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The Historical Streams of Adam Smith's An Inquiry Into The Nature and Causes of The Wealth of Nations

Li Tingfang¹ and Wu Xianghui²

¹China Three Gorges University

²Chongqing Normal University Foreign Trade and Business College

ABSTRACT

Set time as independent variable with historical method, regard Adam Smith and his An Inquiry Into The Nature and Causes of The Wealth of Nations as an ecosystem, explore the inputs to this ecosystem by analysing literature text and abstract two streams therein: one stream from the west, one stream from the east, investigate their flowing trace and coupling process, seek conceivable pattern in chaos, draw a personal imperfect summing-up on the Historical Streams of Adam Smith's An Inquiry Into The Nature and Causes of The Wealth of Nations: its discourse system came from the west demonstrably: the attention to people, the legality of private property, the concept of economy from Xenophon, the thought of division of labour from Xenophon and Plato, the distinction between natural and unnatural from Aristotle to natural law and moral philosophy, the discovery of rule of supply and demand, and the development of Commerce and agriculture in Europe... its policy orientation was influenced by the concepts of Tao, i.e. law of nature, and the inaction from China. History can be regard as a winding, discreate watershed relating with multiple streams. The interflow of streams of different civilization, may be able to provide more choices for the opening of thought window and more genes for the ecology to evolve.

Keywords:discourse system policy orientation, ecosystem coupling of streams

*Correspondence to Author:

Li Tingfang

China Three Gorges University

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About Adam Smith

Adam Smith, the author of *An Inquiry Into The Nature and Causes of The Wealth of Nations*, was called "The Father of Economics". In 1723, he was born in Kirkcaldy, in the County of Fife, Scotland. Between 1729 and 1737, he learned Latin, mathematics, history, and writing in the Burgh School of Kirkcaldy. Between 1737 and 1740, he entered the University of Glasgow and studied moral philosophy under Francis Hutcheson who was a philosopher known as one of the founding fathers of the Scottish Enlightenment and remembered for his book *A System of Moral Philosophy*. Between 1740 and 1746, he was at Balliol College, Oxford. Subsequently, he returned Kirkcaldy pursuing his studies without taking a teaching position until 1748. Between 1748 and 1751, he delivered public lectures whose topic included rhetoric, belles-lettres and the subject of "the progress of opulence" on which he first expounded his economic philosophy of "the obvious and simple system of natural liberty" etc. in Edinburgh. Between 1752 and 1764, he taught logic courses and moral philosophy in Glasgow. One of his most representative work, *The Theory of Moral Sentiments*, was published during this period of time, concerning with how human morality depends on sympathy between agent and spectator, or the individual and other members of society, which provided the ethical, philosophical, psychological, and methodological underpinnings to his later works. Between 1764 and 1766, he accompanied the young Duke of Buccleuch named Henry Scott as his tutor touring Europe including France. In 1766, he returned home to Kirkcaldy and he devoted much of the next decade to writing his magnum opus. In 1776, his *An Inquiry Into The Nature and Causes of The Wealth of Nations*, also known as its shortened title *the wealth of nations*, was published.

About *the wealth of nations*

There is its structural arrangement:

BOOK I OF THE CAUSES OF

IMPROVEMENT IN THE PRODUCTIVE POWERS OF LABOUR, AND OF THE ORDER ACCORDING TO WHICH ITS PRODUCE IS NATURALLY DISTRIBUTED AMONG THE DIFFERENT RANKS OF THE PEOPLE

BOOK II OF THE NATURE, ACCUMULATION, AND EMPLOYMENT OF STOCK

BOOK III OF THE DIFFERENT PROGRESS OF OPULENCE IN DIFFERENT NATIONS

BOOK IV OF SYSTEMS OF POLITICAL ECONOMY

BOOK V OF THE REVENUE OF THE SOVEREIGN OR COMMONWEALTH

The causes of this improvement in the productive powers of labour, and the order according to which its produce is naturally distributed among the different ranks and conditions of men in the society, make the subject of the first book of this Inquiry.

The second book, therefore, treats of the nature of capital stock, of the manner in which it is gradually accumulated, and of the different quantities of labour which it puts into motion, according to the different ways in which it is employed.

Nations ... have followed very different plans in the general conduct or direction of it ... The circumstances which seem to have introduced and established this policy are explained in the third book.

Though those different plans were ... yet they have given occasion to very different theories of political economy ... in the fourth book, to explain as fully and distinctly as I can those different theories, and the principal effects which they have produced in different ages and nations.

To explain in what has consisted the revenue of the great body of the people, or what has been the nature of those funds, which, in different ages and nations, have supplied their annual

consumption, is the object of these four first books. The fifth and last book treats of the revenue of the sovereign, or commonwealth.¹

An Inquiry Into The Nature and Causes of The Wealth of Nations offers one of the world's first collected descriptions of what builds nations' wealth, and is today a fundamental work in classical economics. By reflecting upon the economics at the beginning of the Industrial Revolution, the book touches upon such broad topics as the division of labour, productivity, and free markets.

The developments of western economics were basically based on interpretations of Adam Smith. Adam Smith's *An Inquiry Into The Nature and Causes of The Wealth of Nations* is one of the origins of western economics, and where does the origins of it come from?

Stems from the west

Xenophon [c. 431[1]– 354 BC], an ancient Greek philosopher, historian, and student of Socrates, the author of *Oeconomicus* , was the first to put forward the concept of economy. I once heard him discuss the topic of economy after he following manner. Addressing Critobulus, he said: Tell me, Critobulus, is “economy,” like the words “medicine,” “carpentry,” “building,” “smithying,” “metal-working,” and so forth, the name of a particular kind of knowledge or science? Crit. Yes. I think so.² Be the business of the good economist at any rate to manage his own house or estate well. ³ He used the amount of economic surplus as a criterion to judge the ability of economist: A large salary he would be entitled to earn if, after paying the necessary expenses of the estate entrusted to him, he can create a surplus and improve the property. ⁴He expounded his understanding of wealth in *Oeconomicus*. And he set out simple views on the division of labour in his *Cyropaedia*: For just as all other arts are developed to superior excellence in large cities, in the same way the

food at the kings' palace is also elaborately prepared with superior excellence. For in small towns the same workman makes dining couches and doors and ploughs and tables and often this same artisan builds houses, and even so he is thankful if he can only find enough employers to allow him to make a living. And it is of course impossible for a man of so many trades to be proficient in all of them. In large cities, on the other hand, where every workman finds many customers, one trade alone, and often even less than a whole trade, is enough to support a man: one man, for instance, makes shoes for men, another.⁵ It can also be found in *Oeconomicus*: It would not be very easy to discover efficient craftsmen of all the arts, and quite impossible to become skilled in all one's self. So, please, confine yourself to the nobler branches of knowledge as men regard them.....⁶ Plato [428/427 or 424/423 – 348/347 BC], an Athenian philosopher and student of Socrates, the author of *Republic*, emphasized division of labor and specialization. And this is the first sentence of the chapter I of book I of *An Inquiry Into The Nature and Causes of The Wealth of Nations* written by Adam Smith: THE GREAT improvements in the productive powers of labour, and the greater part of the skill, dexterity, and judgment, with which it is anywhere directed, or applied, seem to have been the effects of the division of labour. Aristotle [384–322 BC], an ancient Greek philosopher and scientist, the student of Plato, supported private property ownership. Property should be in a certain sense common, but, as a general rule, private; for, when everyone has a distinct interest, men will not complain of one another, and they will make more progress, because every one will be attending to his own business. ... And yet by reason of goodness, and in respect of use, 'Friends,' as the proverb says, 'will have all things common.'⁷He had brilliant views about exchange and money. All things that are

¹ Adam Smith *An Inquiry Into The Nature and Causes of The Wealth of Nations*

² Xenophon *Oeconomicus* translated by H.G.Dakyns

³ Xenophon *Oeconomicus* translated by H.G.Dakyns

⁴ Xenophon *Oeconomicus* translated by H.G.Dakyns

⁵ Xenophon, *Cyropaedia*, ed. E. Poppo, Lipsiae, 1821, Bookviii, ch. II

⁶ *Economist*.iv.

⁷ Aristotle *Politics* Translated By Benjamin Jowett

exchanged must be somehow comparable. It is for this end that money has been introduced, and it becomes in a sense an intermediate; for it measures all things, and therefore the excess and the defect-how many shoes are equal to a house or to a given amount of food. ...Now this unit is in truth demand, which holds all things together... money has become by convention a sort of representative of demand; and this is why it has the name "money" (nomisma)—because it exists not by nature but by law (nomos) and it is our power to change it and make it useless. ...⁸

Cicero [3 January 106 BC – 7 December 43 BC], a Roman statesman, orator, lawyer and philosopher, introduced the Romans to the chief schools of Greek philosophy. He inherited the Stoic conception of natural law.

Influenced by the conception of natural law, Roman law was gradually formed. *Corpus Juris Civilis* [529 to 534] formalized Roman law. It was a repository of economic theories. Such as just price: The prices of things function not according to the whim or utility of individuals, but according to the common estimate.... Time and place, however, bring about some variation in price.⁹

Albertus Magnus [1193 – November 15, 1280], a German Catholic Dominican friar and bishop, put forward the concept that exchange value must comply with cost¹⁰, commenting on the Ethics of Aristotle: There is accordingly always a just mean between gain and loss.¹¹ In the Dark Ages, there was conflicts between the pursuits of profit and beliefs in Christianity: on the one hand, according to the Christian doctrine, people who devote themselves to god should be loyal to others, it is forbidden to cheat others for the pursuit of profit, on the other hand, in order to make a profit in the market exchange, it is necessary to change the business strategy to

defeat rivals. This gave rise to a moral dilemma.

¹² Influenced by Aristotle and Aurelius Augustinus [13 November 354 – 28 August 430 AD], Thomas Aquinas [1225 – 7 March 1274], an Italian philosopher, theologian, and jurist in the tradition of scholasticism, reconciled it.

Jean Buridan [c. 1300 – c. 1358/61], came up with the concept of effective demand. He made indigentia into desire backed by ability to pay.

Stems from the east

The Oriental civilization, situated beside and drawing sustenance from a river, was represented by the Chinese civilization. *I Ching*, an ancient Chinese divination text and the oldest of the Chinese classics believed to have been written by King Wen of Zhou, was a stream of Chinese traditional culture, which influenced Confucianism and Taoism as Adam Smith's *An Inquiry Into The Nature and Causes of The Wealth of Nations* influenced western economics. *I Ching* was based on the dualism of Yin and Yang. Yin and Yang compose Tao.¹³ Tao, in my opinion, was laws of nature. Universe motion in accordance with laws and then circulation of clock and seasons exist; sages act in accordance with laws and then punishments become distinct and people obey.¹⁴ Nature was in a state of equilibrium and one had better not break it. Influenced by *I Ching*, Laozi, the author of *Tao Te Ching*, developed Taoism. Tao that can be described is not universal and eternal Tao.¹⁵ Human are in the law of Di(earth), Di is in the law of Tian(heaven), Ti is in the law of Tao, Tao is in the law of nature.¹⁶ Tao is always in the state of the inaction but everything is under its action.¹⁷ The inaction, one of the most important thought of Laozi, namely, is liberalism. Confucius was an advocate of King Wen of Zhou and *I Ching*. Confucius said: how far I have declined ! Long has it been since I have again dreamed of King

⁸ Aristotle *Nicomachean Ethics* Translated By W.D.Ross

⁹ *Corpus Juris Civilis*

¹⁰ Yang Yusheng Yang Ge *The History Economic Thought In Western World*

¹¹ B. Alberti Magni, *Opera Omnia*, Paris, 1891, vol. vii, in *Librum V Ethicorum*, tract. 2, cap. 7, no. 30.

¹² *Ma Tao Courses In The History Of Economic Thought*

¹³ ZHOU YI · XI CI I

¹⁴ YI ZHUAN · TUAN ZHUAN I · YU

¹⁵ Laozi *Tao Te Ching*

¹⁶ Laozi *Tao Te Ching*

¹⁷ Laozi *Tao Te Ching*

Wen of Zhou.¹⁸ Confucius was fond of *The Ching* in his later years. He organized XIANG、XI、SHUO GUA、WEN YAN for it. He read it so repeated that the string of bamboo slips of it broke many times. ¹⁹And he said: give me a few years till fifty, in order to learn *The Ching*, and indeed I be free of great flaws. ²⁰ Confucius believe in Tian. Does Tian speak? Yet the seasons turn and the creatures of the world are born, does Tian speak?²¹ He did nothing and all was well ordered – this would describe Shun, would it not? What did he do? He simply composed himself with reverence and sat facing due south. ²² Mencius, an advocate of Confucianism, said: Tian does not speak. It simply reveals itself through action and event. ²³

The Travels of Marco Polo, written by Rustichello da Pisa [fl. late 13th century], depicts the Marco Polos' journeys throughout Asia. It described to Europeans the wealth and great size of China, inspiring Bartolomeu Dias [1450 – 29 May 1500]、Christopher Columbus[before 31 October 1451 – 20 May 1506] 、missionaries and many other travellers to come to China.

After China was discovered by Europeans, a large number of missionaries came to China. The last Jesuits in China were finally expelled because of religious reasons in 1721. Jesuits including French in China returned their homeland with a large number of Chinese classics, especially Confucian classics. Thus, a number of Confucian classics was known to French. Those enlightenment philosophers who tried to destroy the social structure and theology that supported absolute monarchy or metaphysical ethics were surprised to find ²⁴ "Confucius had thought the same thoughts in the same manner, and fought the same battles"²⁵

Mercantilism and Physiocracy

¹⁸ *The Analects*

¹⁹ *Sima Qian Records Of The Grand Historian*

²⁰ *The Analects Of Confucius 2015 (Version 2.21) R.Eno An Online Teaching Translation*

²¹ *The Analects Of Confucius 2015 (Version 2.21) R.Eno An Online Teaching Translation*

²² *The Analects Of Confucius 2015 (Version 2.21) R.Eno An Online Teaching Translation*

After the publication of *The Travels of Marco Polo* and latter great geographical discoveries, there had taken place some significant changes in Western Europe, such as the emergence of the national states which were strong and centralized relatively and the prominence of effects of commerce which made the pursuit of wealth became individual and national theme. The pursuit of wealth of merchants did not conflict with the interests of the national states and its government to some extent. Merchants benefited greatly from the enforced monopolies, bans on foreign competition, and poverty of the workers. Governments benefited from the high tariffs and payments from the merchants. Merchants promoted the introduction of national economic policy that is designed to maximize the exports of a nation with the help of economic interventionism and government regulation.

Victor de Riqueti, Marquis de Mirabeau [5 October 1715, Pertuis – 13 July 1789], a French economist of the Physiocratic school and the student of François Quesnay²⁶, was the first to put forward the concept of mercantilism in his *Philosophie rurale* published in 1763.

François Quesnay [4 June 1694 – 16 December 1774], a French economist and physician of the Physiocratic school, the author of *Tableau économique* in 1758 and *Le Despotisme de la Chine* in 1767, was known for his writings on Chinese politics and society. He was the first to put forward the concept of net product("produitnet" in French) in his *Grains* in 1757. Agriculture is the richest, the most valuable part of our trade, the source of the kingdom's income...After expenses, there was a balance of eighty-seven livres for five years. let us divide it equally over five years and we can get seventeen livres and eight sous net product... ²⁷ And he advocated the law of nature. The so-called natural rights of the

²³ *Mencius Robert Eno Version 1.0 May 2016 An Online Teaching Translation*

²⁴ *Tae-Hyeon Song Voltaire ' S View Of Confucius*

²⁵ *Reichiwein 77*

²⁶ *Ma Tao Courses In The History Of Economic Thought*

²⁷ *François Quesnay Grains*

individual, in reality, can be understood as limited to a part of the various things suitable for human enjoyment. ... The violation of the law of nature is the commonest and most general cause of the actual evil which befalls people. ... Natural law can be objects, also can be moral ... the above two laws together, which is what is called a natural law.²⁸ He thought the best thing to do was to do nothing, also named inaction. So for sure, at the fundamental rules of the legislative power is there can be no argument, he can't belong to anyone, can only belong to god, god in the whole system of the world set up everything, and to make a provision in advance, people will only make a mess here, only to comply with the laws of nature, to eliminate they should avoid the chaos phenomena. ²⁹ The phrase *laissez-faire*, coined by fellow Physiocrat Jacques Claude Marie Vincent de Gournay [28 May 1712 – 27 June 1759], is postulated to have come from Quesnay's writings on China. Physiocracy were opposed to mercantilism, the dominating economic theory in Europe of the time.

Anne Robert Jacques Turgot [10 May 1727 – 18 March 1781], the student of François Quesnay and the finance minister of France at that time, wrote *Reflections on the Formation and Distribution of Wealth* in 1766, which he prepare for the preface to the Chinese problems. Originally considered a physiocrat, he is today best remembered as an early advocate for economic liberalism.

Pierre Samuel du Pont de Nemours [14 December 1739 – 7 August 1817], a French-American writer, economist, publisher and government official, was the first to put forward the concept of Physiocracy in 1767 , which literally translates to “the rule of nature”.

The “simple system of natural liberty establishes itself of its own accord” in Adam Smith ' s *An Inquiry Into The Nature and Causes of The Wealth of Nations* was based on the understanding of “law of nature” and he

advocated the policy of “laissez-faire” to develop industry and agriculture which can create wealth of nation.

The historical ecosystem and joining the streams

Adam Smith expounded his views on “self-love” in his *The Theory of Moral Sentiments*: There's no doubt that nature gives to each man the primary responsibility for his own care; and it's fit and right that this should be so, because each man is better able to take care of himself than anyone else is. And he used the concept of “invisible hand” of this book: The rich... the poor... They are led by an invisible hand to share out life's necessities in just about the same way that they would have been shared out if the earth been divided into equal portions among all its inhabitants.

All inputs to Adam Smith before 1786 when the fifth edition of *An Inquiry Into The Nature and Causes of The Wealth of Nations* was published, including what he saw and heard, formed the ecosystem of his magnum opus organically. And how the ecosystem work? That is what I explore below.

Coupling model of streams ecological process help me clarify the historical streams of Adam Smith ' s *An Inquiry Into The Nature and Causes of The Wealth of Nations*. The discourse system of it came from the west demonstrably: the attention to people, the legality of private property, the concept of economy from Xenophon, the thought of division of labour from Xenophon and Plato, the distinction between natural and unnatural from Aristotle to natural law and moral philosophy, the discovery of rule of supply and demand, and the development of Commerce and agriculture in Europe... setting the time as independent variable with historical method, there is a winding, discrete stream ecology of economic thought that input selectively to the "The Father of Economics" .

²⁸ François Quesnay *Natural Rights (in English)*

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²⁹ François Quesnay *Le Despotisme De La Chine*

Adam Smith stood on the shoulders of Giants³⁰ and have seen quite further. He constructed a system of economic theories that adapts to the modern market economy. The policy orientation of Adam Smith ' s *An Inquiry Into The Nature and Causes of The Wealth of Nations*, controversially, in my visual threshold, was influenced by other civilization and culture, for instance, Chinese culture. Tao, law of nature in Chinese discourse system, differ from natural law in Western discourse system. Natural law, which refer to the use of reason to analyze human nature to deduce binding rules of moral behavior from nature's or God's creation of reality and mankind, is objective and universal "good"³¹. As the quotes saying: Two things awe me most, the starry sky above me and the moral law within me.³² Tao, which refer to way of the world, is indescribable and not merely good. "Yin and Yang compose Tao." The relation between Yin and Yang are dialectical³³. Neither Yin nor Yang is merely good. Tao is changing. The ideal society described by Laozi was small, simple, unconnected.³⁴ The ideal society described by confucius was public³⁵. The ideal society they pursued was backward and partial trace of it can be found in the past. The ideal society they pursued was backward and partial trace of it can be found in the past. All they wanted to return a society state which without fight. And the subject of public policy between the West and China were different distinctly before 1786. First, the social mobility between the West and China were different. Because of the implementation of recommendation and interview in Han Dynasty and imperial examination from Sui Dynasty to Qing Dynasty, the choice of becoming bureaucrat is equal for any class between scholars, farmers, artisan, and merchant. People who passed by the exact examination were possible to be the owner of power of the empire and directly influenced the public policy.

Second, in the ancient West, public policy subject covers Christianity and nobles early and extend to merchants. In China, Jun-zi , whose concept raised by *I Ching*, referring moral men, was regarded as befitting dominator. The thoughts of "law of nature" and inaction can't be found in the western discourse system but in China, and they were absorbed by Adam Smith, turning into his policy orientation. The coupling of the stream from the west and the stream from east in the ecology of Adam Smith before 1786, formed the thought window of his *An Inquiry Into The Nature and Causes of The Wealth of Nations*. However, the process of the coupling of streams, I just tried to seek conceivable trace in chaos.

Time can be set as independent variable of history and history can be regard as a winding, discrete watershed relating with multiple streams. The interflow of streams of different civilization, may be able to provide more choices to the window of thought window and more genes for the ecology to evolve.³⁶

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³⁰ Isaac Newton

³¹ Plato

³² Immanuel Kant

³³ Karl Marx

³⁴ Laozi *Tao Te Ching*

³⁵ *The Book Of Rites*

³⁶ Comparing different civilizations to the same species with different genes, I think they are equal and their differences are horizontal rather than vertical (better or worse)