

SMITH AT 300: USELESS COMPANIES

BY
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“Though such companies may not, in the present times, be very oppressive, they are certainly altogether useless. To be merely useless, indeed, is perhaps the highest eulogy which can ever justly be bestowed upon a regulated company.”

An Inquiry into the Nature and Causes of the Wealth of Nations V.1.e:735.
Additions and Corrections to the First and Second Editions ... of the Wealth of Nations
(London, 1784), p. 51

This observation is from an obscure backwater of the *Wealth of Nations*. It is about companies that were archaic even in 1776: the Russian Company, the Eastland Company, the Hamburg Company, chartered in Britain in the sixteenth century, and trading mainly in the Baltic. But the comments on regulated companies are a revealing epitome of Adam Smith’s thought. There is the artful language, and one can almost hear Smith’s ironic tone as he dictated these sentences. There is the analytic idiom, so characteristic of the *Wealth of Nations*, in the juxtaposition of large theories with the details of legal and economic history. There is, above all, the subject, which is also the largest object of inquiry in the *Wealth of Nations*, or the changing relationship between states and markets.

Smith’s comments on regulated companies came in one of the most carefully constructed sections of the *Wealth of Nations*, the *Additions and Corrections* that he published as a slim separate volume in 1784. The comments were incorporated, in later editions, within section V.1.e of the *Wealth of Nations*. But the *Additions and Corrections* has a distinctive identity. It begins, audaciously, “Wealth, as Mr Hobbes says, is power.” Its largest subject is the state, and the efforts by merchants to manipulate state power. Léon Walras was not entirely wrong, in 1874, when he criticized Smith for being excessively concerned with the state; “political economy is something other than what Adam Smith says it is” (Walras 1874, p. 5).

Of the (many) misuses of Smith’s thought since 1776, the most egregious has been the presumption that he invented “modern economics” by “discovering” the “market.” Smith has been eulogized, in particular, for having divided the world into two realms, the market and the state. (This was the title of a bicentenary celebration in 1976.)¹ But his

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¹ Wilson and Skinner (1976); Cairncross (1976, p. 113).

economic thought was concerned with almost the opposite, or the ways in which particular markets (or merchants) influence particular states, and particular states (or parts of states) influence markets.

Regulated companies, in Smith's sense, were defined as companies that had been given special powers by the state to develop a particular form of commerce that was considered to be of public importance. Smith was much less critical of regulation in general, although it is interesting that regulations could, in his view, be private as well as public; he notes, in the same passage, that the protected companies were themselves accustomed to subjecting their competitors "to many burdensome regulations" (Smith [1776] 1976, p. 734).

The market, in turn, was no more than a far-off idyll. "To expect, indeed, that the freedom of trade should ever be entirely restored in Great Britain, is as absurd as to expect that an Oceana or Utopia should ever be established in it," Smith wrote of the "overgrown standing army" of "furious and disappointed monopolists"; "not only the prejudices of the public, but what is much more unconquerable, the private interests of many individuals, irresistibly oppose it" (Smith [1776] 1976, p. 471).

It was the dynamic tension between private and public interests, over time and space, that was the central drama of the *Wealth of Nations*. Individuals sought to pursue their (economic) interests by influencing regulation, and government officials sought (private) advantage in the course of their public duties. This was the drama of the parish wardens with their local power over the poor, and of the Members of Parliament whose "counsellors are always the masters"; of the statesmen who long for a "reputation of understanding trade," or who favor "the great roads, the great communications which are likely to be the subjects of conversation ... in the capital"; of the excise officers who "contract a certain hardness of character" and the East India Company servants who are engaged in "the pleasure of wasting, or the profit of embezzling" (Smith [1776] 1976, pp. 157, 471, 730, 753, 899).

The *Wealth of Nations*, as much as the *Theory of Moral Sentiments*, is a work of extraordinary psychological subtlety, and the drama of markets and states is played out in thousands of detailed episodes. Jean-Baptiste Say's observation of 1803—that Smith's descriptions of laws and institutions were "lacking in interest for anyone other than the English"—missed the cumulative impact of Smith's micro-histories, and the extent to which they constitute the medium in which his macro-theory of economic life unfolds (Say 1803, vol. 1, p. xxv). Smith was indeed a highly abstract thinker who thought in stories and whose invention of modern economics is also the discovery of the modern public-private economy.

To see Adam Smith in his own historical context is to see the importance of his ideas for our contemporary troubled times. The influence of states on markets has ebbed and flowed over the entire economic history of the past three centuries. But Smith's tri-centennial year of 2023 is a time of intense interest in the economic role of the state, in relation to the twin crises of worldwide economic crisis and climate change. These crises are not ones that can be understood within a vast dichotomy of the market versus the state. They are even oddly evocative of Smith's own times, including in relation to more or less regulated companies, within the so-called green economy, or to conversations about "great roads and great communications." The history of economic thought, now, is an permissive, eclectic subject, open to histories of low economic thought, to legal

history, and to economic history. It is a history that can illuminate who Adam Smith really was, and why he is so important today.

COMPETING INTERESTS

The author declares no competing interests exist.

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