

# MURRAY ROTHBARD'S ADAM SMITH

SPENCER J. PACK

This article argues that Murray Rothbard does indeed have scathing criticisms of Adam Smith in Rothbard's recent work on the history of economic thought. It points out, though, that Rothbard had quite harsh words for many eminent economists. Moreover, in terms of *methodology*, Rothbard basically felt that he possessed certain key economic truths. People who did not share these truths were, in Rothbard's eyes, quite simply wrong.

Following Rothbard's lead, the article then summarizes key areas in which Smith indeed held views quite different from those of Rothbard. Moreover, the article argues that the situation is possibly even worse than Rothbard himself realized. Drawing upon lesser known parts of Smith's work, including *Essays on Philosophical Subjects*, *Lectures on Rhetoric and Belles Lettres*, *Lectures on Jurisprudence*, and *Correspondence*, the article claims that Smith seems to have been an epistemological skeptic, and that he had a proto-Marxist dialectical theory of socioeconomic development. For Smith, the state necessarily arises with the development of private property and inequality in wealth, and it exists to protect the rich from the poor. Hence, the differences between the thought of Rothbard and Smith were possibly even greater than Rothbard himself recognized. Nonetheless, the article concludes that Rothbard was essentially astute, correct, and honest in recognizing and emphasizing the distance between his thought and that of the iconic Adam Smith.

Rothbard's two-volume text on the history of economic thought<sup>1</sup> contains surprisingly strong statements against Adam Smith. For example, according to Rothbard, Smith "originated nothing that was true" (Rothbard 1995a, p. 435); Smith "contributed nothing of value to economic thought" (*ibid.*, p. 463); his doctrine of value was an "unmitigated disaster" (*ibid.*, p. 448); his theory of distribution was "disastrous" (*ibid.*, p. 458); his emphasis on the long run was a "tragic detour" (*ibid.*, p. 451); and Smith's putative "sins" (*ibid.*, p. 452) included introduction into economics of the labor theory of value.

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SPENCER J. PACK is professor of economics at Connecticut College.

<sup>1</sup>The books referenced in this article are *Economic Thought before Adam Smith: An Austrian Perspective on the History of Economic Thought*, Vol. 1 and *Classical Economics: An Austrian Perspective on the History of Economic Thought*, Vol. 2. References will appear in the text as (Rothbard 1995a) and (Rothbard 1995b) respectively.

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At first reading, Rothbard's criticisms of Smith seem unduly severe; it is, arguably, one of the harshest attacks ever made upon Smith's work by a non-Marxist (or indeed, any) economist. Yet, consideration of Rothbard's rhetoric and methodology sheds light on Rothbard's style. From Rothbard's point of view, his lambasting of Smith certainly makes sense. Indeed, had Rothbard been more familiar with some of the lesser known parts of Smith's oeuvre, his thrashing of Smith might have been still more severe.

First, in terms of rhetoric, Rothbard has rough stuff to say about most everyone with whom he disagrees. Rothbard was a man of unusually strong views and clear convictions of what is right and wrong, correct and incorrect. He did not mince words. So, for example, the *Tableau Économique* of Quesnay is judged to be "irritating," "elaborate frippery," "false," "mischief-making," "deceptive," and in no sense did it "do anything but detract and divert attention from genuine economic analysis and insight" (Rothbard 1995a, p. 376). Ricardo had "a deductive system built on deep fallacy and incorrect macro-models" (Rothbard 1995b, p. 82). Marx was a "sponger" and a "cadger" with a corrupt attitude toward money (*ibid.*, p. 340) whose economics was a "tissue of fallacies. Every single nodal point of the theory is wrong and fallacious" (*ibid.*, p. 433). The conservative economist Thomas Sowell is chastised for having written "the most spectacularly overrated work on Marxism" (*ibid.*, p. 497); "a remarkably frenetic and unconvincing whirl of Marxian apologetics" (*ibid.*, p. 436, n. 36). On John Stuart Mill: "It is difficult to think of anyone in the history of thought who has been more egregiously and systematically overestimated as an economist, as a political philosopher, as an overall thinker, or [even!] as a man" (*ibid.*, p. 491). At least Rothbard did not attack Adam Smith's reputation as a male.<sup>2</sup>

Second, in considering Rothbard's rough handling of Smith, one needs to take into account Rothbard's methodological strategy in writing his *Economic Thought before Adam Smith*, volume 1. Essentially, Rothbard asks: How does a historical theorist compare with his own views on such crucial topics as the subjective theory of value, laissez-faire, the fractional reserve banking system, and scientific methodology (i.e., praxeology)? When Rothbard disagrees with the theorist, that theorist is basically wrong. In Rothbard's view, there is generally not room for another completely different theory or viewpoint. For Rothbard, "knowledge can be and is lost as well as gained . . . paradigms and basic truths get lost, and economists . . . can get worse" (Rothbard 1995a, p. 438). Rothbard assumes that he knows truth and can recognize scientific progress. He has "a vision of the historical process as a permanent struggle between truth and falsehood, economic wisdom and blundering" (Hoppe, p. 250). Truth can be discovered and distinguished from falsehood; there is one truth; general principles can be known with certainty. For Rothbard, economics does not so much approach truth. Rather, economists tend to get, grasp, or understand truth; and then other economists tend to lose it. This is why, for Rothbard, there can be retrogression as well as progress in the history of economic thought.

When Rothbard comes to Smith's work, he finds that there is indeed a wide gulf between what Rothbard holds to be the truth and Smith's own views. Hence the

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<sup>2</sup>This has been done, and rather successfully too. See Justman's (1993) entertaining book.

ensuing harsh criticisms; and, from Rothbard's perspective, these criticisms are essentially correct.

As Rothbard correctly stresses, Smith does not believe in a subjective theory of value, nor does he follow any kind of utility theory of value. Causality for Smith runs from costs of production to consumer goods prices; it does not run from consumer valuation to consumer goods prices to the pricing of productive factors (i.e., the costs of production). Smith writes about alienated labor, and he tries to distinguish between unproductive and productive labor. Smith advocated usury laws and he "favored low and criticized high profits because high profits induce capitalists to engage in excessive consumption" (Rothbard 1995a, p. 447). Scarcity plays virtually no role in *The Wealth of Nations*. Smith emphasized long-run "natural" price. He did not use the concept of the entrepreneur (or one might say that he severely minimized the role of the entrepreneur). Smith discarded the entrepreneur as an admirable risk-bearer and forecaster; instead, Smith generally deprecated "projectors" whom he felt squandered resources through dubious ventures and excessive risk-taking.

Cost for Smith is somehow determined objectively and largely exogenously from the market. Smith does have a cost-of-production analysis which, in turn, rests insecurely upon some sort of labor theory of value. As Rothbard correctly states, "Marx was, in this matter, simply a Smithian–Ricardian trying to work out the theory of his masters" (Rothbard 1995a, p. 455).<sup>3</sup> For Smith, rent and profit can be viewed as deductions from the produce of labor. This indeed leaves "the door open for later socialists who would call for restructuring institutions so as to enable workers to capture their whole produce" (ibid., p. 456).

Smith indeed thought little of landlords, writing that they "like to reap where they never sowed and demand a rent even for its natural produce" (Rothbard 1995a, p. 456). For Smith, wages in the short run are "determined by the relative 'bargaining power' of employers and workers" (ibid., p. 459). As Rothbard points out, Smith's theory of rent is indeed a befuddled mess.

In terms of economic policy, Smith does introduce numerous "waffles" in laissez-faire policies; his championing of laissez-faire was not consistent. As Rothbard correctly notes, Smith supported the British navigation acts in the name of national defense; he was for government involvement in education; Smith was for the regulation of bank paper, including outlawing small denomination notes; Smith favored some public works; and government coinage; and government control of the post office; and he was for the compulsory building of fire walls; and the compulsory registration of mortgages; and the outlawing of the practice of paying

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<sup>3</sup> Marx (p. 104):

It was an immense step forward for Adam Smith to throw out every limiting specification of wealth-creating activity—not only manufacturing, or commercial or agricultural labor, but one as well as the others, labor in general. With the abstract universality of wealth-creating activity we now have the universality of the object defined as wealth, the product as such or again labor as such, but labor as past, objectified labor. How difficult and great was this transition may be seen from how Adam Smith himself from time to time still falls back into the Physiocratic system.

employees in kind; and other government involvements in the economy (Pack 1991, pp. 51–72; Viner, pp. 116–55; Rosenberg, pp. 19–34).

There were numerous taxes advocated by Smith. He urged higher taxes on uncultivated land, and heavy taxes on luxurious consumption to tax the indolence and vanity of the rich. Smith appeared to be for progressive income taxation. He spent the last twelve years of his life as a commissioner of Scottish customs. He was for the compulsory automatic warehousing of all imports to hurt smugglers. Smith felt that there should be a government, and the government needed taxes to support it.

As far as banking policy is concerned, Smith embraced the institution of fractional reserve banking. He praised the expansion of bank credit and money within a specie-standard framework. From Rothbard's point of view, all of the above views are serious errors, fallacies, and deviations from the truth.

Let us now consider Rothbard's methodology in a bit more detail, since that too is so different from Smith's methodology. For Rothbard, the praxeological method "is the only one that bases theory on broadly known and deeply empirical—indeed universally true—premises! Being universally true, the praxeological method provides *complete* and general laws" (Rothbard 1995b, p. 152). Praxeology "arrives at truths about the world and about human life that are absolute, universal and eternal—at least while the world and humanity last. It arrives, in short, at a system of natural laws." Economic theory penetrates "truths about human action which are absolute, unchanging, and eternal, which are unaffected by changes of time and place. Economic thought, at least correct economic thought, is itself a subset of natural laws." Hence,

the existence of human action, the eternal pursuit of goals by employing scarce means, the diversity and inequality among men, . . . apply to all of human life, at any time and place. Once articulated and set forth, they impel assent to their truth by a shock of recognition; once articulated, they become evident to the human mind. (Rothbard 1995a, p. 19)

For Rothbard, praxeological theory is "grounded on deductions from fundamental axioms so broadly empirical as to be virtually self-evident" (Rothbard 1995a, p. 19). Hence, "eternal natural truths about economic aspects of politics may be and have been arrived at" (*ibid.*, p. 20).

In contradistinction to Rothbard, Smith himself seems to have been a thoroughgoing skeptic. As the philosopher Charles Griswold points out in a perceptive essay on Smith's *Theory of Moral Sentiments*, "in theorizing about ethics Smith enacts Skepticism. He may therefore be interpreted as following out Hume's skeptical program to its limit, and perhaps as doing so more consistently than Hume did" (Griswold, p. 228). Rothbard, of course, recognizes that David Hume was a skeptic, and states that Hume's *Treatise* "was pivotal in its corrosive and destructive skepticism" (Rothbard 1995a, p. 425). For Rothbard, skepticism is the worst groundwork for individual liberty (*ibid.*; also p. 201). While Rothbard is aware that Smith and Hume were friends, he seems to be insufficiently cognizant of the depth of Hume's influence upon Smith's methodology.<sup>4</sup>

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<sup>4</sup>To acquire a real feel for the intimate closeness of the relationship between Smith and Hume, consult the relevant letters (Smith 1977).

Smith treated Newton's physics as a "mere invention of the imagination."<sup>5</sup> In Smith's view, science does not necessarily disclose truth, nor approximate reality (Pack 1993). Science for Smith seems to be largely successful stories designed to calm humans; hence, the importance of rhetoric for Smith.<sup>6</sup> Scientific theories for Smith are products of and appeal to the imagination. Unlike Rothbard, for Smith humans do not discover theories; rather, humans imagine and create them (Pack 1995, 1996b).

Rothbard is wrong in believing that "Smith retreated from the absolutist, natural-law position that he had set forth in his ethical work *The Theory of Moral Sentiments*" (Rothbard 1995a, p. 465). Again, largely following Hume, Smith basically did not utilize a natural-law or natural-rights framework. His book on *The Theory of Moral Sentiments* was an elaborate argument for why humans can get along in society and why they do indeed have morals, wrapped around his theory of "sympathy." Although a case can be made that Smith's theory of justice was partly grounded in a natural-law position—after all, Smith did write that "the rules of justice are the only rules of morality which are precise and accurate" (Smith 1976, p. 327)—Smith for the most part never used natural-rights and natural-law theory.<sup>7</sup>

Indeed, it is when we get to Smith's position on justice and jurisprudence that the differences between Smith and Rothbard become most striking. Recall that for Rothbard, "the truth, of course is . . . the state, through history, has been the main despoiler and plunderer of private property" (Rothbard 1995b, p. 334). Also, for Rothbard, "all classes live in harmony through the voluntary exchange of goods and services that mutually benefits them all" (ibid., p. 380). Rothbard feels that "modern anthropological research . . . has demonstrated that most primitive and tribal societies were based on private property, money, and market economies" (ibid., p. 312, n. 1).

In contradistinction to Rothbard, Smith's lectures on jurisprudence, particularly in the more extensive lecture notes that were first published in 1978,<sup>8</sup> display an almost Marxist quality. There Smith presents a dialectical interplay between the level of economic development of a society, which he divides into the age of hunters, shepherds, farmers and the commercial age, and a society's legal and political institutions.<sup>9</sup> Smith is barely able to say a thing about a law or legal right without first specifying the level of socioeconomic development of that society. For Smith, rights, laws, and government are all dependent upon the level of the material development of society. As the Marxist Meek (and one of the editors of the Glasgow

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<sup>5</sup>See his "The Principles which Lead and Direct Philosophical Enquiries; Illustrated by the History of Astronomy"; also his so-called "History of the Ancient Physics" and "History of the Ancient Logics and Metaphysics" as well. These latter two essays are also prefaced by the same significant title "The Principles Which Lead and Direct Philosophical Enquiries." These three essays are actually all part of one unfinished work written by the young Adam Smith. They are a key source for understanding Smith's methodology (Smith 1980).

<sup>6</sup>See Smith's *Lectures on Rhetoric and Belles Lettres* (1983).

<sup>7</sup>See the chapters on Hume, Smith, and John Millar in Haakonssen (1996).

<sup>8</sup>It is significant that Smith was originally hired at Glasgow as a professor of logic and that he gave these lectures in the logic course. He continued to teach this course as an "elective" even after he transferred to the chair of moral philosophy.

<sup>9</sup>For a study that stresses the dialectical nature of Smith's work in general, see Brown (1988).

Edition of Smith's *Lectures on Jurisprudence*, p. 16) perceptively points out, "it could very plausibly be argued, indeed, that it is in Smith's numerous remarks about the influence exerted upon the character of individuals, social classes and nations by the manner in which the people concerned get their living, about the relativity of manners and morals to time and place, and about the socio-economic determinants of political attitudes, literary styles, consumption patterns, etc., that the main similarities between his approach and Marx's are to be found."

Smith's *Lectures on Jurisprudence* are organized around a proto-Marxist four-stage theory of socioeconomic development. These lectures hold that the law and government of a society are basically dependent upon the level of economic development of that particular society. As the socioeconomic level of a society changes, its rules, regulations and governmental system will also change. This dialectical interplay between history, the economy, and cultural institutions is perhaps most clearly evinced in Smith's handling of marital relations and women, (Nyland 1933) as well as his analysis of slavery (Pack 1996a). From these jurisprudence lectures, it is clear that for Smith his *Wealth of Nations* is socially specific to what he calls the commercial stage of society (Pack 1991, pp. 119–37).

For Smith the state arises with the rise of private property and shepherd society: "The appropriation of herds and flocks, which introduced an inequality of fortune, was that which first gave rise to regular government. Till there be property there can be no government, the very end of which is to secure wealth, and to defend the rich from the poor" (*Jurisprudence*, p. 404). According to Smith, "Property and civil government very much depend on one another. The preservation of property and the inequality of possession first formed it, and the state of property must always vary with the form of government" (*ibid.*, p. 401). Smith is quite candid that "laws and government may be considered in this and indeed in every case as a combination of the rich to oppress the poor, and preserve to themselves the inequality of the goods which would otherwise be soon destroyed by the attacks of the poor" (*ibid.*, p. 208).

Hence, Smith approves of a certain amount of social stratification as necessary to any sort of post-primitive society. He approves of the role of the state, which exists largely to protect the rich from the poor. The commercial state depends upon taxation, and consequently it is not too surprising that Smith chose to spend the last years of his life working for the Scottish customs. By Smith's thought, commercial society needs the state which in turn needs tax revenues, and Smith endeavored to be a good citizen of the state. Smith was no libertarian.

It has been held that "Rothbard ranks among the great social thinkers. A system-builder, he is the architect of a rigorously consistent social philosophy" (Hoppe, p. 249). People who largely agree with Rothbard's views may want to reread their Smith. There is indeed a wide gulf between the thought of Smith and Rothbard. In my opinion, Rothbard is essentially correct, astute, and honest in recognizing and emphasizing the size of the distance separating his thought from that of the iconic Adam Smith.

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