

The Frank E. Seidman
Distinguished Award
In Political Economy

the Acceptance Paper

By

Kenneth Ewart Boulding

Adam Smith As An Institutional Economist

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THE FRANK E. SEIDMAN DISTINGUISHED AWARD IN POLITICAL ECONOMY

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ADAM SMITH AS AN INSTITUTIONAL ECONOMIST

by Kenneth E. Boulding

There is occasionally an extraordinary rightness about coincidence, even in names. There is something peculiarly delightful in the fact that Adam Smith is both the Adam and the Smith of economics, the father and the forger. THE WEALTH OF NATIONS is indeed seminal work. It contains within it the seed of almost everything that happened in economics since it was published. In the labor theory of value we have not only the seeds of Ricardo but of Marx. In Book I, Chapter VII, we have the seeds of subsequent price theory, both of Marshallian supply and demand and of Walrasian general equilibrium. In the subsistence theory of wages we have the seed of all Malthusianism and indeed of evolutionary theory, for it was Malthus who gave the clue to Darwin. It might be claimed that Adam Smith is a little weak on macroeconomics, on the price levels and unemployment, but even here the labor commanded theory was an attempt to provide a measure of changes in price levels and led pretty directly to the latter Malthus of the principles, and so on to Keynes. On development, and especially on the impact of development on relative prices (Book I, Chapter X) he has hardly been equalled.

Adam Smith did not of course discover marginal utility and the explicit marginal analysis. This took another hundred years. One has a feeling that he came very close to it. If he had asked himself why is there a "propensity to truck," he may well have landed on the theory of exchange. One wonders if he was interrupted in the process of writing Book I, Chapter II, so that he never took five or ten minutes that it would have taken him to explain the propensity to truck! He certainly understood that there is a mutual benefit in exchange that promotes it. Then, Book I, Chapter III, on how the division of labor is limited by the extent of the market and expanded by increasing markets, is the first great exposition of positive feedback, and has hardly been bettered since. Welfare economics, furthermore, is only the idea of natural liberty made a little more explicit. Then if social economics is a study of the limits of natural liberty, Adam Smith is certainly a social economist, for the limits to natural liberty were one of his great concerns and he was certainly not, like some of his followers, a fanatical exponent of *laissez faire*.

It is an interesting question, therefore, as to whether there is anything in Adam Smith which foreshadows the institutional economics of Veblen, Commons and Wesley Mitchell in the United States and the corresponding movement in the English Fabians and more remotely the German Historical school and French sociologists. Institutional economics was a widespread, rumbling, somewhat underground critique of neoclassical economic orthodoxy, particularly in the United States and Western Europe in the period, let us say, from about 1880 to 1920. One would identify it as ideologically rather to the left, but it was by no means Marxist. Indeed Veblen's criticisms of Marx are even sharper than his criticisms of orthodox economics.

This rumbling dissatisfaction took several forms. One can distinguish at least six categories of complaints. The first is the lack of an empirical base for economic theory. Orthodox economics is criticized as being too *a priori*, too much interested in deducing doubtful conclusions from shaky assumptions with impeccable logic, not interested enough in the complexities of the real world. The German historical school presented one aspect of this dissatisfaction in its attempt to use what might almost be called the historical case method in economics. If it eventually found that the accumulation of cases did not necessarily add up to

conclusions, at least it brought attention to the existence of recorded facts and emphasized that conclusions should not be divorced from them. The connection between the German historical school and the American institutionalists was actually somewhat tenuous. There was in a sense a small American historical school, which was not the same as the institutionalists, but at least the institutionalists shared with them an interest in data collection from the real world, even if in Veblen's case the empiricism was pretty casual. We see the same things in the early French sociologists of the school of Durkheim. In the American institutionalists we see this expressed particularly in the work of Wesley Mitchell and the National Bureau of Economic Research in the painstaking collection of time series. Wesley Mitchell has sometimes been called the Tycho Brahe of economics, recording painstakingly year after year the positions of economic bodies. Like Tycho Brahe he operated on an inadequate theoretical structure of cycles which turned out to be not very useful, but this does not diminish the importance of the pioneering data collection which later turned out to be of great value in the compilation of national income statistics.

The second complaint of the institutionalists is that orthodox economics lacked dynamics, as it was obsessed with equilibrium and equilibrium theories. Again, therefore, it parted company with the real world, which is a world of dynamics and disequilibrium rather than of equilibrium. Veblen asked "Why is economics not an evolutionary science? This is closely related, of course, to the demand for an empirical base, as the empirical base must consist of the record of events in space and time. These records reveal very clearly that equilibrium is a figment of the human imagination, that all things are in a state of Heraclitean flux, that all things are in constant interaction, being is only a cross-section of becoming. To quote one of my own principles which I have named D'Arcy Thompson's law, after the great twentieth-century biologist, "Everything is what it is because it got that way."

The third great complaint was that orthodox economics relied on a highly atomistic, individualistic psychology which left no place for human learning and socialization. It simply assumed away the problem of the formation of preferences by human learning. This criticism of course was linked to the first two. Economic man is a hypothetical construct devoid of any empirical base in the observation of human behavior. He is not seen to participate in any dynamic or evolutionary process but springs fully formed and immaculate from the economist's head. The economic man who is supposed to move the economy toward its equilibrium to the calculated maximization of utility and profit was accused of being a figment of the economist's imagination, quite unknown in the real world of learning, passion, irrationality and complexity, and not very helpful in illuminating the total dynamic process of society. Veblen's "globule of desire" is a parody, but it displays a distressingly recognizable resemblance to what economists seem to think.

This is perhaps one of the most valuable and valid critiques by the institutionalists. One can defend indifference curves, the elaborate system of decision theory, and the elegant mathematical fugues that have been written on the theme that everybody does what he thinks best at the time, on the ground that they are a useful clarifying stage in the argument. But it is clear that any dynamic theory, and even more any evolutionary theory, must deal with the formation of preferences in a learning process by which the individual learns from others around him and is himself formed in considerable part by the community in which he grows up. Furthermore, the interaction between preferences and achievement is extremely complex. At one extreme there is Schumacher's Buddhist economics, in which if you don't like it you lump it and if the world around us is not to our heart's desire we bring our heart's desire closer to the

world rather than bringing the world closer to our heart's desire. At the other extreme is economic man, who never changes his desires but always tries to satisfy them as well as his resources allow. Most people lie somewhere between these extremes, and the choice between modifying preferences or modifying the world involves a very complex interactive process in which failure and success both modify preferences and spur to effort.

Veblen, of course, is particularly pungent in his criticism of a *priori* preference and simple maximizing behavior. The whole concept of conspicuous consumption brings home the symbolic nature of many economic goods and the importance of the cultural context of individual preference. After reading Veblen one never quite sees a Victorian mansion, a collegiate Gothic campus or a Palladian statehouse in quite the same light. Oddly enough, in both Veblen and in his successor, Clarence Ayres, there is a curious underlying denial of the reality of symbols in spite of the fact that they are so keenly aware of their importance. They sometimes seem to argue that if only they point out that certain things are symbols they will go away, without recognizing sufficiently that symbols are an essential part of the learning and socialization process, and that physiological and material needs are only the bare foundation on which we erect the images, fantasies and symbols which are the real stuff of human life and society. It is odd that in spite of the desire of the institutionalists to expand economics beyond the narrow boundaries of what Jevons called the "mechanics of utility and self-interest," they always use the term "ceremonial" as a term of reproach, without recognizing that ceremony is the end to which most economic goods are the means. We want to be rich precisely because we can then indulge in ceremonial activities which otherwise we could not afford.

At the other end of the scale we have Veblen's concept of "the instinct of workmanship," which is, as it were, the virtuous elder brother in the parable of which conspicuous consumption is the prodigal son. One can see a great deal of Veblenian economics as a matter of fact as an extension of the parable of the prodigal son, and an attempt to persuade the prodigal to return to the solid puritan and Norwegian virtues of engineering and the family farm. The character of the uncomfortable and ambivalent prodigal, indeed, characterized Veblen's personal life with distressing accuracy. In the concept of the instinct of workmanship, Veblen is quarreling with the simplistic view that labor is a mere discommodity which has to be paid for in wages, and he argues quite rightly that human activity of all types is a mixture of positive and negative values. It is absurd to assume that there are some activities which we call work which are simply unpleasant and which we, therefore, have to be bribed to perform, and other activities such as leisure or consumption which are wholly agreeable and we are willing to sacrifice or spend in order to enjoy.

One should not be bothered too much by the word "instinct," which is extremely unfashionable today. Veblen after all lived in the day of an instinct psychology which is now largely discarded. He certainly does not mean by "instinct" a purely genetic or genetically-produced structure of knowledge and preferences, such as birds have. We could just as well call the "instinct of workmanship" a "workmanly bent," like the parental bent, or a "drive" in the currently fashionable language. He would certainly agree that whatever preferences we have in the satisfaction of the workmanlike behavior are mainly learned and derived from the environment around us, much more than they are derived from any genetically-formed structures of the human nervous system. The view of human activity which regards work as simply a disutility is hopelessly inadequate. The human organism is in a constant state of activity even in sleep. Every person has twenty-four hours a day of inescapable activity to mold. Some of this activity we value for its own sake, some we value because of its products, but all activity is a mixture of these two values. Work, then, is done both for its own

sake and for the sake of its products. The theory that work is simply a disutility is clearly unrealistic.

Veblen's other great concept, that of the importance of idle curiosity, is a reflection of the same great insight that an organism is continuously active. Science is indeed the result of a happy combination of idle curiosity and the instinct of workmanship. It is not simply the result of problem-solving in the interests of production, although this too plays a part. There does seem to be in the human makeup a preference for learning for its own sake. This may be a reflection of the evolutionary principle that any system which does not put a value on its own potential will tend not to realize it, and the potential will be wasted in not being realized. By some obscure process of selection the human nervous system was developed with an enormous potential for knowledge structuring. It is by no means surprising, therefore, that the selective processes which produced this also produced a genetic bent or drive toward realizing this potential.

The fourth great complaint of the institutionalists is closely related to the third. It is that orthodox economics did not give adequate recognition to the role of social organizations and institutions in the formation of not only human behavior but of the whole economic activity in the production, consumption and exchange of commodities. I have not had time to discover who called the institutionalists institutionalists or why they adopted this name. It is interesting that the economists who regard themselves as the successors of the institutionalists and carry on their tradition call themselves the Association for Evolutionary Economics. It seems to have been felt that the name institutionalism was an inadequate description of what this movement was all about. The name "institutionalism" is particularly associated with John R. Commons, but I do not know whether he originated it. Perhaps the fact that his book on institutional economics is so unreadable gave the term a bad name.

One can identify a certain division of labor among the major institutional economists, with Veblen perhaps specializing in the critique of the psychology of human behavior, Mitchell stressing the necessity for empirical, quantitative data collection, and Commons specializing in the study of organization and institutional behavior. Commons, unfortunately, never seemed to connect explicitly his interest in organizational and institutional behavior with Veblen's interest in evolutionary theory, but there is clearly a link. Perhaps the most significant aspect of Commons' critique of orthodox economics is that orthodoxy concentrated too heavily on those human artifacts which constitute the world of commodities — shoes, ships, sealing wax and cabbages — that it neglected those other human artifacts, of which kings are an example, consisting of organizations, roles and personalities. A kingdom, a corporation, a church, a trade union, a lodge, a boy's club are as much human artifacts as are palaces, machines, overcoats or TV dinners. But furthermore the king himself, the vice president, the prime minister, the office boy, the barber are also in large part human artifacts. Their skills, knowledge, habits, goals, performances are largely the creation of a learning process resulting partly from inputs of information from outside and partly from the enormous churning informational activity of the human organism itself. We are all artifacts, produced partly by ourselves but in large part by others. Traditional economics tends to miss this and Commons' institutionalism was a useful correction.

For Commons, organizational behavior is not simply the sum of individual behavior. It is itself a construct and an artifact. Working rules which govern organizational behavior and interaction are likewise themselves artifacts. Human society is not just a pool game of cannonading billiard balls. It involves clusters which have properties beyond those of the individual members of the cluster. It involves vast spiderwebs of interconnections and interrelations which are just as

real as the things which they connect and relate. The atomistic interaction of perfect competition is everywhere modified — by organization, by bargaining, by putting up and pulling down of fences and obstacles in a vast network of inter-related organizations and structures. That this is a valid criticism of the undue simplicities of, say, the Walrasian economics can hardly be denied, although it may still be very useful intellectually to contemplate the extreme case of perfect competition as a first approximation model.

The fifth great complaint of the institutionalists, again related to all the others, is a lack of attention paid in orthodox economics to the existence of community as a network of relationships and identities which profoundly modifies the mere atomistic interaction of individuals in exchange. The family, of course, represents a first great modification of individualism. This is Veblen's "parental bent" — parents identify with their children and children with their parents. Interactions within the family are not merely those of exchange, although they often are those of reciprocity. The parent, however, who plants a tree that only the children will live to see mature denies the principle of pure individualism. In the family the welfare of one is up to a point the welfare of all. There is benevolence; there is interdependence of utility functions in which *A*'s perception of *B*'s welfare is part of *A*'s welfare function, in the sense that *A* feels better off if he sees that *B* is better off. Benevolence extends beyond the biological family. Blood may be thicker than water, but taxes are a bit thick too. Orthodox economists recognize this, of course, in their discussions of public finance, and more recently in the discussion of public goods, though what creates the existence of the public is still something of a mystery.

We could perhaps sum up all these points in a sixth. This is the criticism that orthodox economics carves out a rather arbitrary piece of the total social system and studies it without sufficient relationship with the other parts. The division of the social system among the various social sciences of economics, sociology, political science, psychology and anthropology is perhaps an accident of intellectual history. It is by no means wholly arbitrary. The social system, however is very much of a unity and we cannot really understand any one part of it without understanding the other parts. One can defend the individual disciplines on the basis of convenience and on the grounds that they do study reasonable subsets of the total system. The overlaps between them, however, are so large that it is only as the individual disciplines become seen as parts of a larger social science which encompasses them all that the abstractions which each of them represent can be integrated into a larger reality.

One can argue indeed that in some respects the division of the field among the different social sciences had certain ill effects, in that the aspects of particular problems which involve more than one discipline have been neglected. Sociologists neglect the economic aspects of their studies, economists the sociological and political, and so on. Also, there seem to be certain interstitial areas which are neglected by everybody, like the sociology of markets, the political science of labor unions, the economics of the church, and so on. Perhaps the most unfortunate result of the division of the social sciences into separate disciplines has been the tendency to divide the study of particular institutions among these different disciplines so that only economists study firms, only political scientists the state, the only sociologists the family, when all institutions have both economic, sociological and political aspects. Institutionalists did not succeed in producing a unified social science but they certainly made greater attempts in this direction than orthodox economics had ever done.

In the light of this rather sketchy discussion it is interesting to go back to Adam Smith to see how far he might be reckoned an institutional economist in the light of these six characteristics. I would hesitate to claim that Adam Smith is

the father of institutional economics, but on all of the six characteristics one can claim that he made important contributions or at least was well aware of the problems involved and that he is certainly closer to being an institutionalist economist than he is to being an orthodox economist of the twentieth century. He is closer in spirit, one could say, to Veblen, Commons and Mitchell than to the textbook writers of the 1900s. A little problem here is that the really good orthodox economists were not all that orthodox. Marshall, like Adam Smith, has good claims to being an institutional economist. So, even, does John Bates Clark. These men were very conscious that their models were only a small part of the truth and that they represented attempts to compose a sketch map of a very rich and heterogeneous environment. The really great writers always transcend the labels that people try to put on them.

The first criterion of institutionalism is concerned with the empirical base of economics. On this point Adam Smith scores well in the light of the techniques and circumstances of his time. One of the first major time series, that of the price of wheat over several centuries, is in *THE WEALTH OF NATIONS*. Adam Smith was extremely well read in world history. He certainly cannot be blamed for not knowing much about statistics or survey research, which had not yet been invented, but he had rich illustrative material and obviously kept his eyes and ears open and exhibited an insatiable curiosity about the world throughout his life. In that his contact with the empirical base was somewhat informal and he might be accused of casual empiricism, it is still empiricism. One wonders sometimes indeed whether the refinements of data collection and analysis such as we have today have added very much to the insight of people like Adam Smith and deTocqueville, who seemed to be able to use their minds to perceive what was essential in the empirical world without any great elaboration of method. In no sense certainly was Adam Smith a mere theory spinner, although he was interested in those necessary abstractions without which the empirical world is just a great big buzzing confusion of noise.

On the second point, the necessity for a dynamic and evolutionary economics, Adam Smith again I think scores high. His great work is *AN INQUIRY INTO THE NATURE AND CAUSES OF THE WEALTH OF NATIONS*, "nature" being what subset of the universe are we looking at, and "causes" being how did it get the way it is at any one time. The dynamic evolutionary approach indeed dominates the whole thought of *THE WEALTH OF NATIONS*. It is true that the theory of natural price is essentially an equilibrium theory. This is no more a denial of constant evolutionary change, however, than the principle of homeostasis in biology is a denial of evolution. Natural prices are equilibrium processes in the middle of evolutionary change. The structure of relative natural prices, for instance, is constantly changing with the extension of the division of labor, through relative changes in productivity, the development of new techniques, and so on. Adam Smith is always talking about what happens "in the progress of society." He spreads human history before us as a process of constant economic change, in which the population grows or declines, capital accumulates or decays, knowledge increases or declines, as institutions and policies foster one or the other. There may be some stationary state at the end of it all in which everything simply reproduces itself, but it seemed a long way off to Adam Smith in thriving Europe, even if it might have been approximated in China. If he had indeed entitled the work "Measures and Changes in the Wealth of Nations," it would not have been inappropriate.

On the third point, the matter of individualistic psychology, again for his time I will give Adam Smith very high marks. It is true, of course, that the seeds of the theory of maximizing behavior are in *THE WEALTH OF NATIONS*. Adam Smith certainly thinks that people do what they think is best at the time. What is "best,"

however, may include benevolence and moral sentiments as well as the most outrageously selfish of motivations. While it is not the benevolence of the butcher and the baker that provides us with meat and bread, it does not mean that the butcher and the baker cannot be benevolent. In *THE THEORY OF MORAL SENTIMENTS*, indeed, a work in some ways more profound than *THE WEALTH OF NATIONS*, though one which has had much less in the way of intellectual progeny, Adam Smith was very specific about the way in which sentiments are learned, and also about the way they are frequently overruled by the large and complex circumstances of society. The "invisible hand," indeed, first appears in *THE THEORY OF MORAL SENTIMENTS* as an explanation as to why there are limits on concentrations of wealth and power posed by the sheer physiological limitations of the human organism. The Highland chief may own all the food of the clan, but he cannot eat more than his stomach will hold, so he has to distribute it among his dependents.

Adam Smith, more than any of his successors, is sensitive to the enormous importance of the learning process in the dynamics of human society. His explanation, for instance, of how the division of labor increases productivity in the very first chapter of *THE WEALTH OF NATIONS* depends fundamentally on a learning process. The increase in dexterity, as a particular task is constantly pursued, is a learning process in the lower nervous system. The saving of time which is commonly lost in passing from one species of work to another is a minor element, but it implies also that we save time by not having to relearn each new operation that we start up. The third, and by far the most important, source of increase in productivity is the development of machines. This is quite clearly a learning process. It happens partly through processes of "workmanship," in Veblen's terms, in which the people who practice particular occupations think of ways of improving the operation and think of machines and devices which will assist them.

But most important of all is what happens when the learning process becomes specialized. Then knowledge, and therefore productivity, increases still more rapidly. "Many improvements have been made by the ingenuity of the makers of the machines, when to make them became the business of a peculiar trade; and some by that of those who are called philosophers or men of speculation, whose trade it is not to do any thing, but to observe everything; and who, upon that account, are often capable of combining together the powers of the most distant and dissimilar objects."¹ He then goes on to say how philosophers themselves specialize so that "Each individual becomes more expert in his own peculiar branch, more work is done upon the whole, and the quantity of science is considerably increased by it."² That the "quantity of science" is an essential element in increasing productivity is a remarkable insight at so early a period when the impact of science on the economy had hardly begun.

It is not too much to credit Adam Smith with the concept of conspicuous consumption. It is not insignificant, for instance, that when he wants to illustrate the effects of change in demand he uses a public mourning as an example³ of as good an instance of ceremony, fashion and conspicuous waste as Veblen could have desired. The statement on page 12 is pure Veblen: "With the greater part of rich people, the chief enjoyment of riches consists in the parade of riches, which in their eye is never so complete as when they appear to possess those decisive

¹Adam Smith, *THE WEALTH OF NATIONS* (Modern Library Edition), p. 10.

²Ibid.

³Ibid., p. 59

marks of opulence which nobody can possess but themselves." When it comes to the effect of the division of labor on the personality Adam Smith can hardly be bettered. The great attack on the division of labor,⁴ discussing the necessity of public supported education, deserves to be quoted in full:

In the progress of the division of labour, the employment of the far greater part of those who live by labour, that is, of the great body of the people, comes to be confined to a few very simple operations, frequently to one or two. But the understandings of the greater part of men are necessarily formed by their ordinary employments. The man whose whole life is spent in performing a few simple operations, of which the effects too are, perhaps, always the same, or very nearly the same, has no occasion to exert his understanding, or to exercise his invention in finding out expedients for removing difficulties which never occur. He naturally loses, therefore, the habit of such exertion, and generally becomes as stupid and ignorant as it is possible for a human creature to become. The torpor of his mind renders him, not only incapable of relishing or bearing a part in any rational conversation, but of conceiving any generous, noble, or tender sentiment, and consequently of forming any just judgment concerning many even of the ordinary duties of private life. Of the great and extensive interests of his country he is altogether incapable of judging; and unless very particular pains have been taken to render him otherwise, he is equally incapable of defending his country in war. The uniformity of his stationary life naturally corrupts the courage of his mind, and makes him regard with abhorrence the irregular, uncertain, and adventurous life of a soldier. It corrupts even the activity of his body, and renders him incapable of exerting his strength with vigour and perseverance, in any other employment than that to which he has been bred. His dexterity at his own particular trade seems, in this manner, to be acquired at the expense of his intellectual, social, and martial virtues. But in every improved and civilized society this is the state into which the labouring poor, that is, the great body of the people, must necessarily fall, unless government takes some pains to prevent it.

One could hardly get a better exposition of the dangers of alienation and of the corruption of that most important of all human artifacts, the human person, by the unrestrained division of labor. It is quite clear that this is a point at which natural liberty did not produce optimum results. The reduction of everything to a commodity is likely to be corrupting to that most important of all processes of production in society, the production of human beings of high quality. The freedom to degrade oneself is an unnatural liberty and one against which it is entirely legitimate for society to take measures. This is not quite what Veblen means by the "instinct of workmanship"; it is perhaps what he should have meant by it. There is no implication in Adam Smith that the preferences of individuals are straight from heaven and are no concern of society, and there is clear recognition that these preferences are formed in the total social progress. On this score I would certainly count Adam Smith as an institutional economist.

On the fourth question, as to the necessity of taking explicit account of the role of institutions and organizations in society, again, for his time, one would give Adam Smith high marks. It is true that he did not think much of the future of the corporation as he was very much of the organizational diseconomies of scale. We must not blame Adam Smith, however, for not anticipating the rise of the large corporation and its counterpart, the socialist state. Under the technical cir-

⁴Ibid., pp. 734-735

cumstances of his day, his dim view of the efficiency of large organizations is entirely justified. The corporation indeed can easily become a "tragedy of the commons" in which everybody's business is nobody's business and in which corruption and inefficiency are therefore likely to be unchecked. Smith's experience at Oxford suggested to him that what today we would call producers cooperatives, which is the essential form of the organization of the Oxford and Cambridge colleges, almost inevitably produced a dynamic of corruption and incompetence. The Oxford of his day, of which he said "The greater part of the public professors have, for these many years, given up altogether even the pretense of teaching,"⁵ certainly colored his views on the inefficiency of subsidized collectives. He would not have been at all surprised by the inefficiency of collective farms. He could not have anticipated, of course, the organizational revolution, as I have called it, of the 1870s and later which was the result of a remarkable improvement in communication and in the skills of organization itself — the telephone, the professionalization of management, the development of information processing systems of all kinds, and so on.

Adam Smith, however, in no sense saw the world as a collection of atomistically interesting individuals. In spite of the fact that the organizational revolution was still a long way off in 1776, he was well aware of the importance of organizations and of the fact that they have both an internal dynamic of their own and that they interact with each other. He is aware also of the importance of informational institutions. His remarks, for instance, on the tacit relations of employers are entirely worthy of an institutional economist: "We rarely hear, it has been said, of the combinations of masters, though frequently of those of workmen. But whoever imagines, upon this account, that masters rarely combine, is as ignorant of the world as the subject. Masters are always and every where in a sort of tacit, but constant and uniform combination, not to raise the wages of labour above their actual rate."⁶ Collective bargaining in the formal sense had barely risen above the horizon in Adam Smith's day, but he was by no means unaware of the potentials of the phenomenon. I am sure he would have liked John R. Commons.

On the fifth point, the theory of community, *THE WEALTH OF NATIONS* does not perhaps have a great deal to say, but *THE THEORY OF MORAL SENTIMENTS* may yet turn out to be the seminal work of a whole theory of integrative systems. Some things one is sure are not in *THE WEALTH OF NATIONS* because Adam Smith thought he had dealt with them thoroughly in his previous work, so on the whole *THE WEALTH OF NATIONS* does take the sense of community for granted. But this does not mean that Adam Smith was unaware of the nature of the problem, and of the extraordinarily subtle interactions by which the sense of community grows or declines and is integrated into the technical and institutional framework of the larger system. The famous "invisible hand" appears first indeed in *THE THEORY OF MORAL SENTIMENTS* in a very different context from that of *THE WEALTH OF NATIONS*. In *THE WEALTH OF NATIONS* the "invisible hand" is the mechanism by which exchange and the price system operate to satisfy a wide variety of individual desires about which we do not have to agree, and so establishes, as it were, an invisible community of which no one is aware, but which nevertheless operates to distribute resources according to the demand for their products. In *THE THEORY OF MORAL SENTIMENTS* the "invisible hand" is that which forces the Highland chieftain to distribute the food and other necessities over which he has in theory absolute control, with relative equality among all the members of the clan, simply because of the limitations of the chief's stomach and the necessities of the stomachs of his followers. Here there is no

⁵Ibid., p. 78

⁶Ibid., pp. 66-67

market, only community, and yet the principle of the "invisible hand" still holds. In many ways the extraordinary insights of THE THEORY OF MORAL SENTIMENTS still await translation into the language of modern social science.

In regard to the sixth point, the necessity for a general social science, there is no doubt that Adam Smith is one of its principal progenitors. In political science, of course, he stands rather in the middle rather than at the beginning of the long line of political thought that goes back to Hume, Locke, Hobbes, and even to Aristotle, and forward to the observers and theorists of democracy, de Tocqueville, John Stuart Mill and Sir Henry Maine, and to modern political economists like Anthony Downs, James Buchanan and Gordon Tullock. His contributions to political theory consist mainly in the discussions scattered throughout THE WEALTH OF NATIONS of the various political limitations on the general doctrine of natural liberty. Adam Smith was no anarchist. He recognized that government has certain inescapable functions. His canons on taxation are still highly relevant, but he is much more interested in what government does rather than in how it is constituted and organized. One can see him nodding at least mild approval at Alexander Pope's famous lines:

For forms of government let fools contest;
Whate'er is best administer'd is best."⁷

Although sociology had not really been invented in 1776 as a discipline, Adam Smith has strong claims for being a pioneer sociologist. His observations on the sociology of religion and education, justice and defense, in Book V are to my mind still unexcelled.

Psychology as a discipline, likewise, was nearly a hundred years off in 1776. In psychology Adam Smith is very much the eighteenth century philosopher. He may well have started the economists' habit of rolling their own psychology, however, and his view of human behavior as consisting of balancing all the many subtle advantages and disadvantages of different courses of action both monetary and nonmonetary and moving toward what is judged to be the overall most advantageous, has survived in economics to this day under the heading of theory of maximizing behavior. As a formal theory it is still very good.

Most of all, of course, Adam Smith is a political economist. At the same time that he saw the extraordinary power of exchange as a social organizer, he also saw both the limitations of and the necessity for political institutions. Government not only should permit the beneficial effects of liberty to flower by not burdening itself with unnecessary duties, but it also has an obligation to check the excesses of natural liberty and see that it does not produce defective monetary systems, defective public goods or defective human beings. Most economists perhaps today would want to go a little further in the direction of government intervention in economic life than Adam Smith would have gone because of the greater complexities of the society in which we live. But the principles which he formulated remain as fresh and valid today as they were two hundred years ago. He is indeed an Adam who may occasionally have tripped, but who never really fell, a man to whom we shall return time and again for fresh insights and inspirations. I have gone back to THE WEALTH OF NATIONS many times in my life; I have never returned to it without finding new insights and a constant sense of surprise that a humble and gentle philosopher should have known so much about what the world is like.

⁷Alexander Pope, "Essay on Man" Epistle iii, lines 289-299.

*The Frank E. Seidman
Distinguished Award In Political Economy*

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Dear Colleague:

We are pleased to send you this pamphlet reprinting the Acceptance Paper of Kenneth Ewart Boulding upon receiving the 1976 Frank E. Seidman Award in Political Economy.

On the first page of the pamphlet is expanded information on the Award which has been in existence since 1974. Previous recipients have been Gunnar Myrdal in 1974 and John Kenneth Galbraith in 1975.

The Award was given to Dr. Boulding "in recognition of your distinguished contributions to the literature and advancement of political economy as a multiform science, consisting of social, mathematical, and moral varieties, among others; for your keen and innovative analysis of contemporary economic life, its complex problems, issues and plans for progress; for your significant reflections, pertinent to political economic policy, on the diverse value judgments in economics and on the contrast between economic values and human values; for your profound critique of the economy of love and fear, integrated with modern theoretical and empirical economy, along with your envisioned impact therefrom upon mankind's destiny.

"The Award also honors you as a person devoted to humane ideals, serving to uplift the total culture, as well as the political economic level of all sorts and conditions of people everywhere to enjoy."

Sincerely,



Mel G. Grinspan
Director