Six Revolutions

British Capitalist Development to 1820

by

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Introduction

Adam Smith wrote: ". . . when the division of labour has once been thoroughly introduced, the produce of a man's own labour can supply but a very small part of his occasional wants. The far greater part of them are supplied by the produce of other men's labour, which he purchases with the produce, or what is the same thing, with the price of the produce of his own." (Smith 2003 [1776] p349). This describes an exchange economy. The domain of economic science is the analysis of exchange economies; capitalism is a particular form of exchange economy, and the world today is mostly capitalist. Economic science itself began under capitalism, and insofar as it concerns itself with the actual world, economic science today mostly studies and describes capitalism.

A scientific model is an abstraction or theory that simplifies and approximates the historical record by reducing it to a limited set of relationships. "As the German philosophers Rickert and Windelband emphasized, history is 'ideographic'–seeking to explain what is unique. Theorists are, of necessity, 'nomothetic'–in search of covering laws." (Broadberry and O'Rourke 2010 p41). Economic theories are necessarily derived from economic history. History must guide the construction of theory; theory in turn decides which history to include and exclude. Economic science ". . . cannot indeed, any more than can theoretical physics, do without simplifying schemata or models that are intended to portray certain aspects of reality and take some things for granted, in order to establish others according to certain rules of procedure." (Schumpeter 1954 p15).

And economic science cannot do without history. In the later part of the nineteenth century economic science was "shunted down" a

particular track and ". . . questions of historical dynamics, of economic development and indeed of economic fluctuations and crises were largely extruded from the fields of the new academic orthodoxy." (Hobsbawm 1989 p270). In the twentieth century, economic orthodoxy came to be such that ". . . the central characteristic of the market technique of achieving co-ordination is fully displayed in the simple exchange economy that contains neither enterprises nor money." (Friedman 2002 p14). This approach led to an economics unable to analyze capitalist development. "Enterprise" and "money" and their historical development are held here as essential to economic science. A science of capitalism must account for ". . . not simply the rules governing economic exchange, but also the institutions governing how these rules are enforced and how they may be changed." (North and Weingast 1989 p803).

This book examines the period of British capitalist development preceding 1820 in the context of six revolutions, each of which began in the eighteenth or later seventeenth century. These revolutions are described as philosophical, industrial, financial, agricultural, the formation of an urban labor base, and the advent of British international hegemony in textile production and export. The six British revolutions illustrate the revolutionary nature of the period preceding 1820, revolutions that led to unparalleled British economic preeminence.

Chapter 1
Classical Liberalism and *An Inquiry into the Nature and Causes of the Wealth of Nations*

Before the revolutionary period in British capitalist development preceding 1820 can be described, that period must be set within a broader period of capitalist development.[1] Capitalism did not begin in Britain; it arguably had its beginnings in thirteenth or fourteenth century continental Europe, specifically in northern Italy, and spread from there eventually reaching a higher development in the Low Countries, specifically the Dutch Republic. At some point in the late eighteenth century Britain became the world's most highly developed capitalist nation.

The two most prominent eighteenth-century revolutions are described by Eric Hobsbawm as ". . . the 'dual revolution'—the French Revolution of 1789 and the contemporaneous (British) Industrial Revolution. . . . they are at this period almost inconceivable in any form other than the triumph of a bourgeois-liberal capitalism." (Hobsbawm 1996a p*ix*, 2). While the first revolution is ostensibly French and the second British, the French Revolution descends from the Anglo-French enlightenment. "The sixty or seventy years that preceded the French Revolution are commonly referred to as the Enlightenment." (Schumpeter 1954 p122). The enlightenment promoted individual agency against absolute authority. "A secular, rationalist and progressive individualism dominated 'enlightened' thought. To set the individual free from the shackles which fettered him was its chief object: from the ignorant traditionalism of the Middle Ages, which still threw its shadows across the world, from the

superstition of the churches (as distinct from 'natural' or 'rational' religion), from the irrationality of higher and lower ranks according to birth or some other irrelevant criterion. Liberty, equality and (it followed) the fraternity of all men were its slogans. In due course they became those of the French Revolution." (Hobsbawm 1996a p21). The death of Louis XIV in 1715 is the enlightenment's traditional beginning, the French Revolution its end. But despite these French 'bookends', the enlightenment was a synthesis of eighteenth-century British and French intellectual development.

Against divine right and the religion that justified it, the Anglo-French enlightenment proposed the logic of natural rights and natural law. Natural rights were contrasted with aristocratic privilege; natural law, open to scientific inquiry and empirical proof, was contrasted with unassailable divine revelation. The enlightenment was directed against absolutism both in politics and in philosophy; in particular, it was directed against absolute royal and religious authority. Eighteenth-century France and Britain shared in the development of the enlightenment, but the enlightenment of the two countries was different: the difference between the French "Liberty, Equality and Fraternity" and the British "Life, Liberty and Property."

The enlightenment culminated in political revolution in France, but its effect in Britain was primarily economic. In Britain: "The eighteenth century was the age of political arithmetic. . . . viewed through the narrow window of the economic historian, it was an age when interests were directed largely to things that could be measured and weighed and calculated. If men may be judged by their utterances, the educated no longer troubled their minds over-much with high matters of doctrine and polity: they were exercised less with the purpose of life than with the art of getting a living, less with the nature of the state than with the means of increasing its opulence," (Ashton 1977 p1).

Unlike France, Britain had experienced a stabilizing political revolution over a hundred years before the French Revolution. ". . . Britain, where more than a century had passed since the first king had been formally tried and executed by his people, and since private profit and economic development had become accepted as the supreme objects of government policy." (Hobsbawm 1996a p31). "After years of controversy and conflict, the Glorious Revolution of 1688 had finally succeeded in reconciling individual liberty and the rule of law and in exalting the claims of Parliament." (Briggs 1965 p89). 1688 was a victory of property and parliament over absolute king. The enlightenment preceded political revolution in France but followed political revolution in Britain.

The enlightenment's British origin is generally defined as Issac Newton's 1687 *Principia Mathematica*, which was followed closely by John Locke's *Two Treatises on Government* in 1689. The enlightenment's dominant philosopher was Locke, both in Britain and France: "In Quesnay's time, the philosophies of Descartes and Malebranche had largely gone out of fashion in France, and most of *les philosophes* agreed with Voltaire in professing to take Locke instead of Descartes as their master." (Taylor 1955 47n). ". . . as a philosopher in the narrower sense of the word, he led the empiricist tendency to victory first in England then on the Continent, especially in France, as against Cartesian rationalism (the decisive work was his *Essay Concerning Human Understanding*, publ. 1690)." (Schumpeter 1954 p117). Locke is usually credited as a founder of classical liberalism: "His influence was huge in the classical liberal tradition." (Lehto 2015 p24). Classical liberalism was the philosophy of the enlightenment. "Up to 1789 the most powerful and advanced formulation of this ideology of progress [the enlightenment] had been classical bourgeois liberalism. . . . It was a narrow, lucid, and sharp-edged philosophy which found its purest exponents, as we might expect, in Britain and France. It was rigorously

rationalist and secular; that is to say convinced of the ability of men in principle to understand all and to solve all questions by the use of reason, and the tendency of irrational behavior and institutions (among which traditionalism and all religion other than the natural) to obscure rather than to enlighten. Philosophically it tended towards materialism, or empiricism, as befitted an ideology which drew its force and methods from science, in this instance chiefly the mathematics and science of the seventeenth century scientific revolution. Its general assumptions about the world and man were marked by a pervasive individualism . . .” (Hobsbawm 1996a p235).

“Locke, in his Two Treatises of Government (1689), laid the foundations of private property for modern liberal philosophy. He showed its essential relationship to liberty and good governance. And although he did not invent the phrase "life, liberty and property" (and its many variations), he popularized and systematized it, based on the liberal thinking of the Whigs and the radicals. He followed the "natural law" tradition, according to which there are laws that are independent of government power. . . . ‘The state of nature has a law of nature to govern it, which obliges everyone; and reason, which is that law, teaches all mankind who will but consult it, that, being all equal and independent, *no one ought to harm another in his life, health, liberty and possessions*.’ (TTG: §6, my emphasis).” (Lehto 2015 p23).

“Locke held, with [Hugo] Grotius, that moral axioms are known by an “internal sense”; that from these axioms, the whole moral law may be deduced with a precision approaching that of mathematics; and thus the Law of Nature was knowable, and binding, even before the establishment of government. Shaftsbury [Anthony Cooper], the father of the school of Scotch moral philosophers that bred Adam Smith, endowed man with an innate “moral sense,” and a complete outfit of “benevolent affections”; and taught that self-regarding

desires are legitimate, and even virtuous, so long, but only so long, as they are duly controlled and limited by these other propensities. [Bernard de] Mandeville revived against Shaftsbury the doctrine of [Thomas] Hobbes, that men are completely selfish; made selfish economic appetites (called vices in true medieval spirit) the springs of all progress beyond savagery; taught, like [Jean-Jacques] Rousseau, that such progress is inseparably connected with many evils, injustices, and forms of misery; and seemed to prefer to have men wisely governed and deceived by autocrats, who should restrain their "vices" partly but not wholly. Francis Hutcheson, disciple of Shaftsbury and teacher of Adam Smith, defended his master's doctrine against Mandeville, and went so far as to make the pure, disinterested love of mankind the *only* virtuous motive in our nature.[2] Finally Adam Smith himself, before writing *Wealth of Nations*, wrote upon our *Moral Sentiments;* and in the earlier book analyzed the mental processes by which we build up out of our experience a knowledge of the moral rules, obedience to which yields conduct conducive to the common welfare; finding in this social beneficence of our moral faculties the same proof of providential design of our natures, which he afterwards also saw in the social beneficence of economic (acquisitive) ambition. If the two books are read together, it is clear that Smith agreed with Shaftsbury that self-centered economic ambition is socially beneficent, *so long as* it is limited, as it normally is, by the beneficent dictates of our moral faculties." (Taylor 1955 p29-30). Classical liberalism began with Locke and concluded with Adam Smith.

"The impartial spectator, or self-reflection with self-interest removed, is the principal analytical device for explaining our moral intuitions in *The Theory of Moral Sentiments*.[3]. . . We can more easily see the consistency of Smith's assumptions about human motivations by comparing them with those of Thomas Hobbes. Hobbes (1962) paints

a famously bleak portrait of human nature without the constraining influence of laws and government. He describes men as not merely self-interested, but egoistic: they recognize no moral bounds to the pursuit of their desires. '[I]f any two men desire the same thing, which nevertheless they cannot both enjoy, they become enemies; and . . . endeavour to destroy, or subdue one another' (Hobbes 1962, p. 93).[4] Unless constrained by the superior force of the sovereign, men are perpetually at war with one another. Smith, by contrast, describes men as boundedly self-interested. They wish to win the game but recognize and (mostly) abide by its conventional rules. The system of natural liberty is not the same as license because it is constrained by the laws of justice, which limit the pursuit of self-interest. Moreover, those limits do not arise solely because the sovereign declares and enforces them. Laws, no less than moral beliefs, originate in the judgment of the impartial spectator. . . . Later natural-law theorists strove to liberate law from theology, particularly Catholic theology, and ground it in a rationalist and humanist framework. Grotius, in particular, secularized natural law by arguing that even were there no God, there would be a coherent system of natural law proceeding solely from human nature (Grotius 2005, p. 38). In Smith's view, 'Grotius seems to have been the first who attempted to give the world any thing like a regular system of natural jurisprudence' (Smith 1982, p. 397)." (Mahoney 2017 p216, 221-222, 223).

Smith's system contains a human nature with two distinct perspectives: "self-centered economic ambition" and the "beneficent dictates of our moral faculties." The former perspective actively intervened in commerce, the latter passively observed and obeyed natural law. The former perspective was individual self-interest, the latter perspective led to collective agreement. Smith's two perspectives—the subjective self-interest of pecuniary gain and the disinterested objectivity of the "impartial spectator"—together

yielded both the accumulation of individual wealth and the social harmony of natural justice, a justice descending from natural law. “Smith called it ‘the system of natural liberty’ (WoN: 533). Locke called it ‘the law of nature’ (TTG: §222).” (Lehto 2015 p8). “This current of opinion is connected with the idea, deduced from Locke's philosophy, that, individuals and societies ought, like the physical universe and the human understanding, to be governed by "natural laws." Those natural laws were represented as beneficent, universal, and applicable equally to all peoples. They were thus sharply contrasted with the laws of the state which were in many cases the causes of all kinds of mischief, restricted in their operation, and productive of unfair inequalities. . . . the laws of nature, if left to themselves, would produce ideally just results. It followed that, if the state confined itself to the protection of person and property, if it ceased to impose restrictions on industry and commerce and left individuals free to conduct their business as they pleased, the natural desire of each individual to benefit himself would increase the wealth of the nation more quickly and certainly than any of the restrictive laws which aimed at producing this result.” (Holdsworth 1934 p536, 538).

Smith’s 1776 *An Inquiry into the Nature and Causes of the Wealth of Nations* became the text of classical liberalism. “Smith was part of an explosion of philosophical thought known as the Scottish Enlightenment. His teacher Francis Hutcheson and friend David Hume both strongly influenced Smith’s thinking . . .” (Mahoney 2017 p225). Adam Smith’s Glascow “. . . was a hotbed of the Scottish Enlightenment.” (Smith 2003 p*xiii* [A. Krueger]). *The Wealth of Nations* was “. . . the most successful of not only all books on economics but, with the possible exception of Darwin’s *Origin of Species*, the most successful of all scientific books that have appeared to this day.” (Schumpeter 1954 p181). “*An Enquiry into the Nature and Causes of the*

Wealth of Nations, which appeared in 1776, was to serve as a court of appeal on matters of economics and politics for generations to come. Its judgements were the material from which men not given to the study of treatises framed their maxims of conduct for business and government alike." (Ashton 1997 p17). Never had a scientific book been so accessible to and had as profound an effect on a society; never had a society been so receptive to a scientific book.[5]

The French Revolution changed the form of French government; this was done so by the revolutionaries in order to change French society. Although triggered by economic conditions, the French Revolution itself was almost completely political in that it was guided by whoever controlled the state. In its conclusion, the French Revolution replaced a state headed by an absolute monarch with an absolute state. This was in sharp contrast with classical liberalism: "At the heart of the classical liberal paradigm is the limited government. The limited government opposes all 'absolute, arbitrary, unlimited, and unlimitable Power'. (Locke, TTG: I, §9) . . . Leviathan is "chained" and limited by 1) protecting individual property rights and 2) denying the state the power of absolute sovereignty." (Lehto 2015 p5, 10). Classical liberalism replaced the political regulation of the state with the economic self-interest of the individual. Smith proposed that a society guided by the commercial self-interest of its members would achieve economic prosperity and "natural justice" without the intercession of the state. Self-interest conceivably encompasses more than the accumulation of property; however, Smith, in *The Wealth of Nations*, wrote specifically about the beneficence of pecuniary self-interest, gain in personal wealth. Smith's self-interest required little action by the state other than the guarantee of property's rightful ownership, rather it required the free competition of individuals pursuing profit within the commercial market. Befitting his descent from the

empirical Locke, Smith's beneficence was measured through the accumulation of material wealth.

*The Wealth of Nation*s was both descriptive and prescriptive, and, like its analysis, its proposals too were almost completely economic. Smith did not seek change in government or ruling class; he asked only that government acknowledge that the sovereignty of individual commercial self-interest was in the collective interest of society, and that government should leave commercial self-interest alone. Rather than leading to political action as in France, the enlightenment's effect in Britain was limited almost completely to the economic freedom of the individual—Smith's "natural liberty." Natural liberty was economic freedom in all its aspects: the freedom to buy and sell domestically and internationally, to produce and consume, to lend and borrow, to accumulate property, to use all forms of property in all ways. Smith's economic freedom was the freedom of individual self-interest, with neither the help of the state through monopoly benefit nor hindrance through legal restriction. Under Smith's system, individuals required only the freedom to accumulate wealth through commercial endeavor, ensuring both prosperity and social harmony.

What made this economic freedom so appealing to Smith's readers was that the individual's single-minded pursuit of personal profit benefited both individual and society. "By pursuing his own interest, he frequently promotes that of the society more effectively than when he really intends to promote it. . . . he intends only his own gain, and he is in this . . . led by an invisible hand to promote an end which was no part of his intention." (Smith 2003 p572). Smith's invisible hand operated unconsciously of individual motive. ". . . [Smith's] fundamental principle [was] that man in pursuing his own ends was at the same time usually serving the general good, and that unregulated trade was therefore desirable, not merely because it was

the lesser of two evils, but because it was positively the servant of the public welfare." (Viner 1937 p98). The unregulated and therefore free and competitive commercial market was key to the operation of Smith's system.

Under his logic, the unregulated market was impartial, and the individual's pecuniary self-interest led to market-driven results acceptable to market participants as just. The individual, as impartial spectator, naturally accepted the decision of the equally impartial collective market. In Smith's system, the market was the polity of society more so than monarch or parliament, and given a free and competitive market, justice was economic. In contrast to the "unnatural" social contract between unequal lord and vassal, there was the voluntary commercial contract between equals, equality defined by property's equal evaluation in and access to the market regardless of the property owner's status; self-interested commercial behavior and its evaluation by the impartial market replaced traditional social relations. "Under competition, commerce . . . was based on the most equal of all relationships, the exchange of equivalents in the market. . . . 'Nobody was dependent on the benevolence of others; for everything that one got from anybody, one gave an equivalent in exchange. . . .'" (Hobsbawm 1996a p238).

Smith posited commercial behavior motivated by individual profit operating within the self-governing free and competitive market as the organizing principle of society rather than act, statute, charter, birth, custom or privilege. Smith's free and competitive market is the mechanism of classical liberalism's laissez-faire. Rather than wealth determining the rules of exchange as in the past, free exchange motivated by personal gain was to determine the acquisition of wealth. "[Smith] advocated the things that were in the offing, and he made his analysis serve them. . . . By this principle [natural liberty] he

meant both a canon of policy—the removal of all restraints except those imposed by 'justice'—and the analytic proposition that free interaction of individuals produces not chaos but an orderly pattern that is logically determined . . ." (Schumpeter 1954 p185-186, 185). "*The Wealth of Nations* gave matchless expression to the thoughts that had been raised in men's minds by the march of events. It gave logic and system to these. In place of the dictates of the state, it set, as the guiding principle, the spontaneous choices and actions of ordinary men. The idea that individuals, each following his own interest, created laws as impersonal, or at least as anonymous, as those of the natural sciences was arresting." (Ashton 1997 p111). "Without any intervention of law, therefore, the private interests and passions of men naturally lead them to divide and distribute the stock of every society, among all the different employments carried on in it, as nearly as possible in the proportion which is most agreeable to the interests of the whole society." (Smith 2003 p799). In a society liberally and effectively governed by the free competition of self-interested individuals, the regulation of competition by the state was unnatural for two reasons: first, it was unnecessary; second, the state was the creature of the self-interest of those controlling it and would necessarily be corrupted by that interest. State regulation of natural liberty was both unnecessary and, as the source of monopoly's privilege, necessarily unjust.

Classical liberalism did not require political freedom. "Nominally England [circa 1750] was not a 'bourgeois' state. It was an oligarchy of landed aristocrats, headed by a tight, self-perpetuating peerage of some two hundred persons, a system of powerful rich cousinages under the aegis of the ducal heads of the great Whig families. . ." (Hobsbawm 1999 p9). Smith's Britain was an undemocratic aristocratic oligarchy; British political power was a closely held monopoly. Smith's system of individual self-interest did not require

political freedom in the sense of equal access to political power, but it did require that political power not obstruct the free and competitive market; indeed, Smith's logic assumed that the state was the only institution truly capable of stifling market freedom. "The natural desire of every man to better his own condition, rather than rational plans of statesmen, ensures the continuous progress of national wealth. The gravitation of men, money, and goods to their best markets keeps all prices and incomes near their "natural" levels, and carries men, without foresight on their part of the socially good result, into the fields of activity in which they can do most to increase the wealth of the nation, as well as their own wealth. . . . Universal free and fair competition was [Smith's] ideal." (Taylor 1955 p57, 96). "In general, if any branch of trade, or any division of labor, be advantageous to the public, the freer and more general the competition, it will always be the more so." (Smith 2003 p421). The free and therefore competitive market was the source of Smith's natural liberty; the state was the source of unnatural privilege.

"Universal free and fair competition" describes a society of individuals freely interacting within their economic rather than political capacity. "In the course of pursuing this self-interest, each individual in this anarchy of equal competitors, found it advantageous or unavoidable to enter into certain relations with other individuals, and this complex of useful arrangements—which were often expressed in the frankly commercial terminology of 'contract'—constituted society and social or political groups." (Hobsbawm 1996a p235). A free market did not require political freedom, but it did require freedom of contract, and therefore freedom of association; more broadly it required freedom of commercial interaction between all members of society. Classical liberalism mostly limited the role of the state to the enforcement of freely entered commercial contracts and the protection of private property's rightful ownership; the state

was not to otherwise interfere in the anarchy of commerce. However, classical liberalism was not political anarchy. Quoting Locke: "[W]here there is no law there is no freedom. (Locke, TTG: §57)." (Lehto 2015 p15). Locke's freedom required the rule of law. Although classical liberalism saw natural justice prevailing in the main without the intercession of the state under conditions of natural liberty, classical liberalism required that the state enforce contracts and protect property, encouraging natural justice by making it legally binding.

The free market provided an evaluation of products in terms of prices. Precapitalist society's payments were often in kind with barter's traditional evaluation of price. Precapitalist tradition assigned a set of 'just' prices determining exchange. Under the long-unfolding capitalist revolution, prices became free to vary with market conditions and exchange came to determine price. To Smith, the perspective of the competitive market was the same as the perspective of natural law in that both natural law and competitive market were impartial and objective. Price was an evaluation of the objective market in the same way that a scientific law was evaluated by objective scientific test. As science yielded natural law, the free and competitive market yielded natural price.

A free and competitive market with its spontaneous and fluid prices required the free exchange of price information. An exchange of information must precede an exchange of products. ". . . in the absence of daily or weekly information of the state of the wholesale market, neither shopkeeper nor customer knew what was the appropriate price at any point in time." (Ashton 1977 p70). "It could . . . be argued that the daily valuation of the government's credit on the floor of Jonathon's [precursor to the London Stock Exchange] was, like the popular press, one of the features of England's 'open' form of

government in the eighteenth century; and that this form, despite the risks it involved, was to prove more secure in the long run, because more firmly based on public discussion and evaluation, than the closed and supposedly more efficient bureaucratic governments of France and other European powers." (Dickson 1967 p515-516). ". . . of all reforms produced by the Revolution [1688], perhaps the most important was the full establishment of the liberty of unlicensed printing." (Macaulay 1986 p552). "At the accession of George III there were four London dailies; by 1793 there were at least 13; in 1760 there were some 35 provincial newspapers . . . the freedom of the press was widely regarded as one of the greatest safeguards of English liberties." (Cannon 1981 p110, 34). A free market did not require political freedom, but it did require a quality of market information possible only under condition of free press.

The Wealth of Nations is a book of economic science: in particular, it is a book of classical economics. Classical economists shared a beneficent view of the free market: ". . . the classical economists argued that men in pursuing their selfish interests were at the same time, by a providential harmony of interests, either rendering the best service of which they were capable to the common good or at least rendering better service than if their activities were closely regulated by government . . ." (Viner 1937 p93). Classical economics developed soon after classical liberalism; given classical liberalism's postulates of free market and the individual's pursuit of wealth, classical economics was these postulate's theoretical conclusions. There are many definitions of classical economics; for the purpose here it is defined primarily through the economics of David Hume, François Quesnay, Adam Smith, Thomas Malthus, Henry Thornton, Jean-Baptiste Say, David Ricardo, James Mill and Thomas Joplin.[6] Classical economics was the beginning of economic science. Within the classical period,

economics reached its most prominent theoretical development with Ricardo's 1821 edition of *Principles of Political Economy and Taxation*.

Under classical economics, prices resulted from the interaction of profit-seeking individuals within a competitive market. Under a competitive market, prices simultaneously determined and were determined by the exchange of money and products. A competitive market resulted in "natural price." "It is the cost of production which must ultimately regulate the price of commodities . . ." (Ricardo 2005 p287). A product's natural price reflected the product's cost of production; under conditions of a competitive market, if one product cost twice as much to produce as another, the first product would, all things equal, naturally tend to cost twice as much as the second product. The tendency toward natural price was provided by the individual's use of capital. Capital is initially defined as follows: "A man's capital is commonly regarded as that part of his wealth which he devotes to acquiring an income." (Hobson 1914 p1). "That part which, he expects, is to afford him this revenue, is called his capital." (Smith 2003 p353). The income of capital is profit. Under capitalism, capital is the sole source of commercial profit.

". . . the owner of . . . capital . . . expects that his profits should bear a regular proportion to his capital." (Smith 2003 p69). "Whilst every man is free to employ his capital where he pleases, he will naturally seek for it that employment which is most advantageous; he will naturally be dissatisfied with a profit of ten percent, if by moving his capital he can obtain a profit of 15 percent. This restless desire on the part of all employers of stock to quit a less profitable for a more advantageous business has a strong tendency to equalize the rate of profits for all, or to fix them in such proportions as may, in the estimation of the parties, compensate for any advantage which one may have, or may appear to have, over the other. . . . It is then the

desire, which every capitalist has, of diverting his funds from a less to a more profitable employment that prevents the market price of commodities from continuing for any length of time either much above or much below their natural price." (Ricardo 2005 p49-50, 52). "All the different ways in which stock is commonly employed in great towns seems, in reality, to be equally easy and equally difficult to learn." (Smith 2003 p143). Smith and Ricardo assumed that capital readily switched enterprise in pursuit of the greatest profit.

Profit is measured over a given period. Profit from production is defined as the net revenue remaining after subtracting the cost of production from the gross revenue received over a given period; the rate of profit from production is net revenue divided by gross revenue's cost of production. Under economic equilibrium, product prices tend to be in proportion to each product's cost of production (natural price) and the producers' rates of profit tend to be the same. "Let us assume that all commodities are at their natural price, and consequently that the profits of capital in all employments are exactly at the same rate, or differ only so much as, in the estimation of the parties, is equivalent to any real or fancied advantage which they possess or forego." (Ricardo 2005 p51). This describes classical economics' market equilibrium.

However, this equilibrium was a tendency only; economic disturbances continually occurred, causing product prices to deviate from their natural price. The economy's prices evolved through a continual process: short-term disequilibrium deviating a product's price from natural price, and a resulting counteractive tendency, through the movement of capital, reestablishing natural price equilibrium over the longer term. This process was motivated by each individual's pursuit of profit from capital. A product price above natural price created opportunities for a higher rate of profit from

capital's use in that product's production, encouraging capital's use; prices below natural price discouraged capital's use. Individuals maximizing their profit tended to equilibrate rates of profit, yielding natural prices in the long term.

The continual movement of disequilibrium towards equilibrium is the motion of Smith's beneficent invisible hand. "Every individual is continually exerting himself to find out the most advantageous employment for whatever capital he can command. It is his own advantage, indeed, and not that of society, which he has in view. But the study of his own advantage naturally, or rather necessarily leads him to prefer that employment which is most advantageous to the society." (Smith 2003 p569-570). "When we look to the markets of a large town, and observe how regularly they are supplied both with home and foreign commodities, in the quantity in which they are required, under all the circumstances of varying demand, arising from the caprice of taste, or a change in the amount of population, without often producing either the effects of a glut from a too abundant supply, or an enormously high price from the supply being unequal to the demand, we must confess that the principle which apportions capital to each trade in the precise amount that is required is more active than generally supposed." (Ricardo 2005 p50-51). The conscious actions of individual producers motivated by the most profitable use of capital tended to unconsciously equilibrate all rates of profit, maintain natural price, and apportion capital in a way "most advantageous to the society." Under Smith's competitive market, high profits logically attracted competition, and low profits generally were a disappointment to their recipient and logically less conducive to further endeavor along similar lines.

This did not mean that all rates of profit were necessarily equivalent at any time in the actual economy, or that classical economists

believed that they were. Not all market participants were equal in their business acumen or in their luck. Some businesses did extraordinarily well, others became insolvent. Furthermore, the market was never in perfect equilibrium. New disequilibrium was continuous, information was imperfect, and the market "groped" somewhat uncertainly toward natural price and equivalent rates of profit. Also, "Profit is so very fluctuating, that the person who carries on a particular trade cannot always tell you himself what is the average of his annual profit. It is affected, not only by every variation in price in the commodities which he deals in, but by the good or bad fortune both of his rivals and his customers, and by a thousand other accidents to which goods when carried either by sea or land, or even when stored in a warehouse, are liable. It varies, therefore, not only year to year, but from day to day, and almost from hour to hour." (Smith 2003 p122-123). The equilibrium of classical economics' competitive market was a tendency only, an unconscious tendency always in effect, not necessarily ever achieved in all particulars. However, market driven equilibrium was, per classical economics, a tendency sufficient to allocate wealth in a manner tending toward natural prices and uniform rates of profit, and, per classical liberalism, a tendency beneficent to both individual and society.

Economic disequilibrium impacted an individual's wealth as well as the prices which defined wealth, and hence economic disequilibria impacted the individual's status within society. Society's tolerance of disequilibria meant its acceptance of an individual's change in wealth and hence its acceptance of social mobility. The capitalist revolution developed within a relatively static society ruled by a landed aristocracy whose monopoly of wealth had originated long prior to capitalism through successful force of arms. Precapitalist society could not navigate continual economic disequilibria in which gain and loss were determined by the market rather than by force, law, and

custom. The competitive market threatened traditional exchange and therefore the social order which that exchange underpinned. The capitalist revolution substituted competitive market for traditional exchange, and market price for traditional social relations. Under capitalism, ". . . as [Thomas] Carlyle says . . . 'cash payment is the only nexus between man and man.'" (Engels 1987 [1845] p276). Capitalist society was necessarily less traditional than the society it replaced. Precapitalist society subordinated the market to property's tradition of monopoly; the subordination of property to the market was essential to the capitalist revolution.

Smith's description was so well received because it said what so many Britons were ready to hear and believe. The logic codified by Smith had long been evolving within British society towards his vision. "Indeed, its fundamental system [classical liberalism] had been . . . firmly elaborated in the seventeenth and eighteenth centuries . . ." (Hobsbawm 1996a p235). There had been a gradual erosion of monopoly privilege before the philosophy of Locke and Smith, beginning in the early seventeenth century. "During the time of [Edward] Coke judgements in the courts of Common law had become tender indeed to the rights of property, but hostile to privilege. In 1624 the Statute of Monopolies had swept away many vested interests, and a century and a half later Adam Smith was able to say of Englishmen that they were 'to their great honor of all peoples, the least subject to the wretched spirit of monopoly'." (Ashton 1997 p9-10).[7] Monopoly was the antithesis of classical liberalism's economic freedom. "In 1624 Parliament passed the much-noted Statute of Monopolies prohibiting the use of patents to grant monopolies to existing businesses in exchange for revenue. In this manner it attempted to assert the traditional rights of secure property. In addition common law courts handed down the famous "Case of Monopolies" in 1601, making the Crown's use of monopolies illegal in common law. . . . the Star

Chamber was abolished in 1641 by an act requiring that all cases involving property be tried at common law, thus adding another milestone along the route toward supremacy of the common law, so favorable to property rights. Restrictions against monopolies were now enforced. . . . Important changes reduced restrictions on labor mobility. Land tenure modifications simultaneously favored the development of private rights and markets and reduced the Crown's political hold over this once-important part of its constituency. New and profitable opportunities resulted from lifting restrictions on land use and improving markets." (North and Weingast 1989 p812-813, 814).

The long unfolding British capitalist revolution saw the gradual encroachment of cash nexus and national commercial market indicated by changes in the legal code such as the abolition of serfdom in 1574, the 1624 Statute of Monopolies, the Tenures Abolition Act of 1660 (replacing many feudal obligations of personal service due the crown with money payments), and the Act of 1663 allowing the engrossing of corn. The ". . . proposals of the writers, projectors, and statemen of the period 1660-88 were intelligent and, with some exceptions, mutually consistent. They envisioned a liberal society without legal barriers to the advance of the individual (at least the Protestant individual) . . ." (Dickson 1967 p6). ". . . by 1700, England was already one of the richest countries in the world on a per capita GDP basis. This wealth was generated through an efficient agricultural sector, a relatively urban, middle-class society and a strong commercial sector. . . . the commercial nature of English society, even in 1700, is not to be doubted. The commercial revolution is perhaps one of the most clear-cut features of the eighteenth-century English economy." (Turner 2015 p12).[8] ". . . in the eighteenth century, with the increased prosperity that came after the Treaty of Utrecht [1713], wealth even more than gentle birth or public services became

the touchstone that separated the classes that counted in the community . . .” (Williams 1997 p128). “We shall note, above all, that England . . . was already [circa 1750] a monetary and market economy on a national scale. . . . A nation of shopkeepers implies a nation of producers for sale on the market, not to mention a nation of customers.” (Hobsbawm 1999 p5, 6). The long unfolding capitalist revolution was necessarily concurrent with the rise of the commercial class. “An interesting letter to the *Public Advertiser* in 1760, after referring to ‘our known division of the people of this nation into the nobility, the gentry and the commonalty’ spoke eloquently of the enormous recent changes in the ‘customs, manners and habits’ of the third group. Trade, the writer went on, ‘hath given a new face to the whole nation’ and within the ‘commonalty’ there were many signs of new wealth and new pride.” (Briggs 1965 p14).

The eighteenth century saw a peaceful integration of British aristocracy and commercial wealth. “In Britain the resistance to capitalist development had ceased to be effective by the end of the seventeenth century. The very aristocracy was, by continental standards, almost a form of ‘bourgeoisie’, and two revolutions [1649 and 1688] had taught the monarchy to be adaptable.” (Hobsbawm 1999 p*xiv*). “In speaking of the bourgeoisie, I include the so-called aristocracy . . .” (Engels 1987 p275). “English society was a class structure. But class never hardened into caste. In France, the line between the nobility and the rest was sharply drawn, and in other countries of Europe, including Russia, there were few, if any, social groups interposed between the landlords and peasants. In England, the aristocrats merged with the squires, the squires with the freeholders and farmers. There was no sharp distinction between those who derived their incomes from rents and those who lived on the gains of commerce or industry.” (Ashton 1977 p20-21). “Indeed, it is notable that England and Scotland were almost the only countries

in Europe, not excepting Ireland, where trade or business was then regarded as an honourable profession fit for gentlemen." (Williams 1997 p146). "Those great proprietors who were entitled to use armorial bearings—the nearest approach to a nobility in England—were not separated from other non-titled proprietors by any thick walls of caste: they were not a *noblesse*, as in France. . . . . 'Trade' wrote Defoe, 'is so far from being inconsistent with a gentlemen that, in short, trade in England makes "gentlemen".'" (Briggs 1965 p10-11, 14). ""There might be squabbles about matters of detail, but, on the whole, the aristocratic oligarchy knew too well that its own economic prosperity was irretrievably bound up with that of the industrial and commercial middle-class." (Engels 1970 [1880]).

"In 1694 Edward Chamberlayne remarked of the younger brothers of the gentry that, with 'small estates in land', they were commonly 'bred up to divinity, the law, physic, to court and to military employment; but of late [he added, with marked distaste] too many of them to shopkeeping.'. . . The wealthy merchant clothiers of Leeds between William III's reign and George I's were taking apprentices even from major families . . . Manchester and Bolton linen drapers had begun to recruit from the squirearchy, outside as well as inside Lancashire, as early as 1680 . . . The early eighteenth-century provincial town had, in fact, become a social welder of exceptional importance. . . The assemblies of Sheffield and Birmingham catered alike for merchants, wealthy 'hardwaremen', ironmongers and goldsmiths, for parsons, medical men and attorneys, and for the squires who came in from their grand houses outside the towns. And in Leeds R. G. Wilson has shown us vividly how, in the first half of the eighteenth century 'not only did the close association between gentry and merchants . . . create a society that was far more open than on the Continent, but also there was a perfect mutual understanding of each other's world.'" (Cannon 1981 p14, 15, 21). ". . . great proprietors, such as Lord Middleton, the

Duke of Bridgewater, and Lord Gower, busied themselves with transport and manufacture. . . . [Malachy] Postlethwayt exhorted the gentry not to imagine that meddling in trade would 'corrupt their blood'. But it is doubtful whether his promptings were necessary. For many country gentlemen and men of title were of merchant stock, and some discovered that apprenticeship to merchant houses abroad might provide their sons with the education others purchased more dearly by the grand tour." (Ashton 1977 p21, 139).

"By the eighteenth century, Britain was a trading nation, with a larger proportion of its inhabitants in commerce, shipping and finance than any other country. Taxes and government regulations were less onerous than elsewhere. Its society encouraged innovation, entrepreneurship, and the accumulation of wealth. Businessmen were respected and their wealth could purchase access to politics and high society." (Headrick 2009 p92). British aristocrats sought commercial wealth and commercial wealth in turn brought social status to commoner. ". . . the rising new business class found a firm pattern of life waiting for them. Success brought no uncertainty, so long as it was great enough to lift a man into the ranks of the upper class." (Hobsbawm 1999 p60). Wealth could in fact make a commoner an aristocrat. "Successful traders, manufactures, and bankers usually sought, before they ended their days, to become country squires." (Ashton 1977 p21). ". . . Britain where landed and noble status was the reward for any kind of wealth, provided it was large enough . . ." (Hobsbawm 1996a p16). The fact that titles and estates were available for purchase shows that eighteenth-century British social mobility cut both ways. Under capitalism's cash nexus, the production of wealth was much less a function of class tradition than before, and status was increasingly determined more by wealth than tradition.

"'Commerce', wrote Voltaire, 'which has enriched the citizens of England, has helped to make them free, and that liberty in turn has expanded commerce. This is the foundation of the greatness of the state.'" (Hobsbawm 1999 p4). A writer in 1780 argued that Britain benefited "'. . . above all, from those just and equitable laws which secure property, that mild and free government that abhors tyranny, protects the meanest subjects and leaves the mind of man to its own exertion, unrestrained by those arbitrary, capricious, impolitic shackles, which confine and weaken its noblest endeavors in almost every other country in the world.'" (Briggs 1965 p8). "The natural tendency of every society in which property enjoys tolerable security is to increase in wealth." (Macaulay 1986 p548). The increase of wealth through the uninhibited operation of self-interest within the free market was the thesis of *The Wealth of Nations*. Prosperity allowed for social stability despite economic disequilibria. Commercial freedom brought prosperity which in turn enabled the toleration of commercial freedom.

The eighteenth-century's enlightenment led to Smith's *Wealth of Nations* in Britain and to political revolution in France. Smith's book primarily concerned the relation between individual and market; the French Revolution primarily concerned the relation between citizen and state. Alexis de Tocqueville wrote: "From the eighteenth century, there flow from a common source, two rivers. One carries men to free institutions, the other to absolute power." (Hobsbawm 1996a p240-241).

Endnotes for Chapter 1

1. Britain here means England, Wales, and Scotland, the geographical Great Britain. The Kingdom of England became the Kingdom of Great Britain with the Acts of Union of 1707 and the United Kingdom of Great Britain and Ireland in1801 after the Acts of Union of 1800. However, during our period, England, Wales and Scotland were integrated with each other, forming a commercial, cultural and

political union; Ireland is best described as a British colony. The unfolding capitalist revolution is described as British rather than English because the revolution's developing commercial market was British; similarly, Adam Smith is considered here as British rather than Scotch. When quoting authors or citing their econometric data, their nomenclature is retained, i.e., England, Great Britain, United Kingdom. Otherwise, Britain is used here promiscuously when England (or even London) would have been more precise. Europe here means continental Europe plus the British Isles.

2. "The antecedents of Smith's laissez-faire and free-trade views are probably rightly to be sought mainly in the philosophic literature, and perhaps also in the writings of the physiocrats, rather than in the earlier English economic literature. . . . important, in preparing the way for Adam Smith, was Mandeville's more elaborate reasoning in support of individualism and laissez faire, resting on his famous argument that "private vices" such as "avarice" and luxury were "public benefits."" (Viner 1937 p91, 99). "In many respects the principles taught by Adam Smith are identical with those taught by the Physiocrats. . . a system which Adam Smith said was, in spite of its imperfections, 'perhaps the nearest approximation to the truth that has yet been published upon the subject of political economy.'. . . the "French principles," and the theories of free trade held by the Physiocrats and by Adam Smith, had a common ancestor in their appeal to the elusive law of nature . . ." (Holdsworth 1934 p537, 536, 537).

3. In his introduction to Wealth of Nations, Alan Krueger wrote: "In all likelihood, he [Smith] died firmly believing that *The Theory of Moral Sentiments* was his most important and influential work (Ross 1995, p. 177)." (Smith 2003 p*xiii*, *xxii*). Smith's theology descends through Shaftsbury, who ". . . identified God with the harmony of nature and defined virtue as an agreement with this universal harmony, to which we are impelled by a moral sense implanted in us by nature and so in no need of the divines' stimulus of future rewards and punishments." (Williams 1997 p84).

4. "The philosophically feeble John Locke rather than the superb Thomas Hobbes remained the favorite thinker of vulgar liberalism; for he at least put private property beyond the range of interference and attack as the most basic of 'natural rights'." (Hobsbawm 1996a p237). Quoting Locke: "'[G]overnment has no other end but the preservation of property' (TTG: §94)." (Lehto 2015 p13). "'Civil society, the chief end whereof is the Preservation of Property'; 'The great end of Mens entering into society being the enjoyment of their properties in Peace and Safety'— such sentiments meet us at every turn and serve him even as an excuse for justifying in certain cases the status of slavery." (Williams 1997 p5).

5. "The day of polyhistoric knowledge was not yet over: a man could then roam over the whole of science and art and even do work in widely distant fields without meeting disaster. . . . Smith held sway over a wide domain of which economics was only a part." (Schumpeter1954 p182).