

# Learning from Adam Smith - Help at Hand Today

## Essay on How the World's Economies Might be Justly Optimised

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***“The natural effort of every individual to better his own condition, when suffered to exert itself with freedom and security is so powerful a principle that it is alone, and without any assistance, not only capable of carrying on the society to wealth and prosperity, but of surmounting a hundred impertinent obstructions with which the folly of human laws too often incumbers its operations; though the effect of these obstructions is always more or less either to encroach upon its freedom, or to diminish its security.” Adam Smith (1776)***  
*‘An Inquiry into the Nature and Causes of the Wealth of Nations’ (IV. 5. 82)*

### Introduction

While the name and works of Adam Smith (1723 –1790) are widely recognised across Western societies, they conjure up a broad range of interpretations and contradictory views. Strikingly, for many within the world's business communities this 18th Century author is the champion not only of ‘Free Trade’ but of the idea that a purely self-serving approach to trade and ‘wealth creation’ is in the best interests of societies and nations everywhere. Yet, as economic historian John Kenneth Galbraith cautions, *“Corporate executives and their spokesmen who cite Smith today as the source of all sanction and truth without the inconvenience of having read him would be astonished and depressed to know he would not have allowed their companies to exist.”* (JKG, 43)

Indeed, still today it is falsely ascribed to Smith that unalloyed selfishness aimed solely at the maximisation of production, trade and profit is in the best interests of all, hence laudable, fully justified. For example, that view remains firmly embedded in some of the world's most revered business text books, such as Paul Samuelson and

William Nordhaus's *Economics*, a leading text since the 1950s.(JSc; JKG)

However, such representations of Smith's views are based either on limited selections, mere fragments cobbled together, - or quotes like the above through which, by overlooking the two vitally important qualifications "...when suffered to exert itself with freedom and security..." and, the critical need to surmount the "...hundred impertinent obstructions with which the folly of human laws too often incumbers its operation;...", they can be falsely represented to others. Indeed, unless those qualifications apply there can be no honest long-term sustainable trade between people. Moreover, as illustrated below, there exists clear evidence that every 'blind selfishness serves all' interpretation of Smith's views runs contrary to his central message. (See Jeffrey Sach's 2007 Reith Lectures (JSa, 5); also Gavin Kennedy's *Adam Smith's Lost Legacy*. (GaK))

So it's most important we see Smith, product of the Scottish Enlightenment, as fully revealed through his own writings. First as moral philosopher, then as informed economist critiquing the world of politics, commerce and trade at home and abroad, a world he knew so well, the good with the bad, warts and all! But no mere pessimist, ever seeking the best for society, in '*The Theory of Moral Sentiments*' Smith aims to show human thought processes as they evolved over past millennia with a view to making them work for all. For he recognised their many good features, the possibilities of more effective cooperation within and between different societies, their potential for mutual benefit across the board. (AS\_MS, I.I.1-49; VI.II. 54-55)

At the same time, aware that the long-term undermining activity of fair trade by powerful special interest groups, both at home and abroad, posed a very serious threat to the realisation of such hopes, he could see another possible outcome. Thus in '*The Theory of Moral Sentiments*' we see how Smith sought answers to the outstanding problems of the 'practical world', with its unfair exploitation, grossly unequal rewards, and consequent unnecessary suffering. Accordingly we can imagine how Smith's understanding of the sentiments of humankind, always prime movers in generating both thought and

action, played a key role in his treatment of the economy.(AS\_MS, I.III.28-35; IV.I.12-17; VI.II. 54-55; VII.III.30-32)

As we know, one of the strongest human feelings is towards survival of self. Guided by thirst, hunger and the need for warmth and physical protection, the urge for personal ‘security’ has ever remained paramount. At the same time we know that individuals have similar feelings towards the survival and well-being of close family members and, in hunter-gatherer societies, members of the group. (AS\_MS, I.I.1) Indeed these feelings may have evolved together in an altogether logical way from the high interdependency of small group survival under hunter-gatherer conditions. At all events, in larger societies human imagination developed the capacity for sympathy towards the fate of more remote ‘others’. While that could be strong towards those suffering, it also came as shared happiness with those enjoying good fortune. In both modes such sympathies provided for sharing and other essential cooperative behaviour which, favouring mutual bonding and acting as a counter to narrowly selfish behaviour, could work to promote both cohesion and survival of the group. (AS\_MS, I.I.4-6; VI.II. 54-55)

Indeed, in terms of the survival of today’s *Homo sapiens* it is easy to see the need for many such balances without which species survival cannot be assured. For without certain essential cooperative behaviours, the urges of just so many of the world’s elite groups to maintain excessively privileged positions must result in more and more counter-productive situations that will undermine human societies (including their own) along with the world of Nature on which *all* life depends. This is partly because, both in trade terms and militarily, elite groups around the world are at war with one another in increasingly destructive ways. Partly also because, depending as they do on the principle of ‘exploit for gain the underdog majority’, their markets finally fail for lack of solvent customers. And more and more critically because of their determination to go on mindlessly exploiting the natural world, our essential life-support environment, which now is clearly in the direst peril.

Centred primarily on *The Wealth Of Nations*, the following will quote Adam Smith's thoughts and judgements on a range of topics as set down at the beginning of Europe's Industrial Revolution, - still highly-relevant insights which one hopes will act as a caution and critical guide in our present time of economic and environmental disorder. For in the current state of world-wide blundering, dismay and confusion, there's much to be learned from the life and writings of Adam Smith, - as well as certain other economists who represent an intelligently far-sighted view of what in economic life should best serve and preserve humankind, - namely to serve not just today's go-getting 'winners' but through fair-trading, to best serve all. (e.g., JH; JMK; JKG; JSa; RG\_LS, 198-203)

Writing in the early stages of the Industrial Revolution, Smith was most concerned that all should receive their just recompense for whatever contribution they made to society. Thus, no matter what each could best do, whether skilled or unskilled, he/she should obtain proper recognition and a fair material share of what was produced, including a fair share of the benefits emerging from the highly productive industrial age.

That was the broad principle. But Smith recognised also that since no individual (indeed no single family) had the skills and means to produce all of their essential 'necessaries', the solution had to include specialisation, plus person-to-person trading of the goods and services produced so that all would have access to the necessary *variety* of their needs. And, seeing already both specialisation and trading as ongoing features of human societies, Smith sought to define some 'ground rules' that might ensure all-round justice and 'fair play' introduced into the process. As you may well agree, that sounds entirely reasonable!

## **Origins of Agriculture, Trade, and Subsequent Inequities**

Well, going back some 10,000 years (a mere 400 generations!) to the time when *all* humans existed in hunter-gatherer family-sized groups, - and subsequently during the slow emergence of agriculture with its small village societies, - people had always traded with one another.

Thus in village life different types of grain, fruits, tools and services were exchanged on the basis of what appeared fair to both parties. Just as when I was growing up, we children saw such barter as ‘fair exchange, no robbery’! – so its not hard to see the general idea, is it?

However, as Smith realised, following the birth of agriculture it was not too long before, “.... *in the age of shepherds, in the second period of society, that the inequality of fortune first begins to take place, and introduces among men a degree of authority and subordination which could not possibly exist before. .... The rich, in particular, are necessarily interested to support that order of things which can alone secure them in the possession of their own advantages. .... They constitute a sort of little nobility, who feel themselves interested to defend the property and to support the authority of their own little sovereign in order that he may be able to defend their property and to support their authority. Civil government, so far as it is instituted for the security of property, is in reality instituted for the defence of the rich against the poor, or of those who have some property against those who have none at all.*” (AS\_WN, V.1.55)

Now, recognising this history, Smith was also very much aware of the primary role of agriculture in the development of sustainable food sources and all else that followed. After all, it was agriculture which provided for food surpluses, population growth, opportunities for specialisation and many other changes including the development of the tools for farming, house-building and manufactures of all kinds. Thus for him it was a realisation that made very clear the role that the land played as the essential foundation of *all* life support and (at that stage) *all* ‘wealth’, including surplus wealth, what we might have hoped would be treated fairly as wealth for the common good, i.e., ‘*Common Wealth*’.

And yet, recognising the current state of domestic agriculture in the England, Scotland and Wales of his time, Smith saw obvious problems to be overcome both at home and abroad. You see, just as in the rest of Western Europe, in Britain since the fall of the Roman Empire the primacy of ‘do it yourself’ subsistence agriculture had been lost due to ongoing concentration of land ownership into fewer and fewer hands.

That had been caused by the grasping actions of warring landlords, and made worse through their practice of ‘primogeniture’ (all ‘their’ land inherited by the eldest male) and associated ‘entails’ - (laws preventing its subsequent sale or gift). I’ll quote just a little of Smith’s comment on this widespread practice.

*“When great landed estates were a sort of principalities, entails might not be unreasonable. .... But in the present state of Europe, .... nothing can be more completely absurd. They are founded upon the most absurd of all suppositions, the supposition that every successive generation of men have not an equal right to the earth, and to all that it possesses; but that the property of the present generation should be restrained and regulated according to the fancy of those who died perhaps five hundred years ago. Entails, however, are still respected through the greater part of Europe, in those countries particularly in which noble birth is a necessary qualification for the enjoyment either of civil or military honours. Entails are thought necessary for maintaining this exclusive privilege of the nobility to the great offices and honours of their country; and that order having usurped one unjust advantage over the rest of their fellow-citizens, lest their poverty should render it ridiculous, it is thought reasonable that they should have another present.”* (AS\_WN, III.2.6)

Hence the overall result of this post-Roman carve-up of Europe by contending land grabbers was the division of its territories into a vast array of private properties, - ‘estates’ of various sizes, these private divisions the end result of power struggles having no basis whatever in law or justice. And as Smith realised, this outcome had extremely far-reaching consequences for the peoples of Europe, Britain included.

Indeed the logical consequences of such land grabs are all too clear, - for the self-proclaimed ‘prince’ or ‘lord’ who claimed to ‘own’ the land not only did indeed have control over it, including all of its resources (cultivable land, water, minerals, timber, etc) but *thereby* he had complete control over all of its people. So you see, it was above all a grab for power and privatised wealth that ended up replacing the centralised power and wealth of the Roman Empire.

Now that's not to support the idea of ongoing 'empire rule' over the people of Europe. After all, Rome's fall with the cessation of its elitist slave-dependent society could and should have opened the way to a truly cooperative self-determination of its peoples. Sadly, instead Europe's opportunists took over, proclaiming their own lordship, ownership, and self-proclaimed 'laws' with which to determine the role and fate of 'their' citizens. Thus determined were people's work, living conditions and (if any) rewards, – rewards the Lord found necessary to attract and hold 'loyal' attendants: bureaucrats, bodyguards, military commanders and so on. These became the Lord's elite citizens who shared something of his wealth, grand life-style, honours, etc. The rest were there simply to serve as personal servants, cultivators of the land, producers of food, tools, manufactures, - and do military service at the Lord's command. And the recompense? – well that was up to the Lord but frequently did not amount to much more than the bare necessities for subsistence.

As an aside, I'll mention Anatole France's book, *Penguin Island* (AF) which, written in ironically humorous style, exposes the pretensions of those who took over and exploited the lives of Europeans in this way. It was all about an imaginary island on which penguins re-arranged their normally cooperative lives by introducing the kind of social strata which allowed the most aggressive to become 'Lords' served by underlying masses of lesser birds – an idea which somehow brings home the utter absurdity referred to by Smith.

All the above sounds an extremely unjust, unfair system, which it was. And to add to the contradictions and absurdities, these changes occurred during the early phases of Europe's so-called 'Christian era'. I say so-called since the Christian ethic was in complete contrast, its founder Jesus being the strongest advocate of what we Aussies call 'a fair go'! However, such contradictions did not prevent Europe's Lords, Princes and Kings proclaiming among their honours and special virtues, a sincere 'Christian faith', - and then, further use this claim to justify their exclusive powers as if God had so blessed them! Indeed, the absurdity of the obscene levels of concentrated wealth and power extended to the official Christian church hierarchy itself, most excessively to its Renaissance Popes. (NF)

Now, even although over time Europe's emerging nation-states multiplied, those additions occurred still in the context of the above-mentioned self-serving land 'ownership' situation. So this meant only that while the nations' landlords forfeited certain powers to their monarch king or queen, their *regional* control of the land and its people remained much as before.

## **Adam Smith's Major Work on Trade and Wealth Creation**

Well, as earlier recognised in the time of Henry VIII by Sir Thomas More in his '*Utopia*' (TM), Adam Smith had come to understand exactly how the system worked to the advantage of the nations' self-privileged elites. Accordingly, in describing the practices of the newly expanding trading and manufacturing world of the 18th Century, he was well equipped to point to its excesses, imbalances and injustices. So, in his '*An Inquiry into the Nature and Causes of the Wealth of Nations*', published 1776, Smith took a very wide-ranging look at what went on. I cannot hope to cover much of it here but remarkably and most usefully, the entire work is available online in a highly convenient form at: <http://www.econlib.org/library/Smith/smWN.html> (AS\_WN)

It's all very easy to read, navigate and cite. References to this work are shown here as AS\_WN, then Volume number, Chapter number, paragraph number, (e.g., AS\_WN, V.1.55) And all comes with Smith's moral philosophy, his 'insider's' understanding of Europe's trading history and what it's contemporary power-brokers sought to get out of the system, - including especially the monopoly and other advantages they could expect via their government's assistance. (And don't worry about some oldly-worldly forms of expression, - just lean back and enjoy!).

As Smith realised, the ambitions of the rising class of Europe's merchants (British compatriots included) were to expand both their domestic and foreign trade. So while on the one hand they sought to prevent foreign competition in their relatively limited home market, on the other they aimed at gaining inroads into as many foreign markets



as possible, - and by whatever means. In both areas, since many were ‘well-connected’ to the government of the day, they sought and commonly received their government’s assistance via legal and other channels. As Smith explained these all-too-successful arguments to convince their own governments were....

*“....addressed by merchants to parliaments and to the councils of princes, to nobles and to country gentlemen, by those who were supposed to understand trade to those who were conscious to themselves that they knew nothing about the matter. That foreign trade enriched the country, experience demonstrated to the nobles and country gentlemen as well as to the merchants; but how, or in what manner, none of them well knew. The merchants knew perfectly in what manner it enriched themselves. It was their business to know it. But to know in what manner it enriched the country was no part of their business. This subject never came into their consideration but when they had occasion to apply to their country for some change in the laws relating to foreign trade. It then became necessary to say something about the beneficial effects of foreign trade, and the manner in which those effects were obstructed by the laws as they then stood. To the judges who were to decide the business it appeared a most satisfactory account of the matter, when they were told that foreign trade brought money into the country, but that the laws in question hindered it from bringing so much as it otherwise would do. Those arguments therefore produced the wished-for effect.” (AS\_WN, IV.1.10)*

And as to the over-riding motivation of Europe’s manufacturers and commercial traders, we have Smith’s understanding of how their mercantile system sought to deal with the contending principles of production for the consumer needs of its own citizens, vs. production primarily for the merchants’ gain. Thus, in Smith’s view... *“Consumption is the sole end and purpose of all production; and the interest of the producer ought to be attended to only so far as it may be necessary for promoting that of the consumer. The maxim is so perfectly self-evident that it would be absurd to attempt to prove it. But in the mercantile system the interest of the consumer is almost constantly sacrificed to that of the producer; and it seems to consider*

*production, and not consumption, as the ultimate end and object of all industry and commerce.” (AS\_WN, IV.8.49)*

To that end the merchants of the nations of Europe aimed to ensure trading monopolies both at home and abroad. At home, *“By restraining, either by high duties or by absolute prohibitions, the importation of such goods from foreign countries as can be produced at home, the monopoly of the home market is more or less secured to the domestic industry employed in producing them” (AS\_WN, IV.2.1).* And abroad by promoting their foreign trade, especially exports through overseas trading monopolies. Initially, following Vasco de Gama’s explorations via the Cape of Good Hope to the East Indies in 1497, foreign trade was augmented through a series of coastal ‘trading posts’, but before long such posts became the launching pads for deeper territorial expansion, exploitation and domination, as we shall see. But first the Americas.

### **Peoples of the Americas First to Suffer Colonial Catastrophe**

Indeed, it was not long after Columbus’ 1492 discovery of the Americas, that exactly such incursions occurred throughout the Caribbean islands and across the vast territories of Central and South America, - all with catastrophic results for their indigenous peoples. And along with this aggressive intrusion came the pretense that its aim was to convert the ‘natives’ to Christianity. As described by Smith, *“In consequence of the representations of Columbus, the council of Castile determined to take possession of countries of which the inhabitants were plainly incapable of defending themselves. The pious purpose of converting them to Christianity sanctified the injustice of the project. But the hope of finding treasures of gold there was the sole motive which prompted him to undertake it; and to give this motive the greater weight, it was proposed by Columbus that the half of all the gold and silver that should be found there should belong to the crown. This proposal was approved of by the council.” (AS\_WN, IV.7.15)*

Sadly, that situation was long to endure despite the anguished pleas of some truly Christian figures like the Dominican, Bartolomé de las Casas (1474-1566) whose response, *‘A Brief Account of the Destruction*

*of the Indies.*’ is available online.(BC) As also recognized by Smith, it was indeed the lure of gold, silver, land, novel crops (sugar cane, corn, tobacco, potatoes, squash, tomatoes, bananas, etc.) along with the ‘ready availability’ of a people forced to work the mines, extract the gold, till the land, produce the crops, etc., that led to Europe’s greatly-augmented foreign trade. That was ever so lucrative to Europe’s elites, the winners, but understandably it came at a truly terrible cost to the losers, especially the natives of the Caribbean, Central and South America who were not only thus shamelessly exploited, but also suffered extremely high disease and death rates from European infections (e.g., measles, whooping cough) against which they had no immunity.

### **Spain and Portugal Lead - the Rest of Europe Follow**

Although this incursion into the Americas had been led by Spain and Portugal, many other European powers soon followed. As Smith described it, ... *“Towards the end of the fifteenth, and during the greater part of the sixteenth century, Spain and Portugal were the two great naval powers upon the ocean;... . The Spaniards, in virtue of the first discovery, claimed all America as their own; and though they could not hinder so great a naval power as that of Portugal from settling in Brazil, such was, at that time, the terror of their name, that the greater part of the other nations of Europe were afraid to establish themselves in any other part of that great continent. The French, who attempted to settle in Florida, were all murdered by the Spaniards. But the declension of the naval power of this latter nation, in consequence of the defeat or miscarriage of what they called their Invincible Armada, which happened towards the end of the sixteenth century, put it out of their power to obstruct any longer the settlements of the other European nations. In the course of the seventeenth century, therefore, the English, French, Dutch, Danes, and Swedes, all the great nations who had any ports upon the ocean, attempted to make some settlements in the new world.”* (AS\_WN, 1V.7.31)

Thus, from this time in the 16th Century, aiming at similar benefits, private traders from these European powers, alone or in combination as ‘exclusive companies of merchants’, received from their

governments special ‘charters’ granting them ‘exclusive rights’ over foreign peoples, their territories, and the resulting trade. As will become clear, Smith’s view was that “*The government of an exclusive company of merchants is, perhaps, the worst of all governments for any country whatever.*”(AS\_WN, IV.7.33) Moreover, as pointed out by Smith, even for the ‘ordinary’ European colonist it was extremely disadvantageous. Thus, “*Some nations have given up the whole commerce of their colonies to an exclusive company, of whom the colonists were obliged to buy all such European goods as they wanted, and to whom they were obliged to sell the whole of their own surplus produce.*”... such that,.. “*Of all the expedients that can well be contrived to stunt the natural growth of a new colony, that of an exclusive company is undoubtedly the most effectual.*”(AS\_WN, IV.7.44)

Needless to say the dire effects on the natives and transported African slaves caught up in such a system was a far far more serious issue. Indeed, as described by de las Casas, not only did the indigenous peoples of the Americas suffer grievously, but since the work of growing and harvesting sugar cane and most heavy labour in Europe’s colonies was carried out by enslaved Africans, such added greatly to the truly terrible human costs.(BC)

Just a few examples from Smith’s summing up of the case of the Americas, ... “*The policy of Europe, therefore, has very little to boast of, either in the original establishment or, so far as concerns their internal government, in the subsequent prosperity of the colonies of America.*”(AS\_WN, IV.7.81)

“*Folly and injustice seem to have been the principles which presided over and directed the first project of establishing those colonies; the folly of hunting after gold and silver mines, and the injustice of coveting the possession of a country whose harmless natives, far from having ever injured the people of Europe, had received the first adventurers with every mark of kindness and hospitality.*”(AS\_WN, IV.7.82)

And again, ... “*When those establishments were effectuated, and had become so considerable as to attract the attention of the mother*

*country, the first regulations which she made with regard to them had always in view to secure to herself the monopoly of their commerce; to confine their market, and to enlarge her own at their expence, and, consequently, rather to damp and discourage than to quicken and forward the course of their prosperity.” (AS\_WN, IV.7.86)*

A little later Smith expands on the evil effects of the foreign monopolies that ‘exclusive companies of merchants’ set up via their government-backed Chartered Companies. In shrinking the wealth available to all other parties, the very idea of monopoly is condemned, Smith explaining, “*All the original sources of revenue, the wages of labour, the rent of land, and the profits of stock, the monopoly renders much less abundant than they otherwise would be. To promote the little interest of one little order of men in one country, it hurts the interest of all other orders of men in that country, and of all men in all other countries.*” (AS\_WN, IV.7.146) So, it’s easy to see where Smith is coming from, - just where his sense of justice and sympathies lie. Clearly it is not just about ‘free trade’, it is about making trade that is both ‘free and fair’, and thus of mutual benefit across the board to all participants.

### **Monopolies and the Causes of American Colonial Dissatisfaction**

Writing as he was at the very time American colonists were struggling with their home country, Britain, for such economic justice, Smith was acutely aware of what was at stake, he having a full grasp of its history. For, as he explained, ... “*To found a great empire for the sole purpose of raising up a people of customers may at first sight appear a project fit only for a nation of shopkeepers. It is, however, a project altogether unfit for a nation of shopkeepers; but extremely fit for a nation whose government is influenced by shopkeepers. Such statesmen, and such statesmen only, are capable of fancying that they will find some advantage in employing the blood and treasure of their fellow-citizens to found and maintain such an empire.*” (AS\_WN, IV.7.149)

Then a little further on, “*England purchased for some of her subjects, who found themselves uneasy at home, a great estate in a*

*distant country. The price, indeed, was very small, and instead of thirty years purchase, the ordinary price of land in the present times, it amounted to little more than the expence of the different equipments which made the first discovery, reconnoitred the coast, and took a fictitious possession of the country. The land was good and of great extent, and the cultivators having plenty of good ground to work upon, and being for some time at liberty to sell their produce where they pleased, became in the course of little more than thirty or forty years (between 1620 and 1660) so numerous and thriving a people that the shopkeepers and other traders of England wished to secure to themselves the monopoly of their custom. Without pretending, therefore, that they had paid any part, either of the original purchase-money, or of the subsequent expence of improvement, they petitioned the parliament that the cultivators of America might for the future be confined to their shop; first, for buying all the goods which they wanted from Europe; and, secondly, for selling all such parts of their own produce as those traders might find it convenient to buy. For they did not find it convenient to buy every part of it. Some parts of it imported into England might have interfered with some of the trades which they themselves carried on at home. Those particular parts of it, therefore, they were willing that the colonists should sell where they could; the farther off the better; and upon that account purposed that their market should be confined to the countries south of Cape Finisterre. A clause in the famous act of navigation established this truly shopkeeper proposal into a law.” (AS\_WN, IV.7.150)*

Smith then drew attention to the essential link between the trade monopoly and the monopoly-induced role of the home government in militarily defending such colonial monopolies whenever they were attacked, - since in both blood and treasure such defence came at very high cost. Accordingly he concludes, “*Under the present system of management, therefore, Great Britain derives nothing but loss from the dominion which she assumes over her colonies.*”(AS\_WN, IV.7.151) It was a point later emphasized by economist John Hobson in his 1902 *Imperialism A Study*.(JH) That is not to deny that there were individual ‘winners’ in all this, simply that as realized by both Smith and Hobson, the winners’ gains were always overshadowed by the

very great losses in both lives and treasure that their nation's population had to bear.

Moreover, with his clear insights Smith could see the inevitable outcome for Britain unless it implemented a far juster way of dealing with the people of its American colonies, - their taxes, freedom to trade and so on. However, with scant hope that Britain's government would agree, Smith went on to suggest a necessary compromise, such that, *"If it was adopted, however, Great Britain would not only be immediately freed from the whole annual expence of the peace establishment of the colonies, but might settle with them such a treaty of commerce as would effectually secure to her a free trade, more advantageous to the great body of the people, though less so to the merchants, than the monopoly which she at present enjoys. By thus parting good friends, the natural affection of the colonies to the mother country which, perhaps, our late dissensions have well nigh extinguished, would quickly revive. It might dispose them not only to respect, for whole centuries together, that treaty of commerce which they had concluded with us at parting, but to favour us in war as well as in trade, and, instead of turbulent and factious subjects, to become our most faithful, affectionate, and generous allies; and the same sort of parental affection on the one side, and filial respect on the other, might revive between Great Britain and her colonies, which used to subsist between those of ancient Greece and the mother city from which they descended."* (AS\_WN, IV.7.153)

But Smith's doubts soon led him to forecast an independent America, one whose natural assets and hard-working people would likely make it, *"...the greatest and most formidable that ever was in the world"*, - the greatest state of all, for ... *"Unless this or some other method is fallen upon, and there seems to be none more obvious than this, of preserving the importance and of gratifying the ambition of the leading men of America, it is not very probable that they will ever voluntarily submit to us; and we ought to consider that the blood which must be shed in forcing them to do so is, every drop of it, blood either of those who are, or of those whom we wish to have for our fellow-citizens. They are very weak who flatter themselves that, in the state to which things have come, our colonies will be easily conquered*

*by force alone. The persons who now govern the resolutions of what they call their continental congress, feel in themselves at this moment a degree of importance which, perhaps, the greatest subjects in Europe scarce feel. From shopkeepers, tradesmen, and attornies, they are become statesmen and legislators, and are employed in contriving a new form of government for an extensive empire, which, they flatter themselves, will become, and which, indeed, seems very likely to become, one of the greatest and most formidable that ever was in the world. ”(AS\_WN, IV.7.161)*

And as later described in *The British Lose America* by Barbara Tuchman in her ‘*The March of Folly*’ (BT3, 155), and as strikingly evident since the end of WW2, so it has come to pass. Of course, this is not just an example of Smith’s clear insights, but of the historical record of repeated miscalculations by the world’s elites as to how far inequities designed in their own favour can be pushed before, in oft-repeated ‘blow-back’ style, disaster encompasses them along with their intended victims.

### **Cost of Monopolies to a Nation’s People and Domestic Economy**

Lest one might think that the ‘exclusive company of merchants’ mind-set was focused solely on the exploitation of overseas native peoples, conveniently termed ‘savages’, Smith makes clear that exactly the same attitude applied towards the lesser folks at home. For one thing, the approach to wage levels in factories and on farms indicated that no more than subsistence was aimed at. Using Britain’s linen industry as example, Smith observes, “*It is the industry which is carried on for the benefit of the rich and the powerful that is principally encouraged by our mercantile system. That which is carried on for the benefit of the poor and the indigent is too often either neglected or oppressed.*” (AS\_WN, IV.8.4)

Now while for a time there had been limited improvement in subsistence wages due to reductions in the price of grain and other necessities, Smith’s general attitude to what we may call ‘wage justice’ comes through clearly in the following: “*Is this improvement in the circumstances of the lower ranks of the people to be regarded as*



*an advantage or as an inconveniency to the society? The answer seems at first sight abundantly plain. Servants, labourers and workmen of different kinds, make up the far greater part of every great political society. But what improves the circumstances of the greater part can never be regarded as an inconveniency to the whole. No society can surely be flourishing and happy, of which the far greater part of the members are poor and miserable. It is but equity, besides, that they who feed, cloath and lodge the whole body of the people, should have such a share of the produce of their own labour as to be themselves tolerably well fed, cloathed and lodged.” (AS\_WN, I.8.35)*

And as to the home monopoly-contrived legal protection of domestic farm and manufacturing industries, we see how many promulgated laws which had severe penalties for non-compliance guarded against overseas competition. Thus, *“The exportation of the materials of manufacture is sometimes discouraged by absolute prohibitions, and sometimes by high duties.” (AS\_WN,IV.8.16)* Clearly, free trade was not an essential part of trade policy.

The same applied to the laws prohibiting both imports and/or exports of many commodities. Thus, and never deterred by way of benign sanction, as in the following examples. *“Our woollen manufacturers have been more successful than any other class of workmen in persuading the legislature that the prosperity of the nation depended upon the success and extension of their particular business. They have not only obtained a monopoly against the consumers by an absolute prohibition of importing woollen cloths from any foreign country, but they have likewise obtained another monopoly against the sheep farmers and growers of wool by a similar prohibition of the exportation of live sheep and wool. The severity of many of the laws which have been enacted for the security of the revenue is very justly complained of, as imposing heavy penalties upon actions which, antecedent to the statutes that declared them to be crimes, had always been understood to be innocent. But the cruellest of our revenue laws, I will venture to affirm, are mild and gentle in comparison of some of those which the clamour of our merchants and manufacturers has extorted from the legislature for the support of their own absurd and*

*oppressive monopolies. Like the laws of Draco, these laws may be said to be all written in blood.*” (AS\_WN, IV.8.17)

He goes on, *“By the 8th of Elizabeth, chap. 3, the exporter of sheep, lambs, or rams was for the first offence to forfeit all his goods for ever, to suffer a year's imprisonment, and then to have his left hand cut off in a market town upon a market day, to be there nailed up; and for the second offence to be adjudged a felon, and to suffer death accordingly. To prevent the breed of our sheep from being propagated in foreign countries seems to have been the object of this law. By the 13th and 14th of Charles II. chap. 18. the exportation of wool was made felony, and the exporter subjected to the same penalties and forfeitures as a felon.”* (AS\_WN, IV.8.18)

Then, two paragraphs later, beginning with, *“The penalties, ...”* and ending with the dire, *“... But as the morals of the great body of the people are not yet so corrupt as those of the contrivers of this statute, I have not heard that any advantage has ever been taken of this clause. If the person convicted of this offence is not able to pay the penalties within three months after judgment, he is to be transported for seven years, and if he returns before the expiration of that term, he is liable to the pains of felony, without benefit of clergy.”* (AS\_WN, IV.8.20)

According to Smith, all of the domestic wool industries' restrictions and horrifying penalties were claimed as essential to protect the vastly 'superior qualities of English wool'. Yet that claim Smith flatly contradicts, he recognising the greatly superior qualities of Spanish wool. (AS\_WN, IV.8.24–25)

And when it came to protection of the home manufacturing industries, similar laws were in place, these prohibiting not only the export of the materials of manufacture, including gun-metal, bell-metal and other materials, but of domestic machinery, all 'tools of trade', and the overseas movement of teachers of manufacturing and trade techniques. (AS\_WN, IV.8.36; IV.8.43-48) Again, no intention towards trade freedom there either.

## Colonial Trade Competition, Imperial Rivalry and War

Illustrated below we see how the very means through which Europe's 'exclusive companies of merchants' expected to grow ever wealthier at the expense of others, including their 'exclusive trading' competitors, led to international rivalries, serious friction and wars. However, as in the Americas, the first people to suffer were always the indigenous folk of the territories invaded. Yet, as Smith stressed, such an outcome was not inevitable: Europe's trading relationships with the people of foreign lands could and should have been very different, providing only that it was based on the principle of a cooperative trade that gave two-way equivalent benefit. Such might have come about as he hoped, but as seen by Smith the historic possibilities compared to the grim reality revealed ...

*“The discovery of America, and that of a passage to the East Indies by the Cape of Good Hope, are the two greatest and most important events recorded in the history of mankind. ... What benefits or what misfortunes to mankind may hereafter result from those great events, no human wisdom can foresee. By uniting, in some measure, the most distant parts of the world, by enabling them to relieve one another's wants, to increase one another's enjoyments, and to encourage one another's industry, their general tendency would seem to be beneficial. To the natives however, both of the East and West Indies, all the commercial benefits which can have resulted from those events have been sunk and lost in the dreadful misfortunes which they have occasioned. .... At the particular time when these discoveries were made, the superiority of force happened to be so great on the side of the Europeans that they were enabled to commit with impunity every sort of injustice in those remote countries.” (AS\_WN, IV.7.166)*

Thus we see Smith's views as to the dire effects of the emergent West's version of international trade on the indigenous people of the newly colonised territories across the world. However, some might nevertheless have believed the prospects hopeful, - at least as far as the fortunes of the colonial traders themselves were concerned. But as Smith goes on we see a very different picture, enmities emerging as the traders of different nations, assuming exclusive 'trading rights',

then competed with one another in ways that frequently ended in war, - wars that even for the winning side resulted in overall counter-productive losses for their nation. (see also JH)

So, as Smith ‘sets the stage’, reflecting on this exclusivity in both America and the East Indies, we can see the mood of traders as anything but cooperative, for, ... *“In the trade to America every nation endeavours to engross as much as possible the whole market of its own colonies by fairly excluding all other nations from any direct trade to them. During the greater part of the sixteenth century, the Portuguese endeavoured to manage the trade to the East Indies in the same manner, by claiming the sole right of sailing in the Indian seas, on account of the merit of having first found out the road to them. The Dutch still continue to exclude all other European nations from any direct trade to their spice islands. Monopolies of this kind are evidently established against all other European nations, who are thereby not only excluded from a trade to which it might be convenient for them to turn some part of their stock, but are obliged to buy the goods which that trade deals in somewhat dearer than if they could import them themselves directly from the countries which produce them.”* (AS\_WN, IV.7.Part Third 176)

Here, again, it is worth stressing that such skewed trade, sought and gained by ‘Exclusive Companies of Merchants’, works not only against the their international competitors, but necessarily against most of their fellow citizens, - citizens whose government legislated the monopoly law. For as Smith put it, *“Since the establishment of the English East India company, for example, the other inhabitants of England, over and above being excluded from the trade, must have paid in the price of the East India goods which they have consumed, not only for all the extraordinary profits which the company may have made upon those goods in consequence of their monopoly, but for all the extraordinary waste which the fraud and abuse, inseparable from the management of the affairs of so great a company, must necessarily have occasioned. The absurdity of this second kind of monopoly, therefore, is much more manifest than that of the first.”* (AS\_WN, IV.7. Part Third 177)

Indeed, in ending this section on the East India Company, Smith concludes, *“Such exclusive companies, therefore, are nuisances in every respect; always more or less inconvenient to the countries in which they are established, and destructive to those which have the misfortune to fall under their government.”*(AS\_WN, IV.7.Part Third 194)

Then again in his concluding remarks on the mercantile system, Smith includes his estimates of the highly counter-productive costs to the nation involved, - including the costs of war. *“But in the system of laws which has been established for the management of our American and West Indian colonies, the interest of the home-consumer has been sacrificed to that of the producer with a more extravagant profusion than in all our other commercial regulations. A great empire has been established for the sole purpose of raising up a nation of customers who should be obliged to buy from the shops of our different producers all the goods with which these could supply them. For the sake of that little enhancement of price which this monopoly might afford our producers, the home-consumers have been burdened with the whole expence of maintaining and defending that empire. For this purpose, and for this purpose only, in the two last wars, more than two hundred millions have been spent, and a new debt of more than a hundred and seventy millions has been contracted over and above all that had been expended for the same purpose in former wars. The interest of this debt alone is not only greater than the whole extraordinary profit which it ever could be pretended was made by the monopoly of the colony trade, but than the whole value of that trade, or than the whole value of the goods which at an average have been annually exported to the colonies.”* (AS\_WN, IV.8.53)

*“It cannot be very difficult to determine who have been the contrivers of this whole mercantile system; not the consumers, we may believe, whose interest has been entirely neglected; but the producers, whose interest has been so carefully attended to; and among this latter class our merchants and manufacturers have been by far the principal architects. In the mercantile regulations, which have been taken notice of in this chapter, the interest of our manufacturers has been most peculiarly attended to; and the interest, not so much of the consumers,*

*as that of some other sets of producers, has been sacrificed to it.”*  
(AS\_WN, IV.8.54)

## **The Resultant Ever-expanding Financial Costs of War**

As Smith illustrated, we can see how in his time the British and other European economies were manipulated in favour of particular commercial ‘elites’. Always such favour was claimed to be ‘in the national interest’ although as clearly described by Smith, it in fact served merely the selfish interests of groups whose close connections to government provide them with the laws that enabled them to operate monopolies at home and abroad. We have seen, moreover, how by favouring some sectors of the economy above others, this process resulted not in the much vaunted ‘free trade’ but, - being anything but free, open and fair, - a trade that hurt all other traders, both at home and abroad.

For example, as Smith writing of the doings of the East India Company in the late 1770s put it, *“By a perpetual monopoly, all the other subjects of the state are taxed very absurdly in two different ways: first, by the high price of goods, which, in the case of a free trade, they could buy much cheaper; and, secondly, by their total exclusion from a branch of business which it might be both convenient and profitable for many of them to carry on. It is for the most worthless of all purposes, too, that they are taxed in this manner. It is merely to enable the company to support the negligence, profusion, and malversation of their own servants, whose disorderly conduct seldom allows the dividend of the company to exceed the ordinary rate of profit in trades which are altogether free, and very frequently makes it fall even a good deal short of that rate. Without a monopoly, however, a joint stock company, it would appear from experience, cannot long carry on any branch of foreign trade.* (AS\_WN, V.1.119)

Moreover, and altogether tragically for the people of the nations concerned, it was precisely those monopoly provisions through which exclusive trading companies were able to exclude international competition, which gave rise to the extreme international tensions that ended up in war. Smith periodically refers to such wars, particularly

those Britain engaged in against its trading rivals of the 18th century.(c.f. below) Understandably, while aware of their high costs in human terms (great loss of life and health through war injury, privation and disease) *Wealth of Nations* concentrates on the economic issues, the role of monopolies in causing wars and their consequent financial burden on the nation. Accordingly, Smith deals primarily with the wars' heavy economic costs to the people of Britain, including the way in which, (since such costs far-outweighed peacetime revenues) their government repeatedly entered into high and ever-growing indebtedness to the advantage of the very people whose aggressive monopolistic practices had in the first place led the nation into war.

Here, focussing on the issue of profiting through their nation's war debts, I'll quote Smith's views on the heights of such indebtedness and how it was handled by government, beginning with his remark that, "*War and the preparation for war are the two circumstances which in modern times occasion the greater part of the necessary expence of all great states.*" (AS\_WN, V.2.15) As he explains, "*When war comes, there is no money in the treasury but what is necessary for carrying on the ordinary expence of the peace establishment. In war an establishment of three or four times that expence becomes necessary....*". (AS\_WN,V.3.4) "*The same commercial state of society which, by the operation of moral causes, brings government in this manner into the necessity of borrowing, produces in the subjects both an ability and an inclination to lend.*"(AS\_WN, V.3.5) ..... "*The necessities of the state render government upon most occasions willing to borrow upon terms extremely advantageous to the lender. .... The merchant or monied man makes money by lending money to government, and instead of diminishing, increases his trading capital.*" (AS\_WN, V.3.7) .... "*The progress of the enormous debts which at present oppress, and will in the long-run probably ruin, all the great nations of Europe has been pretty uniform.*"(AS\_WN,V.3.10)

The argument proceeds,... "*In England, the seat of government being in the greatest mercantile city in the world, the merchants are generally the people who advance money to government. By advancing it they do not mean to diminish, but, on the contrary, to increase their*

*mercantile capitals, ....”.(AS\_WN,V.3.35) He then sums up with, “The ordinary expence of the greater part of modern governments in time of peace being equal or nearly equal to their ordinary revenue, when war comes they are both unwilling and unable to increase their revenue in proportion to the increase of their expence. They are unwilling for fear of offending the people, who, by so great and so sudden an increase of taxes, would soon be disgusted with the war; and they are unable from not well knowing what taxes would be sufficient to produce the revenue wanted. The facility of borrowing delivers them from the embarrassment which this fear and inability would otherwise occasion. By means of borrowing they are enabled, with a very moderate increase of taxes, to raise, from year to year, money sufficient for carrying on the war, and by the practice of perpetually funding they are enabled, with the smallest possible increase of taxes, to raise annually the largest possible sum of money. In great empires the people who live in the capital, and in the provinces remote from the scene of action, feel, many of them, scarce any inconveniency from the war; but enjoy, at their ease, the amusement of reading in the newspapers the exploits of their own fleets and armies. To them this amusement compensates the small difference between the taxes which they pay on account of the war, and those which they had been accustomed to pay in time of peace. They are commonly dissatisfied with the return of peace, which puts an end to their amusement, and to a thousand visionary hopes of conquest and national glory from a longer continuance of the war.”(AS\_WN,V.3.37)*

Smith then goes on to document the growing levels of national indebtedness which, beginning in the 17th century, escalated through to the 18th century. Thus, *“In Great Britain, from the time that we had first recourse to the ruinous expedient of perpetual funding, the reduction of the public debt in time of peace has never borne any proportion to its accumulation in time of war. It was in the war which began in 1688, and was concluded by the Treaty of Ryswick in 1697, that the foundation of the present enormous debt of Great Britain was first laid.” (AS\_WN,V.3.41)*



Then... *“On the 31st of December 1697, the public debts of Great Britain, funded and unfunded, amounted to 21,515,742l. 13s. 8<sup>1</sup>/<sub>2</sub>d. (AS\_WN, V.3.42) .....In the war which began in 1709, and which was concluded by the Treaty of Utrecht, the public debts were still more accumulated. On the 31st of December 1714, they amounted to 53,681,076l. 5s. 6<sup>1</sup>/<sub>2</sub>d.”(AS\_WN,V.3.43).....*

*“The Spanish war, which began in 1739, and the French war which soon followed it occasioned further increase of the debt, which, on the 31st of December 1748, after the war had been concluded by the Treaty of Aix-la-Chapelle, amounted to 78,293,313l. 1s. 10d. The most profound peace of seventeen years continuance had taken no more than 8,328,354l. 17s. 11<sup>3</sup>/<sub>12</sub>d. from it. A war of less than nine years continuance added 31,338,689l. 18s. 6<sup>1</sup>/<sub>6</sub>d to it”(AS\_WN, V.3.44)*

*“In 1755, before the breaking out of the late war, the funded debt of Great Britain amounted to 72,289,673l. On the 5th of January 1763, at the conclusion of the peace, the funded debt amounted to 122,603,336l. 8s. 2<sup>1</sup>/<sub>4</sub> d. .... the expence occasioned by the war did not end with the conclusion of the peace, so that though, on the 5th of January 1764, the funded debt was increased (partly by a new loan, and partly by funding a part of the unfunded debt) to 129,586,789l. 10s. 13<sup>4</sup>/<sub>4</sub>d., ..... In 1764, therefore, the public debt of Great Britain, funded and unfunded together, amounted, according to this author, to 139,516,807l. 2s. 4d. .... During a peace of about seven years continuance, the prudent and truly patriot administration of Mr. Pelham was not able to pay off an old debt of six millions. During a war of nearly the same continuance, a new debt of more than seventy-five millions was contracted.”(AS\_WN, V.3.45)*

Thus Adam Smith described the state of things financial resulting from Britain's wars of the 18th century. We now go on to briefly outline what might have been learnt (though sadly not) from Smith's clear insights into the Christian civilised world of his day. After all, we know that Adam Smith's works were not only well received at the time but that, like the Bible, they were and have ever since been pored over and cited in support of one or other societal aim, - though commonly not in the way Smith would have approved!

## From 18th Century Adam Smith to World War One Or, the High Cost of Ignoring Smith's Wise Counsel

Using as illustration Britain's rising industrial and financial power as the prime (though by no means sole) example, let us examine further developments in Europe's West from the time of Adam Smith. Firstly, as recently attested by Jeffrey Sachs in his 2007 Reith Lectures, it is quite clear that the 19th century's burgeoning industrial revolution, which so dramatically expanded national wealth, had the potential to serve the needs of all 'home' citizens in a reasonably equitable way.(JSa, L 5) And yet notwithstanding the good fortune of the emerging 'winners', the vast majority remained desperately poor, destined to serve each day long long hours in factories and mines, enduring miserable unhealthy lives in over-crowded city slums, - as described, for example, in Dickens' *Great Expectations*, (CD) and on *The Victorian Web*.(VW) (see 'Social History', e.g. at Public Health and Child Labor).

Indeed, notwithstanding Britain's mounting industrial production, it was a social trend that extended well into the 20th century, - as Winston Churchill's impassioned 1909 Liberal Party speech, '*Spirit of the Budget*' in '*Liberalism and the Social Problem*' reveals.(WC1, p.357). Clearly then, the exploitation of one's own people was a 'home-grown' prime means of enabling the nation's industrial revolution to create more and more private wealth for those at the top.

As well, unfortunately, instead of embarking on international trade that was cooperative and thus mutually advantageous, as advocated by Adam Smith, Europe's self-proclaimed Christian states continued with their colonial adventures and to engage their trade rivals in profligate, essentially counter-productive wars. In the case of Britain, especially so with France on the grounds that *it's* expanding economic and political power might allow it to dominate Europe. That preoccupation was particularly strong throughout the Napoleonic period - until, with Hessian and other Germanic support, the French were overcome at Waterloo. For a time thereafter much of Europe, including Britain and France, remained at peace. Indeed, briefly those centuries-long enemies became 'allies' during the Crimean War! However, the awful

reality was that far from having become pacific, the fast-industrialising states of Europe were to a large extent simply concentrating on their trade and Imperial Affairs abroad, penetrating more and more foreign lands and exploiting their peoples 'in the service of Empire'. But, as before, this led to the growth of serious international tensions which continued to threaten war between the European powers, - by then a war likely to engulf the whole of Europe.

Here it's revealing to draw attention to underlying lines of thinking that made this outcome more and more probable. One such line affecting many in high places was the long-held view that the exploitation of one's own people, along with the people of foreign lands in the cause of private wealth creation was fully justified, indeed morally correct. Going back to feudal land-acquisition practices, that was to a large extent based on self-serving notions of 'superior' and 'weaker' classes. Then, in the industrial age it took on new meaning through the highly influential works of Herbert Spencer (1820-1903) and similar misapplications of Darwin's work on the '*Origin of Species*' (CDa; HS1; HS2)

In Spencer's view the poor and sick who did not survive their industrial employment were nature's weaklings, their deaths thus contributing to the improvement of humankind. As he wrote, "*....I am simply carrying out the views of Mr Darwin in their application to the human race....*".(HS1, 418) Indeed, he insisted that nothing should be done to stop this process of improvement, commenting, "*Partly by weeding out those of lowest development, and partly by subjecting those who remain to the never-ceasing discipline of experience, nature secures the growth of a race who shall both understand the conditions of existence, and be able to act up to them. It is impossible in any degree to suspend this discipline by stepping in between ignorance and its consequences, without, to a corresponding degree, suspending the progress.*" (HS2, Chap 28, Sect.4, para 3) As John Kenneth Galbraith noted, it was a view greatly welcomed in certain quarters of the United States, as when Spencer's visit of 1882 stimulated William Sumner to write that "*.... the millionaires are a product of natural selection .... They get high wages and live in luxury, but the bargain is a good one for society.*"(JKG, 123)

From that line of thinking it was not too difficult to further believe that the colonisation of foreign lands and exploitation of their peoples in the cause of one's own wealth creation was similarly justified, even ordained from on high, especially as in the process such inferior people would gain many advantages of Western culture, especially its Christian beliefs. For, as British mathematical statistician Karl Pearson wrote, *"My view – and I think it may be called the scientific view of a nation, is that of an organized whole, kept up to a high pitch of internal efficiency by insuring that its numbers are substantially recruited from the better stocks, and kept up to a high pitch of external efficiency by contest, chiefly by way of war with inferior races."*(KP, 46) And again with more racism thrown in, *"History shows me one way, and one way only, in which a high state of civilization has been produced, namely, the struggle of race with race, and the survival of the physically and mentally fitter race."*(KP, 21) And from such thoughts (many more quoted in Michael Howard's 'Empire, Race and War in pre-1914 Britain', chapter 4 in 'The Lessons of History' (MH, 63-80) and Barbara Tuchman's *The Proud Tower*, (BT1, 248-50)) it might seem no great leap to want to 'justify' the struggle between Europe's already economically-contending powers by advocating the ultimate 'necessity', even 'desirability', of extending that contest to the field of war.

Among the higher echelons of European and American society, this became a commonplace attitude. For example from Major General Sir Ian Hamilton's WW1 'Gallipoli Diary' we have, *"Once in a generation, a mysterious wish for war passes through the people. Their instinct tells them there is no other way of progress and escape from habits that no longer fit them. Whole generations of statesmen will fumble over reforms for a lifetime which are put into full-blooded execution within a week of a declaration of war. There is no other way. Only by intense suffering can the nations grow, just as a snake once a year must with anguish slough off the once beautiful coat which has now become a straight jacket."* (IH, Vol.1, Ch.2, , Para32, see foll. *My blood ran cold....*)

America's Captain (later Admiral) Mahan, author of 'The Moral Aspect of War', was just as enthusiastic, seeing 'honest collision'

between the nations as an ‘heroic ideal’, indeed, “*a law of progress*”, he further maintaining that, “*No greater misfortune could well happen than that civilized nations should abandon their preparations for war and take to arbitration. The outside barbarians are many. They will readily assimilate our material advance, but how long will it take them to reach the spirit which it has taken Christianity two thousand years.*” (ATM, 446 ; see also BT1, 248-50)

Of course many ‘rational’ people, including those who saw nothing wrong in their country’s overseas colonial exploitation yet sensed the dangers of such urges for war, were keen to take preventive action. Indeed it was that which gave rise to the 1884 Berlin Conference that set down ‘ground rules’ designed to ensure peace between the established and more recent (would-be) colonising states of Europe. For a time such measures might have seemed ‘successful’, yet in many contexts they failed as ‘the’ solution, - as in China and even Africa with its vast yet-to-be-exploited territories.

Thus, as events were to prove, before long that contest between Europe’s powers for colonial gains had truly awful consequences, not only for the people of China and Africa, but for people throughout Europe and across the world. Examples of the former are the tragic exploitation of the Congolese, forced by Belgium’s King to extract rubber for the ever-growing needs of the industrialising West; another, Cecil Rhodes’ ruthless assault across southern Africa which, backed by the British government, culminated in the Boer War and ever-rising tensions with Germany. (AN; KW1, 158-67; IB1, 1B(a-b))

For there were clear warnings of what would emerge from such colonial competition. In his 1902 *‘Imperialism: A Study’*, English economist John Hobson described just how Smith’s ‘exclusive companies of merchants’ world of the 18th century was being repeated through the 19th, - how Europe’s national governments were still allowing ‘special interest groups’ all the benefits of such foreign exploitation, while leaving their home populations (not to mention the exploited foreign ‘savages’) to bear the high human and financial costs. That was bad enough, but worse, Hobson could see clearly the approaching ‘blow-back’ effects of these colonial and other trade

struggles on Europe and beyond, he starkly warning that therein lay the root causes of a looming catastrophic European war. (JH,Intro Paras19-20;II.I.41-3; II.I.58-60)

So, as Hobson had recognized, the rising risks of war were all about international competition and how that would be handled. For while some powers lauded the ideal of open trade competition, even they were not true believers ready to accept the result, unless *they* were *winning* the race. And since it was the same in the colonial sphere, the threatening world war was essentially about the failure of ‘top nations’ to accept the decline of power and status that, sooner or later, would result from colonial and trade competition. Indeed in the final analysis it was simply this bellicose response to impending failure in the competition, coupled to the tangle of their so-called security Alliances, which literally entrapped Europe’s powers into a war through which all original combatant states ended up the losers, - as subsequently recorded by Churchill (WC3, 30-31, see below)

With such an outcome possible, one might have thought that Britain would have done all in its power to have avoided any involvement in a war between Europe’s industrial powers. Especially so, as at the turn of the century it was not only still predominant in the world of trade and finance but already in control of the largest Empire the world had ever seen. As the official figures revealed, by 1900 this small island state was in command of 13,000,000 square miles of foreign territories along with the lives of their 400,000,000 inhabitants.(JH, I.I.8)

Moreover, as early as 1901 Winston Churchill had warned the House of Commons as to the extreme dangers, the utter counter-productivity of becoming involved in any future war between Europe's **industrial** powers, for as he said, *"We must not regard war with a modern Power as a kind of game in which we may take a hand, and with good luck may come safe home with our winnings. .... I have frequently been astonished since I have been in this House to hear with what composure and how glibly Members and even Ministers, talk of a European war .... But now, when mighty populations are impelled on each other.... when the resources of science and civilisation sweep away everything that might mitigate their fury, a **European war can***

*only end in the ruin of the vanquished and the scarcely less fatal commercial dislocation of the conquerors. .... We do not know what war is. We have had a glimpse of it in South Africa. Even in miniature it is hideous and appalling.*"(MG, 51-2 emphasis added) Indeed, that was a timely warning which the 1906 incoming Liberal government with its Liberal Radical majority appeared to have been highly conscious of through to the very outbreak of WW1.(IB2)

At the same time, however, we have to realise that by the turn into the 20th century the higher echelons of British society were not only aware of, but greatly concerned over their country's declining position. Especially so because that trend, begun in the mid 1880s, appeared to be accelerating – for, in industrial and trade matters, both the United States and Germany were fast overtaking it. Indeed, it was that very situation which had by 1900 convinced Britain to discard its long-held policy of 'splendid isolation' and begin to negotiate. First with Japan, that resulting in the *Anglo-Japanese Alliance of 1902*, then Germany (not pursued) and finally (notwithstanding their 400-year adversarial history and near-war clash over Fashoda in 1898) France! (WC1, 21)

The outcome of those negotiations was the '*Entente Cordiale of 1904*', an Imperial compact whereby, providing France would back Britain's 'position' and claims over Egypt, Britain would support France's colonial aspirations in Morocco. (WC1, 22; KW1,165-6) For Britain, France, and the world it was indeed a truly tragic compact for two fateful reasons. First, ever since 1892 France had been committed via its *Franco-Russian Military Alliance Convention* to go to war against Germany should Germany, or any of its allies, be at war with either Russia or France.(WW1Docs) As George F. Kennan, former US diplomat and historian pointed out in '*The Fateful Alliance: France, Russia, and the Coming of the First World War*', that Alliance alone created an extremely precarious situation, one through which already heavily-armed Continental Europe became suspended across a precipice, ready to be tipped into war by any (even minor) military border 'incident', - as later occurred following the terrorist assassination of Austria's Franz Ferdinand.(GeK, 238-58). And secondly, for Britain (with its Empire) that 1904 compact with France greatly compounded the chances of *its* participation in any European

war, - as here outlined, - further detail in *'A Case History: Britain, Empire Decline and the Origins of WW1'*. (IB2)

Indeed, it was not long after Britain's 1904 *Entente Cordiale* deal with France that, (in defiance of the 1880 Treaty of Madrid through which Europe's states agreed on equal access to Moroccan trade) a French military mission intruded into Morocco early in 1905. Germany's response, to call for an international conference, triggered an acute war-threatening crisis. This Conference assembled at Algeciras in January 1906, the very month that by a landslide Britain's Conservative Party lost government to the Liberals. Nevertheless, the crisis continued and although finally war was avoided, the incoming Liberal government had backed France at the conference, then entered into secret 'military conversations' between their General Staffs "...with a view to concerted action in the event of war." And although Churchill recorded that, "*France had not a good case*", he later noted that this conference had indeed been a "... a milestone on the road to *Armageddon*." (WC2, 32-3)

Interestingly, at this early time Churchill was firmly in the camp of the Liberal Radicals, the Party's majority faction which, intent on overdue social justice measures at home, was utterly opposed to military adventures abroad. Indeed, here Winston's insights on both social policy and foreign affairs are quite remarkable (see 1909 speech, *'The Spirit of the Budget'* in *'Liberalism and the Social Problem'* (WC1, 362-63) From 1906, however, the incoming Liberal government was dominated by Liberal Conservatives who, although a small minority among the Liberal Radicals, continued over succeeding years to implement those secret contingency planning arrangements with France, – namely, to back France if at any time it came to be at war with Germany.

Then in 1911 when a second Moroccan crisis (Agadir) arose (also triggered by a French military expedition occupying its capital Fez) Europe again went extremely close to war. At that stage Churchill, by then linked to the Liberal Conservatives as First Lord of the Admiralty, undertook to prepare the navy for the struggle which many in Europe and all in the 'Conservative camp' believed was coming, -



simply a matter of time. And yet, within the Liberal Cabinet of the day there remained still that majority of Liberal Radicals (led by seasoned veteran Lord John Morley) who were strongly opposed to Britain's involvement in any European war. Indeed, as Churchill admits, this faction represented a very clear majority, 15 to 5. Notwithstanding that, however, the key Cabinet positions remained firmly in the hands of Liberal Conservatives: Prime Minister, Herbert Asquith, Foreign Secretary, Edward Grey, Minister for War, Richard Haldane, and First Lord of the Admiralty, Winston Churchill, - all determined to join the war if and whenever France was at war with Germany.

Yet, significantly, the majority within both the Liberal Cabinet and across the Parliament remained not just pacific but entirely ignorant of the detailed contingency preparations for the 'more than likely' war. (KW2, 234) No doubt that sounds astonishing, yet according to Churchill, it was a situation which persisted into the very week leading to the outbreak of WW1 (August 4, 1914). For as he recorded in *'The World Crisis'*, referring to the crucial meeting of Monday July 27, 1914, "*The Cabinet was overwhelmingly pacific. At least three-quarters of its members were determined not to be drawn into a European quarrel, unless Great Britain were herself attacked, which was not likely.*" (WC2, 199) And a little further on, "*Suppose again, that now after the Austrian ultimatum to Serbia, (i.e., July 23, 1914) the Foreign Secretary had proposed to the Cabinet that if ...Germany attacked France or violated Belgian territory, Great Britain would declare war on her. Would the Cabinet have assented to such a communication? I cannot believe it.*" ...and, emphasizing the like stand across the Commons, Churchill adds, "*...I am certain that if Sir Edward Grey had sent the kind of ultimatum suggested, the Cabinet would have broken up, and it is also my belief that up till Wednesday or Thursday at least, (i.e., July 29, 30) the House of Commons would have repudiated his action. Nothing less than the deeds of Germany would have converted the British nation to war.*" (WC2, 204)

Morley's view was altogether differently based from that of his Conservative colleagues. His insights told him that the compulsion to war within the Cabinet leadership was all about Britain's declining

position in international trade and power. In relative terms, nations would rise, – but for a time, – then decline. Implicit in the Adam Smith model of Europe’s competitive market economy of his day, that was to be expected. So Morley was critical of his nation’s failure to come to terms with this reality, for as he put it, “...*the great vice of diplomacy is that it does not allow for new planets, or world powers, swimming into the skies, e.g. Japan and the United States*” - his chief objection to Eyre Crowe's Foreign Office advice being that “... *it makes too much of German Imperialism and too little of British Imperialism.*” (JM, at xvii)

Unfortunately, not only did the Conservatives within both the Government and Opposition recognise that reality, but they were as one in calling for its reversal, - via the ultimate national response. Indeed it seems clear that these Conservatives were determined not to accept the decline of Empire resulting from economic competition, but instead to attempt a turnabout through military action, as soon occurred.(JMK, Ch3, 30-3; see also JK,1-6 re. Billy Hughes & Lloyd George) Now, while Morley recognised their point of view, he could not understand how they could fail to see the inevitable end result of a war between highly-industrialised states which, as Churchill had warned in 1901 (MG, 51), inevitably would end up in one vast mutual catastrophe, - regardless of which side was said to have ‘won’. Thus, Morley did not want his country to be drawn into that tragic quagmire, - not only losing economically, but all combatant states engulfed in the most awful human sacrifice.

But blind to Morley’s case, the Conservatives (both Liberal and Opposition) blundered on in the vain hope that the war would not only be short (troops ‘home by Christmas’) but that ‘of course’ it would be victorious, the German economy ‘brought to its knees’, never to rise. Indeed, as Keynes in ‘*The Economic Consequences of the Peace*’ (1919) summed up the intent of the victors’ Versailles’ Treaty provisions: “*Thus the economic clauses of the treaty are comprehensive, and little has been overlooked which might impoverish Germany now or obstruct her development in future.*” (JMK, Ch4,102)

And, sadly, on Britain's crucial decision for war, Churchill was more than a little enthusiastic about its prospects and the role he would play. Indeed, as time passed he became more and more excited to the point that in a letter to his wife on war's eve (recorded by Randolph Churchill his official biographer) he wrote, *"Everything tends towards catastrophe and collapse. I'm interested, geared up & happy. Is it not horrible to be built like that? The preparations have a hideous fascination for me. I pray to God to forgive me for such fearful moods of levity. Yet I wd do my best for peace, and nothing wd induce me wrongfully to strike the blow. I cannot feel that we in this island are in any serious degree responsible for this wave of madness wh has swept the mind of Christendom. No one can measure the consequences. I wondered whether those stupid Kings & Emperors cd not assemble together & revivify kingship by saving the nations from hell but we all drift on in a kind of dull cataleptic trance. As if it was somebody else's operation!"* (RaC, 1989)

As an aside, Churchill's reference here to 'Christendom' is highly significant. For, as we know all of the European countries that engaged in the First World War were self-proclaimed Christian States. Moreover, in each case their Christianity not only permitted that conflict with other Christian States to begin, but allowed it to go on, - and on, - even when it had long stale-mated, having early degenerated into what Barbara Tuchman described as that *"... brutal, mud-filled, murderous insanity known as the Western Front that was to last for four more years.....Sucking up lives at the rate of 5,000 and sometimes 50,000 a day..."*.(BT2,487-8) Indeed, over the four years of that war, Europe's Christian leaders not only held onto their determination to continue the slaughter 'until victory was theirs', but each maintained the absurd claim that 'their' Christian God fully supported them in their aims and methods. It's all very hard to get ones head around, but at the least it's a salutary lesson as to how one must treat leaders' claims to ethical (or even sane) decision-making when it comes to war.

But going back to what finally triggered the outbreak of this war, - what for long so many in high places were expecting, it is enlightening to follow Barbara Tuchman's account of the precipitating 'Balkans

incident', - the assassination of Archduke Franz-Ferdinand by Serbian terrorists, - and then the downstream Alliance-triggered events which tipped Europe into that catastrophe. For, as generally recognised – (yet only after the war) - of itself that original incident, although 'serious', could in no way have made sense of the universally catastrophic outcomes, - the wholesale slaughter that ensued, all original combatant states (Britain and Australia included) being left vastly worse off than before. (BT2)

As to the war's tragic counter-productive outcomes, we might all agree, but because in its lead up Churchill had been such an enthusiastic proponent, I will quote from his *'The Aftermath - being a sequel to The World Crisis'*.(WC3) For by war's end, although Churchill began his account by assuring us that, *"The conclusion of the Great War raised England to the highest position she has yet attained. For the fourth time in four successive centuries she has headed and sustained the resistance of Europe to a military tyranny; and for the fourth time the war had ended leaving the group of small States of the Low Countries, for whose protection England had declared war, in full independence."* (WC3,17)

Yet by the end of this chapter, titled *'The Broken Spell'*, we learn that when that spell was broken, *"Every victorious country subsided to its old levels and previous arrangements; ... The boundless hopes that had cheered the soldiers and the peoples ... died swiftly away. The vision of a sunlit world redeemed by valour, ... where Justice and Freedom reigned ... was soon replaced by cold, grey reality. How could it have been otherwise? By what process could the slaughter of ten million men and the destruction of one-third of the entire savings of the greatest nations of the world have ushered in a Golden Age?"* (WC3, 30-31)

Churchill goes on, - *"A cruel disillusionment was at hand..... All were looking forward to some great expansion, and there lay before them but a sharp contraction; a contraction in the material conditions for the masses;"* he then all-too-significantly adding, *"...the contrast between the victors and the vanquished tended continually to diminish."*, and concluding, - *"Through all its five acts the drama has*

*run its course; the light of history is switched off, the world stage dims, the actors shrivel, the chorus sinks. The war of the giants has ended; the quarrels of the pygmies have begun."* (WC3, 31)

All very true, yet still an understatement which, together with other assessments from Churchill, Lord Robert Cecil and others, amounts to the admission of failure to attain what had been intended for the British Empire, and of course the generation of a whole lot more that was hugely destructive for everyone caught up in it.

Another highly significant judgement on this point comes from Australia's Governor-General, Lord Gowrie (VC winner from 1899 and WW1 veteran of Gallipoli and France - severely wounded at Gallipoli) when he opened the Australian War Memorial on November 11, 1941. Beginning by praising the heroic efforts of Australia's soldiers with whom he had the greatest sympathy, including their willingness to sacrifice their lives in a cause they believed would advance the freedom and welfare of mankind, Lord Gowrie went on to say, "*Now the war had lasted for four years. It was responsible for the death of over eight million able-bodied men. It was responsible for the wounding and maiming of many, many millions more. It caused universal destruction, desolation and distress without bringing any compensating advantage to any one of the belligerents. It was a war which settled nothing; it was a war in which all concerned came out losers.*" (LG)

Of course, one can only agree with this utterly honest assessment of the First World War, except to add WW1's bizarrely irresponsible man-made sequelae which all too soon culminated in the Second World War, - much of this travesty of the 'Peace' well described in Lord Robert Cecil's '*All the Way*' (RoC) and Churchill's '*The Gathering Storm*', (WC4) - but that would take another essay. (IB1, Ch. 7&8)

Looking back to Adam Smith's economic critiques, the Western world has long been on the wrong track, greatly compounding the errors by undervaluing the contributions of society's lower echelons, then attempting to compensate for such imbalance by 'pushing'

foreign trade and promoting colonial/neocolonial exploitations of various kinds. But, as we have seen, both of these highly competitive activities have always caused international friction and repeatedly led to economic instability and increasingly destructive wars. Thus still today we have both a widespread economic crisis and extremely dangerous international confrontations over the world's fast-diminishing mineral reserves, especially its fossil fuels. In two key papers, Michael Klare outlines the 20th century background to these confrontations, then clearly explains the basis for the still growing tensions between the US, Europe, Australia etc vs. the world of Islam, China, India etc over diminishing energy (and certain other) mineral resources, - together with the very real threat of endless counter-productive wars. He then provides the commonsense sane alternative, an agreement for both 'sides' to pull back from confrontation to allow each to focus on the all-too-real problems of getting both their economies and environments into sustainable condition before it is too late. (MK1, MK2)

To conclude, some comments on how Adam Smith's ideas, so many relevant to our current human economic and environmental predicament could, if properly applied, get humankind out of the very deep hole it has dug itself into. For Smith's clear ideas about justice and sustainability would work if only given an honest trial - nothing magical, simply the basis for mutual trust and fair dealing across the board, - the kind of fair dealing that is the very key to the sustainability essential for the health of both a viable market system and our life-supporting environment. (AS\_WN; JSa)

In principle there may be little we don't already know about this. First, one must consider the conditions needed to satisfy both social justice and long-term sustainability, for these two aspects of the problems requiring solution are inextricably linked. Obviously, here there is much to be done since, notwithstanding the 'end of history' celebrations pervading the financial world at the turn of the 21st Century, our long-revered yet increasingly unstable world economy remains in very serious trouble.

For we see how our modern Western economy has been built on the false premise that its top elite sectors could progressively take control, then go on and on prospering mightily simply by sucking up wealth from the lower sectors, those increasingly excluded from full and proper participation in that economy. Clearly that situation was and remains unsustainable. Accordingly, as pointed out by Ross Garnaut and David Llewellyn-Smith in *The Great Crash of 2008*, it would be a great mistake for us to want to see the ‘old model’ settled back on the road unchanged, - as the Finance Bubble’s architects would like to have agreed to. (RG\_LS, 212-215; cf. also JKG2, 186-209) Moreover, for it to properly work today, a comprehensive world-wide goods and services trade economy must not only be cleared of all its shadow banking deceits and scams, but it must also function as an in-balance two-way ‘partnership’ based on fair trade terms. For if the rewards flow too heavily one way without correction, then that balance fails and the system collapses. Obviously this is where justice comes in as a key measure of the essential balance.

Only a very well thought out remodeling of the world’s economic features can remedy our present predicament. While any attempt even to outline such modifications is beyond the scope of this essay, one can mention three aspects.

First, a prime requirement of major significance. The vast majority of the world’s poor, the dispossessed who presently lack even a secure means of subsistence, urgently require fair access to land, water, seed and ‘microfinance’ sufficient for their families to become stably self-sufficient, and thus also able to trade any surpluses. Without that they are destined for the most miserable of existences. Fully deserving of urgent priority, this humane justice measure could also *begin* their integration as actively trading participants in a just world economy. See Jeffrey Sach’s 2007 Reith Lectures ‘*Bursting at the Seams*’. (JSa, 1-5); also Muhammad Yunis and Karl Weber’s ‘*Creating a World Without Poverty*’ (MY;KW)

Secondly, in very broad terms the world’s trading/finance systems urgently need far-reaching reforms to enable Adam Smith’s concept of fair-trading to become effectively self-regulating. That is to say, free

trading *without* undermining interference from ‘get-rich-quick’ sectors gaining special advantages via governmental, legal, and other contrived ‘positions of strength’. For example, via monopolies, oligopolies and a variety of unfair treaties/contracts, - as well as all forms of shadow-bank un-backed credit finance practices that allow grossly unfair gain by way of unsustainable investment ‘bubbles’. In short, through all practices which have long subverted the still urgently-needed ‘level playing field’ advocated by Smith.

And thirdly, to restore our alarmingly undermined environment on which we and the rest of the biosphere depend for our/their survival and well-being, ways have to be found to include in all economic reckoning and future planning, the true value of all so-called economic ‘externalities’ (weather, air, water, oceans, soils, forests – see for example, James Hansen’s ‘*Storms of My Grandchildren*’. (JaH)))

In summing up I can do no better than quote some concluding remarks from Jeffrey Sachs’ 2007 Reith Lectures’ with their challenge to us all as to what today’s world needs to make all its citizens secure by following Adam Smith’s long-ignored wise counsel. For as Sachs said, “... *none gazed so wisely and so humanely on the world as David Hume and Adam Smith. ... It is therefore fitting, ... some might say the work of an invisible hand, that we conclude the Reith Lectures here in Edinburgh. For here in Scotland, in the 18th century, globalization was first perceived for all its transformative potential, and also for its potential dangers. Here lived the most brilliant exponents of the radical idea that an interlinked world could produce unprecedented material wellbeing and rights for all.... Smith looked forward to a day when an "equality of courage and force" would lead all nations into a "respect for the rights of one another." ...*”

*“Globalization, in short, would empower the weak and protect their rights. Smith's genius and decency inspire us two-hundred and thirty-one years later. Rather than glorying in the benefits of globalization for Britain - a kind of self-help book for early empire -- Smith took a global view, and looked forward to the day when free trade and the spread of ideas would eventually produce an equality of courage and*



*force around the world, so that the benefits of globalization would be shared by all.”*

*“Our challenges today are the same as in Smith's day, though even greater in range, scale, and intensity. The world is bursting at the seams, in population, environmental stress, cultural clashes and the gaps between rich and poor. How can globalization be made to work for all?”*

*“In a much more interconnected world than Smith's, we will need much more than an equality of force to see us through. We need active cooperation on three fronts: to curb our destructive effects on the environment; to prevent war; and to address the needs of the poor, and especially the poorest of the poor. What politics can accomplish all of this?”(JSa, 5, 2-3 )* Could anyone state it clearer, put it better?!

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