# Adam Smith's Theory of the Persistence of Slavery And its Abolition in Western Europe

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## Abstract

Adam Smith made two positive claims about slavery in the context of developing economies. First, Smith explains that slavery is in general highly inefficient. By his account, the net product under freedom is 12 times larger than under slavery. Second, he observes that, despite its inefficiencies, slavery persists in most of the world. Taken together, these claims create a *fundamental puzzle*: Why do elites – owning slaves and holding political control – fail to make themselves better off by freeing their slaves?

Smith gives two very different answers to this puzzle. The first is psychological. Smith asserts that people have a fundamental desire to dominate others, and slavery provided that opportunity for slaveholding elites. The first explanation is the most commonly advanced in the literature. Yet no where else does Smith use the assumption of domination. This explanation therefore seems ad hoc.

I favor instead Smith's second explanation. This argument, far less known, involves commitment problems. Freeing the slaves would deprive slaveholders of their property. How would they be compensated? In principle, a long-term compensation scheme could solve this problem. But in the undeveloped societies Smith discusses, such as feudal Europe, long-term contracts were difficult to enforce. Indeed, I show that both parties to the long-term compensation scheme had incentives to dishonor it. In the presence of commitment problems, masters could not be assured they would, in fact, be better off freeing their slaves. Slaveholders therefore rationally avoided emancipation despite its inefficiency

## 1. Introduction

Smith forcefully argued that slavery was highly inefficient, implying that freeing the slaves was Pareto improving: both slaves and their masters could be made better off without slavery. Yet Smith also observed that slavery was abolished only in Western Europe, a small "corner" of the world.

Smith's view presents two puzzles. First, if slavery was so inefficient, why did it persist around the world and in Western Europe through the feudal period? Second, how was slavery abolished in Western Europe?

The purpose of this paper is to use modern tools from economics and political science to understand Smith's approach to slavery and his answers to the puzzles. In brief, Smith provides two answers to the first puzzle. He first offers a psychological explanation, arguing that people, masters in particular, have a "love of domination" (*LJ*(A) [2] 114:186). Even though slavery is economically inefficient, masters in effect indulge their preferences for domination. Most scholars in the modern literature take this perspective as Smith's explanation (see, for example, Brown 2010, Griswold 1999, 199-201; Pack 1991,130-31).[3]

Smith's second argument, which occurs on the page following the first argument (*LJ*(A) 116:187), involves difficulties with compensating the lords who owned the slaves. Abolition would eliminate the stream of payments reaped by the lords from their slaves. How would masters be compensated for emancipating their slaves? As the elites holding power, masters were likely to block any form of explicit abolition that failed to compensate them. Since slaves had no assets or savings, they could not buy their freedom outright. A compensation scheme would therefore have involved a form of a long-term contract. This time dimension creates (using modern language) a double-sided commitment problem: what prevents the former slave from escaping before paying compensation? What prevents the lord, who typically held a local comparative advantage in violence, from reneging after payment has been made? The difficulty

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[2] Abbreviations are listed at the beginning of the references.
[3] Gary Becker (1957) made a similar argument with respect to discrimination against minorities, the American South in particular.

of solving these problems suggests that both sides would be wary of abolition that involved compensation over time.

In modern, developed economies, the judicial system enforces contracts and the rule of law more generally, affording credible solutions to double-sided commitment problems. The legal system enforces long-term contracts.[4] But most of the economies Smith discusses, such as medieval Europe, lacked a functioning system of justice and the rule of law. This absence meant that the methods available in modern, developed system to solve the commitment problem were unavailable in the societies Smith discusses. Absent a means of compensation, slaveholders in these societies rationally avoided abolition.

This paper proceeds as follows. Section 2 interprets Smith's argument about inefficiency in terms of the modern economics of slavery, as developed in the new economic history (Fogel and Engerman 1974a, Goldin 1973, Wright 1978, 2006). In section 3, I discuss at greater length the two arguments made by Smith as to why, despite inefficiency, slavery persists. A simple game theoretic argument reveals the logic of the commitment problems hindering emancipation. Section 4 analyzes Smith's explanation for the abolition of slavery in Western Europe. In section 5, I draw on Smith's arguments about political development in general to suggest that he had the means to provide a third explanation for slavery's persistence, another form of commitment problem. Section 6 discusses Smith's argument for why slavery is worse in democracies than monarchies. My conclusions follow.

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[4] For this reason and because of the productive efficiencies of the gang labor system, slavery in the context of the United States differed from the contexts studied by Smith.

## 2. The Smithian Economics of Slavery

Smith's argument about slavery reported in the notes on his *Lectures on Jurisprudence* (*LJ*(A))

begins with an examination of incentives and the inefficiencies of slavery.

> The slave or villain who cultivated the land cultivated it entirely for his master; whatever
> it produced over and above his maintenance belonged to the landlord; he had therefore no
> inducement to be at any great expense or trouble in manuring or tilling the land; if he
> made it produce what was sufficient for his own maintenance this was all that he was
> anxious about. The overseer perhaps by a hearty drubbing or other hard usage might
> make him exert himself a little farther, so as to produce from the farm a small portion for
> the landlord; but this would not be very great, and accordingly we see that a farm which
> yielded 1/6 part of the produce to the master was reckoned to be tollerably well
> cultivated. [*LJ*(A) 112-13:185-86]

Smith contrasts the lack of incentives for production under slavery with a free farmer who pays a

fixed rent to the landholder:

> [A]s the free tenant pays a stated rent to the master, whatever he makes the farm produce
> above that rent is intirely his own property, and the master can not exact as he could from
> the ancient villains or slaves exact, any part they have saved above the rent, what they
> had saved out of the part allowed for their maintenance. This gives them much greater
> spirit and alacrity for their work; they will then be at expense to manure and improve
> their land, and will soon bring it to that degree of cultivation as to be able to pay 1/3 part
> to their masters and nevertheless have a much better as well as a more certain livelyhood
> out of the remaining two thirds; and whatever they produce above that, which is supposed
> to be about 1/3 of the produce, is altogether their own. Such a manner of cultivation is
> therefore far I preferable to that by slaves, not only to the servants but even to the master.
> [*LJ*(A) 113-14:186]

As the above passage attests, Smith concluded that free tenancy was vastly superior

economically to slavery. Using the quantities Smith's provides above about production and

translating Smith's arguments into modern economics, we have the following specific

conclusions about production and inefficiency.

- Slavery forces slaves to live at the subsistence level and no more. As Smith asserts, the
  production "over and above his maintenance belonged to the landlord." Let $S$ be the
  subsistence level necessary to keep the slave alive. As Smith reports, "a farm which

yielded 1/6 part of the produce to the master was reckoned to be tollerably well cultivated." This implies that total produced from the land is $\frac{7S}{6}$, $S$ to the slave for his maintenance plus an additional 1/6 to the landlord.

- Under free tenancy, total production is *3S*. The free tenant pays 1/3 of the total, or *S*, to the landlord. He keeps *S* for his maintenance, with the final *S* goes to the tenant for his own use. This yields a net product of *2S*.

- The ratio of net production of free tenancy vs slavery is *12:1*; i.e., *2S* vs. $\frac{1}{6}S$. The gross product rises by a factor of more than 2.5: i.e., *3S* vs. $\frac{7S}{6}$.

From this discussion, we infer that free tenancy is a Pareto improvement over slavery.

Because free tenants face superior incentives, they produce so much more than slaves. According to Smith's figures, everyone should be better off under free tenancy. In the terms expressed by Smith, the surplus captured by the landlord would increase by a factor of six (*S* vs. *S/6*) under free tenancy; and the return to the tenant rises from *0* under slavery to *S* under free tenancy, a huge increase above subsistence.[5]

## 3. The Puzzle: Why Did Slavery Persist?

The inference that freeing the slaves is Pareto superior to slavery raises an obvious puzzle: why did slavery persist?

In the course of two long and complex paragraphs, Smith gives two very different answers to this question. Smith's initial answer is the "love of domination":

Notwithstanding of these superior [of] advantages [of free labor] it is not likely that slavery should be ever abolished... tho as I have here shewn their real interest would lead

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[5] *N.B.*, Smith assumes that the production technology is identical under slavery and freedom. In contrast, the gang-labor system in the Antebellum American South differed considerable from the tenant farming system that arose following the Civil War and the abolition of slavery. The gang labor system made slavery more productive than the alternatives for certain crops (Forgel and Engerman 1974). Therefore, Smith's arguments do not apply to slavery in the antebellum United States.

them to set free their slaves and cultivate their lands by free servants or tenents, yet the love of domination and authority and the pleasure men take in having everything done by their express orders, rather than to condescend to bargain and treat with those whom they look upon as their inferiors and are inclined to use in a haughty way; this love of domination and tyrannizing, I say, will make it impossible for the slaves in a free country ever to recover their liberty.[6] [*LJ*(A) 114:186]

Smith's second answer involves a commitment problem involving whether masters could

reasonably expect to be compensated for their loss of slaves. In Smith's words,

> In all countries where slavery takes place[s] the greatest part of the riches of the subjects consists in slaves. If he is possessed of a land estate the whole management of it is carried on by the slaves; without them there can be nothing done; they work and till the ground, and practise every thing else that is necessary to the cultivation of the land or the support of their master. [*LJ*(A) III.115:187]

> The power of the great lords consisted in their vassalls and their villains. The whole of the land at this time was … cultivated by villains or slaves. [*LJ*(A) III.118:187-88]

Smith then raises the compensation problem:

> To abolish slavery therefore would be to deprive the far greater part of the subjects, and the nobles in particular, of the chief and most valuable part of their substance. This they would never submit to, and a generall insurrection would ensue. For no single man ever had or possibly could have power sufficient to enable him to strip his subjects in that manner. If he set a slave at liberty this was robbing his master of the whole value of him. This therefore could never take place. This institution therefore of slavery, which has taken place in the beginning of every society, has hardly any possibility of being abolished. [*LJ*(A) III.115-16:187]

Smith makes several arguments in this long passage detailing his second argument for the

stability of slavery. He explains that slaves are valuable assets. For even "tolerably" wealthy

landowners, "the greatest part of their wealth will consist" in slaves.[7]

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[6] Smith repeats the "love of dominance" thesis a few pages later, at [*LJ*(A) 129:192]; and again in his discussion of this topic in *WN*: "The pride of man makes him love to domineer, and nothing mortifies him so much as to be obliged to condescend to persuade his inferiors. Wherever the law allows it, and the nature of the work can afford it, therefore, he will generally prefer the service of slaves to that of freemen." [*WN* III.ii.10:388]

[7] Smith also asserts that every subject – meaning the entire elite – had slaves. Moreover, a "man of a considerable estate would have some thousands of slaves upon it, and the meaner sort in proportion, but allmost

**Slaves as assets**

I draw on both standard works on slavery in the "New Economic History" or NEH (see, e.g., Fogel and Engreman 1974a,b; Golden 1973, Wright 1978, 2006) and on recent insights from the theory of organizations/ institutions to interpret Smith's logic in this paragraph.

Slaves generate a stream of produce for their masters. Using the quantities that Smith provides, each slave produces an annual surplus of *S/6* over and above that required for his own maintenance (that is, *S*). The market value of a slave, *V*, is the discounted present value of the stream of slave's net produce.

To calculate *V*, let *0 ≤ δ ≤ 1* be the discount factor, a measure of the difference between receiving a payoff of one today versus a payoff of one tomorrow. We then have:

$$V = \sum_{t=0,\infty} \delta^t [S/6] = \tag{1}$$

$$S/(6(1-\delta)). \tag{2}$$

Equality (1) says the following. The slave produces a net value for his master of *S/6* in every period. Because the value of receiving *S/6* this year is higher than today's value of the receipt of *S/6* next year, we discount next year's receipt of *S/6* by *δ* where *0 ≤ δ ≤ 1*. This implies that today's present value of receiving S/6 *next* year is *δ(S/6)*. Similarly, the receipt of *S/6* in *t* years from today is *δ^t[S/6]*. Hence, summing up the present value of the slave's production for every year, *t*, and discounting year t by *δ^t*, yields *V*, the discounted present value of the slave to its owner. In economies where slaves are freely bought and sold, the market price of a slave is V.[8]

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every one if the country be tollerably wealthy will have some slaves; and in them the greatest part of their wealth will consist." [*LJ*(A) III.115-16:187]

[8] The NEH literature on slavery adds an additional level of complexity, allowing different types of slaves to have different values (for example, children, prime field hands, women of child-bearing ages); I ignore this complexity, though it could easily be added.

Algebraic manipulation allows us to simplify the value of *V*, as represented in the fraction in expression (2). Notice that the larger is $\delta$, the larger is *V*. For example, if $\delta = .95$ (corresponding to a modest discount of next year of 5% and hence a long view of the future), then *V = 10S/3*. If instead the discount factor is lower, say $\delta = .75$ (corresponding to a large discount of next year 25%, more highly discounting the future), then *V = 2S/3*.

These examples illustrate the main results. The discount factor significantly affects the present value of a stream of income produced by an asset – in this case, a slave.[9] In stable, commercial environments without violence, the discount factor is likely to be quite high (corresponding to low interest rates). But in less stable environments with significant violence, discount factors are much lower (corresponding to higher interest rates). The calculations just made illustrate the effect of this different in environments. In stable commercial environments with high discount factors (e.g., $\delta = .95$), the value of the asset is five times higher than in an unstable environment with the threat of violence (e.g., $\delta = .75$).

## The compensation problem

Taking the productivity factors mentioned by Smith, freeing the slaves improves their total output by a factor of 2.5 and their net product by a factor of 12. Let's assume that in feudal Europe landholders qua slaveholders represent the political elite and have a veto over any major change, such as abolition.

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[9] That is, $\dfrac{\partial V}{\partial \delta} > 0.$

Two conditions must hold for the elites to favor abolition. First, as noted, the total surplus must be sufficiently large to make the elite better off. Second, slaveholders must believe they will, in fact, be better off under emancipation. In other words, for an individual master to favor abolition, he must expect to receive at least $V$ for each slave he frees. If the slaves are freed without compensating masters, masters will be worse off, not better off. Because uncompensated emancipation makes slaveholders worse off under abolition, they, as the elite, will block it. The last quote from Smith explains this problem: "To abolish slavery therefore would be to deprive the far greater part of the subjects, and the nobles in particular, of the chief and most valuable part of their substance. This they would never submit to." [*LJ*(A) III.116:187] Moreover, Smith observes, "This institution therefore of slavery, which has taken place in the beginning of every society … has hardly any possibility of being abolished." [*LJ*(A) III.116:187]

### Long-term compensation schemes

An alternative to immediate and uncompensated abolition of slavery involves a compensation scheme whereby the freed slave works for a number of years, pays compensation to the master, and is then free when the compensation totals an agreed upon price, $P$, where $P \geq V$.[10] Abolition in this scheme is a type of long-term contract.

Long-term compensation schemes in less-developed contexts, such as a feudal Europe, are fraught with commitment problems. Each side would rationally worry that the other would renege in some way. In the feudal environment with only a rudimentary government and no

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[10] Golden (1973) studies the economics of compensation schemes in the American context (see also Fogel and Engerman 1974b). American law combines with a working judicial system to make the antebellum American context considerably different from those Smith studied.

independent judiciary, contract enforcement could not rely on third parties enforcement of

contracts.

> The government in the first stages of society is as I said[11] very weak, and can not
> interpose much in the affairs of individualls. Government is far advanced before the
> legislative power can appoint judges at pleasure, as is now the case in Britain where the
> king can appoint any one a judge he pleases who is a lawyer by profession, and for the
> lower judiciall offices any one he pleases. This could not be done in an early society. The
> people would not submit themselves in that manner. The government therefore would
> find it necessary to take advantage of the superiority and authority of certain persons who
> were respected in the country and put the judicial power into their hands. Jurisdictions
> were in this manner established, and the same cause made it necessary to strengthen the
> hands of all private masters of families. [*LJ*(A) III.116-17:187]

Smith makes two points in this paragraph. First, most of the societies with slavery are

insufficiently developed to have a judicial system capable of enforcing the rule of law.[12] Second,

more subtly, the local lords not only ruled their domain, but served as its judge, including matters

in which the lord had a direct interest.

Consider in this context the commitment problems associated with the freed slave. First,

the freed slave's commitment problem. If set free, former slaves would have little incentive to

stick around. Slaves have no love for their masters. If left to their own cognizance, they will be

tempted to leave without paying their debt, perhaps migrating to another region with better

opportunities. Setting the slaves free, granting them rights to make investments, accumulate

wealth and property, all increase a free man's mobility. But if the former slaves leave, masters

will fail to recoup the value of their property.

Second, Lords also faced a commitment problem. In combination with their vassals, lords

commanded the lion's share of the local violence potential. Nothing prevented the lord from

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[11] Editors here cite *WN* ii.95,152; iii.7, pp, respectively: 106, 129, 143.
[12] Smith does not say so, but his logic implies that the 18th century slaveholding European colonies differed from the slaveholding societies he discusses because of the European colonies had advanced judicial systems.

reneging on the emancipation agreement, re-enslaving the formerly freed slave after having collected their compensation. The absence of a judicial system, in combination with the absence of rights for slaves, meant that freed slaves had no means of enforcing the compensation-for-freedom exchange with their lords.

## Modeling the Commitment Problem as a Game

To make the logic of the commitment problem more transparent, I consider a simple game involving the possibility of emancipation and compensation. The game involves two players, Masters (M) and Slaves (S). M has the first move and must decide between maintaining the status quo or freeing the slaves subject to a long-term compensation whereby the slaves agree to compensate the masters for their freedom over a period of several years (see figure 1). If M chooses the status quo, the game ends; I label this outcome D. If M chooses to enter an agreement for compensated emancipation, S has the next move and must decide between honoring the compensation agreement or absconding with his freedom. If he absconds, the game ends; I label this outcome C. If S decides to honor, then M has the choice of honoring S's freedom or, as the player with a comparative advantage in violence, it can re-enslave S. If M chooses to honor, the outcome is A; if it chooses to re-enslave, the outcome is B.

The preferences of the two players are given in the table:

|   M   |   S   |
|-------|-------|
|   B   |   C   |
|   A   |   A   |
|   D   |   D   |
|   C   |   B   |
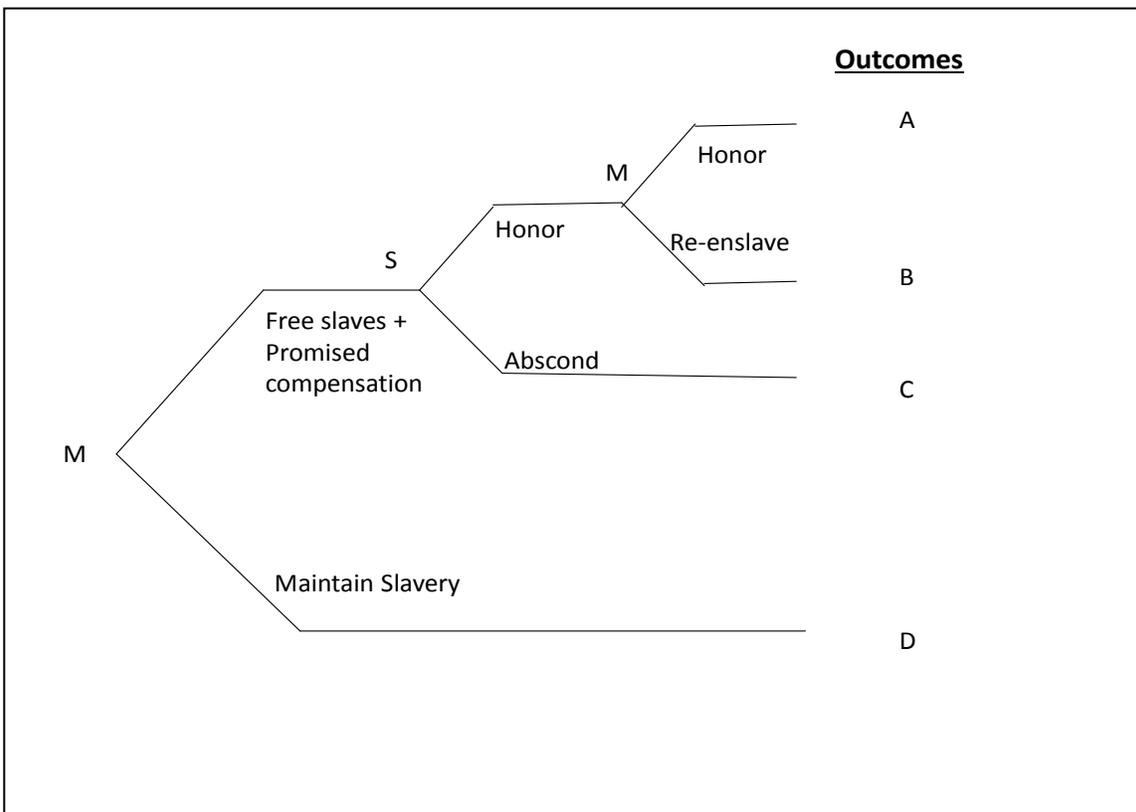


**Figure 1. The Double-Sided Commitment Game of Emancipation Combined
With Promised Compensation.**

M is best off with outcome B – if it chooses to free the slaves, the slaves pay compensation, and
then it re-enslaves them. Next, M prefers A, followed by D. M least prefers outcome C in which
it frees the slaves who abscond without compensation. S, in contrast, most prefers outcome C –
to be freed and then absconding without having to pay compensation. S next prefers outcome A,

that the bargain of freedom with compensation be honored. The status quo, C, comes next. S least prefers to be freed, pay compensation, but then to be re-enslaved by M.

To calculate the equilibrium of the game, we work backward through the tree. At M's last decision-node, it must choose either to honor the long-term compensation agreement and free the slaves; or to re-enslave them. Because it prefers B to A, it will re-enslave them. Moving back a node to S's decision and knowing how M will choose, S has the choice between absconding (C) and paying compensation only to be re-enslaved (B). S prefers C to B, so it will abscond. Moving backward to the first decision-node M's choice is between freeing the slaves only to have them abscond and maintaining the status quo. Because it prefers D to C, M will choose to maintain the status quo.

The game illustrates the dilemma of emancipation subject to a long-term compensation scheme: neither side has an incentive to honor the agreement. If S honors its promise to pay compensation, M will re-enslave them. Knowing this, S will abscond with its freedom at the first opportunity if M frees them and thus will not honor its agreement to compensate M for its freedom. Knowing all this ex ante at the first decision-node of the game, M will therefore choose to maintain the status quo. Despite the fact that freedom is potentially Pareto-improving, slavery remains. The commitment problem prevents slaveholders from being compensated despite the efficiencies of freedom.

These arguments show that both sides to a compensation contract face significant uncertainties about their bargain. Each knew that the other had incentives to avoid carrying out their part of the bargain. Because the parties to the exchange can all anticipate this problem, they are likely not to make the agreements.

Although emancipation is potentially Pareto improving, slaveholders face considerable risks about being worse off rather than better off. Nothing about abolition in the feudal environment implies that individual slaveholders will be compensated. Anticipating this commitment problem, masters would oppose abolition.

## Reconciling Smith's two views

The compensation problem seems a far more credible explanation for the persistence of slavery than Smith's posing of a love of domination. Nonetheless, scholars discussing Smith on slavery rarely mention it, let alone explore the issue of compensation, accepting instead Smith's first explanation relying on a love of dominance (Brown 2010, Pack 1996).[13]

In addition to the commitment problem, I advance two further reasons for rejecting Smith's first explanation. First, by Smith's account, the price for indulging a love of domination is high – a ratio of 12:1. Did *every* master feel this strongly about domination that they were willing to forgo such a high return? This seems unlikely.

To see this, consider the problem of violence and intra-landed elite conflict. Smith characterizes of the feudal equilibrium as one of violent competition among the lords.[14] In Smith's view, the great lords "were always at war with each other and often with the king" (*LJ*(A) iv.126-27:249). Military competition among the lords was intense.

By Smith's reckoning of the productivity gain, a lord who made a deal with his slaves could garner a huge windfall in production. All else equal, the windfall would allow the lord to

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[13] As an exception, the editors of *Lectures on Jurisprudence* mention both explanations: "The main emphasis in the discussion in *LJ*(A) is partly on man's alleged 'love of domination and tyrannizing' and partly on the fact that the abolition of slavery would be hurtful to the slave-owners." [*LJ* introduction:29]

[14] *WN* book III; see Weingast (2014) for a more extended interpretation of Smith's views on this topic in terms of modern economics and political science.

support a larger system of vassals and armies, obtaining military superiority over his rivals. Given the intense military competition among lords, it is hard to believe that *no* lord would consider this path to greater stature and power, even at the expense of the value of domination.

The second reason for doubting an explanation based on a "love of dominance" is that Smith appears to appeal to this motive nowhere else in his corpus.[15] The explanation therefore seems ad hoc and unconvincing. Indeed, Smith's method here differs from most of his explanations, which are based on the assumption of self-interest, sometimes tempered in various systematic ways, such as the effect of sympathy and the desire for approbation (see Liu and Weingast 2014). Put in terms of Smith's discussion of scientific methodology, Smith's appeal to a "love of domination" is a rare instance of Smith's reliance on the "method of Aristotle" in which the theorist appeals to a new and unique set of assumptions for each explanation. Smith contrasts this approach with the method of Newton, and approach he generally takes. In Newton's approach, a theorists poses a small number of assumptions to explain many, diverse phenomena.[16] Perhaps for this reason the editors of *Lectures on Jurisprudence* referred to Smith's appeal to this motive as "man's *alleged* 'love of domination and tyrannizing.'" [*LJ* introduction, 29]

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[15] An electronic search of the Glasgow editions found that Smith used this phrase solely in his two similar discussions of slavery, in the *Lectures on Jurisprudence* and in the *Wealth of Nations* Book III.

[16] Smith contrasts the method of Aristotle with that of Newton in *LRBL*, Lecture 24, pp 145-47.

## 4. Abolition of Slavery in Western Europe

If commitment problems prevent the abolition of slavery, how did emancipation occur in

Western Europe?[17] Smith says that, "it was owing to some peculiar circumstances that it has

been abolished in the small corner of the world." [*LJ*(A) 114:186] In developing his answer, he

reminds his readers:

> The government of Europe was at that time feudall. The power of the great lords
> consisted in their vassalls and their villains. The whole of the land at this time was ...
> cultivated by villains or slaves in the same manner as by the slaves in the ancient
> governments of Rome and Greece.  [*LJ*(A) 117-18:187-88]

Smith's argument about abolition, a political conflict within the elite involving a group we have

yet to discuss; that is, the Church. With respect to slaves:

> There were two things which brought about their freedom. In the first place, the church
> and the clergy were at that time a very powerfull set of men in all the countries of the
> west of Europe. The clergy have allways more weight and authority over the lower and
> more laborious part of mankind than over the rich and the powerfull. There [*sic*] authority
> therefore was at this time chiefly over these villains or slaves. They saw then or thought
> they did that it would tend greatly to aggrandize the power of the church, that these
> people over whom they had the greatest influence were set at liberty and rendered
> independent of their masters. They therefore promoted greatly the emancipation of the
> villains, and discouraged as much as lay in their power the authority of the great men
> over them. [*LJ*(A) 118:188]
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> The kings interest also led him on this account to lessen the authority of the nobles and
> their vassals over their villains. The kings courts on this account were very favourable to
> all claims of the villains, and on every occasion endeavoured to lessen the authority of the
> landlord over them. They gave particular favour to the speciall villains, as they were
> called. These were such as having got some substance by some means or other, agreed to
> hold a piece of land of the lord of the manor and pay him in the manner that the others
> did, during the pleasure of their master. The words that were used in this bargain were
> that they should hold *according to the custom of the manor*. The court took advantage of
> this expression for the benefit of the dependents and interpreted them thus: that as the
> lords did not commonly or customarily turn them out unless for some great offence, so
> they made their agreement to be that they were to continue in possession for ever, unless

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[17]This section draws on Anderson (1989), Clark (2008), Pack (1996), Salter (1996), Skinner (1975), and
Wells (2010).

on any such transgressions or offences as were punishable by law. In this manner they became from being speciall villains to be copyholders. [*LJ*(A) 119-20:188 *emphasis in original*]

Smith continues:

The landholders were in this manner restricted in their authority over their villains by two of the most powerfull members of the state. The clergy, a body at that time very powerfull, thought it their interest to encourage the villains, and the authority of the king, the head of the state, coincided with theirs. They in this manner agreeing rendered the authority of the masters of the villains but very inconsiderable, compared to what it had been some time before. They saw too perhaps that their lands were but very ill cultivated when under the management of these villains. They therefore thought it would be more for their own advantage to emancipate their villains and enter into an agreement with them with regard to the cultivation of their lands. In this manner slavery came to be abolished. [*LJ* 120-21:188-89]

Summarizing, Smith argues that slavery slowly disappeared in Western Europe through a long-term process of incremental change rather than a quick stroke of abolition. As the commercial economy grew, it absorbed many agricultural areas. Local lords in these areas, according to Smith, longer needed to support armies and hence maintain retainers and vassals. For the first time, local lords could spend and save money rather than use it to maintain an army, often consuming this surplus ostentatiously. Merchants were happy to supply the items desired by lords.

Smith discusses a second process fostered the slow evolution of freedom for retainers and slaves involving the king and clergy. The political interests of both these group led them to oppose the local lords. Both groups sought to undermine the threat from the secular lords, and fostering freedom for their retainers was part of this process.

The process of abolition in Western Europe was incremental and took place over a long period, more than a century. Compensation did not become a central issue. The advancing commercial society provided both law and protection. Law enforced property rights and

contracts. These changes imply that landlords could write long-term leases to tenants which granted tenants various rights to make improvements and to keep much of the subsequent increase for themselves. These rights improved the efficiency of production, and the local lord qua landowner benefitted through higher rents. This legal system associated with the commercial society solved many of the commitment problems associated with an earlier stage of development.[18]

## 5. A Second Commitment Problem: The Political Implications of Abolition

A second, plausibly more important, commitment problem is likely to have contributed to elites reluctance to pursue abolition. As I quote shortly, Smith raises the problem of maintaining political order on numerous occasions in *WN*, *TMS*, and *LJ*. The prevalence of violence in the modern developing world suggests that order in a state must be achieved; people must devote resources to establishing and maintaining it; and it cannot be achieved just anywhere.[19]

We know too little about how order is achieved. Economics, including the economics of development, takes order as given (North, Wallis, and Weingast 2009).[20] Political science once focused on this question, as Huntington's classic *Political Order in Changing Societies* (1968)

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[18]Notice that the type of compensation mechanisms studied by Golden (1973) concerning emancipation of slaves before the American Civil War presume a legal system of this sort.

[19]Cox, North, and Weingast (2013,table 1) show that the median developing country experiences violent leadership turnover in a little less than every eight years. The richest developing countries fare only mildly better, once every 12.5 years. Violence and the potential for violence is an on-going problem throughout the developing world.

[20]Obvious exceptions exist to this general statement, such as Bates (2001), Collier (2007), and Tilly (1992). But such scholars have yet to transform mainstream economics.

attests; in recent years, political scientists have studied particular kinds of violence, such as among ethnic/ religious/ and linguistic groups or various types of insurgencies.

Smith emphasizes that political order is a major problem for societies. For example, in the *Wealth of Nations*:

> Wherever there is great property, there is great inequality. For one very rich man, there must be at least five hundred poor, and the affluence of the few supposes the indigence of the many. The affluence of the rich excites the indignation of the poor, who are often both driven by want, and prompted by envy, to invade his possessions. It is only under the shelter of the civil magistrate that the owner of that valuable property, which is acquired by the labour of many years, or perhaps of many successive generations, can sleep a single night in security. He is at all times surrounded by unknown enemies, whom, though he never provoked, he can never appease, and from whose injustice he can be protected only by the powerful arm of the civil magistrate continually held up to chastise it. The acquisition of valuable and extensive property, therefore, necessarily requires the establishment of civil government. [*WN* V.i.b.2:709-710]

To take another passage from *The Theory of Moral Sentiments*:

> The peace and order of society, is of more importance than even the relief of the miserable. [*TMS* VI.ii.1.20:226]

Smith also discusses order in *TMS* in his famous passage on justice as the pillar of the whole edifice on which society rests:

> Society, however, cannot subsist among those who are at all times ready to hurt and injure one another. The moment that injury begins, the moment that mutual resentment and animosity take place, all the bands of it are broke asunder, and the different members of which it consisted are, as it were, dissipated and scattered abroad by the violence and opposition of their discordant affections. If there is any society among robbers and murderers, they must at least, according to the trite observation, abstain from robbing and murdering one another. Beneficence, therefore, is less essential to the existence of society than justice. Society may subsist, though not in the most comfortable state, without beneficence; but the prevalence of injustice must utterly destroy it... Justice, on the contrary, is the main pillar that upholds the whole edifice. If it is removed, the great, the immense fabric of human society, that fabric which to raise and support seems in this world ... must in a moment crumble into atoms. [*TMS* II.ii.3.3-4,86]

Speaking of education aimed at alleviating "the gross ignorance and stupidity which, in a civilized society, seem so frequently to benumb the understandings of all the inferior ranks of people," Smith writes:

> Though the state was to derive no advantage from the instruction of the inferior ranks of people, it would still deserve its attention that they should not be altogether uninstructed. The state, however, derives no inconsiderable advantage from their instruction. The more they are instructed, the less liable they are to the delusions of enthusiasm and superstition, which, among ignorant nations, frequently occasion the most dreadful disorders... In free countries, where the safety of government depends very much upon the favourable judgment which the people may form of its conduct, it must surely be of the highest importance that they should not be disposed to judge rashly or capriciously concerning it. [*WN* V.i.f-61:788ea]

Smith's concerns about order have implications for emancipation. In the context of feudalism, freeing all slaves raises a problem for political order. The slaves were far more numerous than the elite. Seemingly a necessary condition for more efficient production, granting slaves freedom would include rights of mobility, owning property, and amassing wealth. In Smith's words, "The slaves when numerous and in a rich and free country, as they become an object of dread and terror to the body of the people are never trusted with arms, as they are there the naturall enemies of the governing part." [*LJ* 119:188]

Emancipated slaves as right-holders would amass wealth and power, raising a direct threat to their former masters, both in terms of their elite status and in terms of their property and wealth. As Smith says, "It is only under the shelter of the civil magistrate that the owner of that valuable property, which is acquired by the labour of many years, or perhaps of many successive generations, can sleep a single night in security." Why should they be ruled by the elite? Although emancipation held the prospect of making masters better off, commitment problems in

practice threatened political order. Granting the former slaves the possibility of gaining economic power directly threatened the elite.

In principle, masters could make an agreement with their slaves so that the masters retained power in exchange for the slaves' economic freedom. But in practice, how would the former slaves commit to honoring this arrangement? After the fact of freedom, slaves would be free and have power. What would have stopped them from contesting elite rule? Because the elite could not, after the fact, prevent the far more numerous slaves from challenging them, they would be at risk. Masters would therefore rationally fear emancipation.

## The Commitment Problem

A simple game illuminates this second commitment problem. The game involves two players, an elite (E) and the masses (M). E has the first move of the game and must decide whether to maintain the status quo, slavery, or emancipating its slaves (see figure 2). I assume that emancipation involves a bargain between E and M where M agrees to honor E's property rights. If E chooses emancipation, then M must decide whether to honor the bargain with E – and hence E's property rights – or to expropriate E.

The game results in three possible outcomes: E chooses emancipation and M honors E's property rights (outcome A); E choose emancipation and M chooses to expropriate E's property (outcome B); and E chooses to maintain the status quo of slavery (outcome C).

The players have the following preferences over the outcomes (see table). E most prefers emancipation in combination with M's honoring its property rights (A). It next prefers the status quo (C). The worse outcome for E is emancipation followed by

|  E  |  M  |
|-----|-----|
|  A  |  B  |
|  C  |  A  |
|  B  |  C  |

expropriation (B). M most prefers emancipation followed by expropriation of E (B). Next, it

prefers emancipation and honoring E's property rights (A). Finally, slavery under the status quo

is the worst outcome for M (C).
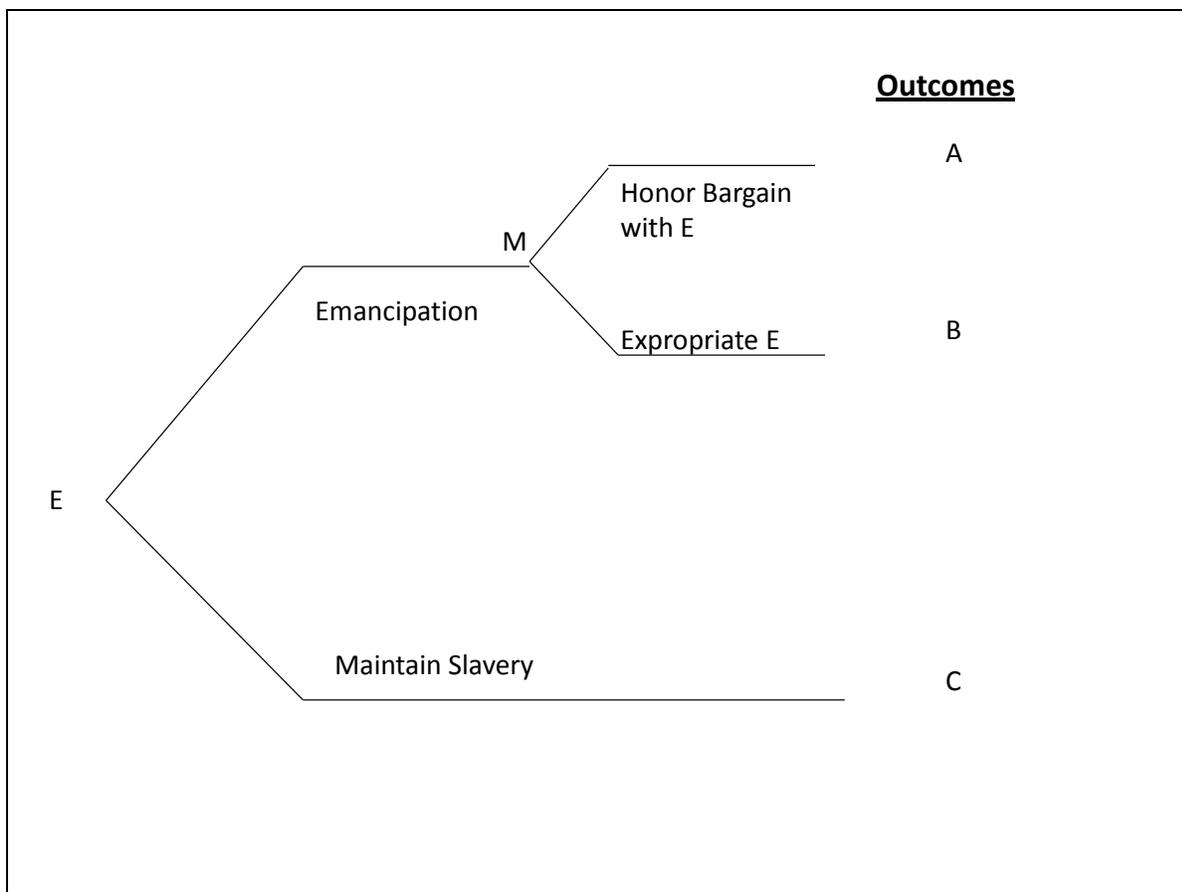


**Figure 2: The Emancipation-Commitment Game.**

To solve for the equilibrium of the game, we use backward induction. Consider the decision node in which M must choose between honoring E's property rights or expropriating E. Because M prefers B to A, it will choose B, expropriation. Moving backward to the first decision node, and, E, knowing M's choice, will choose to maintain the status quo of slavery.

The paradox is that both E and M can be made better off than the status quo: both prefer A to C. Paralleling the logic of Acemoglu and Robinson (2006), this game shows how the commitment problem hinders societies from making Pareto-improving policy changes. The structure of incentives prevents the players from obtaining this outcome. If E chooses to emancipate, the masses have no incentive to honor E's property rights. In principle E and M could bargain so that M agrees to honor E's rights in exchange for emancipation, but M cannot commit to its side of the bargain. Once freed and, having gained power, M will expropriate E, and E can do nothing about it. M lacks the ability to commit to honoring E's property rights. E therefore rationally chooses to maintain the status quo. As with the first commitment problem, the lack of a developed legal system makes it difficult to enforce an agreement in which both the elite and the slaves are better off.

## 6. Why Slavery is Worse under Democracy Than in Monarchies

Smith argues that slavery is worse in democracies than in monarchies:

> In a democraticall government it is hardly possible that it ever should, as the legislators are here persons who are each masters of slaves; they therefore will never incline to part with so valuable a part of their property... [T]he monarch here being the sole judge and ruler, and not being affected by the easing the condition of the slaves, may probably be inclined to mitigate their condition… The condition of the slaves under the absolute

government of the emperors was much more tollerable than under the free one of the Republick. [*LJ*(A) 114:186-87]

Clark (2008:140), relying on the "Anderson notes," an early set of notes on Smith's lectures at Glasgow University, probably dating from the 1750s, argues that Smith relied on the sympathy; he "adopted a legal-institutional analysis focused on the feudal military. 'It was not abolished by Humanity or the improvement of Manners – but as the Slavers were armed by their Lords and so dangerous to the Kings, the King abolished Slavery' (Anderson 306-04; Meek 1977:89)."

Our approach to modeling the economics of slavery and the commitment problem provides an additional explanation for Smith's claim about slavery being worse in republics. At the time Smith wrote, republics tended to have stronger systems of property rights, contract enforcement, security, and stability than the violent agrarian slave society. Recall Smith's argument that slaves comprise "the greatest part of the riches" among the elite" (*LJ*(A) III.118:187).

In economic terms, stronger property rights meant that citizens in republics valued future returns more highly than people living under feudalism. In terms of the calculations in section 3, republican citizens had a higher "discount factor"; that is, $\delta_R > \delta_F$. This observation yields a comparative static result: $V_R$, the value of a slave in a commercial society, exceeded $V_F$, the value of a slave in the feudal world, probably by a larger magnitude. This result follows from the formula (1) above and holds even if the payoff from a slave in each year was identical in a commercial republic as under feudalism. The example calculated in section 3 showed that if $\delta =$

*.95*, then *V = 10S/3*; whereas if instead the discount factor is $\delta$ = *.75,* then *V = 2S/3*. A lower

discount factor lowers today's value of future returns.

As V rises, the problem of credible commitments underlying the exchange between

master and slave for freedom becomes increasingly difficult. The larger value of the slave makes

the compensation problem more difficult over a period of several, perhaps many, years. Hence

abolition was less likely in a republic than in an agrarian feudal-style society (see Fogel and

Engerman 1974b).

## 7. Conclusions

In this paper, I study three ideas concerning Adam Smith's views on slavery. The first is that

Smith's discussion of slavery creates a puzzle. He argues that slavery is against the material

interests of the slaveholders. But if so, why did slaveholders persist so long in maintaining

slavery?

Smith provides two explanations to this puzzle. In the first, Smith asserts that

slaveholders have a "love of domination and tyrannizing." Slave owners therefore maintain this

institution because the love of domination outweighs the costs of maintaining slavery. His

second explanation differs considerably from the first and involves commitment problems. Smith

raised the problem of how would slave owners be compensated for their property so that they

would, in fact, be better off under emancipation. Simple abolition may create a larger net product

in the society, but if it makes slaveholders worse off because they are deprived of their property

and income, they will oppose emancipation.

To these two explicit Smithian answers to the persistence of slavery, we can add a third. Elsewhere in *WN* and *LJ*, Smith is deeply concerned with the problem of order and violence. Freeing the slaves raises the problem of order. As free men, the former slaves would amass property and wealth. Over time, they would become more powerful, potentially allowing the much more numerous former slaves to threaten their former masters. Even if the slaves explicitly agreed that, as part of their emancipation, they would honor the rights of slaveholders, once freed, the former slaves have no incentive to honor that bargain. Slaveholders would therefore rationally fear the consequences of emancipation.

Although most scholars who discuss Smith on slavery emphasize the first explanation, I argue that this thesis cannot be sustained. Instead, commitment problems seem far more plausible as an explanation. Although emancipation held the prospect of making all better off, commitment problems in less developed societies prevented slave owners from realizing those gains.

The persistence of slavery, therefore, reflects the politics of underdeveloped societies. Although emancipation holds the promise of making everyone better off, in practice, masters had reason to worry that compensation would fail in practice and, further, that the freed slaves might gain sufficient political power and wealth as to threaten masters. Under these circumstances, masters would rationally prevent emancipation and maintain their property.

Smith considers a second question about slavery, namely, its abolition in Western Europe. As part of the process of economic and political development, Europe underwent many changes. The most important is the rise of commerce associated with towns and cities that at once pacified the countryside surrounding the towns and provided markets in luxury goods. In

response, the local landed elite gave up their support of retainers, and with it the latters' military obligations to their lords. Rights in land grew, and the local lords became consumers of luxury goods. In Smith's words:

> But what all the violence of the feudal institutions could never have effected, the silent and insensible operation of foreign commerce and manufactures gradually brought about. These gradually furnished the great proprietors with something for which they could exchange the whole surplus produce of their lands, and which they could consume themselves without sharing it either with tenants or retainers. All for ourselves, and nothing for other people, seems, in every age of the world, to have been the vile maxim of the masters of mankind. As soon, therefore, as they could find a method of consuming the whole value of their rents themselves, they had no disposition to share them with any other persons. For a pair of diamond buckles perhaps, or for something as frivolous and useless, they exchanged the maintenance, or what is the same thing, the price of the maintenance of a thousand men for a year, and with it the whole weight and authority which it could give them. [*WN* III.iv.10:418-19]

The growth of markets and the provision of order altered the position of the lords sufficiently that they gave up their militarism and support of armies for luxuries.

The process of emancipation shows how Europe overcame the commitment problems that prevented emancipation of slaves during feudalism. The growth of towns provided the ability to protect rights and to produce political order. Freed tenants within the orbit of nearby towns joined the commercial economy. At the same time, they came under the security umbrella of the towns. The resulting political order protected both the rights of tenants and the rights of the lords. Put another way, the property rights and the town's system of justice provided a solution to the commitment problem.

I end with a third aspect of Smith's discussion of slavery. Smith's discussion of slavery combines both normative and positive ideas, falling into the category of *normative and positive theory* (NPPT). Normative political theory (NPT) focuses on ideals, such as ethics, morality, and justice. NPT scholars study how best to conceptualize these ideals; for example, what principles

ought to underlie ethics or justice? In contrast, positive political theory (PPT) attempts to model the world and explain why particular events occur, such as war, economic development, ethnic conflict, and stable cooperation. For decades, these two literatures have remained largely separate, although many historic political theorists – Aristotle, Plato, Machiavelli, Hobbes, Harrington, Hume, Smith, and Madison – provided NPPT arguments, often embedding their normative discussions in their positive understanding of the flaws of their societies.

Smith's arguments about the abolition of slavery in Western Europe fall in the NPPT category. Slavery for Smith involved a wide range of normative evils: a person's life is subject to the whims of another individual; slavery denies standard liberties; slaves are dominated by their masters and are subject to violence and arbitrary discretion.

In Smith's account, slavery is nearly universal among poor countries. Its disappearance in some parts of the world therefore brought about normatively attractive outcomes, creating greater freedom, security, integrity of person, liberty, and non-dominance – that is, not being subject to arbitrary discretion of another. The path to abolition of slavery in Western Europe is therefore of great interest. Smith provides an NPPT explanation that shows how a normative evil – slavery – was generally sustained and how it was eliminated, at least in one portion of the planet.


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