

## THE SMITHIAN ECONOMIC THOUGHT: A SYNTHESIS OF EARLIER ECONOMIC VIEWS

**Anwana, E. O.**

*Accountancy Department*

*Akwa Ibom State Polytechnic, Ikot Osurua, Ikot Ekpene, Nigeria*

*E-mail: eddy.anwana@yahoo.com*

### ABSTRACT

*Adam Smith, the father of modern economic thinking and great philosopher was born at a time when knowledge was presumed original if many people accepts the ideas brought out of a publication, this idea neglected the numerous backgrounds the authors might have borrowed from. For instance, Smith, described as the father of Economic thought, portray him as the originator of economics both as a science and as a field of study. This assertion is not true as this study has shown that Smith's Economic thoughts were synthesis of all the schools of economic thoughts before him, he borrowed from earlier thoughts, from the time of Plato-Aristotle, the scholastics/medieval school, the mercantilists through to the Physiocrats and the Pre Classicists, the era immediately preceding Smith's Classical era. Though Smith had made tremendous contributions to economic reasoning, his thoughts were nonetheless original as portrayed by many, his philosophy was hinged on the philosophical systems of his predecessors of which he promoted the relevant ones which suited the framework of his philosophy, credit should thus be given to all those he got his ideas from, however, this is not to say that Smith's influence of thought should be underestimated. This study therefore is aimed at reviewing the Smithian economic thoughts as a synthesis of earlier economic views.*

**Keywords:** *Economic thought, Adam Smith, synthesis, classical school*

### INTRODUCTION

Adam Smith (1723 - 1790) has been variously described as: the brilliant founder of the classical school (Oser and Blanchfield, 1975); the true founder of economic science (Gide and Rist, 1948); an institution in the history of economic thought (Bhatia, 2006); the father of modern economic thinking; the great philosopher (Essia, 2001), etc. He was a Professor of Logic at University of Glasgow from 1751, lectured and had a chair on moral philosophy in 1751, authored many books including "The Theory of Moral Sentiments" (1759) and the very popular "An Inquiry into the Nature and Causes of the wealth of Nations" (1776). A personal friend of David Hume, Francois Quesney and Anne Robert Jacques Turgot, he was a private teacher to the grand son of Charles Townsend, the Chancellor of the Exchequer, a traveler and a Commissioner of Customs at Edinburgh.

Smith was born in Kirkaldy, Scotland to a Comptroller of Customs, Douglas Smith and Margaret Smith. The father died before Smith was born and the mother took care of him till she died at 90 years. Smith was educated at Glasgow College, Balliol College, Oxford, University of Oxford and his work 'An Inquiring into the Nature and Causes of the Wealth of Nations' shot him into great limelight and wrote his name in the history of great thinkers.

Oser and Blanchfield (1975) who attributed the beginning of the classical school of economic thought in 1776 to the publication of Adam Smith's great book said there were of course advanced economic thinkers before Smith, who influenced his thinking, but did not detract from the fact the tremendous contributions Smith made to the subject. Bhatia (2006) opines that though Adam Smith's main work, the *Wealth of Nations* is surely a classic of great historical interest, claim should not be that Smith was all original, even though he had only a limited originality, there is still a freshness of logic, reasoning and presentation.

In evaluating Adam Smith, Bhatia (2006) said that though the *Wealth of Nations* was the cornerstone of economic science, the work was a synthesis of existing ideas, those who were before him prepared the way for him, those who came after, carried on his work to build upon the foundation he laid and correcting the errors he made. Smith's philosophy was hinged on the philosophical systems of his predecessors of which he promoted the relevant ones which suited the framework of his philosophy, this is not to say that Smith's influence of thought should be underestimated. To appreciate the reliance of Adam Smith's economic thoughts on the ideas of his predecessors, each of these schools and their contributors are considered below in relation to Smith's views.

### **EARLIER ECONOMIC VIEWS**

Plato (427 - 347 BC) in his work "The Republic and the Laws" identified land to be the chief source of income while material goods are to be held in common. His economic philosophy centered on division of labour and specialization. He notes the various needs of man and their different abilities in different occupations and points that man should concentrate and specialize in those things for which their capacity is naturally endowed. Also, Plato viewed man as a rational being in a rational world and linked this to a perfect state. From here one can say that Smith got his idea of land's usefulness, theory of value, division of labour, specialization and rationality of men from Plato, even though he did not use them in their crude form.

Aristotle (384 - 322 BC) considered a commodity in two perspectives: when it serves to satisfy direct need and when it serves to satisfy indirect need. From here he identified certain values: value in use and value in exchange. He saw money as a medium of exchange, a unit of account and a store of value. The Aristotelian distinction between value in use and value in exchange was deepened and developed into a fragmentary but genuine subjective or utility theory of exchange, value or price by the scholastics who adumbrated with unmistakable clearness of the theory of utility which they considered as the source or cause of value. This can however, be linked to Smith's theory of value, and his perception of money as a medium of exchange.

According to Schumpeter (1954) the first five chapters of Adam Smith's *Wealth of Nations* are but developments of the same line of reasoning of Aristotle, who based his economic analysis squarely upon wants and their satisfactions; starting from the economy of self-sufficiency households to the introduction of division of labour, barter and as a means of overcoming the difficulties of direct barter, money.

## **THE SCHOLASTIC SCHOOL**

The scholastic school of economic thought was fathered by St. Thomas Aquinas (1225 - 1274). According to Schumpeter (1954), the economics of the scholastics absorbed all the phenomena of nascent capitalism and, in consequence, for the fact that, it served so well as a basis of the analytical work of their successors including Adam Smith. For example, Oresmus' treaty on money is usually described as the first treaty entirely devoted to an economic problem.

St. Thomas developed the theory of property where he argued that property is not against natural law but an invention of the human reason which is justifiable because people will take better care of what they possess for themselves than of what belong to many or all, this later developed to the harmony of interest of Adam Smith. It was within the scholastics' system of moral theology and law that economics gained definite, if not, separate existence and is they who came nearer than does any other group to having been the founders of scientific economics. The basis they laid for a serviceable and well integrated body of analytical tools and propositions were sounder than was much subsequent works and later works were developed on those bases, including Smith's works.

As regards money, the scholastics, reasoning on Aristotelian lines, presented to man a strictly metallic theory of money which, in fundamentals, did not differ from that of Adam Smith, there was the same genetic or pseudo-historical deduction from the necessity of avoiding the inconveniences of direct barter, the same conception of money as the most saleable commodity, and so on.

They contributed to the theories of two types of income, business profits and interest. The risk effort theory of business profit is undoubtedly due to them. In particular, de Lugo, following the suggestion of St. Thomas described business profit as "a kind of wage" for a social service. No less certain is it that they launched the theory of interest. They contributed to the concept of natural law through Aristotelian and Roman jurists. These, Adam Smith used variously in his works.

## **THE MERCANTILISTS**

William Petty (1623 - 1687) contributes in the area of tax, the poll tax and import tax, and from his treaty of taxes and contribution, arrived at the primitive theory of rent where he analyzed rent as a surplus from land, this Adam Smith developed further. Petty pointed out the economics of division of labour and proposed that labour is both the source and measure of value, production is the result of cooperative effort on the part of labour and gave a detailed account of division of labour taking the example of manufacture of watch, the same as Adam Smith did but using the manufacture of pin. Just as Smith later did, Petty, from the analysis of division of labour identified the advantages of the system and from there developed the theory of value.

As Smith, Petty emphasizes the gain from manufacturing (industry) and in his "Political Anatomy of Ireland" (1691) he reflected on human capital, described art, as distinct from simple labour and emphasized on production rather than on exchange, here Adam Smith may have gotten his idea of productive and unproductive labour. Petty

developed the labour theory of value and said that labour is the father and land is the mother of wealth, the same facts adumbrated by Smith in his Wealth of Nations. Petty's groping for a theory of value that determines price initiated a new line of reasoning, his ideas were to be extended and improved by economists who followed and his ideas anticipated those of Adam Smith (Oser and Blanchfield, 1975).

Thomas Mun (1571 - 1641) took a very realistic stand that the wealth of a country consists and originates from a natural resource on the one hand and the skill and labour of the people on the other, the same view held and expanded upon by Smith. Mun also contributed to the theory of money and interest and held the view that money supply trade and commerce go together. Johannes Heinrich Gottlob von Justi (1717 - 1771) enumerated in his system "des Finanzwesens" (1766) the six cannons of taxation which are very close to what Adam Smith had to say in his Wealth of Nations in 1776. Jean Bodin (1530 - 1596) was the first to formulate the quantity theory of money in crude form in 1560s as his first attempt to explain the causes of inflation in Europe, from which Smith borrowed.

### THE PHYSIOCRATS

According to Bhatia (2006), physiocracy which arose due to discontent of the people with Colbertism expounded the various views of a handful of the physiocrats, among whose views were those of Pierre Boisguillebert, that the wealth of a country does not consist in precious metals but in goods, social harmony to him is a precondition for proper and adequate production for the goods. Marshal Vauban went a step further from Boisguillebert to say that not trade but labour is the source of all wealth, these are no doubt the views shared by Adam Smith in his Wealth of Nations.

To the Physiocrats, people acted to maximize their pleasure and minimize their pain, to them the level of prices was set by natural law, so, they favoured free market. This natural law which determines the level of prices was called by Adam Smith the invisible hands and was later developed by Alfred Marshal as the law of demand and supply. Francois Quesnay (1694 - 1744) argued that the level of prices should be set by natural laws; he favoured free market mechanism from whom Adam Smith borrowed from. Like Adam Smith and other classicists, the physiocrats advocates minimum government interference in the operation of the economy.

Vincent de Gournay (1712 - 1759) is credited with uttering the famous phrase from where classicism was rooted in *laissez faire, laissez passer* meaning freedom of business enterprise at home and free trade abroad. For the Physiocrats, government interference stifles production and does not allow for experimentation and improvements of production methods or changing consumers tastes. A corrupt and extravagant government made equitable enforcement of the rules impossible, the growth of business enterprise and increasing competition made such rules unnecessary.

Quesnay's development of the *Tableau Economique* laid the foundation for the circular flow of goods and money in an ideal freely competitive economy. It was the first systematic analysis of the flow of wealth on what later came to be called a macroeconomic basis. Oser and Blanchfield (1975) notes that economists such as Adam Smith, who

favoured the description of economic activity in terms of large aggregates, paid tribute to Quesnay for originating this approach. This approach also laid the foundation for the concept of general equilibrium of whom Adam Smith treated. It is also noted that Smith's theory of income and distribution which analyzes how wages, profits and rents are determined was a systematic and comprehensive theory based on the theory of the Physiocrats, though far superior to it.

***Pre - Classicists:*** Smith's philosophy borrows greatly from the philosophical systems of his immediate predecessors, for example, the presence of an invisible hand or a guiding force to Hobbes was leading to a perpetual conflict and had to be replaced by the state intervention. In Hutcheson and Hume, it was providing a benevolent guidance, and Smith modified the basis and operations of the invisible hand, to him, it is not the benevolent, altruism, or anything like that which brings about a harmonious state of affairs. Every one acts according to his self interests but that self interest itself leads to the benefit of both the individual and society. John Locke (1632 - 1704) developed the idea that everyone acts to satisfy his own wants rather than for the good of society, this idea was adopted by Adam Smith who used it in his recommendation that consumers should be free to demand what they choose and that the producers should be free to produce what was being demanded.

Richard Cantillon (1685 - 1734) ideas gave impetus to Smith's, for example, Cantillon proposed that land is the source of wealth and it is produced with the power of labour that works on it from where Smith professed that the annual labour of every nation is the source of all the national produce. David Hume (1711 - 1776) is said to not only have personal discussions but also influenced the thinking of Adam Smith. Of all the forerunners of classical economist, Hume came closest to the ideas of Smith, Hume like Cantillon accepted the quantity theory of money, analyzed the mechanism of international equilibrium that would operate without government intervention.

## CONCLUSION

Adam Smith's works and ideas were not totally original, rather, he was a great synthesizer of existing ideas of the time and also the promoter of the relevant ideas which suited the framework of his philosophy. This, however, is not to underestimate the influence of Smith's thought. So, one can then say that Adam Smith formed the cornerstone of economic science through his *Wealth of Nations*. Though Smith drew most of his facts from other scholars, yet his contributions in emphasizing and expanding the thinking of those scholars in a much broader and clearer scope worth sincere commendation. It must also not be underestimated that most of his contributions were practical experiences from the application of certain theories of economics. Therefore, in which ever way one may look at it Smith made some meaningful and reasonable inputs to existing knowledge. Those who went before, prepared the way for him, those who came after, carried on his work, either building upon the foundations of his thoughts, or endeavouring to correct his errors. This is the mechanics of knowledge.

The inquiry which Quesnay originated was pursued, and with greater success, by Adam Smith. Smith was superior to Quesnay, and perhaps to every writer since the time of Aristotle, in the extent and accuracy of the knowledge. Adam Smith was to integrate the micro and macro aspects of economic theory in his great work. His breadth of view and catholicity were notable, taking in most of what was best in English and French economic thoughts, he gave political economy a definition and distinct content that it had lacked. He brought labour and capital into prominence, along with the land factor emphasized by the Physiocrats. His discussion of value was a marked advance over those of any of his predecessor. Smith in this way introduced a new approach to look at the economy in which production was being carried out, not for self-consumption but for the market.

His main originality lay in conceiving and pursuing this approach on the basis of which he was able to develop the value economics in which even the distribution became an extension of the pricing system in the market as applied to the factors of production. Smith's ideas were highly lucid and convincing, his arguments were supported by facts and the conclusions drawn from the factual information come close to the pure theories. He was able to put forth a comprehensive view of the economy as compared with the fragmented ones laid by others. He was able to maintain a logical totality in his statements in spite of such a vast coverage of both theory and economic history.

Smith made a significant advancement upon the Physiocratic views by asserting that it was labour which was the source of wealth in an economy, though it was not a complete truth, it was a major step in the right direction. Smith laid the foundation of many future theories and analytical fields. His contributions to the fields of public finance, population, trade and commerce, labour theory of value, distribution, capital and economic growth cannot go unnoticed in the history of economic thought. If therefore he is described as the father of modern economic science, there is no doubt about it as he was able to synthesis earlier economic views and make them much more real and practicable.

## REFERENCES

- Bhatia, H. L.** (2006). *History of Economic Thought*. (Fourth Rev. Ed.). New Delhi: Vikas Publishing House PVT Ltd.
- Eskor, T.** (1994). *Current of Economic Thought*, Economics Department, University of Calabar, Unpublished.
- Gide, C. and Rist, C.** (1948). *A History of Economic Doctrines* (Second Eng. Ed). New York: Georg G. Harrap and Co.
- Oser, J. and Blanchfield, W. C.** (1975). *The Evolution of Economic Thought* (Third Edition). New York: Harcourt Brace Jovanovich Inc.
- Schumpeter, J. A.** (1954). *History of Economic Analysis*. New York: Oxford University Press.
- Essia, U.** (2001). *The Evolution of Economics as an Academic Discipline*, *Ecojournal: Economics Department*, University of Calabar, Nigeria.