Reconstructing Adam Smith's Politics

Barry R. Weingast
Stanford University

September 2018

Abstract

I divide this introduction to my book in progress, *Reconstructing Adam Smith’s Politics*, into three parts. In Part 1, I give an overview of Smith’s politics and how it fits together. This analysis shows that Smith anticipated many of the central questions that animate modern political science; notably, why are some countries rich and developed while others not? How do we explain different regime types across countries, including dictatorship and representative democracy? What accounts for different patterns of trade policies? And how do we account for the different behavior of empires; in particular, why were the British Colonies so rich? As I show, Smith’s approach to politics and the answers he provides are surprisingly modern.

I intend Part 2 to be the heart of the analysis with a systematic, in-depth discussion of a dozen political-economic topics covered by Smith. As the book remains in early stages, I concentrate in this draft on four of Smith’s separate discussions that, in toto, provide a powerful explanation of the centuries-long lack of development of feudal Europe.

In part 3, I discuss several general principles or theses that emerge from Smith’s discussions of politics. These general principles fall into two categories. First, substance, including: the role of liberty as the foundation of an economy; the importance of violence in his political-economics; the central role of concepts of credible commitment and political exchange; why some countries are rich while most are poor; and methodological issues, such as the use of equilibrium and comparative statics as well as dynamics. Second, what forms of logic does Smith appeal to in multiple discussions? Principles include: the role of violence; commitment problems, and political exchange.

---

1 Senior Fellow, Hoover Institution, and Ward C. Krebs Family Professor, Department of Political Science, Stanford University. The author gratefully acknowledges Christopher Berry, Sam Fleischacker, Nils Karlson, Gavin Kennedy, David Levy, Glory Liu, Josh Ober, Jim Otteson, Ken Shepsle, Hans Sjögren, and Craig Smith for helpful comments.
Part 1: Overview of Smith's Politics

1. Introduction

In the last paragraph of his first book, The Theory of Moral Sentiments (1759), Adam Smith announced his second book. It was not the Wealth of Nations (Hont **). Smith famously said:

“I shall in another discourse endeavour to give an account of the general principles of law and government, and of the different revolutions they have undergone in the different ages and periods of society, not only in what concerns justice, but in what concerns police, revenue, and arms, and whatever else is the object of law” (TMS VII.iv.37:342).

Smith planned to write on politics and law, which he generally called jurisprudence and which others now sometimes refer to as Smith's theoretical history of law and government.

Smith never published this work, and it was likely among the manuscripts burned at the end of his life (Kennedy 2017:119; Rasmussen 2017:**; and Ross 2010:**). Smith did, however, lecture each year on this topic from the late 1740s through 1763. Two sets of student notes from these lectures survive. Despite being from different students and from different years, the notes discuss the same ideas. Smith scholars generally agree that the lecture notes give a good idea of the topics and logic of Smith's politics, if not a polished book (see, e.g., Haakonsen 1981**, Hont 2015**, Kennedy 2017 ch **, and Winch 1978**).

Nonetheless, Smith's politics remain largely unknown. Thirty-five years ago, Donald Winch argued that an important and novel problem in Adam Smith

---

2 Abbreviations of Smith's work are listed at the beginning of the references.

The purpose of this reconstruction of Adam Smith’s politics is to bring to bear modern tools of political science to analyze an important set of Smith’s discussions of various aspects of jurisprudence scattered throughout his corpus. The reconstruction demonstrates that Smith’s approach to political-economics is systematic and surprisingly modern.

2. Smith as the Father of Political-Economics; that is, Both Economics and Political Science

Adam Smith is justly known as the father of economics, and many consider the Wealth of Nations the first major work of economics. I argue that Smith should also be known as the father of political science. And he may well have been, but for burning his manuscript on the topic. Smith is therefore better seen as a political-economist, not simply an economist or a political scientist. Instead he was both. As we will see, his economics fit seamlessly with his political science, and he did not perceive them as two separate fields. Indeed, the notion of economics as a distinct field of study was, in his day, unknown.

Nobel Laureate, James M. Buchanan (2008:23), characterized Smith as a philosopher in the eighteenth-century sense, a scholar who modeled a wide
range of subjects in an integrated fashion.

Adam Smith did not think of himself as an economist, and so limited to familiar subject matter disciplinary boundaries. He was, instead, a moral philosopher, whose intellectual curiosity extended to the origins of the explanatory structure being applied. Why did the system of natural liberty generate maximal value? What were the ultimate sources? Why was trade mutually beneficial to traders? Smith defined “philosophy [as] the science of the connecting principles of nature. Nature … seems to abound with events which appear solitary and incoherent… Philosophy, by representing the invisible chains which bind together all these disjointed objects, endeavours to introduce order into this chaos of jarring and discordant appearances” (Smith, *History of Astronomy* II.12:45-46).

Philosophy, in Smith’s terms, involved building models that help us make sense of the world around us. In part due to his understanding of the interaction of politics and economics, many of Smith’s ideas are on today’s frontier of political-economics of development. But if so, why are Smith’s politics not more widely known? A number of reasons can be adduced. The second set of lecture notes, considerably more detailed if less polished than the first set, did not become widely available until published as part of the Glasgow Edition of Smith’s works in 1978. Arguably, Winch (1978) was the first to exploit these notes systematically, just 40 years ago. Another reason is that the tools necessary to understand

---

3 Others characterize Smith similarly. For example, Morrow (1927:322) writes, “How absurd to think of the author of the *Wealth of Nations* as interested only in the wealth of nations! Adam Smith’s great work is more than a treatise on economics; it is a philosophical work, in that sense of the word “philosophy” which has almost passed out of usage in the last hundred years. It is a philosophical work in that it deals with broad problems of human welfare, and deals with them in a reasoned and unprejudiced manner.” Or, as Herzog (2013:14) reports, “Smith thus turns out to be not only an economist, but also a political thinker who reflects on the relation between market and society.” [14]

4 Herzog (2013:22) observes that Smith uses the terms “philosophy or science” “almost synonymously” (citing HA II.12).
Smith’s political science, such as game theory, are themselves of recent vintage and have become widely used only in the last two decades.\(^5\)

Further, Smith placed two significant impediments in the way of understanding his politics. Because Smith often embedded his theories in narratives (Weingast 2017c), many readers consider them mere stories. This rhetorical strategy places a high burden on the reader, causing a good many scholars to miss some of his deep and important theory development. Second, the very missingness of Smith’s book on jurisprudence means our understanding of his politics must necessarily rely on an inadequate set of clues left by Smith. Many of his theoretical discussions therefore seem isolated exercises, lacking the more systematic organization of his economics. Had Smith completed his work on jurisprudence, the overall theoretical structure is likely to have been more developed and coherent.

As a consequence of these difficulties, the following conclusions still hold today:

“[The Lectures on Jurisprudence] have not been fully exploited as the basis for an understanding of Smith’s views on the science of jurisprudence and on the science of politics” (Winch 1983:255).

“For the most part, the [Lectures on Jurisprudence] are used by scholars as a means to elaborate on topics covered in WN. ... LJ has been treated as an appendix more than a work unto itself” (Weinstein 2001:81).

Smith scholars tend not to recognize how Smith’s politics add up to more than a

\(^5\) Another issue is that many scholars emphasize Smith’s moral philosophy rather than positive political theory, seeking, for example, to establish that Smith should be considered a major moral philosopher (see, e.g., Raphael and Macfie 1976, Griswold 1999, Fleischacker 2004, Evensky 2005, Raphael 2007, Rasmussen 2008, Forman-Barzilai 2010, Robison and Suits 2012, Herzog 2013, Weinstein 2013, Hill 2016). I admire this scholarship and am persuaded by their arguments; but this line of inquiry does not explore Smith’s positive political science. Winch (1978), Haakonssen (1981), Kennedy (2005), and Hont (2009,2015) are exceptions. Pioneering as were the first two works, landmarks in the literature, they were produced nearly 40 years ago, prior to the development of most modern political-economic tools.
set of unrelated ideas. We remain without a framework for organizing Smith's politics and tying together Smith's politics and economics.

3. Organizing Smith's Politics

Before turning to organizing Smith's politics, it is first useful to observe that the range and depth of Smith's discussion of political topics throughout his corpus is in fact astonishing. The difficulty is not the absence of Smith's discussions in his corpus, but the large number of dispersed discussions and their seeming separateness or isolation. Kennedy (2017:119) observes that “One cannot but be impressed with Smith's range and depth of conjectural and factual knowledge of the histories of human societies.” West (1990: table 8.1) lists 20 separate discussions on comparative systems and constitutions alone. The missingness of Smith's second book means we have no obvious way to integrate Smith's discussions in a manner that conveys his larger logic and main themes. I present two ways of ordering Smith's topics on jurisprudence. Table 1 presents a partial list of topics organized roughly by the time period. This list gives a sense of the wide range of topics discussed by Smith.

As second and more useful means of organizing Smith's discussions of jurisprudence is to order his political ideas according to the existing subfields of modern political science. Although Smith is unlikely to have anticipated this

---

6 Ross (2010:107) agrees: “Error! Main Document Only. The fertility in ideas of the youthful lecturer in his Edinburgh period cannot be over emphasized. In ranging over aesthetic, scientific, philosophical, and jurisprudential topics in a penetrating way ... he reached a seminal understanding of the nature of intellectual system, and thus laid the foundation for his mature work on social science.”

7 In future drafts, I intend to order these topics to reflect Smith's order of presentation in his existing corpus.
organization, it will prove quite useful for us because it helps demonstrate Smith’s systematic and even comprehensive approach. Moreover, economists studying Smith regularly appeal to this form of organization of his

<table>
<thead>
<tr>
<th>Table 1: A Partial List of Political Topics Discussed by Adam Smith.</th>
</tr>
</thead>
<tbody>
<tr>
<td>• A history of the West from the Ancient Greeks to his own time.</td>
</tr>
<tr>
<td>o Rise of liberty in ancient Greece; fall with the Roman Empire;</td>
</tr>
<tr>
<td>reemergence in the medieval towns.</td>
</tr>
<tr>
<td>• The “four-stages theory” of political, economic, and social development</td>
</tr>
<tr>
<td>o From the hunter-gatherer stage through the commercial society.</td>
</tr>
<tr>
<td>• Why the violent, low-growth equilibrium of feudalism proved so durable.</td>
</tr>
<tr>
<td>o The lack of liberty in the feudal equilibrium during the Middle Ages.</td>
</tr>
<tr>
<td>• How the medieval towns escaped the feudal equilibrium, including Smith's luxury hypothesis about the demise of the power of the local lords.</td>
</tr>
<tr>
<td>• An explanation for the dominant role of the Catholic Church in the Middle Ages, including:</td>
</tr>
<tr>
<td>o How it maintained its monopoly over religious services and how it defended itself against the secular lords despite the latter’s’ comparative advantage in violence.</td>
</tr>
<tr>
<td>o How the Church lost this dominant position in the Reformation.</td>
</tr>
<tr>
<td>• The emergence of liberty in England from the Middle Ages to Smith's time.</td>
</tr>
<tr>
<td>• A discussion of public law or Smith’s constitutional theory.</td>
</tr>
<tr>
<td>• A categorization of various rights.</td>
</tr>
<tr>
<td>o (a) as a man [sometimes called private law]</td>
</tr>
<tr>
<td>o (b) as a member of a family [sometimes called domestic or family law]</td>
</tr>
<tr>
<td>• Domestic and family law</td>
</tr>
<tr>
<td>o (c) as a citizen or member of a state. [sometimes called public law]</td>
</tr>
<tr>
<td>• Justice.</td>
</tr>
<tr>
<td>• Slavery.</td>
</tr>
<tr>
<td>• A wide range of customs and social phenomena.</td>
</tr>
<tr>
<td>o Polygamy.</td>
</tr>
<tr>
<td>o Manners.</td>
</tr>
<tr>
<td>o Family structure.</td>
</tr>
<tr>
<td>o Language.</td>
</tr>
<tr>
<td>• Structure of the British Empire.</td>
</tr>
<tr>
<td>o The importance of liberty for the economic success of the American colonies.</td>
</tr>
<tr>
<td>o Smith's proposal of a fiscal union to end the conflict with America.</td>
</tr>
<tr>
<td>• Arms, militias, and standing armies.</td>
</tr>
<tr>
<td>• War and the laws of nations.</td>
</tr>
</tbody>
</table>
work. Modern economic subfields in evidence in Smith's work include:

- Microeconomic theory
- Labor economics
- Public finance
- Industrial organization
- Capital theory
- International trade
- Economic development.  

For much of the post-WWII era, political scientists have divided their field into four subfields: Comparative politics (CP), American politics (AP), International relations (IR), normative political theory (NPT). Before we discuss the value of these divisions for understanding Smith's politics, definitions are in order. **Comparative politics (CP)** is the study of domestic politics of different states. Central questions include: why do different countries sustain or rely on different forms of political organization? For example, why are some countries stable democracies and others authoritarian? Importantly, why do some countries sustain what Smith called liberty and what we today identify as central aspects of the rule of law? Why do some countries sustain market-economies? Another question is why do some countries exhibit regular internal violence (for example, ethnic violence, civil wars, or military coups) while in others different groups get along peacefully? Comparative politics also involves economics, in the form of why governments choose particular policies. A particular embodiment of this question is, why are some countries developed economically and politically – and why do so many undeveloped countries fail to develop? In what follows, I follow current trends and incorporate American politics within comparative politics and

---

8 Cite to works in the history of economic thought using this framework, such as Ekelund and Hebert (2007).
9 Today, these conventional boundaries are in flux. [explain: (i) Once silos; not now. (ii) more subfields, such as statistical methods; but also the merging of the fields.]
do not mention it separately.

**International relations (IR)** concerns relationships between two or more countries. This subfield divides into two distinct but related parts: security asks, why do states go to war? Can states lower the probability of war through, say, domestic policy choice, domestic political institutions (such as democracy), or treaties and alliances? In **trade theory**, also called **international political economy** (IPE), a major question involves trade restrictions. If, as economists tell us, free trade maximizes total well-being, why do states so frequently impose trade restrictions?

**Normative political theory (NPT); and normative and positive political theory (NPPT).** NPT focuses on questions about what constitutes the good society. A few of its central questions include: How best to understand concepts such as morality, liberty, equality, and justice, and what do they require of citizens and the state? What rights should citizens have, and under what condition do they owe their obedience to the state? Intellectual history forms another important component of NPT; scholars in this field attempt to understand the ideas, both of particular individuals and of how they evolve over time. In contrast, NPPT asks a variant of the NPT questions, mixing positive and normative concerns. For example, how are the various normative qualities studied in NPT sustained – if at all?

Table 2 organizes Smith’s discussions of politics, assembled according to the main subfields within modern political science. As the table reveals, Smith made major contributions in all subfields of modern political science. Further, he
made major contributions to almost all of the questions noted above.

Under comparative politics, Smith studies the political-economics of development, with special attention to the impediments to political and economic development during the middle ages. Smith's work on this topic in fact presents a systematic theory of political-economics of development, explaining why what I call the “feudal equilibrium” prevented Western Europe to grow and develop for several centuries and also how a part of this society associated with the towns escaped this equilibrium. Another important contribution involves Smith's four-stages theory explaining the natural course of political-economics of development explaining how government, property, law, and family all adapted to the means of subsistence, which he classified into four categories.

Smith studied several aspects of the Middle Ages; notably, the feudal equilibrium of no growth in agriculture; and the rise of commerce prior to the flourishing of agriculture in what Smith calls the “unnatural and retrograde order” of development (WN III.*). Smith also investigates the Catholic Church’s monopoly on religious services and its negative economic consequences for agrarian growth and the lives of peasants; as part of this exercise, Smith discusses the Church’s loss of this monopoly in the Reformation. He criticizes “slavery” during the middle ages on both normative and economic grounds. Finally, Smith again and again mentions the problem of violence in this era as central to understanding medieval Europe’s inability to development. Smith viewed the American colonies, in contrast, as a major economic success,
adhering to the natural path explained in the four stages theory. As a final discussion of development, Smith compares China with Europe, 1500-1776.

Smith also made substantial contributions to the two major components of international relations, security and trade policy; and both contributions intersect with comparative politics. I mention one example at the intersection of security and comparative politics. Smith argued that the form of state and military organization affected the types of states that could survive. States better adapted to their environment were more likely to survive in intense military competition. Smith appeals to this logic again and again, in the process showing how states evolved over time from the fall of the Roman Empire to the rise of commercial societies of his own day.

I give two related illustrations of Smith’s application of this logic. I have already mentioned Smith's study of the town’s escape from the feudal environment. As I argue below, in the violent and chaotic feudal era, no one could keep order, and the lords were always fighting each other and their king (WN III.iv.9:418; LJ(A) iv.126-27:249). When the towns gained corporate status, allowing them to build walls and defend themselves, islands of commercial republics grew up among the feudal violence. A necessary condition for the towns’ success was their ability to defend themselves against the local lords of the feudal order. Nonetheless, Smith argues that the towns did not grow into the commercial nations of Smith's day. In fact, Smith explains, the towns’ militias proved no match for the authoritarian monarchial standing armies (cite**).
Smith's NPT and NPPT have been a major focus of the literature since 1976, with major works on Smith's moral and political philosophy by Campbell (1971), Evensky (2005), Fleischacker (2004), Forman-Barzilai (2010), Griswold (1999), Hanley (2009), Herzog (2013), Hont (2005, 2015), Otteson (2002), Rasmussen (2008, 2016), and Smith (2006). These scholars demonstrate Smith's deep concerns in these topics; and they make the case for Smith's place in the political theory canon. This topic is, as yet, the least developed of my approach, so I therefore have little to say at this stage other than to express my intent to connect my work with the NPPT aspects of Smith's work on liberty and justice.

**Part 2: Reconstructing Smith's Politics**

My intent in Part 2 of my book in progress is to utilize the dozen or so papers and draft chapters I've assembled to draw general lessons about Smith's politics (see for example Liu and Weingast 2017 and Weingast 2017a,b,c,d,e,f). Part 2 therefore remains incomplete. In this introduction, instead of summarizing a dozen papers/chapters that will make up the largest portion of my book in progress, I will focus on Smith's political-economic discussions on why Europe in the Middle Ages experienced so little growth and how portions of the polity escaped. Specifically, Smith provides four in-depth discussions of this topic. The first I call the no-growth “feudal equilibrium” discussed in WN III and in LJ; the “industrial organization the medieval Church,” including the reasons it hindered development (in WN V.i.g); and Smith's separate discussions of the persistence
of highly inefficient forms of labor contracting (which he called “slavery”) and land
rights in *WN III** and *LJ **; and *WN III** an *LJ **, respectively.

Table 2: Smith's Jurisprudence Organized by
Subfield of Modern Political Science.

<table>
<thead>
<tr>
<th>Theoretical Topic</th>
<th>Applications in Smith’s Corpus</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Comparative politics</strong></td>
<td></td>
</tr>
<tr>
<td>Political-economics of</td>
<td>• Four-stages theory</td>
</tr>
<tr>
<td>development; Impediments</td>
<td>• The feudal equilibrium, the</td>
</tr>
<tr>
<td>to economic growth; The</td>
<td>rise of commerce in the</td>
</tr>
<tr>
<td>Middle Ages</td>
<td>“unnatural and retrograde order” of development.</td>
</tr>
<tr>
<td></td>
<td>• The American colonies</td>
</tr>
<tr>
<td></td>
<td>economic success</td>
</tr>
<tr>
<td></td>
<td>• China vs. Europe, 1500-1776</td>
</tr>
<tr>
<td></td>
<td>• The no-growth feudal</td>
</tr>
<tr>
<td></td>
<td>equilibrium; the rise of</td>
</tr>
<tr>
<td></td>
<td>commerce in the “unnatural</td>
</tr>
<tr>
<td></td>
<td>and retrograde order” of</td>
</tr>
<tr>
<td></td>
<td>development.</td>
</tr>
<tr>
<td></td>
<td>• The Catholic Church’s</td>
</tr>
<tr>
<td></td>
<td>monopoly on religious service</td>
</tr>
<tr>
<td></td>
<td>and its consequence; the loss</td>
</tr>
<tr>
<td></td>
<td>of this monopoly in the</td>
</tr>
<tr>
<td></td>
<td>Reformation.</td>
</tr>
<tr>
<td></td>
<td>• Slavery.</td>
</tr>
<tr>
<td></td>
<td>• Violence.</td>
</tr>
<tr>
<td><strong>International</strong></td>
<td></td>
</tr>
<tr>
<td>relations:</td>
<td></td>
</tr>
<tr>
<td>Security</td>
<td>• Arms, militias, and standing</td>
</tr>
<tr>
<td></td>
<td>armies.</td>
</tr>
<tr>
<td></td>
<td>o Why republican city-states</td>
</tr>
<tr>
<td></td>
<td>must inevitably fail.</td>
</tr>
<tr>
<td></td>
<td>• War and the laws of nations.</td>
</tr>
<tr>
<td></td>
<td>• Structure of the British</td>
</tr>
<tr>
<td></td>
<td>Empire.</td>
</tr>
<tr>
<td></td>
<td>o Smith’s proposal of a fiscal</td>
</tr>
<tr>
<td></td>
<td>union to end the conflict</td>
</tr>
<tr>
<td></td>
<td>with America.</td>
</tr>
<tr>
<td><strong>International</strong></td>
<td></td>
</tr>
<tr>
<td>relations:</td>
<td></td>
</tr>
<tr>
<td>IPE</td>
<td>• Trade relations within the</td>
</tr>
<tr>
<td></td>
<td>British Empire; trade relations</td>
</tr>
<tr>
<td></td>
<td>across empires.</td>
</tr>
<tr>
<td></td>
<td>• The mercantile system.</td>
</tr>
<tr>
<td><strong>Political Theory</strong></td>
<td></td>
</tr>
<tr>
<td>(NPPT):</td>
<td>• Rise of liberty in ancient</td>
</tr>
<tr>
<td></td>
<td>Greece; fall with the Roman</td>
</tr>
<tr>
<td></td>
<td>Empire; reemergence in the</td>
</tr>
<tr>
<td></td>
<td>medieval towns.</td>
</tr>
<tr>
<td></td>
<td>• The lack of liberty in the</td>
</tr>
<tr>
<td></td>
<td>feudal equilibrium during the</td>
</tr>
<tr>
<td></td>
<td>Middle Ages.</td>
</tr>
<tr>
<td></td>
<td>• The emergence of liberty in</td>
</tr>
<tr>
<td></td>
<td>England from the Middle Ages</td>
</tr>
<tr>
<td></td>
<td>to Smith’s time.</td>
</tr>
<tr>
<td></td>
<td>• The importance of liberty for</td>
</tr>
<tr>
<td></td>
<td>the economic success of the</td>
</tr>
<tr>
<td></td>
<td>American colonies.</td>
</tr>
<tr>
<td></td>
<td>• A discussion of public law</td>
</tr>
<tr>
<td></td>
<td>or Smith’s constitutional</td>
</tr>
<tr>
<td></td>
<td>theory</td>
</tr>
<tr>
<td></td>
<td>• A categorization of various</td>
</tr>
<tr>
<td></td>
<td>rights.</td>
</tr>
<tr>
<td></td>
<td>o (a) as a man [sometimes</td>
</tr>
<tr>
<td></td>
<td>called private law]</td>
</tr>
<tr>
<td></td>
<td>o (b) as a member of a family</td>
</tr>
<tr>
<td></td>
<td>[sometimes called</td>
</tr>
<tr>
<td></td>
<td>domestic or family law]</td>
</tr>
<tr>
<td></td>
<td>▪ Domestic and family law.</td>
</tr>
<tr>
<td></td>
<td>o (c) as a citizen or member</td>
</tr>
<tr>
<td></td>
<td>of a state. [sometimes called</td>
</tr>
<tr>
<td></td>
<td>public law]</td>
</tr>
<tr>
<td></td>
<td>• Justice.</td>
</tr>
</tbody>
</table>
I discuss these four topics in turn, followed by a partial list of additional topics beyond the medieval world that I intend to incorporate in Part 2. I warn the reader at the outset that all four discussions are summaries of much more in-depth analyses available on my website as three working papers (Weingast 2017a,b,c). My book will contain these analyses as chapters, so the summaries in the introduction to the book will there be backed up by later, more in-depth analyses. Yet here they must stand alone and may prove inadequate.

1. Smith’s Analysis of the No-Growth Feudal Equilibrium

As Liu and I argue, Smith uses equilibrium and comparative statics methodology throughout his corpus (Liu and Weingast 2017). One of the most interesting of Smith’s applications of these techniques is an equilibrium argument explaining why Europe endured several centuries of low-growth under feudalism and a comparative static argument explaining how an element of feudal Europe – the towns – escaped from the feudal order.

1.1. The feudal equilibrium following the fall of Rome. Book III of Smith’s Wealth of Nations and the parallel portions of his earlier Lectures on Jurisprudence represents a paradigmatic, early political-economic theory of development. As the question in Smith’s title to his main work suggests – what determines the differential “wealth of nations”? – Smith studied why some

---

10 See https://web.stanford.edu/group/mcnollgast/cgi-bin/wordpress/ under the tab, “Adam Smith Project.”

countries became rich while others remained poor. Smith expressed puzzlement at this lack of development because the economics were seemingly straightforward. He commented in the Lectures on Jurisprudence (LJ 521), “When one considers the effects of the division of labour, what an immediate tendency it has to improve the arts, it appears somewhat surprizing that every nation should continue so long in a poor and indigent state as we find it does.” A careful analysis of his discussions in both the Lectures and Book III of WN reveals that Smith provides an explanation for the long and difficult process of political-economic development in medieval Europe.

As Smith explained, the violence associated with the fall of Rome and subsequent era caused a downward economic spiral as exchange — in his theory the necessary basis for the division of labor and hence of opulence or wealth — became more risky and vulnerable. No government could provide security except on a local basis. As Smith writes, “The king also found it absolutely necessary to grant the power of jurisdiction to these lords; for as he had no standing army there could be no other way of bringing the subjects to obey rules” (LJ(A) iv.119:246). No one could maintain peace\(^\text{12}\); the great lords “were always at war with each other and often with the king, their whole power depended on the service of their retainers and tenents” (LJ(A) iv.126-27:249). In order to maintain some semblance of power and order, then, feudalism emerged as the rational response to the political uncertainty and constant threat of violence (Aspromourgos 2006:ch 5; and Moss 1979:85).

\(^{12}\)“After the institution of feudal subordination, the king was as incapable of restraining the violence of the great lords as before” (WN III.iv.9:418).
Feudal Europe continued to be characterized by violence, predation, and little economic growth. Investment, in Smith’s view, was generally fruitless; indeed, to invest, improve, accumulate, and better one’s condition was to become a target for plunder. According to Smith, “the occupiers of land in the country were exposed to every sort of violence...to acquire more might only tempt the injustice of their oppressors” (*WN* III.iii.12:405). Smith observed that the peasants (“slaves” as he called them), the vast bulk of the feudal population, captured none of the excess of their production beyond subsistence. Consequently, peasants had incentives to eat as much as possible and work as little as possible (*WN* III.ii.9:387-88). The constant threat of violence and predation inhibited economic development.

How was the low-growth feudal equilibrium sustained? Smith’s answer involves several features of medieval European society noted above, including violence, the medieval Church, slavery, and land rights. In this section, I focus on violence as the most central of these parameters. Because no one could impose order, the lords were constantly fighting each other. To survive in this environment, lords had to turn their economic surplus into military might in the form of vassals and retainers. Failing to do so left a lord vulnerable to the violence and plunder of other lords.

Smith’s logic forms an equilibrium argument. Given the constant violence, to invest and improve by those working and managing the land was to become a target of predation, and hence to be worse off. Individuals had few incentives to invest in capital improvements or new productive techniques because it risked
being plundered. The ever-present threat of violence had two related effects. First, it determined the form of political exchange which was based on land-holding. As I discuss below in section 4 of Part 2, a particular, inefficient form of land rights emerged to facilitate the local lords’ ability to provide local security, even at the expense of long-term economic growth.

Second, and perhaps more important, omnipresent violence created what we today might call an arms race. Regardless of whether an individual lord was violent by nature, if all neighboring lords organized their asset-holdings so as to enhance their ability to defend themselves and to project force, prudence demanded that the individual lord must of necessity also do so. A critical piece of this equilibrium is Smith's point that no one, including the king, could keep the peace and maintain order. If the King could maintain order, he could suppress the violence of the lords, and this would allow the lords to use their assets and income in more productive ways. But as Smith emphasizes, this condition failed to hold in medieval Europe.

In Smith’s view, the feudal world was violent and poor, but stable. In modern terms, we variously characterize this equilibrium of violence as a “vicious circle of poverty” (Macfarlane 2000:98) or a “violence trap” (Cox, North, and Weingast 2017). The agrarian feudal system failed to take the path to economic development, and no one in the feudal system had an incentive to deviate from their choices.

1.2. The emergence of towns and a new equilibrium. As just discussed, Smith's explanation for the no-growth feudal society involved an
equilibrium argument. To explain how parts of Europe escaped the feudal order and reached a new equilibrium – that of commercial society – he provides a comparative statics argument. The central element in Smith's explanation is the rise of towns involved in long-distance trade outside of the dominion of the local lords and kings. The emergence of towns reflected a new mode of political exchange. Initially, towns were small and lacked power. Traders were subject to 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.i.8:402). The feudal equilibrium, with its constant threat of violence, prevented traders from investing and expanding trade.

This environment fostered a critical, political exchange between the town and the king that enabled the towns to escape the feudal equilibrium of violence and low growth. The towns exchanged revenue and military support that strengthened the king relative to the local lords. In exchange for taxes and military support for the king against their common enemies, the local lords, the king granted the town rights of political independence. This political exchange strengthened both parties. Revenue and military assistance gave the king advantages relative to the local lords. And political independence allowed a non-incremental revolution by which the towns secured their own laws and justice, to build walls and defend themselves, and to expand greatly specialization and exchange involved in long-distance trade (WN III.i.8-9:401-02).
The towns’ independence, growth, and collaboration with the king required their ability to provide security through local military superiority (Winch 1978:76). Absent their own military superiority, the towns would have succumbed to the plunder of the local lords rather than escaping the violence and low growth of feudalism. As a form of specialization, long-distance trade afforded revenue to the towns to increase their military capacity and security and self-preservation. Security, in turn, allowed the towns to extend their political, economic, and military reach into the local countryside. The political exchange between king and town therefore fostered a simultaneous, three-fold revolution in liberty, commerce, and security in the towns. Smith famously described this revolution in the towns and the cities as the rise of “order and good government, and along with them the liberty and security of individuals” (WN III.iii.12:405).

In other work, Liu and I suggest that Smith’s discussion of the transition from the low-growth feudal order to the stage of commercial society — with high growth and political security—takes the form of a comparative statics argument (Liu and Weingast 2017 and Weingast 2017). Two parameters are of interest for Smith’s comparative static argument about the emergence of commerce: first, changes in the nature of violence in the countryside surrounding the towns; and second, a political and economic revolution arose as a result of the political

---

13 In Smith’s words, “The militia of the cities seems, in those times, not to have been inferior to that of the country, and as they could be more readily assembled upon any sudden occasion, they frequently had the advantage in their disputes with the neighbouring lords” (WN III.iii.10:403).

14 “By granting them magistrates of their own, the privilege of making bye-laws for their own government, that of building walls for their own defence, and that of reducing all their inhabitants under a sort of military discipline, he gave them all the means of security and independency of the barons which it was in his power to bestow. Without the establishment of some regular government of this kind, without some authority to compel their inhabitants to act according to some certain plan or system, no voluntary league of mutual defence could either have afforded them any permanent security, or have enabled them to give the king any considerable support” (WN III.iii.8-9).
exchange between king and town in which the king in effect sold privileges in the form of corporate organization in exchange for revenue.

Consider the changing nature of violence. In the context of the feudal equilibrium, the political exchange between king and town provided the basis for the town’s local military superiority over the local lords. This military superiority underpinned the town’s escape from the violence trap. It also allowed a growing sphere of commerce, higher levels of the division of labor, and long-distance trade. Each of these political and legal features contributed to the town’s economic growth. Whereas investment by individuals living under local lords was subject to plunder, investment by those living in towns were protected by the towns’ military security against external foes and a system of property rights, justice, and liberty to protect local production, investment, and markets. In the presence of a stable order and security, economic growth of the towns accompanied the advancing division of labor and economic integration.

Consider, second, the political implications of the security revolution. The expanding sphere of security greatly lowered the risk of plunder by the lords. Security, in turn, raised the expected rewards from investment, making a greater division of labor and economic integration less risky. The simultaneous and non-incremental changes in the dimensions simultaneously – liberty, commerce, and security – allowed the towns to protect themselves, to grow, and to become more powerful. As the towns extended their military, legal and economic reach into the nearby countryside, a major revolution occurred. Peasants, formerly at subsistence, improved their circumstances as they became specialists in

15 Smith describes the growing economic integration in (WN III.iii.20:408-10).
markets, producing food and materials for industry utilized by the town and in long-distance trade. Local lords were subdued, implying that they no longer needed (and could no longer maintain given the town’s military might) their expensive retainers. As Smith explains, the local lords let go of their retainers and used the new availability of peace, order, and markets to consume luxury goods (Berry 1997:140-43, Rasmussen 2017: 163-65, Smith 2006:80-81, West 1976:76, and Winch 1978:72-75).\footnote{As Smith famously argued, “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… 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 towns had escaped the violent, no-growth feudal equilibrium.

2. The Medieval Church

I summarize in this section the logic of Smith's political-economic approach to the medieval Church.\footnote{This section draws on Weingast (2017c), in turn drawing on Anderson (1988); Ekelund, Hébert and Tollison (2006), Griswold (1999), Iannoccone (1991), Lindgren (1973), Minowitz (1993), and West (1990,ch10).} Smith addresses a series of questions about the Church: how the secular and ecclesiastic authorities maintained their separate powers; why the secular authorities not only refrained from using their comparative advantage in violence to capture some or all of the Church’s authority but also subsidized their ecclesiastic rivals for authority and power; why the Church’s interests led it to suppress liberty and economic growth; and how the Church maintained its monopoly for so many centuries and why this
monopoly fell apart in the Reformation. Indeed, Smith argued that the Church had a pernicious effect on both liberty and the economy:

In … the greater part of Europe during the tenth, eleventh, twelfth, and thirteenth centuries, … the constitution of the church of Rome may be considered as the most formidable combination that ever was formed against the authority and security of civil government, as well as against the liberty, reason, and happiness of mankind, which can flourish only where civil government is able to protect them. In that constitution the grossest delusions of superstition were supported in such a manner by the private interests of so great a number of people as put them out of all danger from any assault of human reason… Had this constitution been attacked by no other enemies but the feeble efforts of human reason, it must have endured forever (WN V.i.g.24:803-04).

The Church’s principal interest, as with most organizations, was to maintain itself and, in this case, its monopoly position.\(^1^8\) In particular, Smith suggests that the Church sought to maintain its authority with the people. My approach demonstrates why this authority was so central to the Church’s survival (Weingast 2017c).

Smith addresses these questions by explaining the interaction of three groups, the secular authority as embodied in the secular lords; the ecclesiastical lords; and the masses or the people. The political exchange underlying the feudal society of the 10th-13th centuries involved an accommodation or implicit political exchange between the Church and the secular lords. In simple terms, the Church helped pacify the population of poor, rural peasants, tailoring its doctrines in part to serve this purpose. The Church supported the secular authority, helping to

\(^{1^8}\) “The [Church’s] great interest is to maintain their authority with the people; and this authority depends upon the supposed certainty and importance of the whole doctrine which they inculcate, and upon the supposed necessity of adopting every part of it with the most implicit faith, in order to avoid eternal misery” (WN V.i.g.17:797). As Minowitz (1993:169) observes, “Smith could hardly be more emphatic about religion’s grip on the masses.” More generally, see the work of Anderson, Ekelund, Iannaccone, Hébert, Tollison, Stark and Bainbridge, among others, in the new social science of religion.
preserve the very unequal distribution of land and wealth. In return the secular lords helped finance the Church and respected its authority within its realm. Both sides to this exchange had incentives to maintain this bargain, which allowed them to exploit the peasantry.

The Church maintained the people in a position of dependence through a variety of weapons. The masses were a potential source of disorder; for example, by rebelling against their lords. The masses might also reject the Church’s authority and strictures. According to Smith, the secular lords were unable to pacify the masses on their own; the masses therefore presented a powerful threat to the secular lords, especially when the Church encouraged them to confront the lords. Smith argued, for example, that the Church’s charity maintained most of the poor; the Church provided religious services, including salvation and comfort in times of death; and, a large portion of peasants made their livelihood by working on Church land. Each of these elements provided valuable benefits to the masses. The Church could withdraw these benefits if individual or groups of peasants failed to cooperate with it. These benefits were therefore weapons that afforded the Church a credible threat over the people. Peasants who failed to heed the Church’s interest and prescriptions risked dire consequences.

19 “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).
20 Smith maintained that the Church engaged in “extensive charity. Both the hospitality and the charity of the antient clergy, accordingly, are said to have been very great. They ... maintained almost the whole poor of every kingdom” (WN V.i.g.22:801).
In Weingast (2017c), I use simple game theory to show that Smith’s logic implies that this pattern of interaction was a stable equilibrium. Were a secular lord to attempt to challenge the Church’s authority, the Church would bring all its weapons to bear in retaliation.\(^{21}\) The Church would brand the lord as heretical; it would withhold its services, such as salvation; and, instead of pacifying the people, it would rally them against the lord. Smith illustrated this point with Robert of France.\(^{22}\) The Church’s ability to pacify the masses afforded it a credible threat over non-cooperative lords. These and other weapons allowed the Church to punish secular lords who failed to cooperate with it. In the face of these threats, most lords had strong incentives to avoid challenging the Church, and those that did challenge typically backed down.

The Church also suppressed liberty and economic growth among the masses because, over time, growth would have afforded the people power and independence, undermining the Church’s authority over them. In Minowitz’s (1993:169) terms, growth would have loosened the Church’s “grip” over the masses. The weakening of the Church’s authority over the people, in turn, would have weakened the Church’s threat over the secular lords. The Church’s long-term survival therefore required that it maintain its credible threat over the lords by suppressing growth among the masses (Acemoglu and Robinson 2006 demonstrate circumstances under which incumbents choose to solidify their hold

\(^{21}\) According to Smith, the Church would employ “all the terrors of religion to oblige the people to transfer their alliance to some more orthodox and obedient prince” (*WN* V.i.g.17:797).

\(^{22}\) Smith reports that, “when Robert, the second prince of the Capetian race [in France], was most unjustly excommunicated by the court of Rome, his own servants, it is said, threw the victuals which came from his table to the dogs, and refused to taste any thing themselves which had been polluted by the contact of a person in his situation. They were taught to do so, it may very safely be presumed, by the clergy of his own dominions” (*WN* V.i.g.27:805).
on power at the expense of growth). Keeping the people in a state of
dependence rather than of liberty, freedom, and economic growth, therefore
served the private goals of the ecclesiastic lords.

Smith’s approach also affords an explanation for the rise of religion
competition during the Reformation. At the same time that the Church
experienced losses in revenue, new forms of luxury arose along with the rise of
towns and commerce. The expanding market for luxury gave Church officials
new items to purchase for themselves, especially those clergy living in or near
the commercial cities and towns. Charity diminished. In search of greater
revenue, the Church granted peasants long-term leases.

In combination, these three changes weakened the Church’s authority and
credible threats over the people. Over time, these changes afforded the peasants
greater independence. The Church’s diminished authority, in turn, had a major
implication for the relationship of the secular and ecclesiastical lords: it removed
the Church’s ability to mobilize the peasants and hence its credible threat over
the secular lords. The lords responded to the new environment by demanding
and receiving new authority over the Church (e.g., in France and Spain) or by
removing the Catholic Church altogether (England and Northern Germany). The
result was the Reformation and the rise of powerful competitors to the Church.

I incorporate Smith’s logic into a simple game of strategic interaction
among three players, the secular authorities, Church, and the people. The
advantage of the game is that it demonstrates that Smith's logic underpins a
stable equilibrium. The equilibrium shows why each of the three players had
incentives to play their roles in maintaining the equilibrium. Smith thought systematically about the problems of religion in moral and theological terms and in terms of power and bargaining between the Church and the secular lords. The game also provides a comparative static result that shows how, as the Church’s authority over the people diminished, their credible threat over the secular lords diminished, allowing them to successfully challenge the Church.

Finally, Smith explains that the stable equilibrium surrounding the Church in the Middle Ages had long-term economic consequences. As quoted above, Smith characterizes the Church as a “formidable combination” against both civil authority and the rise of liberty. The Church’s authority over the people was central to its credible threat over the secular authorities, granting the Church the ability to retaliate against a king or lord who sought to challenge it. During this era, fostering greater liberty and independence among the people would have therefore removed the Church’s most important weapon in its relations with the secular authorities, much to the detriment of the Church. The Church therefore suppressed liberty, economic growth, and development.

The Church systematically exploited its monopoly, being less responsive to the population than otherwise. Anderson interprets the passage quoted at the beginning of this section that “the constitution of the church of Rome may be considered as the most formidable combination that ever was formed against the authority and security of civil government, as well as against the liberty, reason, and happiness of mankind, which can flourish only where civil government is able to protect them.” According to Anderson (1988:1080):
Smith was, in effect, accusing the monopoly church of reducing the quality of religion supplied to consumers, whose welfare was reduced as a result. In the same passage he clearly attributes this quality reduction to the self-interested behavior of the clergy, who extracted monopoly rent from their flock both directly and indirectly by promulgating irrational doctrines that served their own interests. The consumers of religion were badly served by the monopoly purveyor of spiritual guidance, just as in the case of monopolies in the provision of more mundane goods.

Problems of commitment and elements of political exchange are central to Smith’s approach to the feudal no-growth system, the medieval Church. In principle, both the Church and the peasants could have been better off with an exchange in which the Church fostered greater rights for peasants in exchange for greater revenue. These rights, such as longer leases and less dependency on the Church, would have allowed peasants to produce more, thereby financing both greater income for peasants and payments to the Church. The problem is, how would the peasants honor such an exchange over the long-term? Medieval society possessed no judicial system capable of enforcing long-term contracts. Once the peasants became better off, the Church’s weapons would no longer be so powerful, allowing the peasants to renege on any exchange supporting the Church. Absent credibility, it made no sense for the clergy to propose such an exchange.

Similarly, elements of political exchange are central to Smith’s approach. Over time, a stable, political accommodation evolved between the two sources of power, secular and ecclesiastic, which economists call an implicit bargain or contract (Ekelund, Hébert, and Tollison 2006:15).23 This bargain fostered an equilibrium political exchange between the Church and the secular lords. Both

23 Smith used the term, “tacit contract in LJ,” for this concept: see, e.g., LJ A v.118:317; LJ A v.128-29:321; and LJ A v.134:323.
groups had incentives to avoid their defection options so as to cooperate in exploiting the peasantry. This cooperation made them better off, but at the expense of considerable economic growth. In principle, the masses and the Church might have made a political exchange at the expense of the lords. But, as I have just argued, commitment problems made political exchange between the peasant and the Church difficult.

3. Sustaining Inefficient Forms of Labor: The Persistence of “Slavery”

Adam 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. Smith’s argument about slavery, as reported in the notes on his Lectures on Jurisprudence, 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 livelihood 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 passages attest, Smith argued that free tenancy was vastly superior economically to slavery. Using the quantities Smith’s provides about production in the above and related passages, I show that the net product under free labor was twelve times larger than under slavery (Weingast 2017b).

Smith’s view presents two puzzles. First, if slavery was so inefficient, why did it persist around the world, in particular, in Western Europe through the feudal period? Second, how was slavery abolished in Western Europe? These questions place Smith’s concerns centrally in the new political-economics of development literature (see Acemoglu and Robinson 2012, Bates 2001, Besley and Persson 2011, North, Wallis, and Weingast 2009, and, for present purposes, especially Acemoglu and Robinson 2006).

In Weingast (2017b), I draw on modern tools from the political-economics literature 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) 114:186). Even though slavery is economically inefficient, masters in effect indulge their preferences for domination. Referring to slaveholders, Smith says:
tho as I have here shewn their real interest would lead them to set free
their slaves and cultivate their lands by free servants or tenants, 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
tyrranizing, I say, will make it impossible for the slaves in a free country
ever to recover their liberty (LJ(A) 114:186).

Most scholars in the modern literature who study Smith on slavery take the first
perspective as Smith’s explanation (see, for example, Brown 2010, Griswold

Smith’s second argument, which occurs on the page following the first
argument (LJ(A) 116:187), involves the difficulties with compensating the lords
who owned the slaves. Indeed, Smith observed that this problem was
substantial. “In all countries where slavery takes place the greatest part of the
riches of the subjects consists in slaves.” (LJ(A) III.115:187).25 Smith explains the
compensation problem as follows:

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 general
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 emphasis
added).

24 Two exceptions include: (i) the editors of Lectures on Jurisprudence mention both explanations,
seeming to favor the second: “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); and Pitts (2005:30) who argues: “the initial weakness of government
makes it impossible for society as a whole to ban the practice.”

25 Smith continues: “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 Further, “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).
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 purchase 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 would prevent the former slaves from escaping before paying compensation? And what would prevent the slave’s master, who typically held a local comparative advantage in violence, from reneging on the promise of emancipation after payment had been made? The difficulty of solving these problems suggests that both sides would rationally be wary of an abolition mechanism that involved long-term compensation.

In modern, developed economies, the judicial system maintains the rule of law and enforces contracts, affording credible solutions to double-sided commitment problems. But the economies Smith discusses, such as medieval Europe, lacked a functioning system of justice that could provide the rule of law. This absence meant that the methods available in modern, developed countries to solve the commitment problem were unavailable in the societies Smith discusses. Absent a means of compensation, slaveholders in these societies rationally avoided abolition. Adam Smith, the so-called father of economics,

---

26 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.
provides here a political and legal argument for the failure of a more efficient system of labor markets to emerge.

4. Sustaining Inefficient Forms of Land Rights

The form of property rights is the final feature discussed by Smith introducing large inefficiencies in medieval Europe. Smith shows why the feudal lords adopted an extremely restrictive and highly inefficient code of property rights. Land was by far the dominant economic asset during the Middle Ages. Because land represented not only economic, but also political and military power in this period, the feudal system’s form of property rights was central to its survival. Smith explains how problems of security required that the form of property rights in land differ from those optimally suited for a market economy. Lords who deviated for the feudal system’s property rights were worse off. Land was the main productive asset at this time. Lords holding larger land parcels could support larger armies. Given the constant violence of feudal Europe (as noted in section 1 above), many small parcels were therefore more difficult to defend than a few large parcels.

At the micro-institutional level, land represented power in the feudal society. The form of property rights and the organizations supported by the feudal system was central to the feudal society’s survival. The form of rights privileged security needs over efficiency. In Smith’s argument, the rights in land

---

27 On violence and political power in this environment, see (Samuels 1973, Viner 1948; see also Hirschman 1945).
28 The discussion of Smith's views of property rights in land draws on Weingast (2017a), in turn, relying on Aspromougos (2009, ch5) and Henderson (2006,ch8).
were endogenous to the larger feudal environment. He explains why modern, private property rights in land could not be sustained. Moreover, the form of property directly affected – and limited – the types of organizations that could be sustained.

Modern, developed societies have a complex system of legal infrastructure that facilitates exchange and efficient allocation of land based on a strong system of property rights. Some of the characteristics of this legal infrastructure include: (i) strong protections from expropriation and plunder by the state and by others; (ii) a system of titling, ownership rules, and a judiciary to enforce them; (iii) the right to devise property by will among various heirs; (iv) rights of free alienation of land with an absence of encumbrances on selling the land and to whom the land may be sold; and (v) a legal system that enforces contacts, including those from the exchange of land (see, e.g., Posner 2006; Barzel 1990; Alston et al. 2015; and Weingast 2017a). Each of these characteristics facilitates the exchange of land from lower to higher valued users; in particular, to individuals who would improve the land.

The feudal system of property rights in land involved none of these characteristics. The problem of violence and the need to support military organizations to maintain security forced wholesale deviations from the set of characteristics just outlined. Lords regularly fought one another, and the winners often took portions of the loser’s land; condition (i) therefore failed. The absence of a government and a judicial system implies that conditions (ii) and (v) failed. Security required that a wide range of restrictions be imposed on the right of
property holders to alienate their property or to devise property by will. In particular, *primogeniture* arose, preventing the division of the land among several sons; so too did *entails*, which prevented a landowner from dividing his property and alienating some of the pieces.

Smith explains why this system was stable and valuable in feudal Europe. The logic involves violence, especially the failure of conditions (iii) and (iv). In economies where land is largely a means of subsistence, rights in land can move toward efficiency; and land law can reflect characteristics (i) – (v). In contrast, “when land was considered as the means, not of subsistence merely, but of power and protection, it was thought better that it should descend undivided… The security of a landed estate, therefore, the protection which its owner could afford to those who dwelt on it, depended upon its greatness. *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” (*WN* III.i:382-83, emphasis added). Smith’s central insight is the conclusion in the last sentence: to divide the land was to ruin it as a means of security.

The relationship between lord and retainer, organizations, and power all centered around land. The feudal society bundled rights to land with service obligations to the lord as part of the organization of the feudal hierarchy. Individuals did not own the land in the modern sense of clear title with an absence of the ability of the government or other individuals to force the property

---

29 The example of the deviation of rights in land from those best suited to markets to those best suited for feudalism illustrates Smith’s contention that Europe did not take the natural path to opulence, but deviated from that path considerably (*WN* III.i:8-9:380).
holder to give up the land. The organization of economic production paralleled the military organization.

Many of the most inimical features of feudalism’s rights in land can be explained by their role in supporting violence potential. These constraints on property improved local security even though they harmed the local economy by restricting land from moving to higher valued uses. Adam Smith argued that the emergence, role, and stability of primogeniture, entails, and wardship all improved a lord’s ability to project force and maintain local security.\(^{30}\)

Primogeniture prevented lords from dividing their property among many heirs, requiring instead that all of a lord’s property go to his first born son. In the violent feudal society, primogeniture enhanced security. One larger parcel had clear advantages, in Smith’s account, to the same land divided up that land into many smaller parcels. Because each locality had to provide for its own security, small properties were not secure. They “could not defend [themselves] and must be entirely dependent on the assistance of some of the neighbouring great men… [A]s the only security in the other case was from the strength of the possessor, small property could be in no security” (\(LJ\) i.130-31,55). Smith then draws the main implication: “If therefore an estate which when united could easily defend itself against all its neighbours should be divided in the same manner as moveables were, that is, equally betwixt all the brothers, it would be in no state of equality with those to whom it was before far superior” (\(LJ\) i.131,55).

---

\(^{30}\) Ober and Weingast (2017) show that Ancient Sparta failed to employ this form of property rights. Consistent with this perspective, over a series of generations, Sparta lost the ability to defend itself.
Of course, this system had substantial negative implications for economic
growth. The feudal system of land rights dramatically restricted the transfer of
land from low valued users to higher valued users; and, also, of markets to
engineer movement toward the optimal organization of parcels and, generally,
more efficient production.

The same logic applies to entails. If primogeniture preserved a lord’s
estate at time of death; entails preserved the estate during the lord’s life. Entails
“preserve[d] a certain lineal succession, of which the law of primogeniture first
gave the idea, and to hinder any part of the original estate from being carried out
of the proposed line either by gift, or devise, or alienation; either by the folly, or
by the misfortune of any of its successive owners” (WN III.ii.5:384).

Wardship, the practice whereby the king or lord appointed another the
right to use the land of an estate while an heir remained a minor, provides a
variant on this logic. Though hated by the elite, wardship represented a solution
to an important security problem. Recall that vassals of a lord held land by virtue
of an exchange to supply military and other services. A problem arose when a
ward as heir could not meet the feudal obligations associated with his land.
Wards could not provide the required leadership of the estate’s military
organization and, consequently, failed to provide the obligated service to the
Lord. Given the constant threat of violence, no Lord could afford to have property
in his domain that failed to contribute to his power and security. Wardship
allowed the Lord to assign rights to run the property to another person for the
duration of the wardship in order to finance violence potential and meet the
military service obligations to the lord that accompanied the ward’s property. Wardship introduced another form of inefficiency into the land economy: the person granted authority to run a ward’s property had incentives to take as much as possible and put little effort into maintaining the long-term viability of the estate.

In his discussion of the transition to the commercial society, Smith explains how the form of property rights in land changed from one equilibrium stage (feudalism) to the next (commercial society). Commercial societies generated wealth through commerce rather than largely through land, and they provided security in a very different manner than the feudal obligations based on an exchange of land for military (and other) services. In the commercial economy, primogeniture, entails, and wardship were very inefficient while producing few benefits. Commercial societies, therefore, were more likely to survive in a hostile world of international competition if they adapted the form of rights in land suitable for a commercial (i.e., market) society. Smith’s comparative static leads to the conclusion that, as the mode of subsistence changes from agriculture to commerce, so too do the optimal rules of property rights.

5. Additional Aspects of Smith’s Politics to be Incorporated in My Book in Progress

I have just summarized four of Smith’s interrelated arguments explaining the no-growth feudal equilibrium. To give a sense of the larger scope of my book in progress and hence the political science than can be gleaned from Smith’s corpus, I briefly summarize a range of Smith’s theoretical applications that I plan
to incorporate in my book. I have written or am in the process of writing on the following topics (indicating the current status of each discussion):

First, I plan a modern interpretation of Smith’s well-known four-stages theory. As Hont (2015**) argues, Smith used this theoretical device to project the natural progression of political-economics of development from which to assess the actual path of development. In this theory, Smith accounts for the form at each stage of law, government, the economy, social relations, and the family. (In preparation.)

Second, I plan to interpret Smith's discussion of the rise of liberty in England, 1475-1700, using a single framework to explain Smith’s characterization of three stages of parliament from an authoritarian leader's council to an independent and essential branch of government. (In preparation.)

Third, I study Smith’s “constitutional theory,” analyzed in the pioneering work of Winch (1978,ch4) and Haakonssen (1981,ch5,§6) but then largely ignored (Kennedy 2005,**, is an exception). Smith’s theory is closest to Montesquieu’s in his Spirit of the Laws (1748) and Madison’s in the Federalist Papers (1787-88), though preceding the latter by a quarter of a century. Smith’s ideas on this topic are virtually unknown because we know them solely through the two sets of student notes on his Lectures on Jurisprudence, the second and more elaborate of which became available only in 1978. (Available in working paper form as Weingast 2017e.)

Fourth, I plan a study of Smith's theories of the state in collaboration with Glory M. Liu. Existing approaches to Smith's views on the state, such as Stigler
(1975), are surprisingly dominated by neoclassical economics. Two aspects of this approach limit its ability to understand Smith's views. First, it makes an implicit and erroneous presumption – indeed, “fallacy” – that markets that exist apart from law and government (see Weingast 2016 on the “Neoclassical Fallacy”). The neoclassical approach limits the role of government to market “intervention,” largely to correct market failures. Instead, drawing on the new political-economics of development, we must acknowledge that markets cannot exist without a legal system, secure property rights, contract enforcement, and security (Acemoglu and Robinson 2006, 2012, Besley and Persson 2009, North, Wallis and Weingast 2009).\footnote{31} If so, then markets develop in tandem with law and politics. Smith regularly mentions this point in the form of justice and liberty as the foundation of the commercial society (cites).

Second, existing approaches implicitly assume that Great Britain circa 1776 was a developed country, even though none existed or could be predicted at that time. Instead, Britain was a developing country, if a rather advanced one. Much confusion has arisen because modern scholars implicitly assume that Smith’s comments on government address a developed country when many of his remarks are better understood as addressing a developing one. I argue that rejecting the neoclassical perspective and attending to when Smith's comments on government reflect an issue in a developing rather than a developed country affords a new view of Adam Smith on the state. (In preparation.)

\footnote{31} Otteson's (2011:130) “market model” account of Smith's views also makes this acknowledgement in that it formally argues that the rules of law and justice necessarily underlie markets.
Fifth, I demonstrate that Smith provided three different theories of the British Empire, including his complex and sometime contradictory views on mercantilism, free trade, and the value of the Empire to Great Britain. Remarkably, most of the literature concentrates solely on one of Smith’s theories, that emphasizing free trade. I also discuss Smith’s explanation for why the American colonies were well off and according to Smith would not just become rich, but richer than Great Britain (WN**). As part of this chapter, I provide a new analysis of Smith’s proposal to end the controversy over the “present disturbances” – which we on this side of the pond call the American Revolution. This proposal sought to restructure the Empire as a fiscal union – essentially an “Atlantic Economic Community” in Skinner’s 19** words – giving both sides what they want from each other without warfare (see Coase 1977). (Available in working paper form as Weingast 2017e.)

Finally, I project two normative issues involving NPT and NPPT. The first involves a chapter called “Why Property? Explaining Smith’s Focus on Property as Central to Both Liberty and Justice.” The second involves a game theoretic account of one of the central ideas in Adam Smith’s *The Theory of Moral Sentiments* on how members of a society sustain moral behavior.

Inevitably, these short summaries are at best teasers. Some or all of the six short descriptions in this section may therefore seem incredible. Nonetheless, I hope the reader will come away with a sense that the scope of my
reconstruction is larger than the current parts focusing solely on medieval Europe.

**Part 3: Very Preliminary! Generalizations and Conclusions: Implications of Smith’s Four Discussions for the Absence of Development in Feudal Europe**

By its nature, this section is the least complete. I intend to demonstrate the power of the synthetic political-economic approach by showing how a series of general principles emerge from Smith's various discussions of jurisprudence throughout his corpus. From my various studies, three such principles emerge: the central importance of violence; the importance of political exchange; and the commitment problem. Given the incomplete nature of part 2, I will focus for the present on the last of the three general principles, the commitment problem. This principle can be inferred from Smith's seemingly separate discussions of the impediments to development under feudalism.

To see this, consider the following summary of the findings in Part 2: In Smith's view, the feudal world was violent, undeveloped, and stable for centuries. Using modern language, I characterize this world as a "violence trap" (Cox, North, and Weingast 2017); or, in somewhat different terms, a "vicious circle of poverty" (Macfarlane 2000:98); or the absence of what Rothschild and Sen (2006,336) call a "virtuous circle" of economic growth. The applications in Part 2 are intended as an initial demonstration that many of Smith's seemingly independent discussions scattered across his corpus can be drawn together into a more coherent framework. Adam Smith's explanation for feudalism provides an
integrated theoretical approach to understanding why medieval Europe failed to grow and develop.

In Part 2, I examined four of Smith's discussions, all of which point in the same direction and, hence, add up to a larger whole. Whether Smith would have bound these discussions together we will never know. The economics and politics of feudal Europe, in Smith's vision, are inseparable. Constant violence is a central Smithian premise about medieval Europe, and this world cannot be understood without it. As Smith asserted, violence was constant because no one, including the king, could enforce order, and with it, a legal system supporting markets or the commercial society as Smith called them.

Smith shows that the constant violence dramatically influenced incentives. Plunder removed the incentives to save, invest, and improve. To prosper was to stand out, risking becoming a target of plunder. The absence of rights to any increase in circumstances had the same effect. Consequently, the vast bulk of the population – slaves in Smith's terms – had no incentive to work beyond the production of bare subsistence. But why did these inefficient forms of political-economic organization persist?

Throughout my account of Smith's work in Part 2, I highlighted the centrality of commitment problems and of political exchange underlying Smith's understanding of the persistence of inefficient forms of economic organization, such as feudalism, slavery, land rights, violence, predation, and the economic role of the medieval Church. Commitment problems helped sustain a wide range of forms of inefficiency and therefore prevent development in feudal Europe. In
all four aspects, commitment problems plagued the ability of different parties to make mutually beneficial political exchanges that would at once make both better off and advance development.

Specifically, I have shown that commitment problems underpinned each element Smith identifies as contributing to the no-growth feudal equilibrium; that is, preventing:

- Lords and king from limiting violence, producing order, and maintaining long-term peace necessary for development.
- The Church and the masses from making mutually beneficial exchange to increase efficiency of production.
- Landholders owning slaves from implementing long-term compensation schemes that would make both parties substantially better off.
- The need to provide security and project military power forced feudal lords to adopt and maintain a highly inefficient form of land tenure.

In each of these cases, the relevant groups could be better off with an exchange to produce more efficient outcomes. Likewise, in each case, the absence of institutional mechanisms to enforce political exchange agreements precluded making the exchange credible. For example, the Church would be far better off if the countryside around a Church grew rich, increasing its revenue. But if the Church did so, the peasants would grow stronger and, at some point, have the means to challenge and limit the powers of the Church. In principle, the Church and the peasants could come to an agreement precluding such an event, but such an exchange was not credible.

Taken as a whole, these medieval commitment problems reinforced each other, preventing political-economics of development and dooming generations
to miserable lives at subsistence. Mutually beneficial political exchange existed in
principle to end violence and create more efficient institutions and property rights
promoting economic growth. But the absence of the means of enforcing these
exchanges precluded the exchange.

The one aspect of medieval political exchange that proved credible in
Smith's view was the exchange underlying the towns' escape from the feudal
equilibrium. Recall that the exchange involved the king giving the town a set of
privileges to build walls, provide for their security, promulgate their own laws,
govern themselves, and engage in long-distance trade; the towns in turn provide
the king with revenue and military assistance. Kings valued this exchange
because the revenue and military assistance provided by the towns gave them a
substantial advantage over the lords. The towns valued this exchange because it
allowed them to protect themselves from the local lords, to establish institutions
promoting economic activities and investment, and to engage in highly profitable
long-distance trade. This exchange was credible because to cheat on it was to
lose it.

Smith's focus on a variety of medieval institutions sustaining inefficiency
and preventing political and economic development relies on logic that presages
the modern political-economic literature demonstrating the impediments to
development (see, e.g., Acemoglu and Robinson 2006, 2012, Besley and
feudalism, the medieval Church, and to medieval slavery and land rights reveals
different forms of systematic impediments to development. Common to each of
these topics is the idea that political interest lead groups to favor institutions by suppressing growth but which further their interests (Acemoglu and Robinson 2006, North, Wallis, and Weingast 2009, ch2). Another important aspect of Smith's work is that he also focuses on how particular groups escaped the impediments to growth, such as the rise of towns out of the feudal equilibrium or the demise of the Catholic Church's monopoly in the Reformation.

Finally, let me mention another aspect of general principles in Smith's work. In addition to the Smith's substantive logic just summarized, my work builds on Liu and Weingast (2017) to show that Smith's different discussions all rely on a common methodological approach; namely, the logic of equilibrium and comparative statics. My working papers on the subjects treated in Part 2, intended to become chapters of my book in draft. These fuller treatments provide explicit games and thus formal proof of the equilibrium and comparative statics logic summarized in the first four sections of Part 2.

References

R.1. The Works of Adam Smith

All references to Adam Smith's works are to the Glasgow edition, as reprinted by Liberty Fund.

The text uses the following abbreviations.


R.2. Other References


Raphael and Macfie 1976.


