered gives us exactly the opposite result than the predicted result. The theoretical model, by itself, has therefore problems in explaining historical facts.

Why would Smith offers us a model of 'natural development of opulence' if his history is the 'inverted'?

Let's consider another factor. Smith, in LJ, tells his students that the engine of change is population growth. One society develops enough means of subsistence to sustain a larger population and, because of the larger population is pushed to find additional means of subsistence, going from hunting, to pastoral, to agriculture, to commerce. This feedback loop is presented also in WN, even if the emphasis is now more on population growth as a symptom of economic growth: if there is more to survive with more people will survive (WN I.viii). But while the theory predicts a linear growth, in practice we observe three different patterns. An economy (and its population) can increase, stay the same or decrease. In North America there is more growth than in England (WN i.viii.23). "China had been long one of the richest, that is, one of the most fertile, best cultivated, most industrious, and most populous countries in the world. It seems however, to have been long stationary" (WN i.viii.24).

And while China does not seem to decline, Bengal does. In Bengal “notwithstanding [subsistence should not be very difficult] three or four hundred thousand people die of hunger every year” (WN I.viii.26). The reason? “The mercantile company which oppresses and domineers in the East Indies” (WN I.viii.27).

What does a model of development tells us then, as Smith presents it? Not much it seems, when the historical account of it is taken into consideration. Customs, institutions, and other historical accidents seem to play a large explanatory role in Smith’s models.

In defense of Smith, it is often claimed that the American experience resembles his theory (WN II.v.21 and III.i.5). But the North American colonies cannot be considered an example of natural development. First, the process of colonization itself implies that the barbaric colonies are colonized by civilized cultures. Second, in the North American colonies, institutions are imported from Europe. And indeed Smith tells us that the difference between the success of America and the degradation of Bengal is the adoption of the British constitution (WN I.viii.26).

Looking at book V, where we have the most explicit reference to the 4 stages, still does not improve the performance of the model. Smith uses the description of the four different stages of development to explain differences in military organization and performance. Techniques and discipline of the military change with each different stage. The military develops from a group of thugs to a proper army. So far so good. But then we have the description of Rome. The sophisticated and civilized Roman Empire, given its proven powers, relaxed its military discipline (WN V.I.a.36) and barbaric uncivilized German tribes over-run it. This is a step backward, a destruction of civilization which challenges the development of the four stages.

In Smith’s defense, one could claim that Smith tells us that the real commercial societies are in fact superior to any societies in their previous stage of development. Only opulent, therefore only commercial, societies can afford the expenses of modern firearms. Yet, he also tells us “the unavoidable effects of the natural progress of improvement have, in this respect, been a good deal

enhanced by a great revolution in the art of war, to which a *mere accident*, the invention of gun-power, seems to have given occasion" (WN V.1.a.44. Emphasis added). Poor and barbarous nations overrun opulent and civilized nations, unless we introduce firearms. But firearms are introduced by "*mere accident*." The model prediction works only with an exogenous random event.

## Conclusions

Smith presents models of development and at the same time offers a range of historical examples with which to understand the models and their predictive and explanatory powers. Interestingly enough, though, the examples he chooses to use do not fit the models. They seem to contradict them!

Smith tells us it is possible to model the progress of opulence. But he also tells us opulence developed in unpredictable forms. It happened only in certain part of the world, and even there not stably.

But if the model is a general model of human behavior, why do we see different results in different parts of the world? Why Smith offers so much contradicting data? Smith's results of his empirical tests are problematic and may open the door for questioning of the nature of the model itself. Is Smith hinting whether we should question the presence of a natural order in nature that can be modeled? Or our ability to do so? What if the system of natural liberty which is part of the economic development is indeed the result of peculiar circumstances and historical accidents? What if freedom and prosperity are generated simply by good luck? Smith does not seem to be able (or willing?) to exclude that possibility.