How Adam Smith Negotiated His Release
From His Obligation to become a Minister:
A Game-Theoretic Account

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Abstract

At age 17, Adam Smith accepted a Snell Fellowship to Oxford, agreeing to be ordained as a minister of the Church of England. Smith did not fulfill this obligation. Instead, Oxford officials agreed to allow him to transfer from the Ordination to the civil law tract; and, later, to leave Oxford early on a “compassionate leave.” Undoubtedly, Smith's life and writings would have been considerably different had he adhered to the terms of the Fellowship. How did this agreement come about? Until recently, Smith's biographers have not attended to this issue. In his new book, Kennedy (2017) provides the answer. Balliol College at Oxford, which housed the Snell Fellows, captured a major portion of each Fellow's scholarship. Were Smith to abandon Oxford, Balliol would lose their portion of the funds associated allocated to Smith. Hence the college officials had an incentive to make an agreement with Smith in a manner that maintained the flow of funds. To do so, they had to make accommodations with Smith. The purpose of this note is to provide a simple game theoretic exposition of Kennedy's answer. This approach highlights both the strategic setting facing the bargaining parties as well as the gains from exchange.

1. Introduction

At age 17, Adam Smith accepted a Snell Fellowship to Oxford. As part of the Fellowship, Smith agreed to be ordained as a minister of the Church of England. Smith did not fulfill this obligation. Instead, Oxford officials agreed to allow him to transfer from the Ordination to the civil law tract; and, later, to leave Oxford early on a “compassionate leave.” Although we have no way to construct a counterfactual life for
Adam Smith had he adhered to the conditions of his Fellowship, we can safely say that his life and writings were likely to have been considerably different. The agreement with Oxford officials is therefore a central event in Smith's life as a philosopher.²

How did this agreement come about? As Gavin Kennedy (2017) observes, this decision is puzzling since the Oxford officials seemed especially unaccommodating to the Scottish Fellows.³ Moreover, Smith's biographers do not attend to this issue. “The circumstances to allow him compassionate leave and eventual withdrawal have not been explored by his biographers” Kennedy (2017:25). Ross (2010, ch 5), sometimes called the definitive biography of Adam Smith, does not raise this puzzle. Nor do other major biographers who discuss Smith's days at Oxford, including Buchan (2006), Campbell and Skinner (1982), Norman (2018), Phillipson (2010), Rae (1895), Scott (1937), Stewart (1793), and West (1976).

Kennedy provides the answer. Balliol College at Oxford, which housed the Snell Fellows, captured a major portion of each Fellow's scholarship. Were Smith to abandon Oxford, Balliol would lose the funds associated with Smith's Fellowship. Hence the college officials had an incentive to make an agreement with Smith in a manner that maintained the flow of funds. To do so, they had to make accommodations with Smith.

The purpose of this note is to provide a game theoretic exposition of Kennedy’s answer. This approach highlights both the strategic setting facing the bargaining parties as well as the gains from exchange. This note proceeds as follows. The next section

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² In discussing this episode, Scott (1937:42), a major mid-20th century Smith biographer, says that Smith at Oxford faced “Error! Main Document Only.a serious decision which affected his whole life.”
³ Rae (1895:26), an early biographer, Error! Main Document Only.notes “the unfair and discriminating harshness of the College authorities themselves... [T]he Scotch eight [at Balliol] seem to have been always treated as an alien and intrusive faction.” Campbell and Skinner (1982:24) report that, “Error! Main Document Only.Balliol could hardly have been less congenial to someone of Smith's interest and temperament.”
summarizes the problem and Kennedy’s answer. Section 3 develops the game. My conclusions follow.

2. Kennedy’s Answer to the Puzzle

Kennedy implicitly distinguishes two features of negotiation. First, the process by which the two parties interact. For example, they explore each other’s preferences and demands. They attempt to learn whether a mutually beneficial compromise is possible. And they settle on an agreement. Second, a structural analysis of the bargaining setting that explains the sources of gains from exchange; and the strategic interaction among the bargaining parties.

Kennedy also argues a direct connection between Smith’s Oxford negotiations and the opening of the *Wealth of Nations* with a major insight into bargaining theory; notably, Smith’s “If-then” conditional proposition about bargaining. In Book I, chapter 1 of the *Wealth of Nations*, Smith famously stated, “IF you give me this which I want, THEN I shall give you that which you want” (WN I.i**). Kennedy (2017:29) concludes that “Smith's actions during the late summer-early winter of 1745-1746 showed him practicing what he published on bargaining 30 years later in *Wealth of Nations* in 1776.”

In this note, I focus on Kennedy’s second aspect of bargaining to interpret Smith’s negotiations at Oxford; Kennedy focuses on the first. What were the gains from exchange between the Powers-That-Be in Balliol College and the Scottish Fellowship Student? In particular, why did the Powers-That-Be not only allow him out of his ordination obligations but to leave Oxford early and in good-standing?

Kennedy provides a credible answer to the questions asked above. The
Fellowship involved £40 per annum. In the mid-18th century, this was a substantial sum, [on the order of GDP/cap]. Moreover, most of this sum went to Balliol College. Were Smith to abandon his fellowship, Balliol would cease to capture these funds. Granting Smith’s request to change tracts and, later, compassionate leave allowed Balliol to continue to capture most of the £40 for several additional years. In Kennedy’s (2017:24) words,

The 1743-1744 Juris compromise agreement kept Smith physically at Balliol for another two years (1746) and his Exhibition running for a further two years (1748) beyond that, during which he was on compassionate leave, and Balliol continued to receive and thereby benefit from the annual £40 payments. Balliol College made a better deal than they might have expected and Smith likewise did much better than he had cause to expect in 1744.

Unforeseen circumstances arose in 1745 in the form of the Jacobite rebellion of some of the Highland Clans (Norman 2018:30-37). Balliol expected the Scottish Exhibitioners to knuckle down with their studies (Kennedy 2017:26). Although the British army eventually crushed the rebellion, Smith would have had in the interim considerable anxiety about his mother, especially given rumors about the hard Jacobite occupation of the defenseless Scottish lowland. Smith therefore had “pressing personal reasons to persuade Balliol to agree to his compassionate leave. Faculty also knew that if Smith chose unilaterally to resign him Exhibition, it would be at some financial cost to Balliol” (Kennedy 2017:26). Thus, “both parties had to accommodate to some extent to what the other wanted” (Kennedy 2017:28).
3. Modeling the Negotiation between Smith and Oxford as a Game

We model this negotiation as a strategic interaction between two players: Adam Smith (A) and Oxford (Ox). Player A has the first move and must decide among three options (see figure 1):

- Adhering to his obligations under the Snell Fellowship, leading to Ordination.
- Abandoning his fellowship and returning home.
- Requesting a change in tract and compassionate leave.\(^4\)

Figure 1: The Game Tree.

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\(^4\) *N.B.*, I am simplifying the two separate aspects as a single request.
If A chooses to adhere to the Fellowship conditions (outcome a) or if A abandons his Fellowship (outcome b), the game ends and the players receive their payoffs. If A chooses to request changes in the terms of his fellowship, then Ox has the next move and must choose among three options:

- Demand strict adherence to the Fellowship obligations (outcome c).
- Grant A's request un-conditionally, allowing A to leave (outcome d).
- Grant A's request conditionally (retain fellowship with leave – outcome e).

The two players' preferences are summarized in table 1.

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<th>Table 1: Player Preferences.</th>
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<td>A</td>
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<td>e</td>
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<tr>
<td>a</td>
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<td>c</td>
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Player A seeks a change in circumstances at minimum cost. From A's perspective, outcomes d and e are nearly identical: both involve an appeal to Ox; both allow him escape his ordination obligations and to leave. Perhaps d is slightly preferable because it means he could leave earlier than under outcome e. Thus A's first preference is d, second is e. The worst outcome for A is c, making a request only to have it become common knowledge that Ox turned down his request. Outcome a is slightly better than c. Simply abandoning Oxford – outcome b – lies below d and e but above a and c.
Player Ox seeks to maintain the flow of revenue from the Snell Exhibitioners, from A in particular. Best according to its preference is that player A adhere to the agreement and stay until his Fellowship ends (outcome a). Last in Ox’s preferences is outcome b in which A unilaterally abandons Oxford, denying Ox the future revenue from A’s Fellowship. Outcome c is almost as bad for Ox as b is outcome c in which Ox denies A’s request and leads to A’s unilateral abandoning Oxford and hence the end to the flow of revenue from A’s Fellowship. Outcome e is second on Ox’s preference list, inducing A to cooperate with Ox and allowing Ox to continue to capture A’s fellowship money. Ox prefers outcome e slightly to outcome d, the latter granting A more flexibility and hence ending the flow of funds earlier.

To solve for the (subgame perfect) equilibrium of the game, we use backward induction. This implies considering Ox’s decision among three options, which lead to outcomes c, d, and e. Among these three options, Ox prefers most the decision resulting in e, granting Smith’s request with conditions (see table). A conditional grant to Smith allows Oxford to continue to capture Smith’s Fellowship Funds.

Working back to A’s decision in the first node, A must choose among three options:

(i) adhering, a;

(ii) abandoning, b;

(iii) Request change, which A knows will yield (due to Ox’s decision) outcome e.

As A prefers outcome e to both a and b, A chooses to request a change in fellowship terms.

The equilibrium path of the game is thus:
• A chooses to make a request;
• Ox then grants A's request conditionally.

4. Conclusions

How did Adam Smith manage to change the terms of his Fellowship so favorably, including abandoning his promise to become ordained? Kennedy provides the answer, arguing that this negotiation made both parties better off by. Granting Adam Smith’s request allowed Balliol College to continue to capture Smith’s Fellowship money; and, for Smith, to change tracts and then leave Oxford early without penalty. As Kennedy (2017:27-29) observes, this negotiation satisfies the conditions that Smith would explain three decades later in chapter 1 of the Wealth of Nations. Indeed, Kennedy suggests that Smith learned this principle as a young man during these negotiations with the Powers-That-Be at Oxford.

The setting modeled in this note is an important one. As Kennedy argues, it explains a neglected question about Smith’s time in Oxford. Had Smith completed his obligations to become a minister, he may never have written his famous works.

The setting is sufficiently straightforward that Kennedy’s verbal description adequate captures the strategic setting. The game makes the structure of the argument straight-forward. Because the game theoretic approach so closely parallels Kennedy’s account, this exercise validates the methodology. This validation gives us confidence in the approach when we model significantly more complex issues involving Smith’s more subtle ideas.
References


