

Adam Smith: The French Connection*

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I

Adam Smith's visit to France, which was almost two years in duration, was his only journey outwith Great Britain. The fact that the journey took place at all was due to the success of the **Theory of Moral Sentiments**; a success which elicited from David Hume one of the most amusing, in a series of amusing letters, addressed to Smith. Having written at length on every conceivable subject other than that which the philosopher wanted to hear, Hume concluded:

'Nothing indeed can be a stronger Presumption of Falshood than the approbation of the multitude; and Phocion, you know, always suspected himself of some Blunder, when he was attended with the Applauses of the Populace.

Supposing, therefore, that you have duly prepared yourself for the worst by all these Reflections: I proceed to tell you the melancholy News, that your book has been very unfortunate: for the Public seem disposed to applaud it extremely' (Corr., letter 31, dated 12 April 1759).

Hume, in a rather more serious tone, also reported that 'Charles Townshend, who passes for the cleverest Fellow in England, is so taken with the Performance, that he said to Oswald he wou'd put the Duke of Buccleugh under the Author's care'. Hume bestirred himself on Smith's behalf, but assumed that he would wish to welcome the Duke as a student in Glasgow, as distinct from giving up his chair. This was a reasonable assumption, bearing in mind Smith's enjoyment of his post and the programme of publication which was announced in the closing pages of the first edition of **The Theory of Moral Sentiments**.

* The title is borrowed from Peter Groenewegen's 'The French Connection: Some Studies of French Influences on British Economics in the Eighteenth Century', **Working Papers in Economics**, University of Sydney, 202 (1994).

Sections I, part of III and V provided the basis of a short paper delivered at a Colloquium held in the University of Paris-I to mark the publication of Paulette Taieb's translation of the **Wealth of Nations**. The remaining sections are drawn from 'The Development of a System: Adam Smith and the Physiocrats', in a **System of Social Science** (2nd ed, 1996; OUP), chapter 7. A version of this chapter appeared in French translation in **La Diffusion Internationale de la Physiocratie**, ed Dalmas, Demals and Steiner (Presses Universitaires de Grenoble, 1995).

Negotiations were protracted. But Townshend wrote to Smith on 25 October 1763, following a visit to Glasgow:

'The time now drawing near when the Duke of Buccleugh intends to go abroad, I take the liberty of renewing the subject to you: that if you should still have the same disposition to travel with him I may have the satisfaction of informing Lady Dalkeith and his Grace of it, and of congratulating them upon an event which I know that they, as well as myself, have so much at heart' (Corr., letter 76).

Smith's resignation from the Chair at the early age of 41 would no doubt surprise Hume. It may well be that Smith was looking to a future devoid of any pension rights. It is more probable that Smith was too honourable a servant of the University to accept the compromise of the appointment of a substitute. As matters stood he had to arrange for the appointment of Thomas Young to deliver the course for which he had been contracted in the remainder of the session 1763/4.

But there must have been many attractions in contemplating a visit to France quite apart from the obvious ones. For if Smith could hardly match the linguistic abilities and knowledge of the Continent demonstrated by Sir James Steuart, whose Euro-centric perspective was not always welcomed in England, Smith was emphatically cosmopolitan in terms of his *learning*.

A good example of this perspective is provided by Smith's contribution to the **Edinburgh Review** (1756) where he warned the editors of the dangers of undue concentration on Scottish productions, in drawing attention to the importance of *English* contributions to philosophy and to the natural sciences. The same review gave prominence to Rousseau but also to French work notably in the life sciences, citing as examples the works of Buffon, Daubenton, and Reamur as well as the **Encyclopedie**. It is known that Smith owned copies of the publications of D'Alembert, Diderot and Maupertuis and that he purchased the **Encyclopedie**, Daniel's **Histoire**, and the **Reveries de Saxe** for the University Library when quaestor (Scott, 1937, p 179).

It may well be that the visit to France was attractive precisely because it afforded an opportunity to meet a group of thinkers whom Smith so much admired.

Smith left Glasgow in January 1764 for London, and arrived in Paris on 13 February. He wrote to Glasgow to resign his chair on the following day (Corr, letter 81). On 4 March he was in Toulouse which was to be his base for many months.

Toulouse was an attractive location in the sense that it boasted a University and a Parliament which was second only to that of Paris in order of importance (Ross, 1996,

chapter 13). The city was a favourite with English visitors. Introductions were arranged by the indefatigable Hume, notably to the Abbé Colbert, the scion of a Scottish family. But few of the contacts which Hume had arranged were available, and Smith's French was poor. On 5 July he wrote rather forlornly to Hume:

'Mr Townshend assured me that the Duke of Choiseul was to recommend us to all the people of fashion here and everywhere else in France. We have heard nothing, however, of these recommendations and have had to make our way as well as we could with the help of the Abbé who is a stranger here almost as much as we. The Progress, indeed, we have made is not very great. The Duke is acquainted with no French man whatever. I cannot cultivate the acquaintance of the few with whom I am acquainted, as I cannot bring them to our house and am not always at liberty to go to theirs. The Life which I led at Glasgow was a pleasurable, dissipated life in comparison of that which I lead here at present.'

Smith added that 'I have begun to write a book in order to pass away the time. You may believe I have very little do to' (Corr, letter 82). It is highly improbable that Smith *began* the WN in France, but entirely likely that he began to consider the development of arguments already outlined in the **Early Draft**; a point which may be confirmed by a letter from John Glassford, a Glasgow merchant, who expressed the hope that 'your time passes agreeably and that you are bringing forward at your Leisure Hours the useful work that was so well advanced here' (Corr., letter 85).

But the situation soon improved, partly as a result of a series of expeditions to Bordeaux, to the Pyrenees and to Montpellier.

The Duke sought permission to move to Paris. Townshend granted the request in a letter full of advice to the young man:

'With respect to Toulouse, I consent to your leaving it when you please for the very reasons which you allege, but when you settle at Paris, I must entreat you will still think the place of residence only changed and not your age nor your plan of improvement, nor the propriety of continuing the same Study and the same exercises...'

Townshend added, in a characteristic passage, that 'If you go much into mixed company, as I suppose you will, let me warn you against any female attachment. Your rank and fortune will put women of subtle character upon projects which you should not be the dupe of' (Campbell and Skinner, 1982, p 128).

The return to Paris was not immediate however. Smith, the Duke and his brother, Hew Scott, would appear to have visited Avignon *en route*. The party also visited Geneva which gave Smith an opportunity to meet Voltaire, whom he regarded as the 'most universal genius, perhaps, which France has ever produced' (EPS, p 254).

Smith arrived in Paris in February 1766, to begin a stay of some ten months. The visit was clouded by the developing quarrel between Rousseau and Hume. Further, in August, Smith was caused real anxiety by the illness of the Duke. The Duke recovered, but sadly his brother was taken ill in October and died on the nineteenth of the month. At this point, the party left for home, and reached London on 1 November. Smith never left Britain again.

But from an intellectual point of view, the visit was a resounding success. Hume's contacts and the reputation of TMS ensured an entry to both English and French circles. The latter was especially important in that Smith was afforded an opportunity to meet Diderot, Helvetius and Holbach. But there were other important contacts to be made, which are of particular interest to the economist and to commentators on WN. These included Quesnay, Mirabeau, Dupont de Nemours and, amongst others, Mercier de la Riviere whose book **L'ordre naturel et essentiel des sociétés politiques** (1767) was considered by Smith to be 'the most distinct and best connected account' of Physiocratic doctrine. Smith was also able to meet A R J Turgot, whose **Reflections on the Formation and Distribution of Riches** was in the process of completion.

At the time Smith arrived in Paris, the School was at the zenith of its powers. Two journals, the **Journal d'Agriculture** and the **Ephemerides du Citoyen** carried articles of a professional nature while in addition the central texts were already published, most notably Quesnay's **Tableau** (1758). Mirabeau's **Friend of Man** (1756, 1760) and the **Philosophie Rurale** (1763). When Smith arrived in Paris Quesnay was working upon the **Analyse** while Dupont was writing his account of the **Origin and Progress of a New Science**, that of political economy.

The content of Smith's library confirms his interest in the School. But it is also important to notice that he enjoyed the friendship of Quesnay, whom he described as 'one of the worthiest men in France and one of the best physicians that is to be met with in any country. He was not only physician but the friend and confidant of Madame Pompadour a woman who was no contemptible judge of merit' (Corr., letter 97). In addition we have Dugald Stewart's authority that 'Mr Smith had once an intention (as he told me himself) to have inscribed to him his **Wealth of Nations**' (Stewart, III.12).

There was a great deal in Physiocratic writing that was to prove unattractive to some, most obviously, perhaps, the doctrine of legal despotism and a political philosophy which envisaged a constitutional monarch modelled upon the Emperor of China.

The attitudes of the disciples to the teaching of the master, Quesnay, were also a source of aggravation, moving Hume to write to Morrellet on the subject of his **Dictionnaire du Commerce**:

'I see that, in your prospectus, you care not to disoblige your economists...But I hope that in your work you will thunder them, and crush them, and pound them, and reduce them to dust and ashes! They are, indeed, the set of men the most chimerical and most arrogant that now exist. I wonder what could engage our friend, M Turgot, to herd among them' (Hume, Corr, ii. 205).

Ironically, Turgot himself was as deeply opposed to authority and received doctrine as Hume had been (Stephens, 1896, p 15).

Hume's reaction found an echo in France herself. Murray Rothbard has reminded us of an amusing passage in the works of Simon Nicolas Linguet (1736-94), ridiculing the idea that the physiocrats were not 'a cult or sect':

'Not a sect? You have a rallying cry, banners, a march, a trumpeter (Dupont), a uniform for your books, and a sign like freemasons. Not a sect? One cannot touch one of you but all rush to his aid. You laud and glorify each other, and attack and intimidate your opponents in unmeasured terms' (Rothbard, 1995, p 377).

Smith himself objected to the fact that Quesnay's disciples followed 'implicitly, and without any sensible variation' the doctrine of the master such that there was 'upon this account little variety in the greater part of their works' (WN, IV.ix.38).

But Smith did recognise that the system:

'with all its imperfections, is, perhaps, the nearest approximation to the truth that has yet been published upon the subject of political economy, and is upon that account well worth the consideration of every man who wishes to examine with attention the principles of that very important science' (IV.ix.38).

The reason for this assessment may be found in the Physiocratic definition of wealth, in their liberal attitude to trade policy, but above all else in the quality of the basic

model - in sharp contrast to Linguet who wrote off the Tableau as 'an insult to common sense, to reason, and philosophy' (Rothbard, op cit, p 377).

II

In assessing the impact of Physiocratic teaching on the **Wealth of Nations**, the modern commentator has the singular advantage of knowing the nature and extent of Smith's knowledge of economics immediately prior to his visit to France.

Smith's early writings on economics (apart from two short fragments on the division of labour) are contained in the two sets of lecture-notes currently available to us and in the document first discovered by W R Scott and described by him as an 'early draft' of the **Wealth of Nations**. The latter document belongs to the same broad period as the lectures which related respectively to the sessions 1762-3 (LJA) and 1763-4 (LJB). There are of course differences between these documents: the first set of lecture-notes on economic topics is less complete than the second, and excluded, for example, the discussion of Law's Bank, interest, exchange, and the causes of the slow progress of opulence. On the other hand, the topics covered in LJ (A) (which correspond approximately to sections 1-12 of Part 2 in Cannan's account) are typically handled with much greater elaboration - this is especially true of the treatment of the division of labour, the theory of price, and the problem of velocity.

Again, LJ (B) is not only more complete but more highly polished; eschewing the passages of recapitulation with which Smith usually began his lectures. The **Early Draft**, on the other hand, while often seeming to follow the argument of LJ (A) rather than LJ (B), features a coverage of the subject which matches that of the latter, although the topics are often handled only in note form. There are, however, two outstanding exceptions: the treatment of the origins and nature of the division of labour is much more elaborate in the **Early Draft** than in either version of the lectures (although the limitation imposed by the extent of the market is not mentioned), and has the striking feature of beginning with a long polemic on the subject of inequality'. Secondly, it is evident that the treatment of the causes of the slow progress of opulence is sometimes rather more elaborate than in LJ (B). But in all this there is no evidence of a major shift of analytical perspective, thus making it possible for us to take LJ (B), ie, the Cannan version as providing a reasonable guide to Smith's system of economic analysis in the form in which it existed just prior to his visit to France.

The account which Smith provides in LJ (B) is concerned with an *economic* system which features the activities of agriculture, manufacture, and commerce (LJ (B) 210) where these activities are characterised by a division of labour (LJ (B) 211-23) with the patterns of exchange facilitated by the use of money (LJ (B) 235-43). There are three main features of the central analysis; the treatment of the division of labour, the analysis of price and allocation, and the exposure of the mercantile fallacy. We may take these in turn, examining each topic with the minimum degree of elaboration which is consistent with the purpose of this paper.

The division of labour is central to the analysis. It is by reference to this institution that Smith explains the growth in opulence which is associated with the development of the arts under the stimulus of the 'natural wants' of man (LJ (B) 209-11). Smith here rehearses points which have now become familiar, explaining the increase in productivity in terms of improved dexterity, the saving of time otherwise lost in passing from one function to another, and the scope given to the use of machines. But the second aspect of the argument is equally important in the sense that Smith draws attention in two ways to the high degree of inter-dependence which follows from the division of labour. First, it is pointed out that in the modern state even a relatively simple product such as the labourer's woollen coat is the creation of a large number of different workmen including the wool-gatherer, the spinner, the dyer, weaver, tailor, etc - not to mention the different processes involved in the manufacture of the tools required. Secondly, it is emphasised that in such a situation every man in effect acquires the goods he needs through exchange (LJ (B) 218-22); a point which leads directly to the discussion of price and allocation.

As in the case of the **Wealth of Nations**, Smith's handling of price theory is amongst the most successful aspects of the study, featuring as it does a clear distinction between natural and market price together with an examination of their inter-dependence. *Natural* price is defined in effect as the supply price of a commodity, where the latter refers to labour cost:

'A man then has the natural price of his labour when it is sufficient to maintain him during the time of labour, to defray the expence of education, and to compensate the risk of not living long enough and of not succeeding in the business. When a man has this, there is sufficient encouragement to the labourer and the commodity will be cultivated in proportion to the demand (LJ (B) 227)'.

Market price, on the other hand, is the price which may prevail at any given point in time and will be determined, Smith argues, by the 'demand or need for the commodity', its

abundance or scarcity in relation to the demand (a point which is used to explain the 'paradox' of value), and, finally, to the 'riches or poverty of those who demand' (LJ (B) 227-8). Smith then went on to suggest that although the two prices were logically distinct, they were also 'necessarily connected'. Thus in the event of market price rising above the natural level, the reward of labour in this employment will rise above its natural (long-run equilibrium) rate, leading to an inflow of labour and an expansion in supply (and vice versa). In equilibrium, therefore, the market and natural price will be the same; a point which allowed Smith to go on to argue that 'whatever police' tends to prevent this coincidence will 'diminish public opulence' (LJ (B) 230). The familiar examples which contributed to keep the market above the natural price include taxes on industry, monopolies, and the exclusive privileges of corporations - all of which affect price either through the impact on the supply of the commodity or on the flow of labour to a specific employment. Similarly, Smith criticised policies such as the bounty on corn, which kept the market below the natural price.

The examples refer to particular cases, but Smith may be said to have added a further dimension to the argument by showing an understanding of the fact that the economic system can be seen under a more general aspect. This much is evident in his objection to particular regulations of 'police' on the ground that they distorted the use of resources by breaking 'what may be called the natural balance of industry' and interfering with the 'natural connexion of all trades in the stock' (LJ (B) 233-4). He concluded: 'Upon the whole, therefore, it is by far the best police to leave things to their natural course' (LJ (B) 235).

The third main aspect of the argument relates to the issue of money which is introduced at this point perhaps because it provided an easy means of transition to the discussion of a particular branch of police which attracted Smith's attention - the mercantile system. The subject is approached by way of a discussion of the role of money as the instrument of exchange, which enabled Smith to demonstrate that natural opulence does not consist in money and to expose the absurdity of policies which were designed to prohibit the free exportation of specie. The policy is shown not merely to involve an error, but also to have pernicious effects with regard to the use of resources - once again returning to the general theme stated in connection with the theory of allocation. The advantages of free trade are thus suggested to complement those of domestic economic freedom, and the argument closes with the claim that all policies in restraint of trade, whether based on misunderstanding or national jealousy (a point more than a little reminiscent of Hume), should be rooted out:

'From the above considerations it appears that Brittain should by all means be made a free port, that there should be no interruption of any kind made to forreign trade, that if it were possible to defray the expences of government by any other method, all duties, customs, and excise should be abolished, and that free commerce and liberty of exchange should be allowed with all nations and for all things' (LJ (B) 269).

While this account of Smith's early work on economic is necessarily brief, it may be sufficient to confirm that he had in fact attained a sophisticated grasp of interdependence of economic phenomena prior to his departure for France in 1764. The same account also suggests that Smith had succeeded in producing an organised, systematic discourse, which also had the merit of presenting his policy views as the logical outcome of an underlying understanding of economic laws.

III

The issue considered here, is to identify the type of model which Smith is likely to have found as a result of his sojourn in Paris, bearing in mind the state of knowledge which is represented by the **Lectures**.

What Smith is likely to have found is something which differs markedly from the content of his course in Glasgow but without being inconsistent with it; a macro-economic model which is noteworthy for its formality even if it was in many respects incomplete.

Quesnay

Quesnay's purpose was both practical and theoretical. As Meek has indicated, Quesnay announced his purpose in a letter to Mirabeau which accompanied the first edition of the **Tableau**. 'We must not lost heart' he wrote, 'for the appalling crisis will come, and it will be necessary to have recourse to medical knowledge' (Meek, 1962, p 18). The position was clarified in a further letter to Mirabeau which was written in 1758:

'I have tried to construct a fundamental **Tableau** of the economic order for the purpose of displaying expenditure and products in a way which is easy to grasp, and for the purpose of forming a clear opinion about the organisation and disorganisation which the government can bring about' (Meek, 1962, p 108). The statement is important in that it confirms the importance of government action in the context of a relatively under-developed economy

which needed urgent support for the agrarian sector, a reform of the mercantile policies associated with Colbert, and in particular changes in the financial sector and in respect of fiscal policy. But Quesnay's statement also announced a clear understanding of the point that governments can act only on the basis of a knowledge of economic laws. Or, as Meek put it:

'With the physiocrats, for the first time in the history of economic thought, we find a firm appreciation of the fact that areas of decision open to policy makers in the economic sphere have certain limits, and that a theoretical model of the economy is necessary to define these limits' (1962, p 370).

The model in question seeks to explore the inter-relationships between output, the generation of income, expenditure and consumption - or in Quesnay's words, a 'general system of expenditure, work, gain and consumption' (Meek, 1962, p 374) which would expose the point that 'the whole magic of a well ordered society is that each man works for others, while believing that he is working for himself' (Meek, 1962, p 70). As Meek put it:

'In this circle of economic activity, production and consumption appeared as mutually interdependent variables, whose action and interaction in any economic period, proceeding according to certain socially determined laws, laid the basis for a repetition of the process in the next economic period' (Meek, 1962, p 19).

It would come as no surprise to Smith to discover that Quesnay made heavy use of an analogy drawn from Harvey's discovery of the circulation of blood.

Perhaps the easiest way of introducing the issues involved, bearing in mind the restricted purposes of this paper, is to consider the argument of the **Analyse** (1766) - interestingly the very work on which Quesnay was engaged when Smith was in Paris.

In this model Quesnay identified two main sectors of activity, agriculture and manufacture, together with three major socio-economic groups; the farmers, proprietors of the land, and those engaged in manufacture.

The *Farmers* were defined as the productive class since it was assumed that only agriculture was capable of generating surpluses.

The *Proprietors* were defined as the distributive class; a group which subsists on rent as their only form of income.

The *Manufacturers* were defined as important since the goods they create are essential to the system, but also as *sterile* since their activity was not assumed to generate any surpluses.

Having come thus far, Quesnay introduced the concept of *avances* for which these classes may be responsible.

The most interesting *avances* are those which may affect the farmers and manufacturers. These are the *avances primitives* or investment in *fixed* capital, and the *avances annuelles*, that is investment in *circulating* capital. This decisive step already carries us well beyond Smith's *Lectures*.

Quesnay then proceeded to identify the assumptions of the model. These are both qualitative and quantitative.

The *qualitative* assumptions are set out in the **Tableau** (Meek, pp 109-114) and were to re-appear, with further additions, in **The General Maxims for the Government of an Agricultural Kingdom** (Meek, p 231-262).

Quesnay assumed, *inter alia*, that the whole revenue of the system would enter circulation, a constant level of population with no movement between the sectors, no barriers to trade in corn or in manufactured products, a single tax (on the agricultural surplus), and large-scale (capital using) farming.

The *quantitative* assumptions include the statement that the annual net produce in the agrarian sector is 2 million livres (5 millions gross). It is assumed that the total output of the manufacturing sector is 2 million livres and (implicitly) that the money supply is also 2 millions *livres*.

Quesnay then proceeded to develop his model in terms of an exercise in *period* analysis. In following out the logic of the argument let us abstract from the complications presented by the government sector, by the presence of mercantile groups, and by the fact that the proprietors as a class have important economic functions.

Let us further assume, for the sake of simplicity, that at the beginning of the period in question the proprietors have no resources saved out of income generated in the period (t - 1); that the farmers possess the entire stock of money at the beginning of the period (t) together with 2 millions worth of food produced in the period (t - 1) and 1 million worth of raw materials. The manufacturing class are assumed to hold 2 millions worth of manufactured goods produced in the period (t - 1) available for sale in the current period.

The 'magic of a well-ordered society' can now be illustrated in terms of a series of steps. First, the farmers transmit rent to the proprietors of land (2 millions) thus giving that class an income which can be used to make purchases of the primary and manufactured

products which are necessary to sustain life in the current period. Let us assume that the proprietors transmit 1 million to the farmers in exchange for food and 1 million to the manufacturing sector, thus reducing the stocks of goods which were available for sale at the beginning of the period (t). Assume further that the farmers transmit 1 million to the manufacturing sector in exchange for commodities, thus eliminating the stocks of goods held by this group.

This means in effect that the whole supply of money has moved from the farmers to the proprietors and is now held by the sterile class. This class is now in a position to purchase food (1 million) and raw materials (1 million) thus eliminating the stocks of commodities held by the farmers and at the same time returning the whole stock of money to this sector. The proprietors thus end the period with no unspent income and no accumulation of commodities. The farmers hold the stock of money while the agrarian and manufacturing sectors are able to replace the goods used up in the period t by virtue of current productive activity. The period (t + 1), on these assumptions, is then able to open under conditions identical to those which had obtained at the beginning of the period (t).

The model has a deliberately abstract quality but also a number of deficiencies. There is no clear analysis of the division of labour, as Smith understood the term, and no analysis of the problem of price determination and the allocation of resources. There is no formal allowance made for profit, and nor is there a division between capitalists and wage labour - to name but a few issues of importance.

Moreover, as is well known, Smith disagreed with a number of specific points which are associated with the Physiocratic position: for example he rejected the idea of the *impôt unique* together with the thesis that artificers, manufacturers, and merchants were unproductive. Indeed, the latter argument was described by Smith as the 'capital error of this system' (WN, IV.ix.29).

While Smith regarded physiocracy as a 'liberal and ingenious system' (I,ix.24) he nonetheless criticised Quesnay in respect of his belief that an economy could 'thrive and prosper only under a certain precise regimen, the exact regimen of perfect liberty and perfect justice' (IV.ix.28).

'He seems not to have considered that in the political body, the natural effort which every man is continually making to better his own condition, is a principle of preservation capable of preventing, and correcting, in many respects, the bad effects of a political economy, in some degree, both partial and oppressive.' (ibid).

But despite these criticisms, what Smith found in the 'Oeconomical Table' was a *model* of the economic process which represents the working of a macro-economic process as one which involves a series of withdrawals of commodities (consumption and investment goods) from the market, which is matched in turn by a process of continuous replacement, by virtue of production in the same time period, all in the context of a capital-using system. Smith could hardly fail to be struck by this model, or by the transformation effected by Turgot, who, in effect, made good the bulk of the analytical deficiencies in Quesnay's account (Meek, 1973).

Turgot

Peter Groenewegen has confirmed that Turgot was in Paris between July and September 1766 (Groenewegen, 1969, p 272). The belief that the two men met and that they discussed economic questions is supported by the Abbé Morellet who, in a passage which refers to Smith, confirmed that:

'M. Turgot, who like me loved things metaphysical, estimated his talents greatly. We saw him several times; he was presented at the house of M. Helvetius; we talked of commercial theory, banking, public credit and several points in the great work he was meditating' (1823, I, p 244).

But it is not known how often the two men may have met, and it appears that they did not correspond. In a letter to the Duc de la Rochefoucauld, dated 1 November 1785, Smith referred to the 'ever-to-be-regretted Mr Turgot' and added that 'tho' I had the happiness of his acquaintance, and I flattered myself, even of his friendship and esteem, I never had that of his correspondence' (Corr., letter 248). But if the two men *were* friends it is perhaps hardly surprising in view of the fact that their scientific temperaments were so similar.

One of the early English writers who celebrated Turgot's work was W Walker Stephens. Stephens published his account of the **Life and Writings of Turgot** in 1895. In particular he drew attention to two 'Discourses' delivered at the Sorbonne on 15 July and 11 December 1750: 'On the Advantages which the Christian Religion has conferred on the Human Race', and 'On the Successive Advances of the Human Mind'. Two others essays on Political Geography and Universal History belong to the same period. The 'Discourse' which was delivered on 11 December announces an historical perspective very similar to that shared by Smith. If the phenomena of nature, 'subjected to constant laws are confined in a circle of ever the same revolutions':

'The succession of man, on the contrary, offers from age to age, a spectacle ever varied... All the ages are linked together by a sequence of causes and effects which connect the existing state of the world with all that has preceded it'(1895, p 159).

Among the applications of this thesis, Turgot included an account of the causes of variation in rates of progress, the psychology of the scientist, and a fascinating account of that progression of knowledge which had culminated in the work of Newton. The similarities with Smith's (then unpublished) essay on **Astronomy** are striking.

If the analysis of the 'advances of the human mind' present a parallel with Smith, so too do the 'Notes on Universal History' where Turgot developed a form of conjectural history which features three socio-economic stages (see Meek, 1971). The historical bias, and the deployment of the same *four* stages which Smith had already identified in his *Lectures* were to be dominant features of the **Reflections**.

The purely economic analysis must also have made an immediate impact on Smith not least because Turgot opened his argument, as Smith had done, with the division of labour. He went on, first, to emphasise the implications of the institution with regard to exchange, and secondly, to discuss the origin and use of money. Turgot also used this discussion to emphasise the importance of capital:

'It is necessary that in every trade, the workman...should have a certain fund of moveable riches accumulated beforehand' (para LI).

There are striking similarities with Quesnay in the sense that Turgot worked in terms of model of the circular flow, which featured two main areas of activity and three socio-economic groups: husbandmen, artisans, and proprietors - again using the analogy of the 'circulation of blood in the animal body' (para LXVIII). But there are marked differences of emphasis. Turgot clearly had difficulty with the thesis that agriculture alone was capable of generating a surplus. Although he emphasised the central position of the proprietors, he also recognised that the logic of his position exposed their weakness, noting that 'The cultivator has need of the proprietor only by virtue of the human conventions and the civil laws' (para XVII).

While working in terms of a distinction between fixed and circulating capital, which had been effectively introduced by Quesnay, Turgot transformed the analysis of the circular flow of production, income generation and expenditure, within particular time periods, by

introducing a distinction between undertakers and wage labour, and therefore between wages and profits as categories of return.

There is a distinction he argued, between 'the possessors of large capitals which they make a profit from by setting men at work, by means of their advances' and the 'second order, which is composed of simple artisans who have no other property but their arms, and who advance only their daily labour and receive no profit but their wages' (para LXI). These two sources of income were to be added to rent as a means of explaining the processes of production, the generation of income, and the purchase of both consumption and investment goods.

Turgot then identified five different employments of capital all of which are interdependent in a functional sense and all of which were to reappear in the WN (Groenewegen, 1969). On this model capitals may be employed in the purchase of land, commerce, manufactures, agriculture, or lent at interest.

Turgot introduced a further dimension by reference to differential rates of return in different employments which vary qualitatively, paying particular attention to the degree of labour and risk involved.

'The different employments of capitals produce, therefore, very unequal products; but this inequality does not prevent the exercise of a reciprocal influence one upon the other, or the establishment between them of a sort of equilibrium, as between the liquids of unequal gravity which communicate with one another at the bottom of a reversed syphon of which they occupy the two branches; they will not be upon a level, but the height of one cannot increase without the other also rising in the opposite branch'; (para LXXXVIII).

Turgot then went on to point out, in effect, that in the event of a particular equilibrium state being disturbed, forces will be set in motion which will tend to re-establish it:

'In a word, as soon as the profits resulting from an employment of money, whatever it may be, increase or diminish, capitals turn in that direction and withdraw from other employments...and this necessarily alters in each of these employments, the relation between the capital and the annual produce. In general, money invested in landed property brings less than money placed on loan, and money placed on loan brings less than money employed in undertakings which involve labour but, whatever be the way in which money is employed, its produce cannot increase or decrease without all the other employments experiencing a proportionate increase or decrease' (ibid).

One recalls the passage in the **Eloge de Gournay** (1759, but unpublished in the author's lifetime) where Turgot rejected the charge of system laid against his mentor:

'All this despised system was founded on the ordinary maxim that in general a man knows his own interest better than another man can know it for him. Hence he concluded that as the interest of individuals is, on the whole, precisely the same as the general interest, we should leave every man free to manufacture whatever he considers desirable, because, with industry and commerce left free, it would be impossible for the aggregate individual interest, not to concur with the general interest' (Stephens, op.cit., p 233).

Associated with this position we should also note Turgot's belief that savings are normally converted into capital *sur le champ*; a statement which corresponds to Smith's own position (Schumpeter, 1954b, p 324; Groenewegen, op.cit., p 279).

If Henry Higgs could describe Cantillon's **Essai** as a 'statue silted by the sands of time' (1931, p 365), we can surely agree with J K Ingram's assessment that the **Reflections** is a 'masterpiece' (Stephens, op.cit., p 62).

Analytically the 'supermodel' is light years ahead of the apparatus contained in Smith's **Lectures**. As Meek has noted, with Turgot 'Physiocracy begins to burst its seams' (op.cit., p 312) thus clearing the way in effect for the **Wealth of Nations**.

Indeed it can be said that the contributions of Quesnay and Turgot to the model of the circular flow, serves to call in question Smith's rather lighthearted comparison of English and French philosophers offered in 1756.

'It seems to be the peculiar talent of the French nation, to arrange every subject, in that natural and simple order, which carries the attention, without any effort, along with it. The English seem to have employed themselves entirely in inventing, and to have disdained the more glorious but not less useful labour of arranging and methodising their discoveries, and in expressing them in the most simple and natural manner' (Letter to the **Edinburgh Review**, 5).

In the case of the model of the circular flow, both the invention and the systematisation were largely French.

IV

Smith's commentary on Physiocratic teaching (WN, IV, is) is readily accessible, although it does have some features to which attention should be drawn in the light of the comments made above. Most obvious, perhaps, is the point that Smith did not entirely do justice to the basic model of the **Analyse** with its meticulous statement of the necessary qualitative and quantitative assumptions. That being said, he *did* provide his readers with a broadly accurate account of the features of the model, correctly identifying the relevant sectors and socio-economic classes operating in a capital-using system wherein all magnitudes are dated.

But Smith went further than the enumeration of the classes and their functions in drawing attention to a salient feature of the analysis: namely the *interdependence* which was shown to exist between all the relevant groups and sectors in the system. The point is evident in Smith's emphasis on the replacement of the various advances by virtue of the purchases by all groups of the agrarian and manufactured goods which were produced within any annual period. The same point was made quite explicit in another way, when he drew attention to the fact that the main purpose of Quesnay's 'Oeconomical Table' was to show 'In what manner...the sum total of the annual produce of the land is distributed among the three classes above mentioned, and in what manner the labour of the unproductive class, does no more than replace the value of its own consumption' (WN, IV.ix.27).

Interestingly, Smith also chose to emphasise the issue of interdependence by focusing attention on the position of the unproductive class, which was shown to be ultimately dependent on the 'two other classes', whose purchases finally pay the wages of the labourers employed and the profits which accrue, while furnishing it 'both with the materials of its work and with the fund of its subsistence, with the corn and cattle which it consumes while it is employed about that work' (WN, IV.ix.14). At the same time, Smith indicates that one purpose of the model was to show that the proprietors and farmers were interdependent, and that both in turn depended on the 'sterile' group for the manufactured products which they required.

Smith also indicated that the productive class would benefit from the *sectoral* division of labour postulated in the model, which increases the productive powers of productive labour, by leaving it at liberty to confine itself to its proper employment, the cultivation of land' (WN, IV.ix.15). The basic analysis also served to suggest, as Smith went on to note, that the interests of the different classes did not conflict. He thus observed that 'It can never be the interest of the proprietors and cultivators to restrain or to

discourage in any respect the industry of merchants, artificers, and manufacturers', since 'The greater the liberty which this unproductive class enjoys, the greater will be the competition in all the different trades which compose it, and the cheaper will the other two classes be supplied' (WN, IV.ix.16). Similarly, it can never be the interest of the unproductive class to oppress the other two, since the greater the agricultural surplus, the 'greater must likewise be the maintenance and employment of that class', leading to the conclusion that 'The establishment of perfect justice, of perfect liberty, and of perfect equality, is the very simple secret which most effectually secures the highest degree of prosperity to all the three classes' (WN, IV.ix.17).

Having stated these basic principles, Smith then proceeded to illustrate their application in a relatively neglected area of physiocracy - international trade - at least to the extent of showing that the pattern of interdependence which exists between classes in the domestic case also applies to different nations with different specialisms.

Edwin Curran was quite correct in stating that Smith's account of Physiocratic teaching did not follow any one book closely, although it is safe to assume that the account of the basic model owed much to Quesnay.

But the account offered by Smith is made more intriguing by the fact that while remaining faithful to the outlines of the original, he went to great pains to associate the model with a clear division between factors of production and categories of return - thus suggesting that he had Turgot in mind, or at least that his account included elements from the 'revisionists'. For example, in Smith's account, the *proprietors* are stated to be responsible for the *avances foncieres*, that is, for expenses devoted to the improvement of land, buildings, drains, enclosures, and 'other ameliorations, which they may either make or maintain upon it, and by means of which the cultivators are enabled, with the same capital, to raise a greater produce, and consequently to pay a greater rent' (WN, IV.ix.6). Smith went on to note that this enhanced payment need not be regarded as *rent* properly so called, in stating that 'This advanced rent may be considered as the interest or profit due to the proprietor upon the expence or capital which he thus employs' (ibid). The second class, that of the *cultivators* is divided into two sections: farmers and country labourers (WN, IV.ix.5), with the former having responsibility for two types of advance: *original* (or primitive) and *annual*. Smith defines the former in terms of investment in the instruments of husbandry, in the stock of cattle employed, and in the maintenance of the farmers' servants and cattle. Smith went on to observe that the produce which remains to the farmer after the payment of rent would have to be sufficient to replace to him the whole of his annual expenses together with the ordinary profits of stock, and to replace within 'a reasonable time' or the period of the lease, the whole of the original expenses together with a rate of

return on capital equal to the ordinary or usual rate of profit. It is thus suggested that *profit* is the relevant form of return as far as the undertaker engaged in farming is concerned, and that it also accrues to the proprietor in respect of his *avances foncieres*. In addition, the latter also receives a distinct form of return in the shape of *rent* properly so called, which is 'no more than the neat produce which remains after paying in the compleatest manner all the necessary expences which must be previously laid out in order to raise the gross, or the whole produce' (WN, IV.ix.7).

As far as the third class is concerned, there is a division between manufacturers and merchants, and, in terms of the latter groups, between employers and labourers. The employers emerge as being responsible for certain advances, which include 'materials, tools, and wages' (WN, IV.ix.10) so that the goods produced once sold, must be sufficient to repay the maintenance which the employer advances to himself, 'as well as the materials, tools and wages which he advances to his workmen'. *Wages* thus emerge as the payment which accrues to the workmen, and *profit* as the fund which 'is destined for the maintenance of their employer' (WN, IV.ix.10). Such an account takes the reader well beyond Quesnay, and into the world of the **Reflections**.

The task of reaching some conclusions with regard to Smith's sources of ideas or inspiration helps to focus attention not just on these sources but also on the critical importance of his early writings. For, as Edwin Cannan noted, and subsequent discoveries have confirmed, some knowledge of Smith's early work on economics 'enables us to follow the gradual construction of the work almost from its very foundation, and to distinguish positively between what the original genius of its author created out of British materials on the one hand and French materials on the other'. Perhaps the issues are less clear cut than Cannan implied, although it surely can be said with confidence that the early writings on economics provide a valuable record of an edifice whose basic outlines survive in the **Wealth of Nations** itself.

Such topics as the division of labour, the discussion of money, and allocation, all find their place in the first book albeit with the analysis of money now preceding that of price, and the doctrine of net advantages being accorded a separate section (as indeed was the discussion of impediments to the working of the allocative mechanism), while the treatment of banking was to find a place in Book II. The critique of the 'mercantile fallacy' is still the dominant feature of the opening chapters of Book IV - and the pattern is repeated when we consider those sections of the *Lectures* which have not been examined in any detail here. The discussion of interest and exchange, for example, was to find a place in Book II, and the section dealing with the slow progress of opulence was to reappear in a more elaborate form as the main theme of Book III. Taxation is featured in the concluding

sections of the **Wealth of Nations**, while in addition Smith's comments on the social consequences of the division of labour and the section on 'arms' were to find their echoes in the analyses of defence and education. There are also interesting omissions from the **Wealth of Nations** such as the thesis of natural wants, the treatment of stock-jobbing and 'Mr Law's Bank'. Yet the overwhelming impression left from a comparison of the **Wealth of Nations** and LJ (B), such as that undertaken by Edwin Cannan in his edition of the later work, is of a pattern of gradual development in a basic scheme whose outlines were already clear by 1763.

Moreover, particular doctrines are present in the **Lectures**, in addition to those noted above, which were later to acquire an added significance. It is already stated in the **Lectures**, for example, that 'Agriculture is of all other arts the most beneficent to society' (LJ (B), 289). The concept of stock is also mentioned in a variety of contexts: in the discussion of the natural balance of industry, and in the sections on interest and taxation. The necessity for the prior accumulation of stock is also noted in connection with the division of labour, with perhaps the clearest statement occurring where Smith remarks that 'till some stock be produced there can be no division of labour, and before a division of labour take place there can be very little accumulation of stock' (LJ (B), 287). Nor was the issue of growth ignored - a point which can be seen in the discussion of 'natural wants', their association with the division of labour, and with the development of the arts. Similarly, the discussion of the 'slow progress of opulence' in the **Lectures** throws a great deal of light on factors which influence the growth process, such as transport, legal impediments, and the changing attitudes to commercial activity.

But, at the same time, it is evident that there is a great deal *missing* from the **Lectures** when compared with the **Wealth of Nations** and it is this fact which makes Smith's assessment of physiocracy so interesting, especially since many of the features which are absent from the **Lectures** were features which Smith himself associated with Physiocratic analysis. In this connection Smith noted, as we have seen, the use of a clear separation of classes, together with the distinction drawn between employers and employed, and between categories of return such as rent, wages, and profit. Again, it is noteworthy that Smith underlined the physiocratic emphasis on capital, while drawing attention to the point that the rate of return on capital in different employments would tend to equality.

It is now widely recognised that the basic model of the **Tableau** represented an advance in economic theory so considerable as to justify comparison with Harvey's discovery of the circulation of the blood. J A Schumpeter not unaptly described it as

marking 'the great breach', and went on to point out that 'Only with the help of such an analysis was it possible for further knowledge of the economic life process of society to develop and were scholars enabled to survey all the general factors and their functions as well as all the elements which have to be considered in every individual problem as far as it is purely economic'. Elsewhere, the same writer noted that the model opened up possibilities for numerical theory, and that it provided a means of conceptualising the working of complex series of interrelated functions, while representing the first method every devised in order to convey an *explicit* conception of the nature of economic equilibrium'. But one need not agree with Schumpeter when he went on to state that Smith 'almost certainly...did not fully grasp the importance of the *tableau economique*'.

At first sight Smith's treatment of the **Tableau** was slight, for it is seemingly dismissed as 'some arithmetical formularies' (WN, IV.ix.27), which may indeed have jarred on a man well known for his distrust of 'politick arithmetick' (WN, IV.v.b.30). Yet at the same time it seems unlikely that a man like Smith who was so acutely conscious of the role of analogy and system in scientific thought would fail to be struck by these qualities in physiocracy: an impression which is borne out by the fact that Smith's account of the system manifestly succeeds in conveying the *purpose* of the model, by demonstrating the interdependence of economic phenomena at the macro-economic level.

That Smith benefited from his own examination of the system may be seen not only in the account offered in WN (IV.ix), but also in the analytical apparatus of Books I and II.

Perhaps two examples may be cited here, both of which are reminiscent of Turgot. First, it may be worth noting that although the theory of price and allocation which is developed in the **Wealth of Nations** relies on distinctions already established in the **Lectures**, supply price is now defined in terms of the 'ordinary or average' rates of payment for rent, profit, and wages. In this way Smith made allowance for the existence of the three factors of production, and also gave his analysis an explicitly static aspect by treating the rates of return as given and the factors as stocks rather than flows, at least in the short run. At the same time, the earlier analysis of allocation is transformed by the central role given to profit; a role which, as R L Meek has noted, finally exposed the real significance behind Smith's earlier, intuitive, pre-occupation with the 'natural balance of industry' (Meek, 1967, pp 31-2).

It is certainly clear that the division into wages, profit, and rent had struck Smith forcibly and that it still possessed some novelty - a point which may be seen in the attention given to warning his readers against confusion among them (WN, I.vi).

A further point relates to the discussion of macro-economic problems and here again a number of issues may be noted. First, there is the fact that not only did the

distinction between wages, profits, and rent transform the older discussion of allocation, it also provided Smith with a means of proceeding directly from the treatment of price to problems of a macro kind. Thus having pointed out that in equilibrium the price of each commodity must resolve itself into three parts, he went on to note that:

'it must be so with regard to all the commodities which compose the whole annual produce of the land and labour of every country, taken complexly. The whole price or exchangeable value of that annual produce, must resolve itself into the same three parts, and be parcelled out among the different inhabitants of the country, either as the wages of their labour, the profits of their stock, or the rent of their land' (WN, II.ii.2).

In examining the functioning of the economy from this point of view, Smith produced an argument which gives a great deal of prominence to the different employments of capital and to the distinction between fixed and circulating capital (points which may owe much to Turgot). But it is perhaps in his treatment of the 'division of stock' seen from the standpoint of *society at large* (WN, II.ii), rather than from that of the individual entrepreneur, that physiocratic influence is to be seen at its strongest. For it is here that Smith divides the stock of *society* into fixed and circulating capital, where the latter included goods in process and those ready for sale during a particular period but which remain at the outset in the hands of the manufacturers, farmers, and merchants who compose the system. In this way Smith presented the functioning of the economy in terms of a process of *withdrawal* (through purchase) from the circulating capital of society, which was matched by the *replacement* of the goods thus used up, by virtue of current productive activity. It is surely this kind of perspective on the working of the system which shows just how clearly Smith had grasped the significance of what the physiocrats were trying to do.

V

While Cannan tended to be dismissive of the influence of Turgot upon Smith, he concluded that despite the deficiencies of the basic model:

'Nevertheless, in the fact that it attempts to give a comprehensive view of the total results of the industry of a year, it marks an enormous advance in economic theory, and we can easily imagine that an acute mind like Adam Smith's would immediately grasp its importance.' (LJ, B p xxix).

But the reader should note that other assessments have been mixed. J A Schumpeter for example, asserted that Smith 'almost certainly...did not fully grasp the importance of the *tableau economique*' (1954, p 232). Melchior Palyi, writing on the occasion of the one hundred and fiftieth anniversary of the publication of WN, asserted that Smith's treatment of Physiocracy had been 'scornful' (1928, p 185) while more recently Murray Rothbard expressed the view that Turgot's influence on Smith was 'minimal' (1995, p 403).

There were others, closer to the event, who were also doubtful. Dugald Stewart, Professor of Moral Philosophy, in Edinburgh, and a profoundly influential figure in the early years of the nineteenth century, felt that Smith's *assessment* had been less than generous (Winch, 1994, p 102) while Francis Horner, Stewart's pupil, argued with respect to his *debts*:

'That Smith did not properly distinguish the real import of the economical system, is now confessed, we believe, even by those who agree with him in rejecting it. We are further satisfied that he derived a much larger portion of his reasoning from them, than he himself perhaps recollected; that his principles on the formation and distribution of national riches approached more nearly to those of Quesnay, than he was himself aware; and that, to have recognised an entire coincidence, it was only necessary for him to have followed out his analysis a few steps further' (Winch, *op. cit.*, p 103; Fetter (1957), p 73; Hollander, 1928, p 36).

Others even closer to the event were equally puzzled as to Smith's lack of acknowledgement of Turgot. Condorcet, for example, writing on the **Reflections**, concluded that this essay 'may be considered as the form of the treatise on the **Wealth of Nations** written by the celebrated Smith' (Groenewegen, *op. cit.*). Dupont de Nemours, as Winch has recently reminded us, was much more forthright:

The **Reflections**, he wrote: 'consists of a very short octavo volume of less than 80 pages which is, nevertheless, particularly clear: everything that is true in the estimable but difficult work that M Smith has since published on the same subjects in two large quarto volumes can be found there: and everything that Adam Smith has added lacks precision and foundation' (Winch, *op. cit.*, p 95).

What *can* be said is that the content of WN IV, ix, contains a recognition of the content of the 'super-model' and that the macro-economic analysis of Book II contains an implicit

acknowledgement of the revisionist *model*, with its distinction between undertakers and wage labour, even if its *authors* were not always directly identified.

It is possible however to acquit Smith on at least one charge. Richard Teichgraeber's recent research suggests that although there *were* contemporary admirers, such as Dugald Stewart, there is 'no evidence to show that many people explored (Smith's) arguments with great care before the first two decades of the nineteenth century'. He concluded:

'It would seem that at the time of his death Smith was widely known and admired as the author of the **Wealth of Nations**. Yet it should be noted too that only a handful of his contemporaries had come to see his book as uniquely influential' (1987, p 39; cf Hollander 1928, pp 23-4).

But if Smith's contribution was understood by only a few at the time of his death the situation was soon to change. J B Say and especially David Ricardo were to contribute significantly to the development of Smithian macrostatics and macro-dynamics.

The emergence of a classical orthodoxy, often described as *English*, and to which Scotsmen such as James Mill and McCulloch made significant contributions, produced results which Smith could scarcely have anticipated (Hollander, 1928, pp 16, 28). The emergence of a Smithian-based *orthodoxy* in the first two decades of the new century contributed to the erroneous belief that the origins of the subject dated from 1776, thus, temporarily at least, consigning the works of major figures to oblivion: Condillac, Galiani, Hume, Steuart, Quesnay, and Turgot to name but a few.

Donald Winch quotes an important passage from J B Say, Smith's committed disciple, who, after an extensive historical review, nonetheless concluded that:

'Whenever the Inquiry into the Wealth of Nations is perused with the attention it so well merits, it will be perceived that until the epoch of its publication, the science of political economy did not exist (Say, 1836, pp xxxvii-xxxix).

Scant wonder that Dupont de Nemours should have moved to sharp protest:

'This idea that occurs to you to *reject* us, and which you do not hide well, my dear Say, does not do away with the fact that you are through the branch of Smith a grandson of *Quesnay*, a nephew of the great Turgot' (McLain, 1977, p 201).

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