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Visible Hands: The Earl of Lauderdale's Political Economy in the History of Economic Thought

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A thesis submitted in partial fulfillment of the requirements for the degree of Bachelor of Arts in
History at Pomona College

May 1, 2020

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Introduction

“[I]n the English tradition of humane science – in that tradition of Scotch and English thought ... there has been, I think, an extraordinary continuity of *feeling*, if I may so express it, from the eighteenth century to the present time – the tradition which is suggested by the names of Locke, Hume, Adam Smith, Paley, Malthus, Bentham, Darwin, and Mill, a tradition marked by a love of truth and a most noble lucidity, by a prosaic sanity free from sentiment or metaphysic, and by an immense disinterestedness and public spirit.” – John Maynard Keynes¹

The present work is at its heart a history of James Maitland, the 8th Earl of Lauderdale’s attempt to develop Adam Smith’s works of political economy into a more cogent theory of the role of the state in increasing social prosperity and “public wealth” more generally. It argues that, although Lauderdale was still firmly grounded in the moral philosophical and economic conclusions established by Smith in his major works and elaborated by Dugald Stewart and others in their intellectual program of the “science of politics,” the force and detail he committed to his critique of Adam Smith, combined with the strength and novelty of his own theories that would later be independently revived by economists in the late 19th and early 20th centuries, made him both the first major critic of the Smithian system of political economy as well as a major, prescient theorist of the economy in his own right. Although Lauderdale was firmly a practitioner of the “humane science,” considering his enterprise to be one concerned with improving the happiness of the public through increasing access to goods that improved their welfare, the character of his thought was fundamentally different from that of the economists and social theorists who preceded him. Lauderdale’s outsized focus on public wealth and public welfare served to advance the field’s concern with reconciling consumer demand and

¹ Keynes, John Maynard. *Essays in Biography*. London: Palgrave-MacMillan, 2019 (1933), p. 86.

consumption with the augmentation of a country's "public wealth" (or domestic product) while also anticipating (although not always directly influencing) later political economists, including Alfred Marshall and John Maynard Keynes, who solidified the study in political economy (which would soon be absorbed under the banner of the discipline of "economics") of problems of welfare, public resources allocation, and stimulus spending programs based on theoretical frameworks that recalled Lauderdale's contribution to similar debates in the early 19th century.

The present work's roles are those of description of the evolution of Lauderdale's thought within the context of the prevailing discourses of Smithian political economy as well as strictly political economical and economic description of the nature of Lauderdale's ideas. Its main sources are Lauderdale's notes, his major treatise of political economy, and the record of his extensive debate with Henry Brougham in the *Edinburgh Review* over the precision and utility of Lauderdale's theory of value and his distinction between "public wealth" and "private riches."

Chapter 1 applies the methods of intellectual history and biography to analyze the context behind emergence of Lauderdale's political economic thought. Paying close attention to how Lauderdale's acquaintance with and extensive training under prominent politicians and political economists, especially Adam Smith and Edmund Burke, shaped the theoretical underpinnings of his system of political economy, the chapter argues that Lauderdale was uniquely well prepared to tackle Smith's system of political economy from the beginning of his career as a political economist and politician, and that his reading of Adam Smith anticipated much later theories of value and production, most particularly the Marginalist theories of the 19th century and the Keynesian theories of

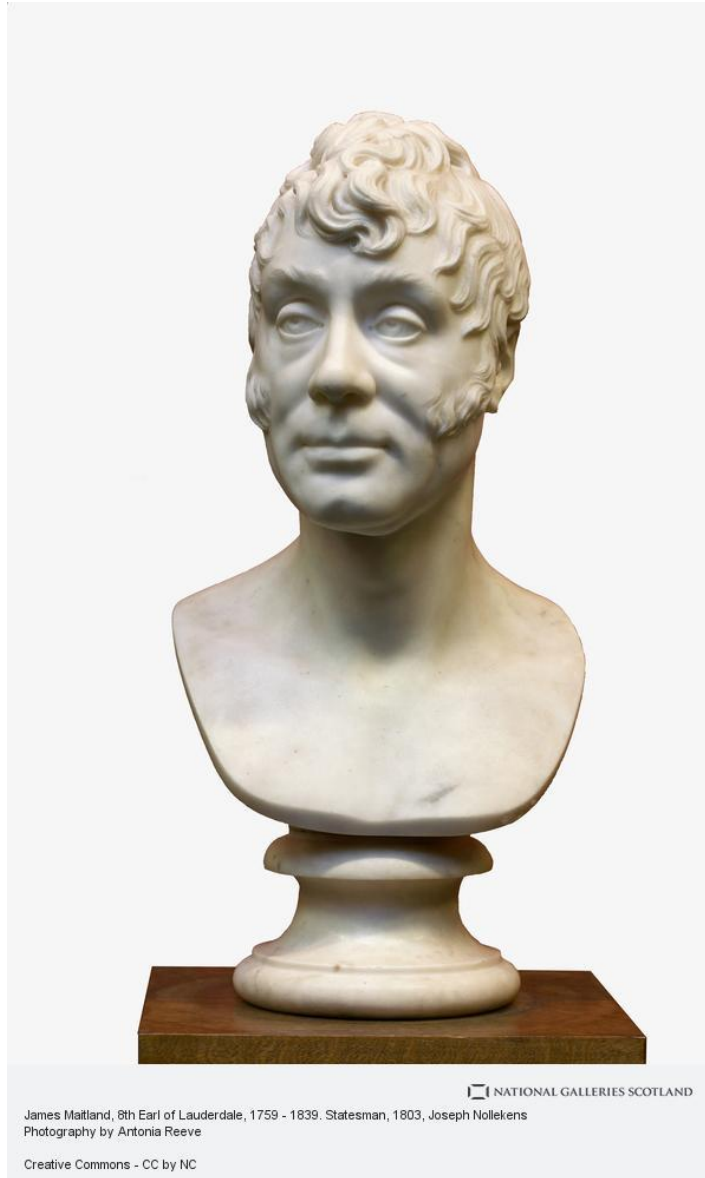
production and investment of the early 20th. The nuances of Lauderdale's theory are more fully explored in chapter 2 in concert with the discussion his detailed treatise, *The Inquiry into the Nature and Origins of Public Wealth*, which was concerned with what Lauderdale considered to be the central problem of political economy and the factor most notably omitted in Smith's own theory.

Chapter 2 will extend the previous chapter's methodology to examining Lauderdale's *Inquiry* and the precise ways in which it examined, developed, and critiqued Smith's political economic theories. The chapter will also how Lauderdale's thoughts on Adam Smith were situated within the established intellectual discourse and curriculum of the "science of politics" that emerged in Scottish universities in the years after the publication of *The Wealth of Nations*, in doing so unraveling how Lauderdale, who had the unique benefit of being at the center of British power and legislation, conceived of his learning of political economy in the context of his roles as a politician, a political economist, and a student of public finance while also finalizing the project of critiquing Smith he had begun with his notes on *The Wealth of Nations*. It pays particularly close attention to how Lauderdale used his extensive education and familiarity with the discourse of political economy to rectify what he saw as "linguistic" and methodological mistakes in the field as it existed at the time of the *Inquiry*'s writing at the turn of the 19th century, arguing that Lauderdale both retained the methodological essence of early political economy while advancing the field in a hitherto unknown direction.

Chapter 3 investigates how Lauderdale defended his ideas against criticism by analyzing a series of essays-cum-opinion pieces exchanged between Henry Brougham, founder of the third *Edinburgh Review*, and Lauderdale on the plausibility and accuracy

of the latter's treatment of public wealth and the nature of value. By reinforcing his critique of Smith and advancement of his own ideas through both theoretical reasoning based on his principles of political economy as well as the usage of charts, tables, and economic calculations to make his case, Lauderdale, the chapter argues, developed a strongly independent system of political economy that both resisted attempts to reduce it to a mere "metaphysics" or theory that had no relation to the moral and political goals of political economy in the early 19th century as well as distinguished the originality of Lauderdale's approach of political economy from that enshrined in older institutions of Scottish political economy such as the *Edinburgh Review*.

Chapter 1: Lauderdale's Early Life and Thought to 1804



Joseph Nollekens: Lauderdale as "Citizen Maitland," 1803.

In his account of the friendship between Adam Smith and David Hume, Dennis Rasmussen refers to Smith as the “perfect Humean.”² Smith’s moral philosophy and political economy, developed during his friendship with Hume, were both profoundly influenced by and critical of the philosophical work that he had produced. Furthermore, Smith’s primary works, though delving into questions of moral philosophy and political economy to a deeper and more analytical degree than Hume’s *Essays*, nonetheless found inspiration from Hume’s writings of the feasibility of virtue ethics, philosophies of mind and science, and the reconciliation of “moral sentiments” with the amorality of 18th-century commercial society. The two men’s philosophical friendship was emblematic a “shared pursuit of a noble end – in their case, philosophical understanding,” and their intellectual exchanges, while amiable, were nonetheless focused on obtaining this understanding in the context of their own writings and those of their peers -- the two men’s degrees of devotion to the ideas of their respective other were never unequivocal.

In a similar vein, James Maitland, the future 8th Earl of Lauderdale,³ may be characterized as the “perfect Smithian” who carried the torch of 18th-century theories of commercial society into context of early nineteenth-century political economy and the new controversies that accompanied it. Although Maitland only met Smith a few times as a student at Edinburgh and in his early years in Parliament, his familiarity, facilitated by his tutors and instructors in Edinburgh and England, and his later deep study of *The Wealth of Nations* that led to his collected notes on the work together inculcated a strong critical and intellectual connection to Smith’s work and that of his predecessors. As with

² Rasmussen, Dennis. *The Infidel and the Professor: David Hume, Adam Smith, and the Friendship that Shaped Modern Thought*. Princeton: Princeton University Press, 2019, p. 11.

³ Lauderdale was known as James Maitland until inheriting the title of Earl of Lauderdale in 1789 and will henceforth be referred to as Maitland in this chapter.

Smith's building upon Hume's theories and extending their conclusions and methods of inquiry to subjects Hume had not extensively covered, Maitland demonstrated a deep and wide-ranging understanding of Smith's political economy and its context within Smith's own *Theory of Moral Sentiments* as well as related 18th-century moral philosophical and economic works. Although he was hardly slavish in his admiration and understanding of Smith (Maitland's theories of value and public finance could not be more askance from Smith's own), Maitland's ability to critically synthesize the works of Smith and his forebears in an internal "dialogue" allowed him to develop sophisticated theories of production and consumption, just as Smith developed upon Hume's own philosophies of science and commerce in the years of their friendship. And although Maitland was hardly only "employed in the learned professions,"⁴ as Smith and Hume were, his close involvement in those circles imbued him with an understanding that amply prepared him for his major critique and development of Adam Smith's political economy.

As with Rasmussen's inquiry into tracing how Smith and Hume's "philosophical friendship" shaped the contours of Smith's thought, the present chapter centers around the similar (albeit less personal) textual relationship Maitland cultivated with Smith and Scottish political economy more generally and the implications for the content of Maitland's main theoretical contribution to political economy in the *Inquiry*. Maitland's notes on Adam Smith's *The Wealth of Nations* serves as our foremost primary source for understanding Maitland's reception of Smith and the latter's influence on the political economy of Maitland's *Inquiry*. The early years of Maitland's life until the publication of the *Inquiry* in 1804 will serve as the frame for our understanding of how Maitland

⁴ Rasmussen, 8.

processed the work Smith and others and subsequently developed the critique to be published in the *Inquiry*.

The relation of Maitland's life and career to the content of his writings fundamentally differs from those of Hume and Smith. Broadly considered, Smith and Hume were professional academics whose "active scene of life"⁵ in politics was supplementary, if not completely incidental, relative to their intellectual careers. Although Hume professed to be "of a good family ... a branch of the Earl of Home's,"⁶ he "was not rich ... [and] my patrimony, according to the mode of my country, was of course very slender."⁷ According to Hume, it was "my studious disposition, my sobriety, and my industry" that recommended him to law, but his disdain of that discipline, combined with "my slender fortune ... being unsuitable to this plan of life [of pursuing philosophy]"⁸ forced him to "make a very rigid frugality ... and to regard every object as contemptible, except the improvements of my talents in literature."⁹ Having resolved himself to this peripatetic existence, Hume embarked to La Fleche to write his *Treatise of Human Nature*, whose poor sales compelled him to write more financially viable works, including his *Essays*. Adam Smith's biography, though less financially stressed and more "extremely uniform"¹⁰ than Hume's, was nonetheless characterized by similar experiences. Smith was born into reasonably secure circumstances in Kirkcaldy. His father, who was also named Adam Smith, was a "modestly affluent customs officer, a position that the

⁵ David Hume. "My Own Life" (MOL), 4.

⁶ MOL, 2.

⁷ MOL, 3.

⁸ MOL, 4.

⁹ MOL, 4.

¹⁰ Buchan, James. "The Biography of Adam Smith," in *Adam Smith: His Life, Thought, and Legacy*, edited by Ryan Patrick Hanley. Chicago: University of Chicago Press, 2016.

younger Smith would likewise come to occupy.”¹¹ Smith never knew his father, but was extremely close to his mother, whom he survived by six years.¹² After attending university in Glasgow, Smith left for Oxford on a forty-pound bursary,¹³ where he first discovered Hume’s *Treatise*, perhaps, as Rasmussen suggests, His subsequent life was characterized by long stays at his mother’s house in Kirkcaldy, during one of which he wrote *The Wealth of Nations* over a period of six years. As Smith writes in a 1780 letter to Andreas Holt,

Since I had the pleasure of seeing you, my own life has been extremely uniform. Upon my return to Britain I retired to a small town in Scotland [Kirkcaldy] the place of my nativity, where I continued to live for six years in great tranquility, and almost in complete retirement. During this time I amused myself principally with writing my Enquiry concerning the Wealth of Nations, in studying Botany (in which however I made no great progress) as well as some other sciences to which I had never given much attention before.¹⁴

Smith and Hume’s friendship, moreover, was a reflection of their involvement in the sphere of ideas; it was a “philosophical friendship” that reflected their similarities and candid disagreements in character, fundamentally uninterested in the “applications” of their intellectual pursuits and differences of opinion. As Rasmussen writes, “Smith’s relationship with Hume represents a nearly textbook model of this kind of [philosophical] friendship: one that arises not just from serving one another’s interests or taking pleasure

¹¹ Rasmussen, 36-37.

¹² That is, a scholarship. Rasmussen, 37.

¹³ Buchan, 5.

¹⁴ Smith, Adam. *Correspondence of Adam Smith*. Indianapolis: Liberty Fund, 1987, p. 208.

in one another's company, but also from the shared pursuit of a noble end – in their case, philosophical understanding.”¹⁵

By contrast, Maitland's place in the history of economic thought proceeds through a route that was not only constantly intersected and interrupted by the concerns of politics during his stint in the House of Commons (1780-1789) and his long tenure in the House of Lords as Earl of Lauderdale (1789-1839), but also from its earliest foundations reliant less on the intellectual mutualism of philosophical friendships than on careful study of his intellectual precursors set against the duties and privileges of his aristocratic station. Before embarking on a brief treatment of Maitland's life up to the publication of the *Inquiry*, it is important briefly digress as to the particular relevance of Maitland's biography to his subsequent thought.

The greatest question that close reading of Maitland's works evokes is similar in substance, but much more apparent and serious, than the erroneously conceived “Adam Smith problem.” An analogous “Lauderdale problem” asks to what extent did Maitland's aristocratic background and the defense of his status and privileges in the face of impact the quality and consistency of his intellectual output? Maitland's notes on Smith and his *Inquiry* suggest he was a devoted, albeit critical student of Adam Smith and a prominent torchbearer of the Scottish Enlightenment's discourses on commercial society. On the other hand, his speeches in the House of Lords, where he supported the protectionist Corn Laws¹⁶ and recommended the, suggest Maitland's ambivalence toward the principles he had learned from and developed in the *Inquiry*, or at least a purely rational, class-

¹⁵ Rasmussen, 6.

¹⁶ Lauderdale, James Maitland, 8th Earl of. “Protest against the decision of the House of Lords of the corn importation bill, June 13, 1828.”

conscious attempt to defend mercantilist and bullionist ideas, among others, as ways to protect his pre-existing wealth and social standing. Thus, although Maitland began his studies immersed in the thinking of John Millar, Smith, and Hume, and his *Inquiry* reflects a longer tradition of thought on commercial society and its relationship to moral psychology, his degree of “belief” in those principles is complicated by his multifaceted life and political career. Before examining Maitland’s first significant intellectual contribution in the form of his critique and development of *The Wealth of Nations* in the form of notes, it bears examining how the conflicting circumstances of Maitland’s life - vis-à-vis his thought first made themselves apparent.

Maitland’s earliest life until his tutelage under Andrew Dalzel in the 1770’s is largely unattested. His father, also named James Maitland (1718-1789), was a lieutenant colonel in the British army¹⁷ seventh Earl of Lauderdale, whose historical seat was at Thirlestane Castle near Lauder in Berwickshire.¹⁸ The title had been created in the 17th century with John Maitland, a “nobleman of great honour and probity”¹⁹ and the son of John Maitland, 1st Lord Thirlestane, James VI’s Chancellor in Scotland. John was descended from earliest recorded members of the Maitland family that had accompanied William the Conqueror from Normandy and whose descendant, Hugh de Morville, “took

¹⁷ Thomson, A. *Lauder and Lauderdale*. Galashiels: Craighead Brothers, 1902, pg. 135.

¹⁸ Berwickshire is a historic county in the Scottish Borders region, located in the extreme southeast of Scotland. James Maitland, the 8th Earl of Lauderdale and our subject, was born in Hatton House in Ratho near Edinburgh, which the Maitland family had acquired by marriage in 1652 and which was sold by the 8th Earl of Lauderdale in 1792. Maitland and his family “resided chiefly at Hatton” during his childhood (Dalzel, *History of the University of Edinburgh*, vol. 1 (1862), pg. 6). See Findlay, J.R. “Notes on Hatton House, Mid-Lothian” in *Proceedings of the Society of Antiquaries of Scotland*, 1876, pp. 124-139.

¹⁹ Thomson, 132.

permanent service under the Scottish king ... [and] received in gift the lordship of Maitland” sometime before 1140.²⁰

The course of Maitland’s tutelage and university education quickly introduced him to the thinkers with which he would later engage with and critique in the *Inquiry*. Andrew Dalzel, Maitland’s first tutor and teacher, had “fortune [throw] him into the family of Maitland”²¹ by 1766, when he began to be “fixed ... with my two pupils [Maitland and Thomas, his brother] in Winter.”²² Due to the lack of any comprehensive biography of Maitland’s early life and career, Dalzel’s diary of his tutelage of Maitland and subsequent friendship is especially revealing of both of the well-connected nature of Maitland’s family in his childhood and adolescence and more generally of the basic facts of Maitland’s life in the period up to the *Inquiry*’s publication.

From the record of Dalzel’s earliest interactions with Maitland, it is evident that the young Maitland had significant exposure to numerous literary and philosophical figures and their ideas both in Scotland and abroad. Dalzel notes that “Sir Adam Ferguson [the Scottish historian and philosopher (1723-1816)] begged for a copy of the prologue”²³ of a play Dalzel had performed with the two boys. Dalzel brought his pupils on a visit to Paris in 1774 and later, while he was aspiring to become a professor of Greek, “accompanied his first pupil, Lord Maitland [Maitland], to Oxford, where the young man was entered at Trinity, and resided for a term.”²⁴ Although Dalzel reveals

²⁰ Thomson, 128.

²¹ Dalzel, Andrew. *History of the University of Edinburgh from its Foundation*, vol. 1. Edinburgh: Edmonston and Douglas, 1862, p. 6.

²² Dalzel, 7.

²³ Dalzel, 7.

²⁴ Dalzel, 13. Incidentally, Dalzel, like Adam Smith before him, “was not struck with [his pupils’] learning or love of study. Indeed, notwithstanding so much personal kindness, he left Oxford with a very low opinion

little of his mentorship of Maitland in this period, his familiarity with the authors and works of the Scottish Enlightenment suggests that Maitland was from an early age exposed to, if not directly in conversation with, Adam Smith and other philosophers and historians of the period. In May 1776, now a Professor of Greek at Edinburgh, he writes of the publication of “Dr. Adam Smith’s long-expected work [*The Wealth of Nations*]” along with the “very masterly” first volume of Gibbon’s *Decline and Fall of the Roman Empire*.²⁵ By summer 1776, Dalzel “was reading with Lord Maitland, to enable him to benefit by the instruction of Professor [John] Millar of Glasgow, in whose house he [Maitland] spent the following winter.”²⁶ Visiting Millar’s house in January 1777, he remarks of Millar’s “vast merit in inspiring them [Maitland and David Hume’s nephew] with an enthusiasm for law, literary, and political knowledge” and observes that “Lord Maitland has entered quite into the spirit of going on in law and politics, and I am mistaken if he does not make a figure.”²⁷

Maitland’s time as a student under Millar continued his close association, both intellectual and occasionally personal, with prominent thinkers and luminaries in Scotland. Millar’s *Origin of the Distinction in Ranks* (1771) sought to address problems of authority and the evolution of hierarchy and political order through a conjectural history taking inspiration from Smith’s “four ‘ages’” view of history expressed in his *Lectures on Jurisprudence* that were “distinguished by population, wealth, the needs

of literature and its discipline” (Dalzel, 14). He later wrote that “The English universities are huge masses of magnificence and form, but ill calculated to promote the cause of science or of liberal inquiry.” (Dalzel, 14).

²⁵ Dalzel, 21.

²⁶ Dalzel, 23.

²⁷ Dalzel, 23.

these endangered, and the ways those needs were satisfied.”²⁸ In its methodology of conjectural history as a way of tracing “the remote history of polished nations ... to a state of ... rudeness and barbarism”²⁹ the *Origin*’s debt as a work of history and moral philosophy to the works of Smith and Rousseau is clear. Similarities with Maitland’s thought are abundant, and the nature of their relationship suggests that Maitland was significantly influenced by Millar’s thought and intellectual connections, as well as Millar by Maitland himself. As John Craig reports in his *Life of John Millar, Esq.*, “With none of his pupils did Mr. Millar continue on a footing of so much intimacy and friendship as with Lord Maitland; and it is to their frequent and unreserved communication of sentiment, that a similarity, observable between their opinions of the nature of the profit of stock, may be ascribed. Which of them first suggested this ingenious idea, it would probably have been difficult, even for themselves, to determine: it is likely to have occurred in some of their conversations on political oeconomy, and, having been afterwards developed and improved by both, it naturally conducted them to similar results.”

Millar’s work develops ideas about commerce and public wealth is indebted to Hume and Smith in its discussion of the origins and evolution of political power and systems of rank. In one striking passage, he argues, along the lines of Hume’s “Of Refinement in the Arts” that the progress of the arts, industry, and “luxury”³⁰ leads to a broader diffusion of wealth and power among the populace through specialization of

²⁸ Garret, Aaron, ed. “Introduction” in Millar, John. *The Origin of the Distinction of Ranks* (4th ed., 1806). Indianapolis: Liberty Fund, 2006, pg. xi, paraphrasing Adam Smith, *Lectures on Jurisprudence*. LJ (A), i.27.

²⁹ Millar, 84.

³⁰ In the 18th-century sense, “luxury” is inherently pejorative, connoting corruption in taste and moral deficiency (e.g. in Rousseau’s *Discourses*), although from Mandeville onward it was often understood as conducive to public good in an indirect sense. Mandeville’s *Fable of the Bees* and Hume’s *Essays* offered perhaps the most resolute defense of luxury prior to Smith.

labor insofar as “the labouring part of the inhabitants are enabled to procure subsistence in a different manner.”³¹ According to Millar, these increases in the scale and importance of manufacturing relative to agriculture lead the inhabitants “to make proficiency in particular trades and professions; and, instead of becoming servants to any body, they often find it more profitable to work at their own charges, and to vend the products of their labour.”³² This leads, in turn, to “[advancements] in opulence and refinement [that allow a society] ... to employ a greater number of tradesmen and artificers ... [Subsequently] the lower people become more independent in their circumstances ... and their application is more uniformly directed to acquire those talents which are useful in the exercise of their employments.”³³ This process of specialization and increasing prosperity, in turns, leads to a diminishing of the type of behavior of the old nobility that Ricardo would later called rent-seeking. As Millar summarizes,

As persons of inferior rank are placed in a situation which, in point of subsistence, renders them little dependent upon their superiors; as no one order of men continues in the exclusive possession of opulence; and as every man who is industrious may entertain the hope of gaining a fortune; it is to be expected that the prerogatives of the monarch and of the ancient nobility will be gradually undermined, that the privileges of the people will be extended in the same proportion, and that power, the usual attendant of wealth, will be in some measure diffused over all the members of the community ...³⁴

Although it cannot be determined with certainty whether Maitland met Adam Smith before 1784, as we discuss below, his studies under Millar and Millar’s own involvement in the intellectual milieu of the Scottish Enlightenment indicates that

³¹ Millar, 236.

³² Millar, 237.

³³ Millar, 237.

³⁴ Millar, 239.

Maitland was exposed to the ideas of Scottish political economy from an early period. Indeed Millar's "acquaintance and friendship with Dr. Adam Smith,"³⁵ which first blossomed during Millar's time at the University of Glasgow, and which "first directed" Millar's attention "to that particular line of research, in which afterwards he became so eminent ...".³⁶ Although Millar's interest in the origins of government seldom directed him toward fiscal or well as earlier mercantilist writers, his general embrace of Smith and Hume's political thought suggests that he was a conduit through which Maitland was first exposed to the mercantilists that he would later discuss in his notes on *The Wealth of Nations* and in the *Inquiry*. In particular, Maitland had read and was conversant in the writings Josiah Child and Charles Davenant, the latter of whom appears to have directly influenced, along with Adam Smith, Maitland's rejection of bullionism, which equated a nation's quantity of gold and silver with its "public wealth."

Although Maitland's notes on *The Wealth of Nations* are undated, it is reasonable to assume, given his and John Millar's relationship with Adam Smith and Maitland's own interactions with Smith, that he was first exposed to, and perhaps began to systematically study, Smith's inquiry in this period, particularly after he made his maiden speech in the House of Commons in 1780. His notes, many of which would evolve into the larger arguments of the *Inquiry*, reveal a close acquaintance with a variety of historical and contemporary political economists, including the mercantilists and David Hume, as well as an intimate understanding of Adam Smith's argument and his attempt to refute the most prevalent doctrines of mercantilism. Before examining these notes in detail, it is necessary to clarify how close Maitland's intellectual relationship with Smith before the

³⁵ Millar, 9.

³⁶ Millar, 9.

turn of the 19th century, as well as survey the development of Maitland's economic and moral sentiments in his few speeches and writings from the period as a way of contextualizing the ideas within the notes in terms of his social network with other political economists and philosophers and his practical experience in applying the knowledge he had acquired under Dalzel and Millar.

As Maitland was at best an intermittent autobiographer, we turn to Dalzel to understand the main currents of Maitland's travels and intellectual friendships in this period. Maitland's own work only begins to emerge in the period when he served in the House of Commons in the decade prior to his becoming the Earl of Lauderdale, largely in the form of his speeches as a Whig MP for Newport (1780-1784) (a seat he assumed "on the interest of [Hugh Percy, 1st] Duke of Northumberland"³⁷) and Malesbury (1784-1789). From this point, Maitland's speeches and those of other MP's provide the main chronicle of Maitland's Whiggish politics and his anti-war and free trade advocacy in Parliament. In 1781³⁸, Dalzel writes of Maitland's maiden speech "on the motion of the second reading of Mr. Burke's celebrated bill^[39]"⁴⁰. Despite his anxiety at addressing a chamber of nearly four-hundred, Maitland was "master of his ideas, and his anxiety had

³⁷ Namier, Lewis, Brooke, John. *The House of Commons: 1754-1790*. London: Boydell and Brewer, 1985, p. 98.

³⁸ Dalzel, 31. The edition in which Dalzel's letter is reproduced incorrectly lists the date as February 26, 1780, despite Dalzel also reporting on "a son of Lord Chatham [i.e. William Pitt the Younger] having distinguished himself" on the same day. William Pitt the Younger, who was Prime Minister continuously from 1783 to 1801 and again from 1804 to 1806, entered the House of Commons in January 1781 and, as with Maitland, delivered his maiden speech on February 26, 1781.

³⁹ Burke's case for his "Establishment Bill" is made in Burke, Edmund. "Speech on Presenting to the House of Commons a Plan for The Better Security of the Independence of Parliament, and the Economical Reformation of the Civil and Other Establishments," February 11, 1780, in John C. Nimmo, ed., *The Works of Edmund Burke*, vol. 2 (1887), p. 341. See also Klinge, Dennis Stephen. "Edmund Burke, Economical Reform, and the Board of Trade, 1777-1780." *The Journal of Modern History*, vol. 51, no. 3 (1979), pp. 1185-1200; Christie, Ian R. "Economical Reform and 'The Influence of the Crown', 1780." *The Cambridge Historical Journal*, vol. 12, no. 3 (1956), pp. 144-154.

⁴⁰ Dalzel, 31.

in my opinion a good effect on his manner and elocution.”⁴¹ His speech, like Burke’s, was a “bold attack on the Ministry [sic. = Board] [of Trade]”⁴² and a contribution to the heated debate on the executive power of the Board of Trade that Burke, Maitland, and others had participated in as part of in the “economical reform” movement in the House of Commons. The previous two decades of wars, including the Seven Years’ War and the American War of Independence, as well as imperial expansion in America and India, had led to, according to Burke, Maitland, and other reformists, an increase in sinecures and other executive placements into the House of Commons and a consequent endangerment of that body’s ability to regulate the military and executive expenditures of the country. Burke and other economically liberal Whigs constituted the Rockingham Whigs, a faction led by the Marquess of Rockingham in the House of Commons prioritizing a de-escalation of war with the United States and a reduction in the power of executive and bureaucratic officials in various ministries, including the Board of Trade. During his brief tenure as Prime Minister in 1782, the eponymous Marquess of Rockingham pushed for official recognition of the United States and an end to the war, which would be achieved the following year under Lord Shelburne. Maitland’s support for these objectives would continue well into his tenure in the House of Lords, where his advocacy for a de-escalation of war with France, his friendship with Jean-Paul Marat, and his slovenly dress habits led to his being nicknamed “citizen Maitland.” Maitland’s embodiment in the economic reform would coincide with the publication of the *Inquiry*, and it is doubtless that his notes are at least partially informed by his experience with Rockingham’s faction during this period. The *Inquiry* itself, where Maitland advocated for increased

⁴¹ Dalzel, 31.

⁴² Dalzel, 31.

government expenditures as a means of promoting economic growth, along with Maitland's later political behavior and defection to the Tories, serve to complicate this *laissez-faire* conception of Maitland as a young parliamentarian.

Fiscal conservatism played an important, although subsidiary role in the reform program. As Burke noted in his speech, "This board [of Trade] is a sort of temperate bed of influence, a sort of gently ripening hothouse, where eight members of Parliament receive salaries of a thousand a year for a certain given time, in order to mature, at a proper season, a claim to two thousand, granted for doing less, and on the credit of having toiled so long in that inferior, laborious department."⁴³ the primary goal, according to Burke's resolution, was "to declare, [sic] that the influence of the crown has increased, is increasing, and ought to be diminished" and to "examine and correct abuses in the expenditure of the civil list revenues, as well as every other branch of the public revenue."⁴⁴ Burke's desire for a lessening of the executive power accorded well with his general skepticism of Britain's increasingly expensive and demanding foreign endeavors in the late 18th century. His anti-war streak becomes evident from March 1775, when he delivered a speech recommending de-escalation with the rebellious American colonies.⁴⁵ He would later, as with Maitland, emphasize the waste and overreach of the war and would support the Rockingham government's efforts to end hostilities and officially recognize the United States. Maitland, in his *Letters to the Peers of Scotland*, written at the peak of his involvement with the pro-French revolutionary Society of the Friends of the People, compared the American and French revolutions to the Glorious Revolution of

⁴³ Burke, 341.

⁴⁴ *The Parliamentary Register*, vol. 1 (1780-1781), p. 482.

⁴⁵ Burke, Edmund. "Speech on Conciliation with the Colonies." Retrieved February 1, 2020. <http://press-pubs.uchicago.edu/founders/documents/v1ch1s2.html>

1688. “From this progress of opinion [after 1688] arose the American Revolution, and, from this, most unquestionably, the delivery of France. Nothing, therefore, could be more natural, than those who, without blind bigotry for the principles of our ancestors, should rejoice in a Revolution, where these principles, which England had long suffered to repose in impotent abstraction, were called forth into energy, expanded, invigorated, and matured.”⁴⁶ Although Burke would adopt an overwhelmingly more critical attitude toward the French Revolution than the American, the anti-war sentiments of both thinkers proceeded from this sense of detecting hypocrisy in Britain’s handling of those who would seek liberty along the lines of Britain itself. Given his studies under Millar, who associated the growth of democratic forms of government with economic prosperity and consumption, and the influence of Adam Smith, it is perhaps not surprising that, at least in the years leading up to the publication of the *Inquiry*, Maitland adopted both radically democratic and radically *laissez-faire* economic views, both of which, it may be presumed, harmoniously coexisted in his support for the French Revolution and his polemics against government frugality in the last years of the 18th century and the early years of the 19th.

Maitland’s general agreement with Burke’s programs of curbing the power of the crown and reducing Britain’s involvement in overseas colonial wars is evocative of the strong political and intellectual kinship between the two parliamentarians. Although Burke would later come to occupy the more socially conservative wing of Whig party after 1789 and the publication of the *Reflections on the Revolution in France* in 1790, by

⁴⁶ Lauderdale, James Maitland, 8th Earl of. *Letters to the Peers of Scotland*. Dublin: P. Byrne, 1795, p. 156.

which point Maitland had already left the House of Commons to succeed his late father as Earl of Lauderdale.

It is in Maitland's relationship with Burke and his continuing visits with Dalzel and Millar that we find direct evidence of his having met Adam Smith, by which point Maitland had presumably been previously exposed to his political economy via diffusion from Millar and Burke, whose friendship with Smith was convivial and well-documented. As Robert Bisset Burke's biographer, reported in 1800, "Mr. Smith, [Burke] said, told him, after they had conversed on subjects of political economy, that he was the only man, who, without communication, thought on these topics exactly as he did."⁴⁷ Although Burke's relationship with the practice of political economy is complicated and frequently contradictory (the demise of the "age of chivalry," part of Burke's traditionalist argument, is partially blamed on "sophisters, oeconomists, and calculators"⁴⁸), it is reasonable to suppose that his mutual acquaintance with Maitland and Adam Smith led to an interchange in ideas between the three men. Dalzel provides evidence for interactions between the three in later entries of his diary. In 1784, Dalzel records that "Edmund Burke has been here lately. Some time ago he was chosen Rector of the University of Glasgow, and he took the opportunity of coming down to be installed. Lord Maitland attended him constantly, and Mr. Adam Smith."⁴⁹ Dalzel continues the account by remarking on how Burke was "the most agreeable an entertaining man in conversation I ever met with."⁵⁰ Subsequently, the men, including

⁴⁷ Macpherson, C.B. "The Burke-Smith Problem and Late Eighteenth-Century Political and Economic Thought." *The Historical Journal*, vol. 28, no. 1 (March 1985), pp. 231-247, p. 231.

⁴⁸ Macpherson, 231.

⁴⁹ Dalzel, 42.

⁵⁰ Dalzel, 42.

Smith and Maitland were stayed at Hatton, Maitland's childhood residence, and "accompanied" Mr. Burke to Glasgow, where they "supped with him at Professor Millar's house" on Friday and "dined with the University" after Burke's installation as rector on Saturday. On Sunday, Maitland, Smith, and Burke traveled to Loch Lomond and on the following Thursday, "dined at Smith's" before Burke returned to England on Friday. As for Adam Smith's manner during the week he spent in Burke, Maitland, and the author's company, Dalzel reports rather little, although he is effusive in his praise of Burke's "fluency of expression" and "luxuriance of imagination."⁵¹

This brief anecdote poignantly illustrates the depth with which Maitland pursued his intellectual commitments within the discipline of political economy well before he had published his main theoretical contribution to that discipline in the form of the *Inquiry* while raising the question of why Maitland and Burke, among the hundreds of legislators in Parliament, were predisposed to seek out Adam Smith and Scottish political economy in general as an aid to their political careers. How did an otherwise politically peripheral book and author come to influence

It is worth remembering that, for decades after the publication of *The Wealth of Nations*, political economy had a mixed status in the perception of British intellectuals and politicians. While economic reasoning was central to policy debates in Parliament, the political economy propounded in *The Wealth of Nations* was hardly a mainstay of most late 18th-century bills. As Kirk Willis notes, "when economic principles and statistics were offered in Parliament, they were derived from many other sources than the

⁵¹ Dalzel, 43.

Wealth of Nations.”⁵² This would be reflected in Lauderdale’s earliest speeches and those of his peers among the Rockinghamite Whigs. The summary of Charles James Fox, a prominent Whig and Leader of the House of Commons during Lord Rockingham’s brief second stint as Prime Minister, of *The Wealth of Nations* was among the earliest conspicuous mentions in Parliament of Adam Smith’s moral and economic project, and also among the most vacuous and simplistic. “In that book [*The Wealth of Nations*] it was stated” Fox said in Parliament in November 1782, “that the only way to become rich, was to manage matters so as to make ones income exceed ones [sic] income exceed ones expenses. ... The proper line of conduct, therefore, was by a well-directed economy to retrench every current expense, and to make as large a saving, during the peace, as possible.”⁵³ Although the Rockinghamite Whigs to which Burke and Maitland initially belonged were among the earliest political promoters of Smith’s theory, Smith’s principles and knowledge were generally used just an authority to cite⁵⁴ rather than a principled political economic approach to dealing with issues of the growth and distribution of wealth and commerce. The relation of Burke’s own economic thinking to that of Smith is also complicated by his own lack of citation of Smith in his speeches on economical reform⁵⁵ and the lack of any direct endorsement of Smith’s ideas anywhere in his works.

What is fundamental for understanding Maitland’s personal relationship with Smith through Burke is not a predisposition on the part of the Whigs to use of political

⁵² Willis, Kirk. “The Role of Parliament in the Economic Ideas of Adam Smith, 1776-1800.” *History of Political Economy*,

⁵³ Willis, 508.

⁵⁴ Willis, 509.

⁵⁵ Willis, 523.

economy instrumentally as a way of informing the basic positions of the party. Rather, the influence of Smith on Maitland's thinking came both directly, through his study of *The Wealth of Nations* through his tutelage under Millar and his independent reading of the work, as well as indirectly, through his exposure to the earliest appeals to the *Wealth of Nations* in debates in the House of Commons. Maitland's interest in economic affairs blossomed commensurately with his encounters with the exponents of the field known as political economy, making him uniquely receptive to ideas that politicians whose tenure preceded the publication and popularity of *The Wealth of Nations*. In short, Maitland's connection to the political faction that first promoted, albeit superficially, Smithian political economy combined with his deep education and interest in affairs that were given a strong theoretical backing and explanation in Smithian political economy serve to explain his unusually thorough acceptance and adoption of political economy as a means of both advancing both his political career and cultivating a distinct intellectual profile in the field of political economy vis-à-vis the relatively apolitical Smith and Hume.

Despite most evidence from Dalzel and others with respect to Maitland's early exposure to political economy being largely indirect and requiring a degree of speculation and extrapolation in forming a picture of Maitland's intellectual development, this account provides considerable support for the notion of Maitland's early and extensive involvement in the discipline prior to what may be conceived of as his most formative years in the House of Lords after the French Revolution. Rather than being a mere successor to the political economists of the Scottish Enlightenment who happened upon political economy as an asset to his political career, Maitland was an active participant whose dialogue and study of the movement's most prominent writers, as well as a

thorough grounding in their predecessors in Scotland, England, and the Continent, thoroughly prepared him for his own contributions to political economy in the *Inquiry*. He was foremost a student and intellectual interested broadly in the same topics that intrigued Smith and Burke and only secondly (and perhaps by duty alone) a politician and officeholder. While his political experience doubtlessly informed the changing and often contradictory contours of his thought in his later years, his experience under his mentors – Dalzel, Millar, and Burke – suggests that he entered politics with an already extensive theoretical grounding, which perhaps, given the “Lauderdale problem” we identified above, may have been at odds with the political necessities of his office. That is, Lauderdale’s priorities as a landed nobleman interested in preserving his rents and revenues from sources of competition that free trade and the growth of industrial capital generated would have been at odds with his strong interest and endorsement of the principles Smith advocated in *The Wealth of Nations*. Indeed, as Dalzel reports, Burke confided in Maitland that it would be to his advantage to give up his intellectual escapades in order to better fulfill his political ambitions. “Lord Maitland,” Burke began, “if you want to be in office; if you have any ambition, and wish to be successful in life; shake us off; give us up!”⁵⁶ Although the prophecy of Maitland’s conflicted embrace and occasional rejection of the principles of classical political economy would later come about in his 1820’s conversion to the reactionary wing of the Tories, he nonetheless came into the world of politics and theoretical political economy with a clear understanding of what Smith, Hume, and their predecessors argued, and how the strengths and weaknesses of those arguments, when assessed against practical experience, might be critiqued to form a new theory of public wealth.

⁵⁶ Dalzel, 43.

It is in this context that we at last turn to treating Maitland's notes on the *Wealth of Nations* as a prelude to considering the *Inquiry* itself. His notes reveal not only the depth of his learning on his contemporaries and predecessors in political economy, but also his budding critique of the most controversial theories of Smithian political economy as a prelude to his own theory of public wealth that considered more deeply the role of capital and increasing consumption as agents of economic growth and transformation.

Maitland's most sustained critiques of Smith lay in his rejection of the labor theory of value, his questioning of Smith's distinction between "productive" and "unproductive" labor and his substitution of supply and demand levels for labor as the ultimate criterion for judging a commodity's value. These themes form the main thrust of the nascent argument about the "nature and origins of public wealth" in Maitland's notes and will form the main part of our analysis of them. Smith premised much of his theory of production and economic growth on labor specialization and considered the growth of capital and machinery relatively unimportant and subsidiary to the division of labor that leads to the growth of public wealth. Indeed, as Smith makes clear from the first sentence of *The Wealth of Nations*, "The annual labour of every nation is the fund which originally supplies it with all the necessaries and conveniences of life which it annually consumes, and which consist always, either in the immediate produce of that labour, or in what is purchased with that produce from other nations."⁵⁷ The greatest "improvement," moreover, on the "productive powers of labour and the greater part of the skill, dexterity, and judgment with which it is any where directed, or applied" is "the effects of the

⁵⁷ Smith, Adam. *An Inquiry into the Nature and Causes of the Wealth of Nations* [WN], Introduction.i.

division of labor.”⁵⁸ Maitland’s skepticism of Smith’s argument similarly begins at this point. In response to the claim about national labor, Maitland writes, “There is a third circumstance that is here omitted which appears of infinitely greater importance in fixing this proportion than either of the two alluded to - It is the degree in which the use of different sorts of labour is supplanted by stock or capital.”⁵⁹ In response to Smith’s claim about the division of labor as the source of productivity, Maitland develops a parallel idea of the division of labor as in fact being contradictory to the development of machinery and capital, which he judged to be more salient in assessing the true nature of a country’s wealth. “It is impossible,” Maitland asserts, “to conceive how the application of machinery should be the effect of the division of labour. The division of labour tends to confine the attention and of course the knowledge of the workman to the performance of one simple operation.... Hence it is rather to be expected that the division of labour operates against the invention of machinery.... The nature and advantages of machinery will come properly to be considered in treating of stock or capital, of which all machinery forms a branch.”⁶⁰ Maitland justifies this sentiment by appealing to the technological advances of the late 18th and early 19th centuries as evidence for the labor supplanting nature of machinery: “[The] ... perfection of machinery ... embrace[s] the greatest possible variety of operation by the use of one machine... [and it is] rather expected that the division of labor operates against the division of machinery.”⁶¹ Maitland, who derived considerable influence from Turgot’s physiocratic theories, also critiques Smith’s characterization of the nature of agriculture as one that “does not admit of so many

⁵⁸ WN, l.i.1.

⁵⁹ Maitland, 7.

⁶⁰ Maitland, 1.

⁶¹ Maitland, 9.

subdivisions of labour, nor of so complete a separation of one business from another, as manufactures.”⁶² “Agriculture,” he contends in the notes, “is the Art of extracting from the Earth what forms the sustenance or is fit for the consumption of Man and the improvement made by his industry in this Primory [sic] Act is far greater and more wonderful than any other exertion of his Talents.”⁶³ The “industry” of agriculture, as Maitland argued, necessitated a degree of capital and technological and displacement of labor that was greater than that of other industries, which, to Maitland’s credit, proved truthful in the latter decades of the nineteenth century.

Maitland proceeds to lay out a theory of value that relies more heavily on scarcity and subjective valuation than that of Smith, frequently returning to the example of the prices of necessities, particularly grain, in the subsequent pages of his notes to the first book of the *Wealth of Nations*. Although he does not admit a universal or consistent measure of value, his most consistent way of reckoning with the improvement of production (what might roughly be compared to the modern concept of real GDP growth) is where he consistently uses capital’s “supplanting” of portion of labour as a basis for public wealth⁶⁴ Maitland’s fundamental argument, which he elaborates in his extensive notes on Smith’s characterization of the value of commodities and their relation to labor, is that “A real measure of exchangeable value never can exist,”⁶⁵ contra Smith’s summarization that “labour be the real measure of the exchangeable value of all commodities.”⁶⁶ To Maitland, “The value of labour is regulated by the same principles as

⁶² WN, I.i.4

⁶³ Maitland, 8.

⁶⁴ Maitland, 69, 27, 72, 76, 141,

⁶⁵ Maitland, 17.

⁶⁶ WN, V.i.1.

the value of any other commodity - Labour itself can therefore form no real measure of value.”⁶⁷ Rather, “[v]alue is a term that implies [sic] comparison ... The value of any commodity in comparison of other commodities depend upon the relative state of the proportions betwixt the quantity of each commodity & the extent of the demand for it.”⁶⁸

This alternative, comparative definition of value based on the relative scarcity and subjective value of goods leads Maitland to analyze the value of individual commodities, as arising from “a thing's becoming an object of desire,” that is, from a perceived “value [that is] often produced totally independent of any change in the qualities of commodities themselves.”⁶⁹ Such a value, according to Maitland, exists independent of the nature of the good and the labor expended in its extraction, such that “In a Siege or Man of War, Water or Gunpowder may often be of greater value than silver, and [that] a famine always makes Gold worth its weight in Bran.” This statement propounds, if not in entirely explicit or clear terms, a characterization of the relative value of commodities as reliant on marginal utility as determined by demand for a good. Rather than, as with Smith, understand diamonds according to the effort required to extract and refine them, Maitland understands their value as dependent on the circumstances in which consumers demand them. Where water's relative abundance is able to satisfy the needs of most consumers, even if those needs are very great, its value in terms of marginal utility is quite low, while that of diamonds can be quite high due to their scarcity and the demand by consumers. In cases where water is scarce, however, the value of a unit of water is much greater than that of a unit of diamond, since water's necessity for human survival imparts on it an immediate value greater than any other commodity.

⁶⁷ Maitland, 17.

⁶⁸ Maitland, 17.

⁶⁹ Maitland, 21.

The other example, of grain and gold, also illustrates this principle. While the baseline utility of grain is very high (insofar as it is essential for survival, which Maitland identifies as the “subsistence value” of grain), once enough grain has been cultivated to satisfy basic needs, the value of producing additional grain rapidly decreases. The same principle, as Maitland identifies, also applies to gold. Gold possesses a unique value owing to its scarcity, such that it is valued very highly over other goods, such as grain, that are usually relatively abundant. In conditions of famine however, any consumer would prefer that grain, which is relatively scarce in such a situation, to gold, inasmuch as it has a high initial valuation at a low supply level (but a low marginal utility at a high supply level) relative to gold. This is what Maitland implies when he notes that “famine always makes Gold worth its weight in Bran.”

While Maitland fails to rigorously quantify the marginal cost of individual commodities, his early identification of the principle of marginal utility, which would not be fully explicated until the 1870’s, demonstrates a remarkably sophisticated understanding development of Smith’s theory of value even in this relatively early entry into his intellectual output.

Proceeding from his understanding of value, Maitland’s critique of Smith’s theory of production also extends itself to Smith’s endorsement of “parsimony,” or excessive saving, which Maitland would later condemn in the *Inquiry*. Smith, following his labor theory of value, notes that “Parsimony, by increasing the fund which is destined for the maintenance of productive hands, tends to increase the number of those hands whose labour adds to the value of the subject upon which it is bestowed. It tends therefore to increase the exchangeable value of the annual produce of the land and labour of the

country.”⁷⁰ Maitland, by contrast, believes that parsimony “in its usual sence [sic]” in spending cannot increase national wealth, but on the contrary “would produce directly the opposite effect by diminishing the exchangeable value of the annual produce of the country.”⁷¹ According to Maitland, parsimony

...must occasion a failure of demand for the articles of annual produce proportioned to the value saved and this must produce a diminution in the exchangeable value of the consumable commodities already existing equal in amount to the value saved, as the extent of consumption is the measure by which the future reproduction must be regulated it will occasion a diminution in the produce of the ensuing year that is in the revenue of the country. Saving may increase the wealth of the person who saves at the expence [sic] of the other members of the society but neither this nor any other transfer of property already existing can augment the national wealth. - The general mass of wealth in a community can alone be increased from the source from whence all capital and riches sprung that is by an increase of production and it is an extended demand arising from expenditure, - not a diminution of demand (which must be the consequence of deprivation of expence [sic] by which this is to be obtained

Although Maitland was hardly the first to understand the concept of “investment,” and cannot be said to have understood anything resembling the modern economic notion of gross domestic product (GDP), his distinction of saving from investment, which he does not name here but implies by the phrase “increase of production ... [and] extended demand arising from expenditure” is a subtle one that presages the exclusion of certain categories of savings from the GDP metric, which considers investment in capital or improved machinery but differentiates national savings or investment (I), which is the difference between gross wealth (Y), consumption (C), and government spending (G), and where increased consumption and government spending implies lower saving and

⁷⁰ WN, II.iii.17

⁷¹ Maitland, 89.

vice-versa. Maitland, as with the Keynesian theorists who pioneered modern national income accounting, understands parsimony largely as unnecessary for economic growth. Saving as a part of ordinary decisions by consumers can ensure personal financial security, but, by definition, it cannot be applied toward economic growth, even in an indirect manner.

In Maitland's critique of Smith's conceptions of value and parsimony, we see at a relatively early stage his sophistication as a political economist and the depth of engagement with Smith's thought. As one of the earliest sustained critics of Smith's system of political economy, Maitland began from an especially privileged position as a student of many of the predominant philosophers and writers of the era. His tutelage under Burke exposed him both to radicalism and political conservatism, while his studies under Millar introduced him to theories of commerce and political philosophy that served him well in his later works and his time in France. The focus of this chapter has been teasing apart the contribution of Maitland's first four decades to his thought. The latter chapters of the thesis will focus on how he applied his depth of study and political experience toward the goal of creating a theory of public wealth in the *Inquiry* and in defending his ideas in the context of competing early nineteenth century discourses on the validity, scope, and objectives of the science of political economy.

Chapter 2: Lauderdale on the “Science of Politics:” The Political Economy of the *Inquiry*



James Maitland, 8th Earl of Lauderdale (1806) by Thomas Phillips, [National Galleries of Scotland](#). Here, Lauderdale, now seventeen years an Earl and a published author in political economy, projects the stature and demeanor of the “enlightened legislator,” a central archetype in the Scottish “science of politics.”

In his anonymously⁷² written review of Lauderdale's *Inquiry into the Origins of Public Wealth* in the fourth issue of the *Edinburgh Review*, Henry Brougham wrote of Lauderdale's attempt to "discuss the most elementary branches of political economy," which Brougham believed "denominates" as the "pure metaphysics of political economy [that] ... form[s] the whole subject-matter of the present publication." The "system" of Lauderdale's work, Brougham assessed, remained thoroughly grounded in and "must receive judgements upon" the "principles applicable to mere speculative theories, and not upon any views of its practical tendency." The work, plainly stated, must be regarded, according to Brougham, "altogether as piece of abstract reasoning, without any reference to actual policy," one that can be critiqued, as with Smith's *Wealth of Nations*, solely on the grounds of its propensity toward "a total perversion of common language."⁷³

In the context of the evolving role of Scottish political economy as an aid to both practical and moral reasoning, Brougham's charge of the *Inquiry* as being a work of vacuous economic abstractions cannot be accused of having been strictly inaccurate as a characterization of the nature of Lauderdale's work. Indeed, among the objectives Lauderdale stated of his work were "[achieving] a clear understanding of the relation which Public Wealth and Individual Riches bear to each other"⁷⁴ and correcting the amount of "obscurity ... [and] error ... [that] has existed in confounding them."⁷⁵

⁷² Collini Stefan, Winch Donald, Burrow, John. *That Noble Science of Politics: A Study in Nineteenth-Century Intellectual History*. [CWB]. Cambridge: Cambridge University Press, 1981, p. 51. In 1855, Brougham "was still claiming that this review established his credentials as the first person to uphold the correct scientific position on the subject" (CWB 51). See Brougham's *Lives of the Philosophers of the Time of George III*, 4th ed. London: R. Griffin, 1862, p. 222. Brougham claimed his review to be "the foundation of much that has since been written on this controversy."

⁷³ Brougham, Henry, "Lord Lauderdale on Public Wealth." *Edinburgh Review*, vol. 4 (1804), p. 347.

⁷⁴ Lauderdale, James Maitland. *An Inquiry into the Nature and Origins of Public Wealth and to the Means of its Increase*. Edinburgh: Archibald Constable, 1819 (2nd ed, used henceforth), 1804 (1st ed.), p. 8.

⁷⁵ *Inquiry*, 7-8.

According to Brougham, Lauderdale's focus on the minutiae of language in political economy led to his becoming mired in a seemingly self-evident and opaque, such that the "repetition of those assertions as to the author's discoveries, seems to be substituted for the fulfillment of the promises they imply."⁷⁶

Such charges, however, appeared to betray Brougham's ignorance of the context of Lauderdale's goals in writing the *Inquiry*. Both Lauderdale and Brougham recognized that political economy had become a "science" that embraced an internally consistent system of reasoning and principles to guide itself on questions of public wealth and private riches. Where Smith had characterized his own magnum opus as "an attack upon the whole commercial system of Great Britain," the generation of Scottish political economists following him operated within a "science of politics" that took Smith's work as a foundation on which to construct philosophical inquiries into the nature of commercial society and determine the "laws" of political economy as they applied to all countries, rather than the mercantilist, protectionist Britain that prompted Smith's efforts. The science of politics, or the "science of the legislator," as Smith described it in *The Wealth of Nations*,⁷⁷ formed part of the attempt of political philosophers and political economists in the Enlightenment to "apply the Newtonian or experimental method to moral subjects."⁷⁸ In Smith's paradigm, the morality of the impartial spectator grounded his recommendations on the specialization of labor and free trade as means to increasing the wealth and commercial prosperity of an increasingly imperialistic and industrializing Britain. The purveyors of the "noble science" in Britain, beginning with Hume and

⁷⁶ Brougham 1804, 344.

⁷⁷ Smith, Adam. *An Inquiry into the Nature and Causes of the Wealth of Nations*, vol. I. Indianapolis: Liberty Fund, 1981, p. 428. Book IV, introduction.

⁷⁸ CWB, 14.

continuing with Dugald Stewart, Lauderdale, and Brougham, among others, perceived themselves not as founding a distinct and novel science, for the idea of politics as science had originated with Aristotle and Thucydides and had found, in Britain, its latest apex in the political economy of Adam Smith.

Rather, as Collini *et al.* observe in their work on the origins of the science of politics in Britain, the “ultimate purpose”⁷⁹ of the science of politics, or the “science of the legislator”⁸⁰ as it was understood from Hume’s essays in the mid-18th century was to “furnish political maxims, draw practical inferences, and formulate clear criteria for judging the fitness of laws and institutions which could guide the conduct of wise legislators and thereby serve, as Macaulay proclaimed, the ‘welfare of nations.’”⁸¹ Although practitioners of the noble science, (which could easily be equivalently called a “noble philosophy” in 18th-century terms) did not endorse the same experimental method that characterized the burgeoning physical science of the late 18th and early 19th centuries, their efforts, as Hume put it, to “glean up our experiments in this science from a cautious observation of human life, and take them as they appear in the common course of the world, by men’s behaviour in company, in affairs, and in their pleasures”⁸² appear quite familiar to the practitioner of the modern, albeit amorphous methodology of the “social sciences.” But in contrast with later practitioners of the discipline properly called “economics,” Hume, Smith, and Lauderdale could hardly claim the ability to separate the “positive” and “normative” strains of the science of politics, as Milton Friedman did with economics in 1953. They could not, in short, claim that studying the facts of

⁷⁹ CWB, 14

⁸⁰ CWB, 14.

⁸¹ CWB, 15.

⁸² Hume, David . *A Treatise of Human Nature*. New York: Everyman’s Library, 1968, pp. 7-8.

distribution of scarce resources could be separated from the policy recommendations that would enable the efficient and just distribution of resources within. The belief that “positive economics is in principle independent of any particular ethical positions or normative judgements”⁸³ would not have been strictly foreign to the practitioners of the science of politics, since Hume’s observational method and the later “metaphysical “political economy of Smith and Lauderdale broadly “hope[d] to establish a science which will not be inferior in certainty ... to any other of human comprehension.”⁸⁴ The pursuit of certainty, though not identical to positivism’s “anxiety to achieve ... ‘value-neutrality,’” lent itself to equally to the pursuit of facts about human nature as it did the pursuit of facts about gravity or chemical kinetics. Nonetheless, Hume also asserted that his observational, moral philosophical inquiry “will be much superior in utility” to the natural sciences that flanked it. Although Adam Smith, in his own preface to the method and import of *The Wealth of Nations*, wasted no time in treating the particularities of the division of labor and the nature of trade in describing the plan of his work, he also took time to relate the theoretical substance of his work to problems of societal importance.

In this Book I have endeavoured to show; first, what are the necessary expences of the sovereign, or commonwealth; which of those expences ought to be defrayed by the general contribution of the whole society; and which of them, by that of some particular part only, or of some particular members of it; secondly, what are the different methods in which the whole society may be made to contribute towards defraying the expences incumbent on the whole society, and what are the principal advantages and inconveniencies of each of those methods: and, thirdly and lastly, what are the reasons and causes which have induced almost all modern governments to mortgage some part of this revenue, or to contract debts,

⁸³ Friedman, Milton. “The Methodology of Positive Economics” in *Essays in Positive Economics*. Chicago: University of Chicago Press, 1966, p. 4.

⁸⁴ Hume, 8.

and what have been the effects of those debts upon the real wealth, the annual produce of the land and labour of the society.⁸⁵

Book III, where Smith surveys the histories of the “different Progress of Opulence” in various nations, may be considered as a historical “case study” of the science of legislator based on the principles Smith outlined in books I and II. Book IV, where Smith directly characterizes political economy as “a branch of the science or legislator,”⁸⁶ also revealed much of Smith’s intention in writing *The Wealth of Nations*. The “two distinct objects of political economy” that Smith identified were eminently practical: “first, to provide a plentiful revenue or subsistence for the people, or more properly to enable them to provide such a revenue or subsistence for themselves; and secondly, to supply the state or commonwealth with a revenue sufficient for the publick services. It proposes to enrich *both the people and the sovereign*.”⁸⁷ The fortunes of countries with respect to geography and history vary greatly, as Smith outlined in book III, and as Hume acknowledged in “Of Commerce.” Lauderdale, more plainly, stated that “Public Economy [a specific branch of the broader “political economy”] ... professes to teach the means of increasing the wealth of a State, and of applying it to the most useful purposes.” The notion of finding “useful purposes” from the positive study of how a nation’s wealth might be increased plainly reveals that, for Lauderdale (although less clearly for Smith), political economy’s “normative” and “positive” aspects, broadly construed, were inextricable. What this practically meant is that, when adopting different perspectives on how to study the economy scientifically or factually (that is, to commit oneself to a *positive* study of it), the normative conclusions derived from it could vary

⁸⁵ WN, Introduction, 9.

⁸⁶ WN, IV, introduction.

⁸⁷ WN, IV, introduction.

substantially, making one practitioner's view of the scope and purpose political economy metaphysically, ethically, and economically much different from that of another. Political economy, if abused on account of misunderstanding or malevolence, could destroy the fortunes of a nation, something that had been implicitly recognized since before Hume but had been most clearly understood by Smith and the Stewartians. As Hume observed, a nation otherwise great in wealth and power may find itself in a state "where the commerce and riches and luxury of individuals, instead of adding strength to the public, will serve only to thin its armies, and diminish its authority among the neighbouring nations."⁸⁸ Correcting perceived errors in language and understanding of basic concepts was therefore not only of vital importance for a clearer academic understanding of political economy, but for the continued prosperity of an entire nation. Although Bentham and Mill could claim to have originated a systematic version of (hedonic) utilitarianism decades after the writings of the Scottish political economists, utility formed a central part of the moral landscape of early classical economics (Smith and Hume's famous disagreement on the moral usefulness of a precise utility concept aside).⁸⁹ The pursuit of something vaguely and inconsistently identified with utility (or well-being in general) was a central objective of Smith and Lauderdale's respective inquiries, which, as works of science, were distinguished from natural philosophy precisely because of their essential focus on well-being.

⁸⁸ Hume, David. *Essays: Moral, Political, and Literary*. Indianapolis: Liberty Fund, 1994, p. 255.

⁸⁹ For an overview, see Raphael, D.D. "Hume and Adam Smith on Justice and Utility." *Proceedings of the Aristotelian Society*, vol. 73 (1972-1973), pp. 87-103.

Political economy, moral philosophy, and politics were fundamentally inextricable from both positive questions of behavior on the supply side⁹⁰ (and, for Lauderdale, James Mill, and others in the early 19th century, the demand side⁹¹), but also from normative questions of how a legislator's behavior *ought* to be grounded given the positive realities of commercial society, and, relatedly, how purely positive findings might be conceptualized and understood for purposes of increasing utility. It is thus no accident that Lauderdale's *Inquiry* is as much an investigation of the positive question of "nature and origins" of public wealth as it is an attempt to rectify the "misapplication of language"⁹² on questions of the nature of value that led to the misguided political economy and policies of the mercantilists and, according to Lauderdale, the mistaken theory of value that adopted labor as a basic numeraire good and separated "value in use" from "value in exchange." The ensuing controversy over the nature of value and the role of the government's fiscal policy in promoting the increase "public wealth" in the *Edinburgh Review* were squarely centered around problems of the language of political economy.

The goal of the rest of the present chapter is to analyze Lauderdale's attempt, founded on Smith's work while duly critiquing it, to create his own "metaphysical" political economy in the *Inquiry*, devoting particular attention to the three main issues that Henry Brougham's book review in the *Edinburgh Review* discussed and which

⁹⁰ The earliest classical political economists studied society predominantly from the point of view of the supply side, insofar as they considered how factors of production interacted with each other to produce a society's wealth.

⁹¹ Later classical economists, including Lauderdale, extended the purview of political economy to problems of the demand side, defined by the question of "how do the decisions of individuals, private firms, and governments to buy and sell goods that had already been produced influence the price and distribution of scarce resources?"

⁹² *Inquiry*, 5.

grounded most of Lauderdale's work: the nature of value, the "paradoxical relationship" between public wealth and private riches, and the role of macroeconomic saving and spending as instruments of increasing public wealth. The chapter addresses the following questions: How did this practice of political economy that Lauderdale formulated and its applications to the science of politics differ from the earlier efforts of Hume and Smith, among others? What aspects of political economy did Lauderdale's "metaphysics" most privilege? Most fundamentally, how did the *Inquiry* and Lauderdale's exposition of it develop and critique *The Wealth of Nations*? That is, how was Lauderdale's distinction between public wealth and private riches important to correcting the perceived errors of Smith's theories of value and production? Lauderdale, armed with both an extensive understanding of his predecessors' political economy and his own political experience in the fifteen years prior to the *Inquiry*'s publication, ambitiously sought to revise and expand upon Smith's own system, the chapter aims to contextualize Lauderdale's contribution both to political economy and its applications in the "science of the legislator." Although earlier writings identified flaws in Smith's theory of value and his treatment of the mercantile conditions of Britain's colonies in book V of *The Wealth of Nations*, Lauderdale's *Inquiry* forms the first careful and systematic critique of specific aspects of *The Wealth of Nations* in the tradition of the science of politics. His search for "general principles" of political economy not found in Smith's own work provided him with a solid foundation not only to defend himself as a bona fide political economist, but also to apply his reasonings in the "consistent" manner befitting the enlightened legislator. In his political career, Lauderdale was hardly as consistent as the science of politics would demand of the legislator, but the *Inquiry* nonetheless provided a

foundation for his contributions to contemporary debates on public finance, even after his “conversion” to the Tories’ conservative wing. The present chapter focuses on three themes that characterized Lauderdale’s argument in the *Inquiry* and which naturally followed from his notes on *The Wealth of Nations*: the nature of value, the distinction between “public wealth” and “private riches,” and the legislator’s role in implementing fiscal policy in obtaining the “means” of increasing public wealth, as means of understanding the work as a whole.

Lauderdale, in a remarkably Humean⁹³ vein, began the *Inquiry into the Nature and Origins of Public Wealth* with a observation that the “careless and improper use of language often produces much misconception”⁹⁴ in “all discussions where accuracy is required.”⁹⁵ Because “speculations” in political economy inevitably led to practitioners becoming “habituated to the common use of phrases and expressions, without having even called in question their propriety,”⁹⁶ particularly insofar as it is a subject of ecumenical importance (“even amongst the most vulgar and illiterate”)⁹⁷ it is of vital importance to investigate and correct its usage to avoid the carelessness that leads to corruptions in usage. Lauderdale illustrated his skepticism of various forms of reasoning in political economy and their potentially deleterious effects to the discipline and to public wealth through a potted history of the mercantilist conceptions of value and the balance of trade. “[W]e are accustomed,” Lauderdale noted, “to estimate commodities by

⁹³ Compare Lauderdale’s discussion with Hume’s dissection of philosophical language in his introduction to the *Treatise*.

⁹⁴ *Inquiry*, 1.

⁹⁵ *Inquiry*, 2.

⁹⁶ *Inquiry*, 2.

⁹⁷ *Inquiry*, 3

the quantity of money they will exchange for ...”⁹⁸. This led, in Lauderdale’s estimation, to the main fallacy of mercantilism – the “misapplication of language” that stipulates that money and wealth must be “synonymous.” Rather than merely being an issue of theoretical political economy, such a “misapplication” would have persistent dire effects on legislation and the well-being of European nations. Lauderdale concluded his description of the flaws of the mercantilist system by observing that “many consequent errors in the reasonings of our economical writers, as well as in the system of European legislation [have] all [arisen] out of the habit of conceiving Wealth and Money to be synonymous ... [and come to] form powerful illustrations of the effects of language in producing erroneous ideas in economical reasonings ...”⁹⁹

Thus, from the outset of his major work, Lauderdale aimed to fulfill two goals in setting out to resolve his own problems of political economy: rectifying the linguistic mistakes of his forebears, both in Smith and the mercantilists, and recommending to the legislator policies that reflect a more informed type of political economy that rejects appeals to common understanding in favor of developing a rigorous definitional framework with which to ground political economy. The “linguistic mistake” was primarily one of failure to consider what Lauderdale deemed an essential part of his work and of political economy in general, namely how public wealth and its augmentation is the necessary starting point toward which discussions of value and production ought to be oriented. Linguistic mistakes in political economic writing were not merely theoretical, or consequences of differences in philosophical approaches to studying political economy, but rather were symptomatic of a dangerous oversight that results from overly focusing

⁹⁸ *Inquiry*, 4.

⁹⁹ *Inquiry*, 5-6.

on one aspect of political economy at the expense of all the rest, or of neglecting the positive study of a particularly important element such as public wealth, thereby obscuring political economy's fundamental normative goal, inextricably tied to its positive practice, of facilitating the prosperity of all members of a society.

It is worth a brief digression on the intellectual forebears of Lauderdale's "metaphysical" approach to political economy as a way of contextualizing the problems that Lauderdale made the foci of his treatise. As Collini, Winch, and Burrow note in their discussion of the Glaswegian "system of the north," the curriculum of Scottish political economy as it was taught at the University of Glasgow under Dugald Stewart, a close friend of Smith and John Millar, Lauderdale's mentor, was grounded in the broad discipline of "moral philosophy."¹⁰⁰ The authors describe the curriculum as being remarkably unified and "interdisciplinary," although the principal aim was to establish a firm theoretical and historical basis for an increasingly rigorous and "scientific" study of politics. The authors' description of the curriculum notes its efforts at unifying metaphysics and ethics with the more traditional, Aristotelian study of political bodies and the processes of legislation. "A study of man's powers (understanding was complemented by an account of his active or moral powers (will) ... The edifice was completed by a consideration of man as 'a member of a Political Body,' of what constituted happiness in a community and the means by which it could best be promoted."¹⁰¹

¹⁰⁰ CWB, 25.

¹⁰¹ CWB, 26.

Although Stewart's paradigm can be traced to Hume and Smith's earlier studies of human nature and "moral sentiments," the "system of the north's" explicit goal of *recounting* a moral philosophical foundation with which to study political man distinguished it from earlier efforts that sought to create self-contained moral philosophical systems with which to base theoretical inquiry into the "science of politics" and political economy (or, in Hobbesian terms, to generate a "geometrical" basis for political inquiry). The establishment of a wide-ranging philosophical *curriculum* for the study of politics strove to ground, in Stewart's terms, the "general spirit of government"¹⁰² on "universal [or general] principles of natural justice, and on personal and civil rather than political liberty."¹⁰³ Stewart's contention in his influential *Elements of the Philosophy of the Human Mind* (1792) was that a common philosophical foundation for the science of politics would "remedy ... a form of narrow political empiricism, which [Stewart] identified with 'an unenlightened veneration for maxims which are supposed to have the sanction of time in their favour, and a passive acquiescence in received opinions.'"¹⁰⁴ The "great business of philosophy," as Stewart wrote to his students in his *Outlines of Moral Philosophy* (1793)¹⁰⁵ is, Stewart acknowledged, profoundly Baconian and "scientific" in nature, "To ascertain those established conjunctions of successive events, which constitute the order of the universe ;—to record the phenomena which it exhibits to our observation, and to refer them to

¹⁰² CWB, 39.

¹⁰³ CWB, 39.

¹⁰⁴ CWB, 34, quot. Stewart, Dugald. *Elements of the Philosophy of the Human Mind*, ch. 4, sec. 8, reprinted in *The Collected Works of Dugald Stewart*, vol. ii (Edinburgh: T&T Clark, 1877).

¹⁰⁵ 4th ed., 1818.

their general laws.”¹⁰⁶ Stewart, like Hume, aimed to apply a similar “reformation” as had been seen in the “plan of philosophical inquiry”¹⁰⁷ to combat the “prevailing skepticism with respect to the principles of metaphysics and of moral philosophy.”¹⁰⁸ As with his pupil Lauderdale, Stewart regarded “the imperfections of language,” the “disposition to grasp at general principles, without submitting to the previous study of particular facts,” “a disposition to unlimited skepticism,” and “prejudices arising from a reverence for great names, and from the influence of local institutions”¹⁰⁹ as causes of the “slow progress” of knowledge of the “philosophy of the human mind.” Imperfect language squandered the scientific utility of moral philosophy and politics. General principles that failed to be undergirded by rigorous inquiry (and, their converse, an “unlimited skepticism” that privileged mere experience over general laws) led to a contest “opposing

¹⁰⁶ Stewart, Dugald. *Outlines of Moral Philosophy for the Use of Students in the University of Edinburgh*. Edinburgh: Archibald Constable (1818), p. 3.

¹⁰⁷ *Outline*, 7.

¹⁰⁸ This is, of course, hardly a unique goal, especially in the context of the latter decades of Enlightenment philosophy. Consider Kant’s *Critique of Pure Reason*, where Kant aims to render “undone all attempts until now to bring about a metaphysics **dogmatically**,” (*Critique*, B24) or the dogmatic use of pure reason, while also rejecting outright skepticism (B23), in redeeming metaphysics and the search for synthetic *a priori* knowledge in the face of rationalist and skeptical empiricist challenges. Stewart, unlike Kant, rather uncritically accepts the necessity of providing a basis for the science of politics on purely scientific grounds, seeking universal laws that may be known through observation, rather than attempting to uncover *a priori* universal truths about nature. Stewart plainly rejects idealism, since “all our knowledge of the material world rests ultimately on facts ascertained by observation” (*Outline*, 7). The commonalities in the moral philosophies of Smith, Hume, and Stewart and Lauderdale may be more readily compared with Kant’s own moral and political philosophy. All agree that freedom is crucial to maintaining dignity, and that having the freedom to “make *public use* of one’s own reason in all matters” (Kant: *What is Enlightenment?* 8:37) or the freedoms to engage in commerce and political speech are fundamental to securing the stability and prosperity of the state. Kant, Hume, and Stewart proceed from very different assumptions in arriving at roughly similar conclusions. For Kant, the public (or civic) exercise of one’s freedom is necessary to liberate humanity from its “self-incurred minority,” or to achieve Enlightenment. For Hume (and Smith), the fact of self-interest necessitates freedom to ensure that a country may “make [man], notwithstanding his insatiable avarice and ambition, cooperate to public good” (CWB, 30). For Stewart (likewise for Smith), a “sense of freedom” is in the man to is able to “calm the tumults of Smith” (*Outline*, 94). [I am not sure whether to leave this text as a footnote, insert it into the paragraph, or delete it entirely].

¹⁰⁹ *Outline*, 9-10.

experience to speculation, [where] we are only opposing one theory to another.”¹¹⁰ A parochial focus on the institutions and politics of one’s own country at the expense of the “natural order”¹¹¹ of human progress risked distracting the mind of the legislator and student of the science of politics from maintaining the general progress in the arts and sciences that had elevated humanity’s “natural state” of liberty in the past two centuries. The principal advantage of the Smithian-Stewartian system of political economy, as Collini, Winch, and Burrow summarize in their study, was that “[a]s a systematic pursuit ... [it] owed little to classical precedent because ancient philosophers had confined their attention to forms of government and the means of perpetuating them.”¹¹² The goal of the new science was not to supplant classical precedent by “delineating plans of new constitutions,”¹¹³ as Stewart described it in his *Account of the Life and Writings of Adam Smith*, but rather to “[enlighten] the policy of actual legislators,”¹¹⁴ empowering them to synthesize theoretical reasonings in political economy and virtue ethics with the practical experience of governing people with an eye to increasing liberty. What distinguished, in Smith’s terms, the enlightened legislator from the mere politician, “that insidious and crafty animal,”¹¹⁵ in Smith’s terms, was that the former was “governed by principles that were always the same,” while the latter relied on “the momentary fluctuations of affairs” in determining policy. By outlining general principles guided by precise language that accurately reflected how a country’s wealth was acquired and distributed, political

¹¹⁰ CWB, 34, quot. *Works*, pp. 225-230.

¹¹¹ CWB, 34.

¹¹² CWB, 36.

¹¹³ CWB 36.

¹¹⁴ CWB, 36.

¹¹⁵ WN IV.ii.39.

economy could aid in adumbrating the consistent principles that a politician would apply in increasing the freedom and prosperity of the population.

The understanding of Smith's simultaneously foundational role and the potential to point out irregularities and inconsistencies as a means of arriving at general principles that would more accurately guide the enlightened legislator formed the basis of Lauderdale's critique. Although, as with Smith's own work, Lauderdale's *Inquiry* was hardly specific in terms of recommending specific policies, its fundamental purpose of introducing a new general principle, namely the study of the nature and accumulation of public wealth as distinct from private riches, invited the politically informed reader (one possessing, not unlike Lauderdale himself, a prevailing interest in public finance) to direct his own normative policy goals according to the new principle.

Having recounted the curriculum and disciplinary foundations of Lauderdale's own *Inquiry*, we may begin to precisely understand why Lauderdale framed his treatise as an attempt to clarify the realities and principles of political economy while correcting what he perceived as the errors of his predecessors. Smith's lack of a precise definition of what constituted "public wealth," his apparently arbitrary distinction between "productive" and "unproductive" labor, and his vacillating and theoretically problematic labor theory of value thus represented to Lauderdale, following the Stewartian paradigm, errors of language that impede the realization of universal principles conducive to creating a state that maximizes public wealth and the well-being to be derived from it. Lauderdale's goals in the remaining chapters of his work are to correct on the apparent errors within Smith's system through both metaphysical-philosophical and economic

counterarguments as a means to arriving at his own political economic theory for the “nature and origins” of the public wealth as distinct from private riches.

Lauderdale’s critique of Smith’s theory of value relies on his rejection of the possibility of attributing an intrinsic value to a commodity. “The term ‘Value,’” Lauderdale stated, “whatever might have been its original sense, as it is used in common language, does not express a quality inherent in any commodity.”¹¹⁶ From the outset of his treatment of value, Lauderdale rejected Smith’s theory of the origin of value that grounds value in the “power of exchanging that gives occasion to the division of labour,”¹¹⁷ instead seeking to further abstract Smith’s theory by relying principally influence of supply and demand shocks on value, without the need to consider the labor that went into procuring a good. Lauderdale identifies four situations giving rise to a commodity’s variation in value: “...an increase of its value, from a diminution of its quantity,” a “diminution of its value, from an augmentation of its quantity,” an “augmentation of its value, from the circumstances of increased demand,” and “a [diminution of its value] ... by a failure of demand.”¹¹⁸ Variations in the value of any good, including labor, to which Smith ascribed a unique status as a measure of value, were determined by these situations. Smith’s conjectural history of the price of commodities imagined that in “that early and rude state of society which proceeds both the accumulation of stock and the appropriation of land,” labor should be the only measure for two commodities “which can afford any rule for exchanging them for one

¹¹⁶ *Inquiry*, 10-11.

¹¹⁷ *WN*, I.iii.1

¹¹⁸ *Inquiry*, 12.

another.”¹¹⁹ But even in a primitive state, labor for certain commodities might require more than for others, which would be reflected in the price of the good. Thus “some allowance will naturally be made for this superior hardship, and the produce of one hour’s labour in on way may frequently exchange for that of two hours’ labour in the other.”¹²⁰ Smith went on to explicitly remark that “the *real value* of all the different component parts of price ... is measured by the quantity of labour, which they can, each of them, purchase or command.”¹²¹

It is instructive to deconstruct each part of Smith’s statement in order to better grasp Lauderdale’s critique of it. The “real value” of a commodity’s price is distinguished from its market value. What people are willing to pay for a good does not necessarily match the real value of the good, since profit must be accounted for.¹²² The component parts of a price are, following Smith, labor itself, economic rent, and profit. When accounting for the real value of a commodity, however, it is only the value of the labor expended in obtaining it that matters. “Wages, profit and rent, are the three original sources of all revenue as well as of all exchangeable value,”¹²³ but these are ultimately derived from the labor expended in obtaining a good, which determines its real value. This led Smith toward skepticism of a central idea of Lauderdale and the economic reasoning of the Industrial Revolution, where the capital of a factory owner in the form of labor-reducing machines is said to “supplant” the value that would otherwise be

¹¹⁹ WN I.vi.1.

¹²⁰ WN I.vi.2.

¹²¹ WN, I.vi.9

¹²² See WN I.vi.16-17.

¹²³ WN I.vi.17.

expended in labor. Smith asserted that such improvements are either a result of inventions by laborers themselves or of the labors of “philosophers, or men of speculation.”¹²⁴

Lauderdale aimed to sidestep Smith’s theory by showing that labor can be conceived of as a commodity on par with the commodities of which it is alleged to determine the value. He begins his dissection of Smith’s labor theory by pointing to an example that makes understanding value by means of labor problematic:

Water, it has been observed, is one of the things most useful to man, yet it seldom possesses any value; and the reason of this is evident: it rarely occurs, that to its quality of utility is added the circumstance of existing in scarcity; but if, in the course of a siege, or a sea-voyage, it becomes scarce, it instantly acquires value; and its value is subject to the same rule of variation as that of other commodities.¹²⁵

This thought experiment is one that Lauderdale revisited from his earlier notes on *The Wealth of Nations*. Water’s abundance and ease of access means that in most situations, it can be assigned a low real value. Smith would understand the intrinsic value of water as measured in the ease of acquiring it to be quite low and invariant everywhere. Lauderdale pointed out that, even as the ease of acquiring water through labor never varies, it can fluctuate in value quite significantly as a result of scarcity. A commodity’s real value seems to be determined only by its abundance (or equivalently, its supply) and the relative demand for it.

In particular, labor is subject to the same variation in value as a consequence of shocks in supply and demand. Smith’s treatment of labor, Lauderdale suggested,

¹²⁴ WN, l.i.9.

¹²⁵ *Inquiry*, 14.

contradicts itself at various points by effectively treating labor as a commodity while also stating that “labour alone never varies in its own value.”¹²⁶ Labor “varies in value at different periods of the same year”¹²⁷ (for example, as Smith notes “the demand for country labour is greater at hay-time and harvest”¹²⁸). It “varies in its value at distant and remote periods of time”¹²⁹ (since the “*real* recompense of labour ... [has] increased perhaps in a still greater proportion than its *money-price*).¹³⁰ Finally, it varies between “distant and remote countries,”¹³¹ as Smith inadvertently shows in his comparison of the value of labor in Britain and America. If the value of labor appears to vary in these dimensions, then how, Lauderdale asked, might it be used as a numeraire measure of real value?

Lauderdale’s most fundamental attack on Smith’s theory of value came in his criticism of the distinction between productive and unproductive labor and the contradictions this creates in outlining a labor theory of value. Smith’s distinguishes productive labour from unproductive labour inasmuch as it adds “value of the subject upon which it is bestowed.”¹³² A manufacturer adds value to the materials he manufactures, and is thus productive, whereas a “menial servant” adds no value through his duties as a servant, and is thus unproductive. In dissecting this aspect of Smith’s theory, Lauderdale first observed that unproductive labour clearly cannot form a measure of value, since it by definition adds no value. Even if Smith would endeavor to show that only productive labor is the true measured of value, this, Lauderdale pointed out, would

¹²⁶ WN I.v.7

¹²⁷ *Inquiry*, 27.

¹²⁸ WN I.x.45.

¹²⁹ *Inquiry*, 28.

¹³⁰ WN I.viii.35

¹³¹ *Inquiry*, 28-30.

¹³² WN II.iii.1-2

be at odds with Smith's notion that the "improvement of the productive powers of labour ... [is] the effect of the division of labour."¹³³ If the value of labor is constantly being improved as commerce drives the division of labor, then it seems that it is commerce itself, or that which is mediated by the supply and demand of a good, that actually determines the price of labor. But this is just the same as what determines the market price of every other commodity in Smith's view.¹³⁴ With appropriately Stewartian flair, Lauderdale concluded that this vindicates the two "general principles" of value that he sought to prove: that a good's value only exists insofar as it is both desirable and scarce and that a good's value is mediated only in proportion to its supply and demand. More generally, Lauderdale viewed value in strictly marginal terms: a good's value in terms of other goods (for example, diamonds vis-à-vis water) is determined by how valuable that good is at the margins. When comparing, for example, water and diamonds, it is clear that if both have an infinitesimally small quantity, water is much more valuable than diamonds, yet the marginal rate of substitution between water and diamonds is such that, as both increase in quantity, water's utility diminishes much more relative to diamonds. This, in Lauderdale's terms, is the "consequence of the uniting qualities, which makes them objects of man's desire"¹³⁵ combined with a good's scarcity, or, in modern language, the *marginal utility* of the good. Marginal utility is used by contemporary economists to model consumers' willingness to pay for a good, although utility is conceived abstractly in terms of revealed preferences, or how a consumer identifies which goods she prefers over other goods, rather than hedonically, or in terms of how pleasurable or a desirable a good is. The relative sophistication of Lauderdale's theory of

¹³³ *Inquiry*, 34.

¹³⁴ WN I.vii.7-8.

¹³⁵ *Inquiry*, 35.

value, conceived of nearly seventy years before the theories of the “marginal revolution,” has largely been overlooked in most histories of economic thought¹³⁶, but it is of much importance in understanding how Lauderdale distinguished public wealth from private riches, the central task of his work.

Armed with this apparent correction of Smith’s own general principles in the form of a unique theory of value and utility, Lauderdale aims to investigate political economic problems he considered hitherto unexplored. The purpose of his analysis, as he noted at the beginning of his discussion of value, is to aid in demonstrating the distinction between “public wealth” and “private riches” as an instrument for demonstrating how public wealth could be measured and increased. This forms the crux of Lauderdale’s contribution to political economy and is important for differentiating him from Hume and Smith and his peers who studied under Dugald Stewart. Lauderdale’s approach to political economy can best be understood in terms that would be familiar to modern students of welfare economics: what is good for the well-being of private individuals is not necessarily good for the welfare of a state and its population in the aggregate. Smith’s proposition that political economy “promises to enrich both the individual and the sovereign” was *prima facie* not obvious to Lauderdale. He summarized this belief as claiming that “the capital of a society has been regarded ... as the same with that of all

¹³⁶ But see Syed Ahmad’s discussion on the importance of the “other *Inquiry*,” which is discussed in the following sections. Ahmad, Syed. “On the Bicentennial of the Other ‘Inquiry’: Lauderdale’s.” *Journal of the History of Economic Thought*, vol. 29, no. 1 (March 2007), pp. 85-100. See also Schumpeter’s praise of Lauderdale as the “first major writer to set up capital as a distinct factor [of production, by which he means that Lauderdale valued capital as a source of wealth from production alongside labor and land, i.e. not based on the labor required for its use and maintenance, but rather on the value of the labor it supplants]”. Schumpeter, Joseph. *History of Economic Analysis*. New York: Oxford University Press, 1954, p. 560. Schumpeter thought of Lauderdale as holding secondary importance in the history of political economy when compared to Smith or even Malthus. He saw Lauderdale more as an anticipation of Malthus than as a rigorous thinker in his own right.

the individuals who compose it.”¹³⁷ “So much, indeed, is public wealth universally deemed the same thing with the mass of private riches, that there appears no means of increasing the fortune of an individual . . . that is not regarded as productive of national opulence.”¹³⁸ Lauderdale’s claim would seem preposterously counterintuitive to most classical economists of the period. Political economy, which was of course closely identified with moral philosophy, was meant precisely to improve the fortunes of a state commensurately with the individuals living under it. Without free commerce, which Hume’s political economy recommended, a state would fail to flourish and collapse under the weight of private interests.

Such statements that the “sum total of private riches forms an accurate statement of public wealth” rely on, as Lauderdale aimed to prove, a mistaken theory of value. Using the theory of value he developed in the first chapter, Lauderdale endeavors to show that public wealth and the “mass of individual riches”¹³⁹ are not identical.

Lauderdale observed that, per his theory of value, a commodity’s value is mediated through its scarcity as well as the demand for it. Though most of his contemporaries in their discussions of increasing wealth would begin, in the usual fashion of the Enlightenment, from a conjectural prehistory before “value” and “exchange” existed and build theories of societal wealth from “primitive” microeconomic foundations, Lauderdale began by considering an already developed society in the aggregate, along with the “private riches” of those within the society. If an individual “should propose to create a scarcity of water, the abundance of which was deservedly

¹³⁷ *Inquiry*, 38.

¹³⁸ *Inquiry*, 39.

¹³⁹ *Inquiry*, 43.

considered as one of the greatest blessings incident to the community,”¹⁴⁰ the individual would be regarded as insensibly diminishing public wealth. Yet, by introducing scarcity into a formerly abundant supply of water, value is introduced as a consequence of the intersection of scarcity and desirability. This creates an apparent paradox if one conceived of public wealth as deriving from private riches – if the scarcity of water creates a market value for it, and increasing scarcity would, up to a certain degree, increase private riches for those who could capitalize off the water, while decreasing public wealth as a result of the water’s depletion.

Lauderdale extended this analogy to make a case for how the existence of price elasticity of demand¹⁴¹ for normal consumer goods demonstrates that changes in the private value of goods are not necessarily reflective of augmentations in public wealth. This figures most prominently his discussion of the price of grain and his usage of the mercantilist economist Charles Davenant’s table of the relation between reductions in the quantity of grain and its relation to increases in price based on historical data. When there exists “a deficiency of three-tenths of the common produce of the country in grains,”

¹⁴⁰ *Inquiry*, 42.

¹⁴¹ That is, the degree to which demand (desire) for a good varies as a function of changes in price. All other things being equal, infinitesimal changes in a good’s price yield a negative infinitesimal change in the quantity demanded of a good. Technically, the coefficient of the slope of price elasticity is defined as the first derivative of the quantity demanded of a good with respect to the good’s price. Because demand for a good almost always decreases at higher prices (abnormal and luxury goods such as Veblen goods excepted), the coefficient of elasticity is almost always negative. Lauderdale treats this conceptually by discussing the special case of an elasticity coefficient of negative one. He notes (*Inquiry* pp. 66-67) that “if the members of any society had devoted a portion of their respective riches for the acquisition of that commodity, and a sudden scarcity had occasioned the existence of only half its usual quantity, the same proportion of other goods remaining applicable to the acquisition of the half which had antecedently been employed in acquiring the whole, the value of any given quantity of it would be doubled.”

there would be an “increase in the value of the grain that remained [of] 160 *percent*.”¹⁴²

“That is,” Lauderdale continued, “suppose the usual produce of any country to be 300 quarters¹⁴³ of grain, and the total value of the grain L. 300¹⁴⁴; if the grain was reduced three-tenths in quantity, viz. to 210 quarters, then the value of these 210 quarters would be L.546 (pp. 51-52).”¹⁴⁵ Ahmad notes of Lauderdale’s quantitative analysis that it was “perhaps the first direct numerical or symbolic illustration of this relationship for the demand analysis ... perhaps the only one before Cournot (1838).”¹⁴⁶ Lauderdale’s understanding of elasticity extended to comparisons between goods based on their marginal value to consumers. “The diminution of quantity, therefore, must raise the price of different commodities in different degrees, having always a more powerful effect in proportion to the degree in which the commodity itself appears necessary.”¹⁴⁷ Importantly for our purposes, Lauderdale’s grasp of the concept of price elasticity of demand led him to differentiate the wealth produced merely through increases or “diminutions” in demand versus that which contributed to the “public wealth.” A good might vary depending on changes in price, but these changes in price were not reflective of the good’s true “value” to the consumer, which was instead captured in the coefficient of the price inelasticity of demand. Lauderdale’s quantification of the true value of goods from existing data, which few previous political economists had done, lent to his discussion of wealth a more secure backing with which to base his

¹⁴² *Inquiry*, 51-52.

¹⁴³ A quarter of grain is equivalent to $\frac{1}{4}$ of a ton.

¹⁴⁴ That is, 300 pounds sterling.

¹⁴⁵ *Inquiry*, 51-52.

¹⁴⁶ Ahmad, 89. Antoine Auguste Cournot was among the first to develop a mathematized economic theory of the behavior of a manufacturing firm.

¹⁴⁷ *Inquiry*, p. 66.

discussion of the sources of a country's wealth and how such wealth might be augmented.

The first chapters of the *Inquiry* can be summarized as first outlining Lauderdale's intellectual project of determining the nature and political economic importance of "public wealth" while providing the demand-side, microeconomic justification for why the "objects of man's desire," which Lauderdale identifies as wealth, might fail to contribute to the augmentation of public wealth. This led him in the following chapter of the *Inquiry* to formulate a theory of production, investigating the sources of wealth in light of his theory of value while attempting to parse the nuances of how individual sources of wealth, whether they be in land, labor, or capital, contribute to the measurement of a country's public wealth, in the process critiquing both the Physiocratic conception of national wealth that privileged land as its main source as well as the Smithian reliance on labor. The problem of ascertaining the sources of national wealth primarily lay, in Lauderdale's view, in the reductionist efforts of his predecessors to identify a singular source for public wealth. "But while some have eagerly contended, that land is the sole source of opulence, and that whatever is acquired by labour or capital is derived from the landholder, others have discovered equal anxiety to attribute the origin and increase of our wealth to commerce and manufactures; that is, to the operation of labour and capital."¹⁴⁸ Lauderdale made it his goal in this chapter to critique both the Physiocratic conception and Adam Smith's distinction between productive and unproductive labor by showing that all labor is valuable insofar as it can

¹⁴⁸ *Inquiry*, 108-109.

be measured as contributing either to public wealth or private riches. More radically, later in the book, Lauderdale dissents with the idea that the division of labor was important at all relative to the improvement of machinery. “But in truth,” Lauderdale argues, “the history of man show us, that the simplest and most efficacious machines for supplanting labour—(instruments with which habit has so familiarized us, that we hardly dignify them with the name of machinery)—are introduced, at an early period of society, when the division of labour is comparatively unpractised and unknown”¹⁴⁹ Land, labor, and capital all operate to differing extents in “different stages of society,”¹⁵⁰ questioning the need to value land (which Lauderdale identified with the earliest stages of society) or labor (which Lauderdale believed was more often obsoleted by machinery than Smith indicated) as comprehensive measures of value, Lauderdale placed capital, specifically capital that supplanted an equivalent value of labor, at the center of his theory of production, acknowledging the other factors of production as subsidiary. As we will see in the final section, this gave Lauderdale considerably more freedom to advocate against policies that would tie up capital in government saving and instead advocate for a more vigorous role of government spending in encouraging aggregate demand.

The culmination of Lauderdale’s discussion of public wealth and private riches in the context of his attempt to formulate a new theory of political economy that focused on identifying and augmenting public wealth came in his critique of government saving (or “parsimony,” in Lauderdale’s terms) as a means of increasing public wealth. Here, Lauderdale unified his theory of value with his discussion of sources of wealth and the distinction between public wealth and private riches to argue against the commonly held

¹⁴⁹ *Inquiry*, 285.

¹⁵⁰ *Inquiry*, 273.

assumption (propounded by Smith in book II of *The Wealth of Nations*¹⁵¹) that parsimony or general saving can increase the productive power of a country. Smith's most succinct statement of the principle of parsimony came from book II, section III of *The Wealth of Nations*, where he noted "Capitals [sic] are increased by parsimony, and diminished by prodigality and misconduct ... Parsimony, and not industry, is the immediate cause of capital ... But whatever industry might acquire, if parsimony did not save and store up, the capital would never be greater. Parsimony, by increasing the fund which is destined for the maintenance of productive hands, tends to increase the number of those hands whose labour adds to value of the subject upon which it is bestowed."¹⁵² Parsimony, in other words, was to Smith necessary for the creation of wealth, particularly wealth generated through capital, to be "stored" prior to its use and sale. Given Smith's endorsement of the distinction between "productive" labor, which "adds, generally, to the value of the materials which he works upon," and is thus aided by capital and is able to meaningfully assigned a value, from "unproductive" labor, which, like the labor of a "menial servant ... adds to the value of nothing,"¹⁵³ his embrace of saving as a means of augmenting the capacity for productive labor is unsurprising. Saving, in other words, made possible the invisible hand's development of individuals' capacities for productive labor by providing a "store" of capital from which to draw. The state need not intervene by discouraging saving precisely because saving was a precondition to the creation of

¹⁵¹ See, for example, Smith's statement of the value of parsimony in section III of Book II: "Capitals [sic] are increased by parsimony, and diminished by prodigality and misconduct ... Parsimony, and not industry, is the immediate cause of capital ... But whatever industry might acquire, if parsimony did not save and store up, the capital would never be greater. Parsimony, by increasing the fund which is destined for the maintenance of productive hands, tends to increase the number of those hands whose labour adds to value of the subject upon which it is bestowed."

¹⁵² WN, II.iii.14-17

¹⁵³ WN, II.iii.1

productive wealth through the division of labor and could be facilitated through the actions of private firms and individuals.

Lauderdale, by contrast, was less amenable to the distinction between productive and unproductive labor, and saw that “abstinence from expenditure, and consequent accumulation, neither tends to increase the produce of land, to augment the exertions of labour nor to perform the labour that must otherwise be executed by the hand of man.”¹⁵⁴ Much of this proceeded also from Lauderdale’s rejection of what would become known as Say’s law, named after the French economist, Jean-Baptiste Say, who wrote soon after Lauderdale, which stated, broadly, that supply-side factors, such as productive labor and the productive usage of capital, generate the capacity for demand of those goods and services in the marketplace. Smith’s version of Say’s law lay in his endorsement of parsimony, since he thought that no goods could be sold at value without the saving required to generate productive labor, which would yield the supply needed to generate demand. Lauderdale, by identifying differences in elasticity of goods as a means of determining their worth, pushed back against this notion by determining a demand-side relationship between the price of a good and the demand for it, irrespective of whether that good was produced or not. Such price elasticity of demand represented Lauderdale’s view of wealth as fundamentally grounded in desire, rather than in the value of labor or some other metric that privileged the supply side over the demand side.

As Thomas Sowell notes in his history of Say’s law, Lauderdale “was concerned not with the static equilibrium question of clearing the market at a given time, but with the problem of sustaining a given level of aggregate output in subsequent time periods.”

¹⁵⁴ *Inquiry*, 209.

Roughly speaking, this means Lauderdale was not concerned how the economy looked at any given point (i.e. what kind of equilibrium state it would have at a static point in time), but rather how the equilibrium would look over time (the dynamic equilibrium) as an means to encouraging the augmentation of public wealth through government spending in the economy.¹⁵⁵ Over-saving, by interfering with the market's ability to clear¹⁵⁶ in the medium to long term, disrupted the ability of capital to seek the "future reproduction"¹⁵⁷ of the economy. Lauderdale's theoretical qualms with Say's law were applied to his attack on Britain's Sinking Fund, an institution that demanded a set level of government saving per year as a way of financing Britain's increasingly expensive wars and one that attracted Lauderdale's perennial interest and consternation. Lauderdale viewed the taxes required to finance the fund as ones that would have to eventually be used to repay the interest of the loans Britain had taken during its wars, and would thus be wasted, in Lauderdale's view of public wealth, in investment rather than in encouraging consumption, that is, demand, and thereby augmenting the supply of goods sufficiently demanded while also increasing the public wealth of the country. In precise terms, Lauderdale believed that there existed the possibility of excess investment that, although not necessarily predictive of a "general glut" of excess supply, could nonetheless cause supply to exceed demand if the capital were not invested to meet the purposes of production according to demand. As Lauderdale wrote,

In every state of society, a certain quantity of capital, proportioned to the existing state of the knowledge of mankind, may be usefully and profitably employed in supplanting and

¹⁵⁵ Sowell, Thomas. *Say's Law: An Historical Analysis*. Princeton: Princeton University Press, 1972, pp. 80-81.

¹⁵⁶ That is, for all suppliers to find a buyer and for all goods to be sold, i.e. equilibrium.

¹⁵⁷ *Inquiry*, 215.

performing labour in the course of rearing, giving form to, and circulating the raw materials produced. Man's invention, in the means of supplanting labour, may give scope, in the progress of society, for the employment of an increased quantity; but there must be, at all times, a point determined by the existing state of knowledge in the art of supplanting and performing labour with capital, beyond which capital cannot profitably be increased, and beyond which it will not naturally increase: because the quantity, when it exceeds that point, must increase in proportion in the demand for it, and its value must of consequence diminish in such a manner as effectually to check its augmentation.

Solely from this statement, Lauderdale seemed to suggest that there is a point at which savings of capital cannot lead to profitability when it outstrips the quantity demanded of the products of capital (e.g. factory products), although he neither provides this point nor does he indicate the effects of a general glut on the prospects of augmenting public wealth. The controversy over the effects of a “general glut” mainly extended to worries that savings would lead to idleness and hence to low production at the margins, diminishing the wealth to be gained from factories’ productive capacity. Malthus, who was relatively close to Lauderdale in his thinking, can be thought of as a proxy of the dangers of a general glut. Malthus believed, in Sowell’s summary, that “The human tendency to substitute leisure for output at the margin was a danger to be guarded against.”¹⁵⁸ Indeed, what was important for both Malthus and Lauderdale, following Lauderdale’s definition of wealth as the object of human desire, was that the commodities be available for consumption precisely so that, on a larger scale, public wealth be augmented by fulfilling the desires of a greater number of people. As Sowell concludes,

¹⁵⁸ Sowell, Thomas. “The General Glut Controversy Reconsidered.” *Oxford Economic Papers*, vol. 15, no. 3, (November 1963), pp. 193-203.

the important question in value theory [to Malthus and Lauderdale] was not the relationship of commodities to each other, but the relationship of commodities as a whole to human desires.”¹⁵⁹ In other words, savings, especially when done on a large scale by national governments, would potentially have disastrous consequences for the augmentation of public wealth if it was productive of idleness and caused supply to fail to meet demand. One of the great dangers of parsimony that Lauderdale identifies is was the “creation of quantity of capital more than is requisite,” which would lead to situations that could depress the long-term viability of supply to meet the needs of human desire. Or, as Lauderdale summarized, “for the moment a thing, however much esteemed, is produced in such a quantity, that the whole cannot be employed, a part ceases to be an object of desire; and as things, when no longer scarce, can form no part of individual riches, so, when no longer objects of desire, they form neither a portion of individual riches nor of wealth.”¹⁶⁰

The conclusion to be gained from Lauderdale’s critique of the Sinking Fund was, ironically, that the government ought to be active in discouraging over-saving, either through taxation or through the abolition of programs such as the Sinking Fund, in order to avert the possibility of a general glut and the negative consequences for the augmentation of public wealth. The *invisible* hand of the market would have to be augmented by the thoroughly *visible* hand of government to reverse the common view that Lauderdale lambasted, namely that “Frugality is said to increase, Prodigality to

¹⁵⁹ Sowell 1963, 202.

¹⁶⁰ *Inquiry*, 215.

diminish, the public capital. Every prodigal is represented as a public enemy, and every frugal man as a public benefactor.”¹⁶¹

In formulating his contribution to a uniquely Lauderdaleian “science of the legislator,” the Earl started from a discourse of political economy that helped informed the structure and content of his work. What differentiated Lauderdale’s ideas most from that of Smith and his predecessors more generally was his central commitment to promoting the concept of “public wealth,” and of tracing the distinction between public wealth and private riches as a means to increasing a country’s prosperity. Starting from this novel goal as a way to inspire his positive study of political economy, Lauderdale arrived at novel *normative* conclusions for how political economy could best serve the objective of augmenting public wealth as Lauderdale identified it in his treatise. In the following chapter, we will endeavor to show how Lauderdale defended his own theory against a fellow disciple of the Glaswegian science of politics, an opportunity which Smith never had *qua* Lauderdale.

¹⁶¹ *Inquiry*, 41.

Chapter 3: From Metaphysics to Political Economy: The Brougham-Lauderdale
Debate and the Intellectual Life of the *Inquiry*



Lauderdale *circa* 1806, by John Henning. National Galleries of Scotland.

Lauderdale's *Inquiry* can be summarily characterized as a contribution to the Scottish "science of politics" as well as the first systematic critique of the influential *Wealth of Nations*. Given the relative novelty and variety of its conclusions on the nature of value and spending, it might also be anachronistically compared, to Marginalism and its theories of utility¹⁶², particularly in its treatment of the nature of value and a general, but non-explicit conception of "marginal utility" as driving value on the demand-side as expressed to what degree a good satisfies Lauderdale's definition of wealth as corresponding to "man's desire" for it. The work could be perceived as "anticipating," through the sheer force of its originality, persistent themes in the field of economics, such that Lauderdale could be accorded the lofty title of progenitor of a strongly influential field of economics.

Our approach to teasing out Lauderdale's original contributions to political economy, must, however, be wary of investing too great an energy into discovering a correspondence between Lauderdale's work and disembodied "universal ideas" that allegedly permeate the entire tradition of political economy. As Skinner notes in his influential article,¹⁶³ there is a need to avoid the dangerous allure of the "mythology of doctrines,"¹⁶⁴ or the tendency to locate an author in the context of the "classic texts" and "universal ideas" of a discipline that may or may not have had the same meaning or scope in the author's time as it did in other periods or as it does in the present. The problem

¹⁶² Although the goal of this chapter is not to write a comparative history of Lauderdale, Marginalism, and Keynesianism, general histories of the latter two schools of thought can supplement the present chapter's strong distinction between the context of Lauderdale's thought and that of the later theorists. See Stigler, George J. "The Adoption of Marginal Utility Theory." *History of Political Economy*, vol. 4, no. 2 (Fall 1972), pp. 571-586. Schumpeter also has a detailed treatment in his *History of Economic Analysis* of both Marginalism (Part IV, chapter IV) and Keynes (Part V, chapter V).

¹⁶³ Skinner, Quentin. "Meaning and Understanding in the History of Ideas." *History and Theory*, vol. 8, no. 1 (1969), pp. 3-53.

¹⁶⁴ Skinner, 7

with trans-historical focus on how various thinkers reacted to a supposedly universal ideas is that it leads the intellectual historian toward too neat characterizations of the coherence or trans-historical relevance of an author's ideas, neglecting the discourses and circumstances contemporary to the author, as well as apparent "inconsistencies" within an author's framework, that might reveal some different force, degree of knowledge, or motivation behind the author's ideas. Ideas or "doctrines," in Skinner's terms, can be "hypostatized into [entities]"¹⁶⁵ that take an anachronistic, cross-historical life of their own, irrespective of the author's intent in writing and defending the work. "The perpetual danger, in our attempts to enlarge our historical understanding," as Skinner reminds us, "is thus that our expectations about what someone must be saying or doing will themselves determine that we understand the agent to be doing something which he would not."¹⁶⁶ Intellectual biography as a genre situates the idea of a human subject within the more abstract frameworks of "discourses" and "paradigms," risking endangering the authentic representation of the author's ideas as he would have represented them in his own period and instead representing a figure like Lauderdale not as part of a paradigm of political economy that existed in his own historical situation, but rather as part of a "universal" intellectual project that unites political economists (and modern "economists" proper) from disparate periods that had drastically varying motivations and understandings of the scope of the "hypostasized" trans-historical discipline.

Considering this, although there is truth to the assertion that intellectuals can be connected by shared theoretical concerns within their own times and places, and to

¹⁶⁵ Skinner, 10.

¹⁶⁶ Skinner, 6.

varying degrees associate themselves to intellectuals in the past, as the Stewartian scholars of the “science of politics” did with the Aristotelian and Hobbesian traditions, we cannot take for granted that simply because an intellectual’s ideas hint at solutions to similar intellectual problems, that that intellectual was tackling the “same” problem as other intellectuals far removed in time and space from him.

Lauderdale, whatever his originality, did not directly countenance the thought of Walras, Alfred Marshall, or Keynes, despite the similarity between their ideas and the broadly similar problems that they tackled. Rather, the discursive themes of his work responded to theoretical deficiencies and omissions in the dual system of moral philosophy and political economy envisioned in Smith’s *oeuvre* in general, out of which he developed characterizations of his ideas in the milieu of the science of politics. Lauderdale’s treatise, while privileging the “metaphysics” of political economy, as Brougham asserted and Lauderdale confirmed, was also not immune to discussing the material conditions that brought about the need for political economy and the “science of the legislator” as objects of both practical and intellectual importance. Lauderdale’s introduction to the *Inquiry* makes this reasonably clear: “a clear understanding of the relation which Public Wealth and Individual Riches bear to each other, appears of the highest importance, in securing accuracy in every subject that relates to the science of Political Economy,” for which Lauderdale takes as evidence the fact that “much of obscurity ... and even of error” has arisen in the misapplication of political economy and in the omission, heretofore, of the question of the distinction between public wealth and private riches. Even so, we must avoid relying on a more radical contextualizing approach as a means of understanding Lauderdale’s intellectual project. Whatever

Lauderdale understood of the material conditions and the means of production in the rapidly industrializing and commercially prominent Britain of his own time, and whatever his political interest in finance, his text cannot be understood solely in terms of these, a mistake Skinner associates with Marxist historians. “Despite the possibility ... that a study of social context may *help* in the understanding of a text ... that the ideas of a given text should be understood *in terms* of its social context ... can be shown to be mistaken.”¹⁶⁷ The claim that context can be used as a basis to ascertain what an author “meant” in writing a text betrays itself, because it could only find a causal force that had led the author to make a statement, but not the “illocutionary force” of what is said in the text, or the semantic and semiotic content that grounds what the author *intends* to mean for the reader beyond what is written on the page. For example, although Lauderdale could write of the deficiencies in Smith’s theory of value from the standpoint of how it fails to adequately represent how people really view value, the illocutionary force or authorial intent on Lauderdale’s part was to lead the reader to accept Lauderdale’s own discourse on the matter (and thereby his theory of value), rather than strictly to identify Lauderdale as more correctly describing how valuation works in the real world.

Given this information, it would thus be a mistake to reduce the text and its author to these paradigmatic goals. Lauderdale’s tasks in writing the *Inquiry* were as follows: to promote a theory of value that questions Adam Smith’s reliance on labor as the primary measure of value, to address the lack of a precise definition and treatment of “public wealth” in political economy, and to disincentivize saving as a means of encouraging and growing public wealth. The present chapter aims to show how Lauderdale understood,

¹⁶⁷ Skinner, 43.

clarified, and defended his ideas in his long correspondence with Henry Brougham in the *Edinburgh Review*, focusing on how, in attacking Brougham's critique, he rearticulated his ideas in the face of systematic criticism. This was an advantage the late Adam Smith did not possess in evaluating Lauderdale's own critique of *The Wealth of Nations*, and is particularly useful from a historical point of view because it allows us insight into how Lauderdale internally conceived of his ideas beyond what is revealed in the *Inquiry*'s four hundred pages. In understanding Lauderdale's framing of the *Inquiry* as a work that simultaneously contributed to the furtherance of the "science of politics" and to revising the perceived errors of Smith's work, we can assess the validity behind the claims of intellectual descent of various 19th-century political economists, and even 20th-century *economists* proper, from Lauderdale and his *Inquiry*. We argue that the claim that Lauderdale's ideas "anticipated" marginal utility theory and Keynesian welfare economics should be taken to mean that, by tackling problems of general glut and public finance that existed specifically at the turn of the nineteenth century, Lauderdale expanded the field's possible field of inquiry, such that it was better equipped with the awareness of scope and intellectual resources that would enable the Marginalists, for example, to formulate the exact concept of "marginal utility" as it is presently understood, or for Keynes to argue for government spending to avoid a general glut on grounds broadly similar to those of Lauderdale. We do not claim, however, that it was Lauderdale himself who tackled these ideas, but rather that the commonalities between Lauderdale's intellectual biography and those of the Marginalists and Keynes meant that the nature of the field had been sufficiently changed by the inquiries of Lauderdale and others so as to be better prepared to change its scope and methods of inquiry.

While Lauderdale's immediate predecessors considered the creation and defense of systems of political economy to be a vital constituent of creating a prosperous and moral society, Lauderdale's own defense of his work and his associations, both explicit and implicit, both with the Stewartian science of politics and the Malthusian science of political economy, centered around issues that were at the time unique to Lauderdale's place in both the history of economic thought. These would resurface, moreover in the context of the Marginalist formulation of value and in the Keynesian renovation of theories of fiscal and monetary policy. Lauderdale's formulation and defense of his ideas, more so than that of his predecessors, inaugurated and sustained debates over reconciling (or abolishing) large inequities in wealth and achievement with political economy's objective of securing a balance between "public wealth and private riches" that would emerge, independently but convergently, in the writings of later theories of political economy. The goal of the rest of this chapter is to better comprehend exactly how Lauderdale understood his ideas and their validity at the time in the context of a fierce critique by Henry Brougham, making manifest our project to differentiate Lauderdale from the alluring but false attempt to "resolve antinomies,"¹⁶⁸ in Skinner's terminology, between Lauderdale's actual thought and our idealized vision of the "themes" of the history of political economy.

Henry Brougham, then aged twenty-two, published his critique in the *Edinburgh Review* of Lauderdale's political economy soon after the *Inquiry's* publication. The *Edinburgh Review* had by 1804 been in three separate incarnations. It is worth investigating, in the context of how Brougham criticized Lauderdale's ideas as both too

¹⁶⁸ Skinner, 20.

metaphysical and too incoherent to be of practical importance, how the *Edinburgh Review*'s own institutional history as codifier of Scottish political economy discursively influenced Brougham's argument.

The first *Edinburgh Review*, to which Adam Smith contributed one of his first published philosophical essays in 1756, a review of Jean-Jacques Rousseau's *Discourse on Inequality*, was established by the learned "Select Society" the year before. The Select Society, became one of Edinburgh's most significant institutions in the latter decades of the 18th century, counting "all the Edinburgh literati, as well as many of the As described by an anonymous "Account of the Select Society of Edinburgh" in the same year, the "intention" of the founders of the society (and the publishers and authors of the *Review*) was "by practice to improve themselves in reasoning and eloquence, and by the freedom of debate, to discover the most effectual methods of promoting the good of the country."¹⁶⁹ The Select Society laid out general rules governing its meetings and publications. Among these, the chronicler mentions, was "Any person desirous of being admitted as a member must be proposed as a candidate by a writing subscribed by two members ... and read by the president after the debates of the evening are over."¹⁷⁰ Candidates with sufficient popularity were balloted and admitted after gaining "three fourths of the suffrages in his favour."¹⁷¹ The original publisher of the *Edinburgh Review* thus practiced a kind of intellectual insularity that, although complemented by some diversity on the part of its members, made the journal tend toward a unanimity of opinion on issues of "refinement in the arts" and uniquely "compensatory local patriotism, a

¹⁶⁹ "An Account of the Select Society of Edinburgh." *The Scots Magazine*, vol. 17 (1756), p. 126.

¹⁷⁰ "Account", 126-127.

¹⁷¹ "Account", 127.

stress on the real or imagined purity of native culture and tradition as against cosmopolitan sophistication, and to a justifiably strong sense of pride in Scottish economic advancement and the glories of the Scottish ‘Renaissance.’”¹⁷² In this respect, the journal’s intellectual *raison d’être* was not unlike that of Dugald Stewart’s curriculum at Glasgow, although it preceded Stewart’s program of study by several decades.

Informed by the burgeoning science of political economy and Scotland’s intellectual efflorescence more generally, the journal sought to codify enlightened opinion as a means of achieving refinement in the arts and the prosperity that would result from it, free from the political domination of England. It counted among its editors William Roberston (Henry Brougham’s great-uncle), a Moderate¹⁷³ clergyman and historian, Adam Smith, and Hugh Blair, another renowned Moderate preacher whose sermons preached civic engagement and religious ecumenicalism. The journal’s ecumenical spirit, its critique of established institutions, including the Kirk,¹⁷⁴ and its consistent policy of anonymity for reviewers garnered the ire of the more conservative factions of lowland society, such as one critic who lambasted the journal’s pretense to “pronounce the fate of every work and determine the character of every author, who shall continue to appear during their fancied administration.”¹⁷⁵ Financial instability and the journal’s conflicts with conservative clergy caused it to fold in 1756, only a year after its establishment. The second iteration, the *Edinburgh Magazine and Review*, was similarly short-lived.

¹⁷² Clive, John Leonard. *Scotch Reviewers: The Edinburgh Review, 1802-1815*. Cambridge: Harvard University Press, 1957, p. 19.

¹⁷³ The Moderates were a faction of clerics that emerged from the Church of Scotland (the Kirk) and contributed significantly to the thought of the Scottish Enlightenment. See Thomas Ahnert, *The Moral Culture of the Scottish Enlightenment: 1690-1805*. New Haven: Yale University Press, 2014, pp. 66-94.

¹⁷⁴ The Scots language name for the national Presbyterian church of Scotland.

¹⁷⁵ Clive, 19.

The third iteration, the *Edinburgh Review* (1802-1929), counted Henry Brougham among its founders, and was by far the longest-lived and most influential iteration of the journal as well as a battleground for Whig politics and political economy in the early 19th century, carrying over many of the intellectual traditions embodied in the first *Edinburgh Review* while also codifying the Stewartian science of politics and Smithian political economy as its basis. By the 1790's, the efforts of Dugald Stewart to inaugurate a program of study that unified metaphysics and moral philosophy with science of the strictly "political" (or political-economical). Learned societies arising from the University of Edinburgh, particularly the Academy of Physics and the Speculative Society, both of which Brougham had been a member, provided the "essential fertile soil for co-operative literary projects such as the *Review*, social and intellectual camaraderie."¹⁷⁶ This was combined with the tumultuous discourse surrounding the French Revolution in which the Rockinghamite Whigs, as discussed in the previous chapters, emerged as a significant political force for both anti-war and pro-free trade politicians in the House of Commons. As Clive notes, "in this fashion an end had been put to that essentially dynastic alignment of eighteenth-century Scottish parties, for which 'Hanoverian' and 'Jacobite' are terms far more relevant than Whig and Tory."¹⁷⁷ Scotland had always been politically distinct and had retained a spirit sovereignty, but the events of the French Revolution had the effect, as it did in much of the European world, of putting into high relief the ideological differences between the anti-war, pluralistic Whigs and the conservative High Tories. The branding of Whigs as crypto-Jacobins, one that had been levied at Lauderdale (or,

¹⁷⁶ Clive, 21.

¹⁷⁷ Clive, 23.

satirically, “Citizen Maitland”), led to a “spirit of reaction”¹⁷⁸ in Edinburgh, further intensifying conflicts between the Smithian-Stewartian Whigs and more conservative factions of society. Various conventions of Whigs were suppressed, leading prominent members of the Edinburgh literati and nobility, including Brougham to form societies to promote Whiggish opinion. Sydney Smith, an Anglican cleric, founded the third *Edinburgh Review* around 1802 and invited Brougham into its “inner circle” of editors a year later.¹⁷⁹ Formed as a measure to protect and promote the Whiggish science of politics that centered the productive class (or the “supply side”) of merchants and industrialists in its analyses, it is unsurprising that one of its most prominent editors would come into conflict with Lauderdale, who dissented from some of the most fundamental notions of Smith’s political economies in his theory of value and his distinction between public and private wealth.

Lauderdale, involved in politics from his youth and imbued with a more cosmopolitan and self-critical Whiggish perspective (at least in his early career, before his turn to protectionism late in life) than the editors of the first and third iterations of the *Review*, was skeptical of the journal’s intellectual breadth and apparent insularity and would raise questions of the editorial legitimacy and respectability of the journal’s third iteration in his counterattack to Brougham’s review. The anonymity and strongly worded reviews of the journal seemed to Lauderdale both uncharacteristic of the method of political economy and unbecoming of a journal claiming to represent enlightened opinion. His own affiliations with eminent figures of both Whiggism and the Scottish Enlightenment enabled, as we recounted in chapter one, both a deep familiarity and a critical distance

¹⁷⁸ Clive, 24.

¹⁷⁹ Clive, 25-26.

from the discourses of the doctrines of the Scottish science of politics as encoded in the *Edinburgh Review*.

Before turning specifically to the Lauderdale-Brougham exchange, it is worth noting the perils that befall in writing about periodicals. “One tends to take the articles too seriously,” Clive writes, “forgetting that they are often dashed off in supplying a manuscript on time than in standing its test.”¹⁸⁰ Brougham’s article, which he referenced decades after its publication, does not necessarily fall into the category of critical ephemera, but it is worth keeping this detachment in mind in understanding the present chapter’s goal of framing Brougham’s version of political economy *qua* Lauderdale’s. Brougham’s position as editor of the *Edinburgh Review* required him to defend its reputation and its representation of Whiggish economic orthodoxy while also adopting a critical stature against works such as the *Inquiry* that threatened the secure status of Smith’s political economy in the early 19th century. The goal of the present chapter, however, is not to evaluate the strength or conviction with which Brougham expressed his criticism of Lauderdale’s political economy, but rather how *Lauderdale*, in his counter to the review, clarified his thinking as one that fundamentally differed from the orthodoxy of the Edinburgh reviewers.

It is in this context that we evaluate his summary characterization of Lauderdale’s *Inquiry*. Brougham was not universally condemning of Lauderdale’s work, noting the journal’s inclination to “offer our unfeigned thanks for the zeal with which he has devoted his retirement to the cultivation of the great field of inquiry,” and that he would be followed as “an example ... by many persons who are at present lavishing the

¹⁸⁰ Clive, 11.

influence of their rank and fortune upon objects far less worthy of their regard – upon the affairs of practical policy”¹⁸¹ Lauderdale, Brougham agreed, had contributed a work to the science of politics, and is deservedly included in the ranks of political economists. “We trust, also, that Lord Lauderdale, having begun to deserve well of the scientific world ... will be encouraged to persevere, until he shall augment the obligation [to contribute to the science of politics] by more successful endeavors.”¹⁸² What drove Brougham’s critique is Lauderdale’s pretense to “discuss the most elementary branches of political economy,” namely the “abstract doctrines of national riches, the distinction between the kinds of wealth, the peculiarities in the modes of its distribution, the variations in its quantity, and in the sources of its production.”¹⁸³ Brougham denominated these problems as the “pure metaphysics of political economy,” foundational problems that would not be unfamiliar to anyone who had studied the Stewartian program of the science of politics. Although he did not take issue with Lauderdale’s undertaking of these problems, lauding the work’s propensity to “excite no inconsiderable degree of expectation,”¹⁸⁴ Brougham encapsulated his opinion of the work by noting that it failed to meet its grand expectations at all, that Lauderdale, “to have found himself embarrassed for want of a theory,” became “dazzled by the first paradox which presented itself to his fancy.”¹⁸⁵ This apparently misleading paradox lay in Lauderdale’s treatment of the distinction between public wealth and private riches, specifically how a valuable commodity could be augmented in terms of the wealth it gave to private individuals

¹⁸¹ Brougham, Henry. “Lord Lauderdale on Public Wealth.” *Edinburgh Review*, vol. 4 (1804), pp 343-377, p. 343.

¹⁸² Brougham, 343.

¹⁸³ Brougham, 344.

¹⁸⁴ Brougham, 344.

¹⁸⁵ Brougham, 346.

simply on account of its rarity, even if was not “an object of the desire of man.”¹⁸⁶ As Lauderdale showed in his review, this was more demonstrative of Brougham’s ignorance of Smith’s own reading of the water-diamonds paradox than it was an incidence of Lauderdale’s being misled by it. But to Brougham, Lauderdale was generally lacking originality when he was not outright mistaken in his interpretation of Smith’s theory -- where Lauderdale’s writing was not “self-evident or obviously false,” it was “founded up on errors which the slightest attention is sufficient.”¹⁸⁷

Predictably, this attitude provoked Lauderdale’s ire in his response to the review, noting how Brougham’s acid language might lead one “to consider what effect a succession of such articles may have on their own characters, as well as upon that of their publication.”¹⁸⁸ Lauderdale, although considering himself unaffiliated with the intellectual society behind the *Edinburgh Review*, nonetheless “looked forward to their criticism for instruction.”¹⁸⁹ He “regarded it as a source from which he was likely to derive grounds from confirming, or reasons for correcting the opinions he had formed,” feeling secure that “their disapprobation would not be tinctured with malignity.”¹⁹⁰ The rest of this chapter aims to uncover precisely how Lauderdale, reeling from the attacks on Brougham, delivered his response to specific critiques of the *Inquiry* in his counter to the Brougham review while avoiding the “illiberal malevolence” of a review that would be

¹⁸⁶ Lauderdale, James Maitland. “Observations by the Earl of Lauderdale on the Review of his *Inquiry into the Nature and Origins of Public Wealth.*” *Edinburgh Review*, vol. 8 (1804), pp. 5-88, p. 11.

¹⁸⁷ Brougham 346.

¹⁸⁸ Lauderdale, 7.

¹⁸⁹ Lauderdale, 7.

¹⁹⁰ Lauderdale, 7.

more suited to purely political discourse rather than the intellectual confines of the science of politics.¹⁹¹

Lauderdale divided his counter-review into four subjects, each examining Brougham's treatment of a particular branch of the "metaphysics" of political economy that Lauderdale had discussed in the *Inquiry*: first, the distinction between public wealth and private riches; second, the sources of wealth; third, the means of augmenting wealth; and fourth, the effects of parsimony on public wealth. For our purposes, Lauderdale's treatment of the public wealth-private riches distinction and his beliefs on parsimony are the most important since they differed most radically from the Smithian view of private wealth as determining the wealth of a nation in the aggregate and the view that savings of capital is a necessary conditions of improving a country's productive capacity. Additionally, Lauderdale provided concrete examples from economic history that illustrates the effectiveness of his doctrine, going further than in the *Inquiry* to show that the "metaphysics" of his work were in fact formative of a coherent theory of political economy.

Brougham launched his attack on Lauderdale's distinction between public wealth and private riches by noting that "when we estimate the wealth of an individual, we generally state it in money, the common measure of value: we suppose that his whole effects are to be brought into the market, and sold at the current prices."¹⁹² Estimating a nation's collective wealth thus rules out the possibility of internal exchange (e.g. between

¹⁹¹ Lauderdale, 7.

¹⁹² Brougham, 351.

individuals), as each individual is supposed to bring all of his wealth to the market.¹⁹³ Lauderdale's criticism of this point came from his skepticism of Brougham's reliance on *market* price (or the price of exchange) as a measure of determining overall value," because it only considered exchange and money as ways of measuring value, leading Brougham to equate to the Smithian opinion that the value of the private wealth gained from transactions is the same as national wealth as a whole. In refuting this conception of wealth, Lauderdale relied on a similar illustration as in chapter 2 of the *Inquiry*, using Charles Davenant's table of grain prices to illustrate how increases in the price of a good brought to market, and consequently of the private wealth of those who are in possession of the good, does not necessarily translate to the greater availability of that good as an "object of man's desire" to most of the population.¹⁹⁴ Acknowledging that the table was more of an illustration of the concept of price elasticity of demand (although Lauderdale did not call it as such) than of the actual behavior of goods in the market, Lauderdale also noted that the economic situation of Britain after the American Revolution provided further support to his analysis, something that he did not consider in the *Inquiry*:

In 1786, the debt of the country in *3 per cents*¹⁹⁵ amounted to one hundred and fifty millions, and the price of 3 per cent stock being somewhere around sixty, the property of the holders of the *3 per cents* estimated according to the current price, must have been ninety millions. Before the commissioners had laid out five millions in the purchase of private securities, 3 per cents were nearly at par, that is, the property of the holders of the 3 per cents, estimated according to the current price, was nearly one hundred and fifty millions, being an increase of their fortunes to the extent of sixty millions.¹⁹⁶

¹⁹³ This can be compared to a measure of GDP that only considers consumer purchases (C) as part of GDP, neglecting investment (I) or government spending (G).

¹⁹⁴ Lauderdale, 26-28.

¹⁹⁵ Loans with 3 per cent interest,

¹⁹⁶ Lauderdale, 31.

What this dense passage suggests is that of public securities led to an increase in the actual wealth of people holding debt that the British government owed, leading Lauderdale to rhetorically note that “[Brougham] will perhaps have some difficulty in pointing out who were the members of the community that lost the sixty millions, which the holders of the 3 per cents thus acquired.”¹⁹⁷ In other words, the increase in value of the stock did not lead to any actual change in real property or the real value of goods, but rather led to a profit for those who owned the stocks (i.e. an increase in private riches). The existence of a real-world anecdote to vindicate Lauderdale’s theory may have less than “metaphysical” than most of the political economic inquiries of the period imagined their science to be, but also more properly used an observational methodology combined with rigorous theorizing, a method characteristic of later social sciences, to arrive at a conclusion that would be less than obvious if one only considers markets on the level of interpersonal exchange or investment by individuals and firms, which occupied most of Smith’s analysis and may have generated skepticism of Lauderdale’s counterintuitive claim, based on a greater knowledge and interest in finance that he had cultivated from his earliest years in Parliament,¹⁹⁸ that an individual’s share of wealth might be augmented at nobody’s expense while also not increasing the availability of real goods and services to the general public.

Lauderdale was perhaps even more intensive in his riposte to Brougham’s assertion that Lauderdale’s rejection of parsimony was “the most unmeasured and

¹⁹⁷ Lauderdale, 31-32.

¹⁹⁸ For a discussion of the numerous financial pamphlets Lauderdale published in the 1790’s, see Thomson, Herbert Fergus. “Lauderdale’s Early Pamphlets on Public Finance (1796–1799).” *History of Political Economy* vol. 2, no. 2 (June 1, 1970), pp. 344–80.

prejudiced of ... speculations,”¹⁹⁹ taking advantage of what he perceives as Brougham’s “great doubt [of his own beliefs] throughout his criticism”²⁰⁰ Brougham wished, as Lauderdale wrote, “in no respect to modify”²⁰¹ the proposition in *The Wealth of Nations* that “wealth cannot be augmented by other means than those by which it is produced.”²⁰² Lauderdale relied, as he did in the *Inquiry*, on his now established idea of public wealth to complicate this doctrine, paying particular attention to the idea that wealth “may be increased, by abstracting a portion of labour in forming consumable commodities, and applying it to the formation of things every way useful in supplanting the necessity of, and performing labour.”²⁰³ Lauderdale, following a similar argument to the *Inquiry*, noted that this is fallacious insofar as “what is gained by the increase of capital, is lost by the diminution of consumable commodities.”²⁰⁴ Lauderdale provided various scenarios to demonstrate the wide ranging validity, beginning with the simplest, Robinson Crusoe case of “person excluded from society, ignorant of exchangeable value, who rears upon his own grounds the means of maintaining his existence, and of satisfying the desires of his family.”²⁰⁵ If such a man decided to avoid producing the means of his own existence and instead invest in things that are “useful in supplanting labour,”²⁰⁶ “his capital would be undoubtedly augmented, but it is evident his wealth would not be proportionally increased, for he would naturally possess a smaller share of that wealth which his labour

¹⁹⁹ Brougham, 376.

²⁰⁰ Lauderdale, 59.

²⁰¹ Lauderdale, 61.

²⁰² Brougham, 372.

²⁰³ Lauderdale, 62-63.

²⁰⁴ Lauderdale, 63.

²⁰⁵ Lauderdale, 64.

²⁰⁶ Lauderdale, 64.

produced for the enjoyment and consumption of his family, before his disposition to parsimony abstracted a portion of it from this salutary occupation.”²⁰⁷

In terms of modern economics, this thought experiment is commonplace as means of demonstrating an individual’s *indifference curve*. A consumer can choose between consuming now and investing for later, finding an optimal state at which there is an optimal balance between the amount consumed now versus invested for future growth and consumed later. The balance between these two states is determined by the marginal utility the consumer has for substituting one unit of consumption now for one unit of investment later. None of these decisions increase the consumer’s actual wealth, since it is limited by the size of the pool of resources, but they can be (as Lauderdale observes) productive of later increases in his actual wealth at the expense of present decreases in his “private riches.” This could be extended, in Lauderdale’s analysis, to the level of society in general. If, like Brougham, we accept that “The stock of the community is either that part which is consumed by the producer, or that part which he exchanges for some object of desire,”²⁰⁸ and that if there “were nothing for which to exchange the latter portion, it would soon cease to be produced,”²⁰⁹ then we are inevitably led to skepticism that savings beyond what would allow a society to actually increase its public wealth. “For if the abstraction [investment] from expenditure of a sum equal to what is added to the capital of the community causes a diminution of production to that extent, parsimony must be considered as a means of creating capital at the expense of sacrificing a revenue

²⁰⁷ Lauderdale, 65.

²⁰⁸ Brougham, 357.

²⁰⁹ Lauderdale, 69.

as great as the capital created.”²¹⁰ If parsimony is pursued merely as a means to increasing wealth, it will fail to do so if it cannot meet individual demand for “objects of desire,” instead decreasing consumption to little avail.

That Lauderdale provided these two accounts starting from dramatically different scenarios of social organization is particularly impressive in light of how, even incidentally, it unites his hinting at the idea of a consumer’s marginal utility with his theory of the distinction between public wealth and private riches, something that would be raised by later welfare economists who considered the exact same situation of consumer behavior on the scales of both the individual and of complex society. Stigler, writing of the acceptance of Marginalist utility theory notes that “Now the utility theory allowed a unified explanation of the value of shoes, wheat, and Shakespearean folios. The classical school had no central logic or behavior: the entrepreneur was a profit-maximizer while the consumer and laborer were opaque bundles of sociological behavior traits.”²¹¹ Lauderdale, chronologically much closer to the early classical economists than to the Marginalist theorists, rejected the claim that ordinary people were best off through pursuing the moral goals of parsimony, so long as they were able to contribute their abilities freely through the specialization of labor while the more “productive” classes contributed to public wealth, instead noting that what was good for the individual’s riches was not necessarily good for investment in society and vice-versa. “Now,” Stigler continues the utility theory allowed a unified explanation of behavior: everyone was a

²¹⁰ Lauderdale, 70.

²¹¹ Stigler, 578.

utility-maximizer, and economic problems became simply problems of tastes and obstacles.”²¹² The same could be said of Lauderdale.

In his defense of the principles of the *Inquiry*, we thus see how Lauderdale, fully realizing the powers of his system of political economy, mounted a successful challenge and critique of the Smithian system as codified in the *Edinburgh Review*. More generally, Lauderdale’s ability to present his “metaphysics” in a way that avoided political polemic and instead focused on the validity of his ideas vis-à-vis phenomena in the real world. Although Lauderdale’s doctrines often appear extreme and ill-defined from the point of view of modern mathematical economics, his impact on contemporary discourse cannot be understated. His identification of the large omission of the question of public wealth that he believed plagued Smith’s works and the economic ideology of Whiggism with the “linguistic mistakes” that would pollute both the purely “metaphysical” aspect of their political economy as well as the potential policies that could arise from applications of it, solidified his status as one of the rare British politicians to also be a statesman. Lauderdale’s recognition of the financial and economic complexities that challenged the theories of Smithian economics and its accompanying Stewartian science of politics was honed through political experience and personal acquaintance with the most eminent economic thinkers of the period. The extent of his ability to navigate these discourses while identifying economic problems of fundamental moral concern through his singular focus on public wealth and welfare allows him, as this work has argued, to be placed in the pantheon of political economic thinkers. Lauderdale, in developing Smith’s theories, gave political economy the grounds it needed to better address the problems of utility

²¹² Stigler, 578.

theory and the roles of state and society in promoting policies that, through a distinctly visible hand, promoted the just and efficient distribution of goods in a rapidly industrializing society.

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