A Neglected Element of
Adam Smith’s Theory of the State:
The Implications of Military Competition for State Capacity

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Abstract

International security in a competitive militarized environment requires that states have the capacity to defend themselves. The effects of this competition can be summarized with an equilibrium-comparative statics logic: (i) at any given moment in time, for a type of state to survive, it must have the financial, material, organizational, and military means to defend itself against other states with possibly different forms of government and territorial organization. (ii) As the nature of military (and financial and organizational) competition changes, so too does the form of the state.

Adam Smith appeals to this logic again and again in his corpus to explain why, in a particular era, one type of state out-competes another. For example, Smith uses this logic to explain the equilibrium structure of feudalism; how the trading towns emerged to out-compete locally feudalism’s military organization; that the town’s militias later proved no match for the professional standing armies of authoritarian monarchies; and how intense military competition for markets and territory around the world led large nation-states to foster forms of liberty or limited government so as to grow and finance longer and larger wars.

1. The General Principle

International security in a competitive militarized environment requires that states have the capacity to defend themselves. States that cannot defend themselves are not likely to survive. Tilly’s (1992:42) observation is consistent with this conclusion: in the year 1490, Europe had 200 states; five hundred years later in 1990, the number had

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fallen to 25, almost an order of magnitude less. Most European states in existence in 1490 have been absorbed into larger units. The general lesson is that states that survive intense military competition must have characteristics suited to their environment; in particular, they must have characteristics that allow them to defend themselves against the aggression of other states.

Adam Smith appeals to this logic again and again in his corpus to explain why, in a particular era, one type of state out-competes another. Smith in the both his *Lectures on Jurisprudence* and in the *Wealth of Nations* studied extensively the problem of defense and how the nature of military (and fiscal and logistical) competition changed over time, favoring states with different types of characteristics. As Pack (1991:127) observed, “How to defend the country is one of several continuing themes throughout the lectures [on jurisprudence].”

Smith’s arguments on this aspect of the theory of the state are easy to miss, and they have largely gone unremarked for several reasons. First, Smith never articulated this idea as a general principle. Second, he scattered his applications of the logic throughout his large corpus (in combination, the *Lectures on Jurisprudence* and the *Wealth of Nations* comprise over 1500 pages). Many readers therefore to fail to notice Smith’s many applications of this logic. Put simply, Smith’s rhetorical strategy makes the general point difficult to observe.

Nonetheless, as I demonstrate in this paper, Smith appeals to this logic in a surprising number of cases.\(^2\) For example, Smith appeals to what Schultz and Weingast (2003, 1998) call the “democratic advantage” or, more accurately, the advantage of

\[^2\] As I observe in Weingast (2017a), Smith seems to ignore these concerns in his discussions of optimal free trade policies. Those discussions seem to take international security as given.
“limited government,” the idea that liberal-republican states have an advantage in military competition because they can make credible commitments, including promises to pay back debt. The ability to commit – to make good on one’s promises – allows states with limited governments to finance bigger and longer wars. Smith, in speaking about the modern commercial societies of his day, puts the point this way: “a well-regulated standing army ... can best be maintained by an opulent and civilized nation, so it can alone defend such a nation against the invasion of a poor and barbarous neighbour. It is only by means of a standing army, therefore, that the civilization of any country can be perpetuated, or even preserved for any considerable time” (WN V.i.a.39:705-06).

The general theoretical point can best be summarized with an equilibrium-comparative statics logic: (i) at any given moment in time, for a type of state to survive, it must have the financial, material, organizational, and military means to defend itself against other states with possibly different forms of government and territorial organization. (ii) As the nature of military (and financial and organizational) competition changes, so too does the form of the state.

The logic of military competition among states represents a major component of Smith’s positive theory of the state, including the nature of state-capacity. Survival in the face of military competition among states implies that states risk perishing if they failed to achieve characteristics that would enable them to compete successfully. The applications range from the Ancient Greeks to Smith’s own time in the late eighteenth century.

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3 Cox and Dencecco (2018) expand on this logic and provide considerable empirical support for the thesis. See also Ferejohn and Rosenbluth (2017) and Schultz and Weingast (1998).
This paper proceeds as follows. The next section discusses elements of Smith’s theory of the state. In section 3, I summarize Smith’s many appeals to this logic. Section 4 then draws some broader implications.

2. Elements of Smith’s Theory of the State

Smith’s did not collect his thoughts into a systematic theory of the state (Liu and Weingast 2018). Instead, he raised a series of issues involving the state as part of discussions of other topics. Examples of his many discussions of the theory of the state include:

- The tradeoff between authority and utility as the basis for states (Hont 1994, 2009, 2015 – see also my “linear reconstruction of Hont’s views on this topic in Weingast 2018***).
- His famous “four-stages theory,” discussing the form of law, politics, property rights, etc., as a function of the means of production (Berry **).
- His discussion of the rise, fall, and second rise of liberty in Europe from the Ancient Greeks to his own time.
- Smith’s theory of the duties of the state (Evensky 2015:ch 5; Kennedy 2005**; West 1990,ch**).

As can be seen from this partial list, Smith’s aspects of theory of the state are multifaceted, wide-ranging, and complex. Some are largely normative, as in the duties of the state; some are largely positive, as in Smith’s four-stages theory. And some are “normative and positive political theory” in that they build positive models of how normative values are sustained. This paper contributes to the latter topic by showing how particular values – in this case, international security – are sustained in practice.
3. Smith's Applications of This Logic

In this section, I survey in rough chronological order seven of Smith's applications of the logic of survival given intense military competition among states. In addition, I mention several briefer illustrations made by Smith. Smith made no attempt to provide a complete history of state formation, structures, and capacity from this perspective. He did, moreover, show in a numbers of settings how a form of a state emerged in a particular time because it provided a competitive military advantage over its competitors; in addition, in several instances, he shows how a state well adapted to one environment failed to survive at a later time as the military environment evolved.

The Collapse of the Roman Empire. Smith's account of the long-term effects of the military competition began with Roman Empire. The huge agrarian and commercial society of the Roman Empire collapsed as it could no longer defend itself against various invaders (WN III, ch ii). As with many other civilizations, including Ancient Greece and Ancient and medieval China, the Roman Empire proved vulnerable to what Smith's called shepherd societies. In the end, the empire could not protect itself from the large, roving shepherd armies that could concentrate their forces at a particular point, overwhelming the Roman defenses. Smith did not analyze the fall of Rome in great detail, but used it instead as part as background to the rise and stability of the feudal society. The inability of the empire to defend itself meant the collapse of its market-based exchange system of division of labor, specialization, and exchange,

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4 Smith appeals to a similar logic to explain China’s persistent vulnerability to the Tartar hordes (WN V.i.a.5:691-92).
including much of its legal system. Towns were deserted, and the liberty associated with the empire disappeared.

**The Violent, No-Growth Feudal Equilibrium.** Smith argued that the feudal era emerged in the centuries after the collapse of Rome. In this period, especially before the rise of towns, no one, including the king, could impose order. The result was something akin to a Hobbesian world of all against all – considerable violence and the absence of order. Plunder was a major factor in the economic environment; to save, invest, and prosper was to become a target. In Smith's words,

> [The] government must be weak and feeble, and it is long before [sic] it’s authority can protect the industry of individuals from the rapacity of their neighbours. When people find themselves every moment in danger of being robbed of all they possess, they have no motive to be industrious. There could be little accumulation of stock, because the indolent, which would be the greatest number, would live upon the industrious, and spend whatever they produced. Nothing can be more an obstacle to the progress of opulence (LJ(B) 522).

Smith explains how a wide range of state characteristics formed a consistent pattern in the feudal era: political structure paralleled social and economic structure, paralleled military organization. All were hierarchical, with the king and lords being political, economic, and social masters.

Smith also argued that the feudal system of property rights in land became optimized to support this militarized society, even at the costs of economic efficiency. The principle, Smith (WN III.ii.3:383) holds, is that “to divide it was to ruin it, and to expose every part of it to be oppressed and swallowed up by the incursions of its neighbours.” Many small, independent plots of land would be a nightmare to defend in comparison with large estates controlled by lords in command of a large number of
retainers bound to follow their lord into war. Rules that preserved large estates therefore had survival value.

Central features of property rights in land included: (i) Primogeniture, whereby restrictions were imposed on devising property so that the first born son inherited the entire estate. (ii) Entails imposed similar restrictions on a landlord while alive from dividing and selling a portion of his estate. (iii) Wardship. When a lord died whose son was a minor, the estate had no one to lead its retainers into war. Wardship allowed the king (in the case of a Baron or great lord) or a great lord (in the case of a lesser lord) to appoint someone to manage the estate and to lead the lord’s retainers in times of war. Of course, such leaders had a short time horizon; given their considerable discretion, they typically managed the estates poorly.5

These rules of property hindered economic growth. Primogeniture, for example, placed severe restrictions on property rights during feudalism (Henderson 2006,ch8). Because it prohibited a landholder from devising property to anyone but his first-born son, primogeniture precluded a landholder from reorganizing landholdings in a manner that increased their productivity. In a commercial economy, primogeniture laws significantly hinder economic growth, but in the feudal environment of Europe, it was an indispensable institution to provide political security. Land was considered “as the means, not of subsistence merely, but power and protection,” and as such, the security of a landed estate constituted the very protection of political power. The same logic applies to other peculiar features of property rights in land, such as entails and wardship.

5 I expand on this logic in Liu and Weingast (2017) and Weingast (2017d).
In sum, the paramount problem of security forced feudal lords to adopt property rights that furthered this end, even at the expense of efficient production.

**The Towns Out-Compete Local Feudal Lords.** Although the feudal world was long stable in Smith’s view, especially in the hinterlands, commerce and liberty arose along the coastal and riverine areas. Traders existed in these areas, but they were at constant risk from the violence and plunder of local lords and king alike (Winch 1978,77). As Smith writes, this “lawless and disorderly state of the country rendered communication dangerous” (LJ(A) iv.142-43: 255-56). The local lords plundered the traders “without mercy or remorse” (WN III.iii.8:402). The feudal equilibrium, with its constant threat of violence, prevented traders from investing and expanding trade.

Smith explains in both the *Lectures on Jurisprudence* and in Book III of the *Wealth of Nations* that the king and town came to a political exchange in which the town provided taxes to the king in exchange for the town’s freedom to govern themselves, build walls, and maintain militias.

This exchange fostered three simultaneous revolutions in the towns, allowing them to create liberty, commerce, and security. In combination, these revolutions allowed the towns to grow, to invest in long-distance trade, and to extend their security and commercial society into the neighboring countryside. Importantly, the ability of towns to defend themselves largely removed the threat of plunder. Absent this military superiority, the towns could not have survived, let alone thrived.

Smith here employs a dynamic, almost evolutionary logic of how the towns grew and the local lords declined in power and influence: Regular government established not just in the cities, but extended into the local countryside surrounding the towns (WN
III.iv). The security and property rights following the town’s security umbrella had several consequences. First it transformed the nature of local agriculture from poor self-sufficient peasant farmers into specialists in local markets integrated with long-distance trade. At the same time, these areas witnessed a transformation in the social and military hierarchy (cite). Smith famously argued that this transformation in the countryside had an unintended effect. As the local lords in these areas were subdued, they gained improved access to markets, luxury goods in particular. Given the security afforded by the towns, the local lords let go of their retainers in part to consume luxury. In Smith's words,

The tenants having in this manner become independent, and the retainers being dismissed, the great proprietors were no longer capable of interrupting the regular execution of justice, or of disturbing the peace of the country. Having sold their birthright, not like Esau for a mess of pottage in time of hunger and necessity, but in the wantonness of plenty, for trinkets and baubles, fitter to be the play-things of children than the serious pursuits of men, they became as insignificant as any substantial burgher or tradesman in a city. A regular government was established in the country as well as in the city, nobody having sufficient power to disturb its operations in the one, any more than in the other (WN III.iv.15,421).

This last quote conveys the logic of the Nash equilibrium structure underlying the towns’ stability during this era.

**Paradoxically, the Commercial Republican City-States Were Not the Direct Antecedent of Commercial Nations.** At the same time as the towns grew, the Kings became more powerful, especially relative to the lords. “Compared to the king, the lords were becoming impoverished and could no longer muster a militia.” The king alone “was rich enough to have offices to dispense and to maintain an army” (cite**).

The growth of towns paradoxically weakened them. With greater numbers of people employed in specialized occupations, the opportunity costs of serving in a militia
grew. The towns therefore found it more and more difficult to raise militias. Smith here expressed a dynamic: economic growth, growing economic integration, and enhanced division of labor in the cities led to a higher opportunity cost of fighting, and hence a lower ability to defend themselves.

Here again, Smith appeals to the principle of military superiority. Over time, the towns’ militias proved no match for the standing armies of modern (authoritarian) states (cites). As the town’s economy grew, the opportunity cost of this form of defense rose, making it difficult to defend itself. Authoritarian monarchies became the dominant form of states as medieval feudalism passed to early modern Europe.⁶

**The Advantages of Limited Government Emerges: Liberal–Republican States Out-Compete Absolute (Authoritarian) Monarchies.** Survival for early modern European states required large navies and standing armies. This requirement became an imperative, especially as commerce with the new worlds opened for the European states. In Smith’s view, the division of labor and specialization afforded by new markets greatly enhanced the growth of European states.

The natural good effects of the colony trade, however, more than counter–balance to Great Britain the bad effects of the monopoly, so that, monopoly and all together, that trade, even as it is carried on at present, is not only advantageous, but greatly advantageous. The new market and the new employment which are opened by the colony trade, are of much greater extent than that portion of the old market and of the old employment which is lost by the monopoly... If the colony trade, however, even as it is carried on at present is advantageous to Great Britain, it is not by means of the monopoly, but in spite of the monopoly (WN IV.iii.c.50:608-09).

States that failed to foster commerce were at a significant disadvantage.

⁶ Smith makes the same argument about the fall of the early modern European city-state to explain the fall of Ancient Greek city-states. These states also lost the ability to defend themselves. [cite]
To capture these gains, Smith argued, authoritarian states of Europe had to develop the capacity for liberty, for limited government. Without limited government and the capacity for credible commitments not to confiscate the fruits of commerce, commerce could not survive (as North and Weingast 1989 explain for 17th century England; see Cox and Dincecco 2018 and Hont 2005 more generally). Commerce and the surprisingly large capacity to borrow allowed the tiny Dutch Republic to survive in the late 16th and early 17th centuries in the 70 year Dutch revolt against the Hapsburgs, the strongest authoritarian state in Europe. Similarly, Britain out-competed France to gain the largest overseas empire (qua immense expansion in the division of labor) and to become the richest nation in the world. As I show in Weingast (2017b), this is a major point of Hont’s (2005, 2015) about Smith’s thought.

Smith thus provided the explanation for how the European absolutist monarchies came to produce various aspects of liberty. Hont (2005, 2015) shows that Smith followed Grotius in arguing that the “aggressive acquisition of wealth as a mode of national self-preservation” became an arms race (Hont 2005:15). If one country failed in this aggression, its rivals would gain an edge. But commerce was not easily achieved in authoritarian states; it required that a state create the ability to sustain liberty.

International competition among European nations, in Smith’s argument, forced the absolute European monarchies to create elements of liberty in order to participate in long-distance trade, enhance their division of labor, and to become financially stronger. Monarchies that failed to do so were destined to decline. Smith therefore turned Locke’s argument about commerce upside-down. Commerce did not destroy liberty but caused its extension (Hont 2015:67). War, trade, and competition led to the emergence of
greater liberty in Europe. Throughout, Smith directly relates law and government to economic development.

Smith applies this logic to another aspect of early modern commerce, the structure of the European colonies. The British organized their North American colonies to produce huge increase in the extent of the British economy. The empire placed relatively few restrictions on their colonies. The same held for the Dutch Colonies. In contrast, France placed greater restrictions on its colonies; and Spain, even more.

**Smith on Europe Meets China.** Smith observed that, ca 1500, the economies of Europe and China were either on par with each other or the latter was larger. China did not rely on extensive overseas trade. But it was so large that internal commerce afforded considerable specialization and division of labor (*WN* I.viii.24-25:89-90; *WN* I.xi.n.1:255; *WN* IV.ix.39-41:679-81).

Over time, Smith held, Europe caught up with or surpassed China for reasons well-developed in the *Wealth of Nations*. First, Europeans fostered overseas trade; and second, foreign trade led to an unprecedented global expansion of the “extent of the market” and the division of labor; in turn, promoting significantly larger European economic growth. China, by contrast, had a large economy but was stagnant. It failed to promote long-distance trade. Smith proposed a counterfactual: were the Chinese to have opened up to foreign trade, China would be much richer. Looking beyond Smith’s time, when the Europeans confronted China in the 19th century, the European states had become so much stronger than China so the latter provided little resistance.

**Explaining the Medieval Church’s Survival in the Violent World of Feudal Europe.** The survival of the medieval Church presents a final application of the logic of
survival. This question presents an important puzzle, in part because of the potential danger to the Church posed by the secular lords who had an obvious comparative advantage in violence relative to the Church. As I explain in Weingast (2017c), Smith provided a surprisingly apt model of this problem and its solution in Book V of the *Wealth of Nations*. In brief, Smith argued that the Church had significant non-military capacities so that it could survive and thrive.

Smith argued that the secular and ecclesiastic lords faced gains from cooperation in exploiting the masses. Despite the secular lords’ advantage in their capacity for violence, Smith argued, they were unable to subdue the masses on their own. In contrast, the Church could do so. This fact introduced a second asymmetry, affording the Church a credible threat over the secular lords. Were the latter to challenge the Church’s assets and prerogatives, the Church would organize the masses to resist and challenge their lords. An implicit arrangement against this background in which the secular and ecclesiastic lords agreed to cooperate in order to exploit the masses. In particular, the secular lords had incentives not to use their violence for fear of being on the wrong end of a revolt by the masses.

4. Implications

Although Smith did not articulate a general principle about the role of military competition on state-capacity, he appealed to this form of logic in many contexts. To survive, states had to have the ability to defend themselves in competition with other states often of very different forms. Military competition among states forced them to

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7 “In those great landed estates, the clergy, or their bailiffs, could easily keep the peace without the support or assistance either of the king or of any other person; and neither the king nor any other person could keep the peace there without the support and assistance of the clergy” (*WN* V.i.g.22:801).
have the capacity to survive or to be absorbed by states with greater state-capacity – that is, states better adapted to their environment.

I have organized Smith's many applications by time period, which begins with the Ancient Greeks and ends in Smith's own time of the mid- to late-18th century. Along the way, Smith discusses the collapse of the Roman Empire; the military organization of violence and plunder in feudal Europe; the towns’ escape from the violence trap of the feudal equilibrium; the survival of the medieval Church; the military dominance of early modern authoritarian monarchies, which out-compete various republican city-states; the democratic advantage of commercial nations with considerable liberty over absolutist, authoritarian monarchies; Europe vs China; and the organization of western Europe empires.

Over the long-term, various forms of liberty and limited government proved of value in military competition. They proved essential to markets, specialization and exchange, and economic growth. Larger economies held the potential for financing larger and longer wars. States with limited government therefore had considerable advantages over those which did not (Cox and Dincecco 2018, North and Weingast 1989, Schultz and Weingast 1998, 2003). They fostered larger economies on which to draw for state resources. Various forms of credible commitment allowed states with limited governments to borrow (Schultz and Weingast 1998,2003) and hence raise considerable funds to finance wars at lower costs than states relying solely on taxation. Similarly, credible commitments to institutions such as the separation of powers that imposed limits on the executive allowed these states to limit various forms of executive moral hazard, such as with respect to budgets and taxation (Cox and Dincecco 2018).
Clearly, this logic of military competition and state structure and capacity is a general principle of Smith’s theory of the state. As Tilly (1992,**) would say two centuries after Smith, “war made the state and the state made war.” We need not adopt the extreme form of Tilly’s hypothesis – that war alone mattered for the evolution of the states – to agree that military competition in medieval and modern Europe represented a major influence on state structure and capacity.

**References**

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