

Historical Thinking in Adam Smith: the rise of the age of capital

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Adam Smith is usually seen not as a historian. His contribution to historiography, however, has been studied. Ronald L. Meek insisted that (as well as Turgot) Smith created four stages theory, in which society progresses from hunters' through pastoral, agricultural, to commercial societies.¹ While Peter Stein supposed that this theory was used by the Scottish Enlightenment thinkers relatively rarely,² Christophe J. Berry contended that the theory did not necessarily mean progressivism.³ Many scholars⁴ continued to accept the theory as one of the chief frameworks in Smith's historiography.⁵ For instance, J. G. A. Pocock suggested that although Pocock saw Smith's stadial theory not as a progressive history but as a heuristic device to understand human diversity, Smith did not systematically write any comprehensive, philosophical or conjectural history, his four stage theory contributed to it as the natural history of society.⁶

The acceptance is what Paul Sagar called the 'standard model'; first, the theory is 'a conjectural history', philosophically considered historiography which was seen in some other Enlightenment thinkers such as Lord Kames, William Robertson; second, he also

¹ Ronald L. Meek, *Social Science and Ignoble Savage*, Cambridge and New York: Cambridge U. P. 1976. Although Istvan Hont saw Pufendorf as a precursor of the theory (Istvan Hont. 'The language of sociability and commerce: Samuel Pufendorf and the theoretical foundations of the "Four Stages Theory."', In *Jealousy of trade: international competition and the nation-state in historical perspective*. Cambridge and London: The Belknap Press of Harvard U. P. 2005), Christopher J. Berry denied this because Pufendorf did not explicitly have the theory (Christopher J Berry. *The Idea of Commercial Society in the Scottish Enlightenment*. Edinburgh: Edinburgh U. P. 2013, 43).

² Peter Stein, 'The Four Stages Theory of the Development of Societies', in P. Stein, *The Character and Influence of the Roman Civil Law*, London: The Hambledon Press 1988, 400.

³ Berry, *Commercial Society*, 48. On the nuanced interpretation of Smith's four stages theory, see also Daniel Rasmussen, *The Problems and Promise of Commercial Society: Adam Smith's Response to Rousseau*, University Park: Pennsylvania State U. P. 2008; Eric Schliesser, *Adam Smith: Systematic Philosopher and Public Thinker*, Oxford: Oxford U. P., 2017; Jerry Evensky, *Adam Smith's Moral Philosophy*, Cambridge: Cambridge U. P. 2005.

⁴ For instance, A. S. Skinner. 'A Scottish contribution to Marxist sociology?' in Ian Bradley and Michael Howard (eds.), *Classical and Marxian Political Economy: essays in honour of Ronald L. Meek* (London and Basingstole: Macmillan, 1982); Richard B. Sher. 'From Troglodytes to Americans: Montesquieu and the Scottish Enlightenment on Liberty, Virtue, and Commerce' in David Wootton (ed.), *Republicanism, Liberty, and Commercial Society, 1649-1776* (Stanford: Stanford U. P., 1994).

⁵ On this point, see Paul Sagar, *Adam Smith Reconsidered: History, Liberty, and the Foundations of Modern Politics*, Princeton and Oxford: Oxford U. P. 2022, 14-15 (no. 6). Silvia Sebastiani also reconsidered the theory (Sebastiani, Silvia, *The Scottish Enlightenment: Race, Gender, and the Limits of Progress*, trans. by Jerermy Carden, New York: Palgrave Macmillan, 2013, 45ff.

⁶ J. G. A. Pocock, *Barbarism and Religion, vol. 2: Narratives of Civil Government*, Cambridge: Cambridge U. P. 1999, 309-315.

maintained that the theory is 'intended to correlate to, and help explain, all real historical periods of human political and economic development; third, 'the fourth, and final, stage of economic development is "commercial society," and the four stages theory is intended by Smith to help explain how European modernity, in particular, has arrived at this most advanced point of development'.⁷

Sagar refuted the model; first, the theory is 'most usefully thought of not as a conjectural history; second, 'only the first two stage of society of Smith's model widely correlate to any observable real human histories; after that, everything depends on contingent historical development that the model cannot, and does not attempt to predict'; third, the fourth stage of the model ('commercial age') was not the same with 'commercial society'.⁸

I will refute Sagar's opinion. On the first point of Sagar's, Smith did not know the term of conjectural history. Conjectural history was the term Dugald Stewart came to use in describing the stadial theory.⁹ However, it seemed anachronistic to ask whether Smith's thought (especially his jurisprudence) fit for the theory, which he did not explicitly write. As I argue below, Smith had his idea of history, which could explain both the four stages theory and actual, descriptive histories.

I cannot entirely agree with Sagar's second refutation; although the stadial theory was not a universal theory of development in precise, it was one of the historiographical devices Smith used. The third point needs to be clarified the problem of terminology with actual usage of the fourth stage. Indeed, 'commercial age' was not the same term as 'commercial society' in nominal terms, but implicitly or logically, Smith used the forth commercial society even when he did not adopt the term 'commercial society.'

On this point, Maria Pia Paganelli also suggested that the theory did not fit for Smith's description of each society.¹⁰ I agree with this. Beyond the point, if we admitted Sagar's claim of Smith's stadial theory, it would have suggested that Smith's historiography was an anomaly because it included so many exceptions to his stadial history. Smith, who loved systematic explanation of events, seemed unlikely to be satisfied by leaving historiography irregular. I would like to argue that Smith had his idea of historiography, which could make clear the problem.

⁷ Sagar, *Adam Smith Reconsidered*, 15-16.

⁸ Sagar, *Smith Reconsidered*, 16.

⁹ Dugald Stewart, 'Account of the Life and Writings of Adam Smith, LL. D,' in Adam Smith, *Essays on Philosophical Subjects*, ed. by W. P. D. Wightman and J. C. Bryce, Oxford; Oxford U. P. 1976, 234.

¹⁰ Maria Pia Paganelli, 'Adam Smith and Economic Development in Theory and Practice: a Rejection of the Stadial Model?,' *Journal of the History of Economic Thought*, 44 (1), 95-104.

By clarifying the point, I shall argue that the four stages theory was not the sole historiographical method Smith had; indeed, Smith had at least another stadial theory. Certainly, Smith adopted various historiographical methods, but I will focus on this second stadial theory.

That theory was his explanation of the history of the accumulation of capital. When Smith examined the historical development of society, he used not only the four stage theory but also the historical development of the usage of capital. This process differed from the four stages theory and its fourth stage of commercial society. Whereas commercial society was based on the division of labor, the history of capital narrated different processes.

The latter history was related to the rise of the idea of capitalism. On this point, Sagar was right in that using the term 'capitalism' for Smith's concept of society was anachronistic.¹¹ Michael Sonenscher appropriately distinguished the idea of commercial society from that of capitalism. Unlike the former, the latter was not based on the division of labor and markets. Capitalism 'began as a term that was used to refer to the private ownership of capital.'¹² It came to be used in the 1830's, during which, the French word *capitalisme* 'drew attention to commercial competition and to the inequality,' but, unlike the usage, also involved public debt and international trade.¹³ Anyway, Smith did not use the term capitalism. However, Smith influenced David Ricardo, Karl Marx, and other political economists, who contributed to establishing the idea of capitalist society. Smith had what was later called capitalism in his mind. Indeed, he did not explicitly mention the capitalist society. He, nonetheless, made transparent the process of the accumulation and movement of capital, which was different from the four stages theory and commercial society.

This process was worth investigating. First, it was significant for understanding the difference between commercial society and capitalism. Although Smith was normally seen as a person whose social view centered on commercial society, the society constituted only one aspect. Capital was another important factor of society that differed from commercial society. This unique process of capital contributed to the later development of the idea of capital.

Second, Smith's idea of capital and its history was different from the later usage as

¹¹ Sagar, *Smith Reconsidered*, 11. About this anachronistic confusion, see, *Ibid* (no. 1). About the recent reevaluation of Smith's capitalism, see Daniel Diatkine, *Adam Smith and the Wealth of Nations: the Discovery of Capitalism and its Limits*, Cham: Palgrave Macmillan, 2021.

¹² Michael Sonenscher, *Capitalism: the Story behind the Word*, Princeton and Oxford: Princeton U. P. 2022., 8-9, 168.

¹³ *Ibid.*, 37-38.

the private ownership of capital. Indeed, to use the word capital, He also considered the problem of ownership. He, nevertheless, also paid attention to dominion, or the capital's function to subject people. In this sense, capital had social and political implications. Smith's usage of capital was important for seeing its original meaning. Capital, for him, was not the sphere in which the economy determined other factors, but the products of the political and social relationships of people, which also influenced economy.

Third, examining how Smith developed the history of capital was essential for understanding the rise of political economy in Smith. In the early writings such as *The Theory of Moral Sentiments*, *Lectures on Jurisprudence*, and other writings, Smith wrote less on capital. It was only after the publication of his *Wealth of Nations* that he came to use the term of capital extensively. Its usage was relevant to the rise of political economy.

To clarify Smith's view of history and its resultant idea of the history of capital, I shall make clear the idea of history in Smith (Section I), his history of capital (Section II).

I. History in Smith

In his *Lectures on Rhetoric and Belles Lettres* (1762-63), Smith investigated historiography. Although this lecture note has been researched,¹⁴ its relationship with his historiography has not been sufficiently examined. Indeed, Pocock investigated the lecture note, and insisted that his philosophical or conjectural history was at odds with the view of history in the lecture note, which he saw as significant historiographical narratives or descriptions of what happened.¹⁵ Following Arnold Momigliano, Pocock saw a philosophical or conjectural history that combined the previous ways of historiography, such as narrative and erudition with philosophy. This combination was the historiographical achievement that Smith had not yet completed but contributed to.¹⁶ As this section argues, Smith himself had his vision of historiography which could explain both narratives and 'philosophical' history.

¹⁴ Wilbur Samuel Howell, *Eighteenth-Century British Logic and Rhetoric*, Princeton: Princeton U. P. 1971; V. M. Bevilacqua, 'Adam Smith's *Lectures on Rhetoric and Belles Lettres*,' *Studies in Scottish Literature*, 2, 1965; *Idem*, 'Adam Smith and some Philosophical Origins of Eighteenth Century Rhetorical Theory,' *Modern Language Review*, 63, 1968; James L. Gordon, 'The Rhetorical Theory of Adam Smith,' *Southern Speech Journal*, 33 (3), 1968; J. C. Bryce, 'Introduction,' in Adam Smith, *Lectures on Rhetoric and Belles Lettres*, Oxford: Oxford U. P. 1983; Stephen McKenna, *Adam Smith: the Rhetoric of Propriety*, Albany: State University of New York Press, 2006; *Idem*, 'Adam Smith and Rhetoric,' in Ryan Patrick Hanley (ed.), *Adam Smith: his Life, Thought, and Legacy*, Princeton and Oxford: Princeton U. P. 2016.

¹⁵ Pocock, *Barbarism and Religion*, Vol. 2, 326-327.

¹⁶ *Ibid.*, 7, Chap. 20.

At first sight, Pocock seemed to be right. Indeed, Smith said, 'The orator and historian are indeed in very different circumstances. The business of the one [historian] is barely to narrate the facts which are often very distant from his time and in which he is, or ought to be and endeavours to appear, noways interested. The Orator again treats of subjects he or his friends are nearly concerned.'¹⁷ Unlike Pocock's view of Smith's historiography as narratives, the meaning of narratives here was different from those in a modern sense.

Unlike the modern sense, the narratives here were in opposition to other styles of writing. He said, unlike 'Rhetorical Stile' to 'persuade at all events, and for this purpose adduce those arguments that make for the side we have espoused[...]. But when we narrate transactions as they happened without being inclined to any party, we write in the narrative Stile.'¹⁸ It implies that the task of a historian is to narrate events without partiality.

The narration was not necessarily a simple description of events. It also included consideration of the causes and effects of events. He said,

The design of historical writing is not merely to entertain; (this perhaps is the intention of an epic poem) besides that it has in view the instruction of the reader. It sets before us the more interesting and important events of human life, points out the causes by which these events were brought about and by this means points out to us by what manner and method we may produce similar good effects or avoid similar bad ones.¹⁹

It suggests that historian's narratives contain the examination of causes and effects. What was seen as 'the most interesting and important' of events are 'such as have contributed to great revolutions and changes in States and Government.' Among them, 'design and contrivance' is what chiefly interests us, and the more of this we conceive to be in any transaction the more we are concerned in it.²⁰

Here, Smith found out the differences between different causes. He pointed out 'the difference between the external causes which directly produced' an event, and 'the

¹⁷ Smith, *Rhetoric*, i. 81.

¹⁸ *Ibid.*, ii. 13-14.

¹⁹ *Ibid.*, ii. 16-17.

²⁰ *Ibid.*, ii. 15.

internall ones, that is those causes that 'tho' they no way affected the event yet had an influence on the minds of the chief actors so as to alter their conduct from what it would otherwise have been.' Whereas those 'who have been engaged in the transactions they relate or others of the same Sort, generally dwell on those of the first Sort.' On the contrary, those who did not do so 'but have made enquiries into the nature of the human mind and the severall passions, endeavour by means of the circumstances that would influence them, to account for the fate of battles and other events, which they could not have done by those causes that immediately determine them.'²¹ It means that Smith thought that when narrating an event, historians who did not engage in it were required to research its causes; to do so, they needed to study human nature, and should discover what mentality or human nature influenced it. This analysis required philosophical thinking or conjecture, although Smith himself saw even this as included narrating an event. In this sense, unlike Pocock's argument, historical narratives for Smith had philosophical or conjectural history. Unlike Sagar's opinion, Smith's detailed, historical narratives did not contradict his stadial theory. In his mind, both are different ways of narrating events.

Smith then distinguished different ways of historically considering causes and effects. He wrote, 'If the events are very interesting they will so far attract our attention that we can not be satisfied unless we know something of the causes which brought them about. If these causes again be very important, we for the same reason require to have some account of the causes which produced them. But these need not be so accurately explained as the more immediate ones.'²² This was important for understanding the four stages theory. Whereas narrating a normal event requires a historian to point out only the immediate causes, important historical changes require narrating the causes of each different situation and analyzing the more remote, general causes that indirectly influenced the changes. Because the four stages theory pointed out the latter causes, it, at first sight, seemed conjectural or philosophical. However, in Smith's view, this was only some part of a historian's way of narrating an event.

Because the stadial theory, unlike the ordinary events, elucidated the remote causes and relevant to the general change of society, Smith saw the theory as necessary in historical narratives. He indeed said, 'Events as we before observed may be described either in a direct or indirect manner,' that is, mentioning only the immediate causes or also referring to the remote causes. He wrote, 'We observed that in most cases the indirect

²¹ *Ibid.*, ii. 22-23.

²² *Ibid.*, ii. 19.

method is much preferable, even when the objects were inanimate.¹²³

Here, Smith preferred the classical style of historical writings to the modern one because the latter ignored this principle. This 'has rendered the modern historians for the most part so full and so lifeless.'¹²⁴ Although Pocock saw that Smith did not abandon neo-classical narratives but confronted its gap with the modern historiography of government,¹²⁵ Smith himself did not adopt a classical style of history *per se*, but compared it with other ways of historiography, the latter of which included 'conjectural' history. For Smith's view, both required analyzing causes and effects, so they were not in contradiction.

The different historiographies Smith discerned were essential for understanding the historical nature of his system of jurisprudence, including his *Wealth of Nations*. Indeed, his jurisprudence was based on the theories on morality which expounded in *The Theory of Moral Sentiments*. There, Smith investigated the development of morality and social rules resulting from human relationships. Smith then saw morality as universal. He wrote, 'the influence of custom and fashion upon moral sentiments, is not altogether so great,'¹²⁶ although he also said, 'the different situation of different ages and countries are apt, in the same manner, to give different characters to the generality of those who live in them, and their sentiments concerning the particular degree of each quality, that is either blamable or praise-worthy, vary, according to that degree which is usual in their own country, and in their own times.'¹²⁷ Smith then examined the differences of main virtues between savage and civilized societies. It suggests that although civilization influenced the degree of moral sentiments, morality was universal.

On the other hand, his natural jurisprudence was more fully influenced by historical change. He said, 'I shall in another discourse endeavour to give an account of the general principles of law and government, and of the different revolutions they have undergone in the different ages and periods of society, not only in what concerns justice, but in what concerns police, revenue, and arms, and whatever else is the object of law. I shall not, therefore, at present, enter into further detail concerning the history of jurisprudence.'¹²⁸

²³ *Ibid.*, ii. 27.

²⁴ *Ibid.*, ii. 28.

²⁵ Pocock, *Barbarism and Religion*, vol. 2, 326.

²⁶ Adam Smith, *The Theory of Moral Sentiments*, ed. by D. D. Raphael and A. L. Macfie, Oxford: Oxford U. P., 1976, V. 2. 2.

²⁷ *Ibid.*, V. 2. 7.

²⁸ *Ibid.*, VII. iv. 37.

Indeed, in his *Lectures on Jurisprudence*, Smith investigated jurisprudence based not solely on general, theoretical principles, but also historical changes of laws and government. Smith then mentioned the four stage theory. However, Smith noted the sequence of the full four stages only rarely. In mentioning the development of property, he said the theory.²⁹ Although he mentioned different stages at various times, he rarely described the entire sequence of all four stages. In other parts, the *Lectures* were full of historical details, which could not be seen as the stadial theory.

Despite this, Smith mentioned the different stages when important historical changes occurred. Because the lectures were to teach students each different legal topic one by one, in explaining each different legal topic, Smith utilized other historiographies (Because historiography of the *Lectures* was a gigantic field of research, I would like to argue this more fully in another occasion, but here, I shall mention some tendencies of historiography in the *Lectures*). Especially in describing the particular detail of laws, Smith liked to refer to the immediate causes of it. For instance, in his analysis of the origins of marriage, he pointed out the inconveniences of polygamy and other causes, not mentioning the general, indirect and remote causes of monogamy.³⁰ On the other hand, when explaining the origins of property, he introduced the four stages theory. The origins and development of property rights were so important for Smith because the rights were the basis of the progress of society; he mentioned the indirect, remote, and general causes of the rights. He paid attention to the causes because 'in these several ages of society, laws and regulations with regard to property must be very different.' Smith illustrated this, and wrote, 'In Tartary, where as we said the support of the inhabitants consist <s> in herds and flocks, *theft* is punished with immediate death; in North America, again, where the age of hunters subsists, theft is not much regarded.'³¹ It suggests that the origins of property rights were so crucial for Smith that he pointed out the remote causes, such as the manners of subsistence, not only the immediate causes of property rights in each society (such as in Tartary). Beyond each different society, different cultures with the similar manners of subsistence shared a similar idea of property rights. This was the remote cause of property rights, but was essential for understanding it.

Accordingly, whereas in *The Theory of Moral Sentiments*, Smith saw morality and social rules as universal rather than historically various, in the *Lectures of Jurisprudence*,

²⁹ Adam Smith, *Lectures on Jurisprudence*, edited by R L, Meek, D. D. Raphael, and P. G. Stein, Oxford: Oxford U. P. 1978, i. 26ff (LJA); 150 (LJB).

³⁰ *Ibid.*(LJA), iii. 65ff.

³¹ *Ibid.*(LJA), i. 33.

he thought of laws and government as changeable over time rather than universal. Indeed, Smith thought of some laws as universal over time. Smith did not write the natural rights of people based on historical changes. Rather, it was universal. Smith then did not introduce history.³² Smith, nonetheless, thought of laws and the manners of government as changeable over time. Although, on the origins of property, he introduced the four stage theory, and, in some cases, such as the change of government, he did not regard the theory as the sole historiographical way of narrating the changes in society. His stadial theory was, indeed, conjectural, but Smith saw other historical narratives also as conjectural. His stadial theory was not unique in the sense of philosophical historiography. Every historiography requires conjecture.

This conjecture is also essential for seeing the development of the idea of capital accumulation, the process that led to what was later called capitalism.

II. Smith' historiography of capital

Because the *Wealth of Nations* was part of his jurisprudence, the work aimed at examining 'the general principles of law and government, and of the different revolutions they have undergone in the different ages and periods of society.' It included not only the general, universal economic theories but also their historical changes. Smith then adopted at least two stadial theories. Although scholars have examined Smith's idea of capital,³³ they did

³² *Ibid.* (LJA), i. 11ff.

³³ Haim. Barkai. "A formal outline of a Smithian growth model," *The Quarterly Journal of Economics*, 83 (3), 1969; Samuel Hollander. *The Economics of Adam Smith*, Toronto: University of Toronto Press 1973; Marian Bowley, Marian. "Some aspects of the treatment of capital in *The Wealth of Nations*," In *Essays on Adam Smith*, edited by Andrew S. Skinner and Thomas Wilson, Oxford: Clarendon Press. 1975; W. Eltis. Adam Smith's theory of economic growth. In *Essays on Adam Smith*, edited by Andrew S. Skinner and Thomas Wilson, Oxford: Clarendon Press. 1975; N. Rosenberg, Nathan. "Adam Smith on profits—paradox lost and regained," In *Essays on Adam Smith*, edited by Andrew S. Skinner and Thomas Wilson, Oxford: Clarendon Press. 1975; Ralph Anspach. "Smith's growth paradigm," *History of Political Economy*, 8 (4), 1976; R. O'Donnell, Rory. *Adam Smith's theory of value and distribution: reappraisal*, New York: St. Martiin's Press. 1990; T. Aspromourgos, Tony. *On the origins of classical economics: distribution and value from William Petty to Adam Smith*, London and New York: Routledge. 1996; *Idem*, *The science of wealth: Adam Smith and the framing of political economy*, London and New York:

not study how his idea of capital was relevant to his differentiation of the system of markets from that of capital. I would like to argue the point in this section.

Smith explicitly mentioned the different stages in Book V of the *Wealth of Nations*. He then considered the various functions of government, such as defense, the judiciary, public institutions, and education. In describing the development of defense, he distinguished it based on the four stages of society. Though he did not explicitly mention the word 'commercial society' (as Sagar argued), Smith implicitly distinguished the four stages. He wrote, 'in a more advanced state of society, two different causes contribute to render it altogether impossible that they, who take the field, should maintain themselves at their own expence. Those two causes are, the progress of manufactures, and the improvement in the art of war. Though a husbandman should be employed in an expedition [...]the moment that an artificer, a smith, a carpenter, or a weaver, for example, quits his workhouse, the sole source of his revenue is completely dried up.'³⁴ Again, to point out the remote, general causes of the changes of defense, he pointed out the change of the manners of subsistence. Furthermore, for Smith, the division of labor in commercial society influenced the change of defence.

In other parts of Book V, Smith only described some of the sequence of the four stages. In the case of the judiciary, Smith introduced the first three stages. Smith then focused on the introduction of pastoral society as essential for that of property rights, the introduction that brought about the establishment of judiciary.³⁵ He, however, said, 'the separation of the judicial from the executive power seems originally to have arisen from the increasing business of society, in consequence of its increasing improvement.'³⁶ Because Smith supposed that husbandmen had leisure time, unlike people in commercial society, Smith implicitly supposed that establishing the division of labor in commercial society impacted the separation of the powers.

In describing the third branch of government, that is, public institutions, Smith mentioned only some of the four stages. For this function developed in commercial society. He wrote, 'after the public institutions and publick works necessary for the defence of the society, and for the administration of justice, both of which have already been mentioned, the other works and institutions of this kind are chiefly those for

Routledge; Sonenscher, *Capitalism*; Diatkine, *Adam Smith*.

³⁴ Adam Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations*, edited by R. H. Campbell, A. S. Skinner, and W. B. Todd, Oxford: Oxford U. P, 1976, V. i. a. 9.

³⁵ *Ibid.*, V. i. b. 15.

³⁶ *Ibid.*, V. i. b. 24.

facilitating the commerce of the society.³⁷ Smith here did not refer to the four stages, not because he ignored the theory, but because he presupposed the theory. Public institutions were for commercial society based on the development of the earlier stages. Because he had already mentioned public institutions in the earlier three stages, he omitted to explain them, not ignoring them.

Smith did not seem to investigate education based on the different stages. However, here, Smith also presupposed the different stages. He wrote, '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[...] the understanding of the greater part of men are necessarily formed by their ordinary employment. The man whose whole life is spent in performing a few simple operations[...] generally becomes as stupid and ignorant as it is possible for a human creature to become.' It is otherwise in 'the barbarous societies, as they are commonly called, of hunters, of shepherds, and of husbandmen in that rude state of husbandry which precedes the improvement of manufactures, and the extension of foreign commerce,' unlike 'in a civilized and commercial society,' in which education was needed more.³⁸ Based on the four stages of society, Smith focused on the importance of education in commercial society because education was needed in commercial society rather than the earlier three stages of society. Smith also did not ignore the four stages, but only omitted the earlier three stages. He focused on different stages on different occasions to focus on what he saw important in each topic. He then sometimes omitted explaining some stages but did not ignore the four ones.

Based on this theory, Smith mentioned the term commercial society in Book I. Like Book V, in which Smith referred to that term, Smith, in Book I, touched upon it in arguing the division of labor. When, in Book V, he claimed the intelligent incapability of workers due to the division of labor (as I argued above),³⁹ Smith introduced that term in Book I to examine the division. In Chap. IV, Book I, Smith said,

When the division of labour has been once thoroughly established, it is but a very small part of man's wants which the produce of his own labour can supply. He supplies the far greater part of them by exchanging that surplus part of the produce of his own labour, which is over and above his own consumption, for such parts of

³⁷ *Ibid.*, V. i. c. 2.

³⁸ *Ibid.*, V. i. f. 50-52.

³⁹ *Ibid.*, V. i. f. 50-52.

the produce of other men's labour as he has occasion for. Every man thus lives by exchanging, or becomes in some measure a merchant, and the society itself grows to be what is properly a commercial society.⁴⁰

The commercial society was based on the establishment of a commercial society. Although Smith here did not refer to the four stages theory. However, unlike the earlier three stages (hunters', pastoral, and agricultural societies), which are based on each distinct manners of subsistence, the fourth, commercial stage did not rely on some particular manners of subsistence, but depended on the multiplication of the manners, and the mutual dependence on selling and buying necessities and conveniences, the idea of commercial society was based on the four stages theory.

Because in Chap. I, Book I, Smith said that the division introduces the rise of wealth. He wrote, 'the greatest improvement in the productive powers of labour[...]seem to have been the effects oof the division of labour.'⁴¹ Because the division made necessities and conveniences of life increase, and Smith saw it as wealth,⁴² the division made society wealthy. Because the division developed most in commercial society, that society was the richest among the four stages.

Smith, however, did not think of the division as only existent in commercial society. This stage was seen as the development of exchange. Basically, Smith saw the division as the effect of exchange. He wrote, 'the division of labour, from which so many advantages are derived, is not originally the effects of any human wisdom, which foresees and intends that general opulence to which it gives occasion. It is the necessary, though very slow and gradual consequences of a certain propensity in human nature which has in view no such extensive utility; the propensity to truck, barter, and exchange one thing for another.'⁴³ Smith saw exchange itself was universal. In any stage of society, people exchange goods. However, exchange develops most fully in commercial society, where the division of labour extends most. Accordingly, commercial society was the society in which human nature, such as 'propensity to truck, barter, and exchange' achieved in reality. In this sense, the field of exchange was linked with the division of labour and commercial society.

This state of society was achieved because of the extension of market. He said, "as

⁴⁰ *Ibid.*, I. iv. 1.

⁴¹ *Ibid.*, I. i. 1.

⁴² *Ibid.*, Intro. 1.

⁴³ *Ibid.*, I. ii. 1.

it is the power of exchanging that gives occasion to the division of labour, so the extent of this division must always be limited by the extent of power, or in other words, by the extent of the market.⁴⁴ In this sense, his market theory presupposed the division of labour based on exchange.

Smith, in Book I, analyzed the mechanism of the market and that of wages, profits, and rent. These mechanisms were based on commercial society based on the development of the division of labour, the division that depended on exchange. In Chap. VII, Smith examined the market mechanism by which he considered the effects of buying and selling goods. The agreement of exchange determines prices. In Chap. VIII, Smith investigated how workers sell their labor, and employers buy their labour. The interaction regulates wages. In Chap. IV, profits are controlled by capitalists' investment amount and the demand for commodities to be invested. In Chap. XI, Smith considered rent. Again, the amount of land and its demand determined rent. Accordingly, Smith saw exchange as the foundation of market activities in this model.

Smith had already considered this market theory in *Lectures on Jurisprudence*, *Two Fragments on the Division of Labour*, and *'Early Draft' of Part of Wealth of Nations*. Smith hardly investigated the movement of capital. Smith, in the *Lectures*, examined exchange, the division of labour, money, and tax. Smith argued these topics in the *Wealth of Nations*, but did not argue the movement of capital, which he examined especially in Book II of *Wealth of Nations*. For instance, in considering wealth, Smith planned to consider five topics: first, 'the rule of exchange, or what it is which regulates the price of commodities; second, money as 'the measures by which we compute the value of commodities' and as 'the common instrument of commerce or exchange'; third, 'the causes of the slow progress of opulence, and the causes which regarded it'; fourth, taxes and public revenues; fifth, 'the effects of commerce, both good and bad, and the naturall remedies of the latter.'⁴⁵ Smith indeed referred to 'the stock of commodities,'⁴⁶ but did not indicate the movement of capital which he analyzed extensively in Book II of the *Wealth of Nations*.

In two *Fragments*, Smith explained the division of labour, also seen in the *Wealth of Nations*. Smith did not elucidate the movement of capital in these *Fragments*. In the *'Early Draft'*, Smith mentioned topics that Smith developed in the *Wealth of Nations*. He wrote on the division of labour and its effects in commercial society, the propensity to

⁴⁴ *Ibid.*, I. iii. 1.

⁴⁵ Smith, *Lectures on Jurisprudence* (LJA), vi. 58.

⁴⁶ *Ibid* (LJA), vi. 38

truck, the mechanism of exchange and prices, money, rent, and the retard to wealth due to the mercantile system. He also said, 'as the sole use of money is to circulate commodities, that is, food, cloaths, and the conveniences of lodging, or domestic accommodation, and that as money itself is neither food, cloaths, nor lodging, the larger the proportion which that part of the stock of any nation which is converted into money bears to the whole, the less food, cloaths, and lodging there must be in that nation.'¹⁴⁷ Although Smith seemed to recognize the difference between money and stock, he did not argue the nature of capital.

In the *Wealth of Nations*, Smith began considering the nature and movement of capital. He then described the development of society due to the accumulation of capital. He said, 'in that rude state of society in which there is no division of labour, in which exchange are seldom made, and in which every man provides every thing for himself, it is not necessary that any stock should be accumulated or stored up beforehand in order to carry on the business of the society.' On the contrary, '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.' To provide their wants, 'a stock of goods of different kinds, therefore, must be stored up somewhere sufficient to maintain him, and to supply him with the materials and tools of his work till such time, at least, as both these events can be brought about.'¹⁴⁸

The division of labour required capital accumulation beforehand. Smith, in reality, said, 'as the accumulation of stock must, in the nature of things, be previous to the division of labour, so labour can be more and more subdivided in proportion only as stock is previously more and more accumulated.'¹⁴⁹ Although he thought of capital accumulation as relevant to establishing the division of labour, he distinguished these two processes. Unlike the division of labour in commercial society, capital accumulation was not based on the four stages theory. Because capital accumulation must be 'previous to the division of labour', which developed most in commercial society, the accumulation should be before the introduction of commercial society. However, he did not argue which stage among the earlier three stages of society capital are accumulated. Indeed, it could be argued that in these three stages, capital accumulated gradually. However, this accumulation process was different with the four stages development. The accumulation develops not according to the four stages. He distinguished only two stages in Book II:

¹⁴⁷ *Ibid.*, 35.

¹⁴⁸ Smith, *Wealth of Nations*, II. 1-2.

¹⁴⁹ *Ibid.*, II. 3.

before and after the accumulation.

In Book II, Smith analyzed the nature and movement of capital after capital accumulation. In Chap. I, he categorized capital, arguing the nature of capital. He said, 'when the stock which a man possesses is no more than sufficient to maintain him for a few days or a few weeks, he seldom thinks of deriving any revenue from it.' On the contrary, 'when he possesses stock sufficient to maintain him for months or years, he naturally endeavours to derive a revenue from the greater part of it; reserving only so much for his immediate consumption, as may maintain him till this revenue begins to come in.' He here distinguished stock from capital. He said, 'his whole stock, therefore, is distinguished into two part. That part which, he expects, is to afford him this revenue, is called his capital. The other is that which supplies his immediate consumption; and which consists either, first, in that portion of his whole stock which was originally reserved for this purpose; or, secondly, in his revenue, from whatever source derived, as it gradually comes in; or, thirdly, in such things as had been purchased by either of these in former years, and which are not yet entirely consumed.'⁵⁰ Before society accumulates capital as a sources of revenue, it should have stock as goods beforehand. In this sense, Smith distinguished before and after capital accumulation, the process relevant to the introduction of the division of labour, but was different from it and had its distinct ways of development.

In Chap. II, after categorizing capital into fixed and circulating one (and consumption), Smith argued the political requirements of the accumulation. He said, 'in all conuntries where there is tolerable security, every man of common understanding will endeavour to employ whatever stock he can command in procuring either present enjoyment or future profit.' On the contrary, 'in those unfortunate countries, indeed, where men are continually afraid of the violence of their superiors, they frequently bury and conceal a great part of their stock, in order to have it always at hand to carry with them to some place of safety.'⁵¹ The free movement of capital required the political security by which private property was secured.

Although Smith analyzed the movement of capital economically in Book II, he was also interested in the political processes of the development of security. When private property was secured and the government works well, the 'natural progress of opulence,' which he examined in Book III, works. Upon this condition, society progresses most rapidly in investing agriculture first; second, manufacture; third, foreign trade. He said,

⁵⁰ *Ibid.*, II. i. 1-2.

⁵¹ *Ibid.*, II. i. 30-31.

'according to the natural course of things, therefore, the greater part of the capital of every growing society, is first, directed to agriculture, afterwards to manufacture, and last of all to foreign commerce. This order of things is so very natural, and that in every society that had any territory, it has always, I believe, been in some degree observed.'⁵² Smith saw this natural course of capital investment as a universally applicable history of the progress of society. He then did not follow the four stage theory, but introduced another theoretical or philosophical history that describes natural development. Because he saw this process as applicable to any particular country, he considered not only the immediate cause of capital investment in a specific country, but examined the remote, general causes of the progress of society.

In this sense, this natural course of capital investment was, like the four stages theory, another stadial theory that investigated the remote, general causes of the progress of society. However, he said. 'though this natural order of things must have taken place in some degree in every such society, it has, in all the modern states of Europe, been, in many respects, entirely inverted. The foreign commerce of some of their cities has introduced all their finer manufactures, or such as were fit for distant sale; and manufactures and foreign commerce together, have given birth to the principal improvement of agriculture. The manners and customs which the nature of their original government introduced, and which remained after that government was greatly altered, necessarily forced them into this unnatural and retrograde order.'⁵³ Here, Smith's stadial history did not presuppose economic determinism. Rather, politics and government could and did determine the actual development of the economy.

In Chap. II, Smith narrated the economic low development after the introduction of feudal government in Europe. He said, 'it seldom happens, however, that a great proprietor is a great improver. In the disorderly times which gave birth to those barbarous institutions, the great proprietor was sufficiently employed in defending his own territories, or in extending his jurisdiction and authority over those of his neighbours. He had no leisure to attend to the cultivation and improvement of land.'⁵⁴ Furthermore, 'in the antient state of Europe, the occupiers of land were all tenants at will. They were all or almost all slaves[...]They were not, however, capable of acquiring property. Whatever they acquired was acquired to their master, and he could take it from them at pleasure.'⁵⁵

⁵² *Ibid.*, III. i. 9.

⁵³ *Ibid.*, III. i. 9.

⁵⁴ *Ibid.*, III. ii. 7.

⁵⁵ *Ibid.*, III. ii. 8.

Unlike the developed society in which the owners of capital dominated their property, an ordinary agricultural person in feudal times could not control their capital, such as land. This resulted in the shortage of the accumulation of capital, which resulted in low development.

Accordingly, Smith presupposed that economic development depended on who dominated and controlled goods and land. The accumulation of capital was relevant not only to economics but also to politics. This politics was connected with who held goods and land. In this sense, the free movement of capital had some political requirements. Smith's view of capital included the problem of dominion, or who controlled and dominated political and economic institutions.

Indeed, the European economy in medieval times developed not in the country side but in cities where private property was secured. This also presupposed political institutions. At the cost of payment, towns became free-burgh. This right was given by the king.⁵⁶ Accordingly, "order and good government, along with them the liberty and security of individuals, were, in this manner, established in cities at a time when the occupiers of land in the country were exposed to every sort of violence."⁵⁷ Here, Smith supposed that the accumulation of capital presupposed not only private property and economic freedom. Property and freedom presupposed solving the problem of capital dominion, or who controlled economic goods and institutions. Only after these political problems were solved, private property and economic freedom could be established. In the medieval times of Europe, this was introduced in cities. Merchants there engaged in foreign trade, the trade that prospered first; afterward, manufactures developed. Only after the decline of the power of feudal lords, agriculture developed, as he described in Chap IV, Book III. This development presupposed the emancipation of slavery conditions of farmers from landlords. In this sense, private property and economic freedom, which was necessary for the accumulation of capital, required freedom from the problem of economic and political dependence on their superiors.

III. Concluding Remarks

Although Smith' four stage theory has been seen as the main framework of society in Smith, some recent scholars have become critical of it. They found out that Smith mentioned many exceptions and irregularities in this framework. They, however, have not

⁵⁶ *Ibid.*, III. iii. 3-5.

⁵⁷ *Ibid.*, III. iii. 12.

clarified how Smith considered these two as compatible. These two were compatible based on Smith's view of historiography. His so-called 'conjectural history' in the modern sense was different from his view of historiography in which considering and analyzing the remote, general causes of events were also seen as one of the tasks of historians. Every history, including stadial history and narratives, requires conjecture; Smith saw 'conjectural history' as the part of historians' ways of connecting causes and effects. In this sense, he did not deny historiographical narratives. For Smith, stadial theory and narratives were different methods of analyzing causes and effects. Smith introduced stadial theory whenever he thought of it as appropriate. Otherwise, he adopted narratives. These were in line with Smith. To consider the remote, general causes, he introduced the stadial theory. Again, this was only to consider the causes.

While Smith adopted the four stage theory in his jurisprudence and the system of exchange and the division of labour in commercial society (in *Book I* of the *Wealth of Nations*), in *Book II*, Smith introduced another stadial theory, the accumulation of capital. This historiography was essential for understanding the difference between commercial society (or the system of exchange) and the movement of capital, the movement that led to the establishment of the idea of what was later called capitalism. In this sense, Smith found out the intellectual basis of what was later called capitalism. Smith's discovery of the movement of capital paved the ways for the new periodization of history to what is later called capitalism.

For Smith, however, capital was relevant to political history. His political economy belonged to his system of jurisprudence, He established the former by finding out the difference between the system of exchange and that of capital. The discovery of the latter was based on his historical thinking. In this sense, his political economy can be seen as a historical science. Based on his historical thinking, Smith established his political economy different from his jurisprudence.