

Smithian Merchant Towns and Good Government in *The Wealth of Nations*

John B. Estill*

San Jose State University
United States of America

Abstract

Commentators on Adam Smith's *Inquiry into the Nature and Causes of the Wealth of Nations* often characterize Smith as a proponent of government in multiple areas, including security in person, property, contract, and some public goods. However, Smith understood government more expansively than people today. In volume I, book III, chapters I–IV, Smith describes the evolution of merchant towns in England that led to "good governance" that dismantled the feudal system. This limited government not only included the security provided by the formal laws and institutions. It also aligned the informal elements of individual civic ethics and self-reliance with the formal institutions. This Smithian combination of formal and informal government encouraged liberty and market exchange, which enriched towns and, then, agriculture. It established the foundation for English economic development, which made the nation wealthy.

JEL Codes: B11, B12, O11

Keywords: Adam Smith; *Wealth of Nations*; government; economic growth; merchant towns; market exchange; liberty

I. Introduction

Many modern commentators writing about *An Inquiry into the Nature and Causes of the Wealth of Nations* (WN) find Adam Smith ([1776] 1981) to be a proponent of government, at least in certain areas: national defense, protection of property rights, and the provision of some public goods such as basic education (Blaug 1996; Ekelund 1997; Niehans 1990). While there is good evidence to support this view, Smith's view of government is more encompassing than the

* I acknowledge Leonard Liggio for the helpful comments he made on an earlier version, and I thank an anonymous reviewer whose suggestions significantly improved the paper. I give special thanks to Edward Stringham, without whose support, useful suggestions, and thoughtful guidance this paper would not have been written.

modern view. A better sense of Smith's views on governance can be gleaned from studying WN's book III in depth.

His historical example in chapters I through IV of book III, "On the Rise and Progress of Cities and Towns, after the Fall of the Roman Empire," provides ample support for this more nuanced vision of government. Many writers (e.g., Hollander 1973; Otteson 2002, 2018; O'Driscoll 1979; Rothschild 2001; Flieschacker 2005; Evensky 2015) have refined our understanding of Smith's position on government. It is not a goal of this paper to elucidate Smith's true intentions about the nature of government. However, this paper will describe Smith's expanded idea of governance as it relates to his model of economic development outlined in his description of Europe and England after the fall of the Roman Empire. Governance and economic development are thoroughly interwoven in this history in a way that others have not stressed. It is not only necessary to have a limited formal government that credibly commits to the protection of the people, their property, and their right to freely exchange. This must be combined with an ethical and self-reliant populace that believes the formal institutions provide a credible commitment to these protections. This combination leads to Smithian development.

Mark Blaug (1996, p. 56), in *Economic Theory in Retrospect*, characterizes Smith's volume I, book III as a separate historical monograph on the development of agriculture in Europe. However, it is more than that. Smith explains how agriculture did not improve before commerce; rather, the development of merchant towns returned Europe, and especially England, to the natural evolution of improved agriculture and development. In these chapters, he provides a historical narrative of how merchant towns expanded their inhabitants' rights and obligations "such that they arrived at liberty and independency much earlier than occupiers of the land in the country" (WN, p. 399). The towns encouraged their inhabitants to pursue gains from exchange to improve their lives. This process eventually spilled over to the entire society, though without anyone intending to do so. While others have analyzed chapters I through IV (see Evensky 2015, pp. 91–105; Harpham 1999, pp. 453–54), there is still something new about economic development and governance to be learned from a more focused review of Smith's historical example.

These chapters provide a compelling account of how the evolution of good laws and institutions, coupled with a freed and independent citizenry, first occurred in the towns, then spilled over

to improved agriculture, eventually fostering civil liberty throughout the nation. This liberty and order replaced the feudal institutions that had diverted agriculture from “the natural course of things” (WN, p. 422). Smith contrasts this creation of “good government” with the inferior and coercive feudal laws and institutions like primogeniture and entail that kept the great majority of people impoverished and the economy stagnant.

Book III suggests that the coercive model of autocratic government characterized by feudal law lies closer to our modern, all-encompassing bureaucratic government than to Smith’s beneficial one—limited government that primarily upholds “the three Ps: the protection of person, property, and promise” outlined in *The Theory of Moral Sentiments* (Otteson 2018, p. 39). To quote Otteson, “He articulates a positive and robust role for government, though he limits its powers and authorities to a small range of specific duties” (p. 60). Moreover, an ethical and self-reliant population that supports formal governance is essential to development. In this, as with so many of his ideas, he was ahead of his time and many writers of our own.

This paper is divided into seven sections. Section 2 provides some clarifying comments. Section 3 describes Smith’s expanded view of good government. Section 4 outlines the state of Europe’s and England’s towns and farms after the fall of the Roman Empire and the development of the feudal institutions that diverted Smith’s “natural” development. Section 5 recounts the ensuing development of merchant towns that broke the feudal bonds and returned the country to its natural course. Section 6 returns to agriculture, particularly in England, highlighting the beneficial influence of the commercial towns on liberty and development that ultimately advanced the entire nation. Finally, section 7 concludes.

II. Clarifying Comments

Smith’s historical example is more intelligible if one keeps several points in mind. First, WN was initially published in 1776, but much of the writing was done in the previous decade. Industrialization was in its infancy. Smith’s famous example of the pin factory is only a very early example of specialization and the division of labor. Only after the book was published did the Industrial Revolution take off. The book, therefore, includes industrialization only as an extension of commerce.

WN follows a pattern. Smith initially states his theory, follows with an analysis, and ends with a historical example, “fulfilling perfectly Smith’s desire to emulate Newton by balancing principled theory with empirical reality” (Otteson 2005, p. 5). Books I and II set out his theory and analysis. Book III provides the historical example of his theory of economic development that becomes distorted before being returned to its natural course.

Smith cares about the credibility of his history. As Evensky (2015, p. 23) points out, “‘Conjectural history,’ as Smith’s biographer Dugald Stewart refers to it ... is Stewart’s term for Smith’s representation of what happened in times and places of which Smith has no credible knowledge.” Smith is careful to provide specific examples where he is knowledgeable about the actual history to bolster the story’s authenticity. His goal is to study not just what happened, but also what actors thought, “the motives by which men act” (Rothschild 2001, p. 7). His history often becomes personal when he discusses kings, lords, burghers, and farmers—not just what they did, but how they felt.

There has been recent debate about Smith’s use of history to explain the nature and causes of wealth. Smith uses conjecture to build the model of the stages of development. This model, called the stadial model, was already well developed in the Scottish Enlightenment and is most fully explained in his *Lectures on Jurisprudence* (Paganelli 2022, 98). This model has four stages of economic development: hunting, shepherding, agriculture, and commerce. However, Smith finds that Europe, including England, does not follow this model. His historical examples demonstrate that Europe’s development has been unnatural and retrograde. “But though this natural order of things must have taken place in some degree in every society, it has, in all modern states of Europe, been, in many respects, entirely inverted” (WN, p. 380). It has been argued that in WN, Smith uses the stadial model not as a proxy for development, but rather as an ideal type. His historical examples demonstrate that development is, in reality, much too complex to be captured in a simple model. Development is subject to unpredictable institutions like primogeniture that arise from different historical events.¹

¹ For a deeper discussion of Smith’s use of conjecture and the stadial model, see Sagar’s (2022) *Adam Smith Reconsidered* and Paganelli’s (2022) “Adam Smith and Economic Development in Theory and Practice: A Rejection of the Stadial Model?”

Smith is no idealist. He sees people as they are, acting against a background of imperfect social and economic development since humans and their institutions are incomplete and subject to error. Evensky captures this point: “The natural path of humankind, as Smith envisions it, is a path towards the limiting case, an ideal state of liberty and justice for all, and the greatest wealth of nations. But we are not born as moral or immoral beings. We are born of coarse clay, and that coarse clay from which we are shaped has the capacity to take immoral form, to act unnaturally . . . and thus distort natural progress” (2015, p. 12). Despite this imperfection, Smith’s view is optimistic, systematic, and evolutionary, at least in the long run. He sees people and institutions as they are and can be skeptical about and even harshly critical of people, including workers, merchants, lords, kings, bureaucrats, and clergy.

While WN is not primarily about philosophy or law, many of the underlying ideas about government and natural development are influenced by *The Theory of Moral Sentiments* and *Lectures on Jurisprudence*. The impartial spectator, Smithian sympathy, justice, and just acts are always right below the surface and provide support for his views on “good government.” Rothschild (2001) and Fleischacker (2005) provide more detailed accounts of how these relate to WN. As WN’s historical example shows, in Smith’s broad vision, government cannot exist without both formal institutional support of laws and justice and informal personal governance in the form of individual civic ethics and self-command (Evensky 2015, p. 15).

Last, Smith is always a supporter of the most downtrodden. “Smith’s metric of a good society is the condition of the least among the working class . . . The best situation for the workers is the advancing state” (Evensky 2015, p. 33). Smith sides with the “underdogs in society rather than the rich. He favors the poor, employees, and slaves over the wealthy, owners, and masters” (Sowell 1979, p. 3). Economic growth is important because the poorest will gain the most. This idea, in many ways, drives Smith’s search for the keys to economic development.

III. Smith’s Vision of Good Government

Smith pays homage to good government throughout these chapters. In chapters I through IV of book III, he makes particular reference to government in his description of English development from the fall of Rome to his time. He notes that the laws established from the fall of Rome up through the feudal period, such as primogeniture and

entail, were initially necessary in order to protect the large estates from the lawlessness of the period. "The security of the landed estate, therefore, the protection which its owner could afford to those who dwelt on it, depended on its greatness. To divide it was to ruin it, and to expose every part of it to be oppressed and swallowed up by the incursions of its neighbors" (WN, p. 383).

He feels this would have been a "transitory evil" but continued "long after . . . the circumstances are no more" (WN, p. 383). This impeded what he considers the natural (ideal type) course of development in which small, private, productive farm holdings would have emerged. These holdings would have encouraged more wealth creation as individuals sought to improve their lot. The feudal institutions did not breed good government. "It [feudal law] could not do either sufficiently for establishing order and good government among the inhabitants of the country" (WN, p. 417).

While government for Smith is necessary, only "good government" encourages growth. He does not recommend that the government be involved in too many areas, as his criticisms of the feudal system illustrate. Blaug (1996, p. 61) points out that Smith believed the proper role of the government lies in safeguarding property rights, providing national defense, and maintaining select public goods such as basic education. In keeping with Evensky's quote above, the government's primary role is protecting persons, property, and promises (contracts) from both internal and external threats, along with some public goods that are not easily furnished by the marketplace. Only after the rise of merchant towns that helped break the feudal institutions and brought good governance to agriculture did the formal institutions and laws return to their natural path toward the good. "Order and good government, and along with them the liberty and security of individuals, were, in this manner, established" (WN, p. 405).

What does Smith mean by "good government"? Is it the centralized, bureaucratic state so popular today in social democracies? It is not. Smith's vision of good government is both broader and more nuanced. Its primary purpose is to protect—from within and without—people, their property, and their ability to exchange freely. Beyond that, good government could provide some public goods not easily provided by individuals privately, such as basic education. But even here, he qualifies this provision as only partial. "The most essential parts of education, however, to read, write, and account, can be acquired at so early a period of life . . . The publick can facilitate

this acquisition by establishing in every parish and district a little school . . . the master being partly, but not wholly paid by the publick; because if he is wholly, or even principally paid by it, he would soon learn to neglect his business” (WN, p. 785).

As Otteson (2018) emphasizes, this limited scope is the core of Smith’s conception of justice outlined in *The Theory of Moral Sentiments*. Smith sees a “positive and robust role for government, though he limits its powers and authorities to a small range of specific duties” (p. 60). There is more to the picture. As Evensky points out, “For Smith it is the content of and balance between individual ethics and institutional laws that ‘governs’ a nation. And, it is the character of the *enlarged conception of ‘government’* that determines . . . a nation’s progress” (2015, p. 3; italics in original). Evensky later notes, “He [Smith] believed that the most desirable source of government in a liberal society, the locus of government that would not undermine the very freedom such a society is supposed to represent, is the self-government of individuals based on a personal commitment to a commonly held set of civic ethics” (2015, p. 21) as laid out in *The Theory of Moral Sentiments* and *Lectures on Jurisprudence*.

Good government is more than just a set of political institutions. The combination of laws and institutions that protect people, property, and promises promotes citizens’ security and independence. Good government incentivizes citizen support of those laws and institutions. It creates and, indeed, requires a free, self-reliant, independent, and engaged population. It is this combination of laws and citizen support that creates good governance. The historical example that follows in book III outlines how the institutions and wealth slowly established in the merchant towns evolved into the good government that he values.

IV. The Initial Development of Post-Roman Agriculture

Smith opens book III with a brief discussion of “the different progress of opulence in different nations” (WN, p. 376). He finds, “The great commerce of every civilized society is carried on between the inhabitants of the town and those of the country” (WN, p. 376). He notes that “the gains of both are mutual and reciprocal” and the “division of labor is advantageous to all” (WN, p. 376). Subsistence comes before luxury. The industrious first used their excess capital to improve the land. But improving the land requires the help of at least some manufactured goods. “Without the assistance of some artificers, indeed, the cultivation of land cannot be carried on, but

with great inconveniency and continual interruption” (WN, p. 378). As surpluses gradually accumulate, some goods are exchanged abroad. “According to the natural course of things, therefore, the greater part of the capital of every growing society is, first, directed to agriculture, afterward to manufactures, and last of all to foreign commerce” (WN, p. 380). So towns and commercial development must initially rely on capital accumulation in agriculture. This is Smith’s ideal vision of the “natural course of things.” It represents his system of evolving economic development, whose foundation is agricultural surpluses. These surpluses should lead to commercial development and foreign trade if not distorted by historical events that create bad institutions and laws.

For this reason, Smith prefaces his discussion of medieval towns in England with a discussion of early English agriculture, to which he returns in chapter III. Agricultural production was in poor condition across Europe after the Roman collapse. He notes the violence that came to the European countryside with the invasion of the Germans and Scythians,² leaving the towns deserted (WN, p. 381). He highlights the development of the rules of primogeniture (the practice of passing all of an estate to the oldest male heir) and entail (the disbarment of transferring heritable property). He suggests there was a certain necessity for both when times were as disorderly as after the Roman collapse (WN, pp. 382–83).³

Before the Norman Conquest, the king had insufficient power to protect all the land his lords held. His primary responsibility was to protect the country from foreign invaders with troops provided by the great lords. The great lords ruled absolutely within their demesnes (domains) and held their property freely and by force of arms in this time of “rapine and violence” (WN, p. 381). These allodial⁴ landlords were petty princes; their tenants were their servile subjects. The lords were the judges, the legislators/protectors in peace, and the leaders in war (WN, p. 383). In return, the subjects pledged their loyalty to the lord. These lords established primogeniture and entail to preserve their estates and protect them from encroachment by their

² Smith uses the term Scythians, though none invaded England. It was used more generally in Smith’s time to represent various invading outsiders to Europe more broadly.

³ See Benson (1990, pp. 26–29) for a discussion of the gradual evolution of the landed aristocracy and loss of freedom of the freemen from around 450 AD to the Norman Conquest.

⁴ Allodial refers to a freehold without a superior who holds title.

neighboring lords and roaming bands of mercenaries. The lords appear much like McGuire and Olson's (1996) stationary bandits, whose peasants must pay tribute for protection.

Smith says of the princely estate, "To divide it was to ruin it, and to expose every part of it to be oppressed and swallowed up by incursions of its neighbors" (WN, p. 383). He believed this "original engrossing of uncultivated lands" would have been a transitory evil except for its formalization in feudal law (WN, p. 382). "In every other respect [except family pride], nothing can be more contrary to the real interest of a numerous family, than the right which, in order to enrich one, beggars all of the rest of the children" (WN, p. 384). He notes that this tradition was distinctly outside Roman customs, in which estates were divided equally among all offspring and could be freely transferred (WN, p. 384).

Smith sees that these great proprietors were seldom great improvers since they were primarily intent on consumption rather than production (WN, p. 385). The aristocratic clergy and princes constituted the demand side of the market, seeking manufactured and luxury goods in exchange for the excess food they received as rent from their rural estates through the tenth century (Nicholas 1997a, pp. 40, 80). Smith returns to this later.

But if great proprietors were not great improvers, were their tenants any better? Such tenants could not acquire property. Like slaves, they could acquire only their daily maintenance (WN, p. 387). "A person who can acquire no property, can have no other interest but to eat as much, and to labour as little as possible" (WN, p. 387). Because of this inefficiency and the king's jealousy of the great lords, as well as the influence of the church, Smith believes that tenure gradually wore out through much of Europe, though the time and manner are obscure (WN, p. 389). The Domesday Book (1086) found that only 10 percent of the population in England were slaves.

However, many of the "free" peasants were still downtrodden and had to give rent and services to their landlords, which had the appearance of servility. They were also in a state of juridical serfdom (Hilton 1992, pp. 11–13). Smith notes that the movement from tenancy based on shared output to payment of a yearly gratuity or rent-certain created the first real farmers. They would only enter long-term leases if they were assured that they could recoup their improvements to the land (WN, p. 391). But this process was very slow. It was not until the fourteenth century that the principle of ejectionment was established. In this, a tenant could receive more than a token for being

displaced from the land he has improved based on a long-term lease (WN, pp. 389–90). Ejectment provided not only reimbursement or damages but also possession (WN, p. 392). This slow movement was also spurred by competition between the king and barons over attracting mechanics (skilled laborers) and traders to their domains for the consumption goods the lords, in time, came to desire.

The ancient lords, unwilling to bear any financial burden they could avoid, passed on to their tenants the tax demands of the sovereign by granting him tallage⁵ on the tenants. The proprietors did not realize that this would have a detrimental effect on the output of their lands. While the tax, in theory, was a payment on the profits of farmers who rented land, it was imposed as a property tax on stock. The property owners and town burghers, considered gentlemen, were both exempt (WN, p. 394). Accordingly, it provided a disincentive for small farmers to accumulate visible stock. Moreover, Smith found, it “dishonour[s] whoever is subject to it and degrades him” (WN, p. 394). Thus, the small farmers and tenants were viewed as below the rank of a gentleman. It was not only an economic but also a social discouragement.

Finally, Smith argues that over and above these negative influences, European policies favored, first, prohibitions on the export of corn (grain) and, second, regulations against middlemen in inland commerce such as laws against “engrossers, regrators, and forestallers” (WN, p. 396). These forms of arbitrage and reselling would have made markets more efficient. He also finds that privileges that restricted fairs and markets hindered agricultural development, noting that this was the effect in ancient Italy, a very fertile country, so its effect on countries less fertile must be more serious since they could afford it less (WN, p. 396).⁶

V. The Development of Merchant Towns

The few inhabitants of towns after the fall of the Roman Empire had no more freedom than those living on the land. They were very different from the earlier Greek and Roman urban dwellers, landed proprietors who chose to live in walled towns for the common defense. After the fall, the landed aristocracy generally lived in fortified castles on their land, while tradesmen and mechanics were as servile as the agrarian peasants (WN, p. 397). One gains a sense of

⁵ Tallage is a form of tax closely associated with a property tax.

⁶ Smith (WN, p. 166) analyzes Roman grain policies, showing them to have been detrimental to corn production.

their lack of freedom by looking at the first rights requested and granted as charters developed in certain developing towns. These rights, initially lacking, included a daughter's marriage without the lord's consent, property use willed to descendants rather than reverting to the lord, and personal property transference freely by will. Smith (WN), Maitland ([1897] 2020), Hilton (1992), and Nicholas (1997a, 1997b) identify other early rights that evolved through grants to towns. Other rights included extensions and limitations, such as the end of tenurial duties, the formation of independent town courts, and various forms of self-government, through the fourteenth century.

"But how servile so ever may have been originally the condition of the inhabitants of the towns, it appears evidently, that they arrived at liberty and independency much earlier than the occupiers of the country" (WN, p. 399). While traders were originally itinerant and paid various tolls as they moved and traded, some were granted exemptions and paid instead with an annual tax as an encouragement. They were considered free traders (WN, p. 398). These traders could establish a fixed place of business outside the castle and under the lord's protection. Smith notes that protection was not granted without valuable consideration. This *quid pro quo* established an early reciprocal relationship that would eventually be formalized into formal charters and contracts between merchants and the lord, bishop, or king.

Initially, these grants were personal, but over time, some burghers (town merchants) were able to band together and convince their lord to merge their taxes, jointly and severally, transferring a personal and private feudal obligation into a communal, pecuniary, corporate payment (WN, p. 399).⁷ Tax farming became more prevalent. In tax farming, an individual bought in advance the right to collect the tax revenue for a specific period and paid a price certain from the collections to the lord while keeping any excess. A guaranteed rent was generally preferable to a lord, particularly a distant lord, who would find it difficult to determine the appropriate tax and would, through farming, avoid the cost, effort, and uncertainty of collecting it. It also tapped into the local knowledge and acumen of a local agent, "their own bailiff," an early recognition of local, tacit knowledge that foreshadows Hayek (1945) (WN, p. 400). Though

⁷ See also Maitland (1897) at p. 23.

originally the farming of the taxes was only for a set number of years, over time the practice became perpetual for a fixed rent-certain.

Feudal exemptions followed suit. Here again was a social benefit as well as an economic one. “To lett [*sic*] the farm in this manner was quite agreeable to the . . . sovereigns . . . , they [those granted this right] becoming jointly and severally answerable for the whole rent; but in return allowed to collect it in their own way, and pay it into the king’s exchequer by the hands of their own bailiff, and being thus altogether freed from the insolence of the king’s officers; a circumstance in those days regarded as of the greatest significance” (WN, pp. 399–400). The burghers often found this to be more just, as the local bailiff was part of the same community. Along with the exemptions, the rights to free marriage, heritability of land, and inheritance of personal property generally followed (WN, p. 400). But Smith comments that this was not all:

They were generally at the same time erected into a commonality or corporation, with the privilege of having magistrates and a town-council of their own, of making bye-laws for their own government, of building walls for their own defense, and of reducing all of their inhabitants under a sort of military discipline, by obliging them to watch and ward . . . In England they were generally exempted from suit to the hundred and county courts; and all such pleas as should rise among them, the pleas of the crown excepted, were left to the decision of their own magistrates. (WN, p. 401)

This fostered competition in the law and encouraged a polycentric judicial system. In time, the king formalized these grants as written charters.

Town inhabitants had a responsibility not only to build, maintain, and guard the walls but also to maintain the streets adjacent to their property (Ross 2006, p. 2). So, while the towns often offered liberties not available in the countryside, the liberties came with responsibilities. Those who chose not to perform their obligations could be removed. For severe offenses, they could be ostracized and declared outlaws to be preyed upon by anyone without recourse. Having town courts was a great advantage. The townspeople often saw this justice delivered closer to home and more in keeping with perceived fairness. Benson (1990) provides a detailed account of these courts and the ensuing competition to provide law.

The towns' rights of self-defense had several beneficial consequences. Smith initially finds it extraordinary that a king would grant such rights for a fixed rent-certain when it seemed obvious that town revenues would increase over time. But he finds an explanation. During the early medieval period, no king could protect all of his subjects. The peasants were forced to seek protection with their local lords or group together for self-protection if they could. In the towns, they could create such protection.⁸ The great lords came to hate the burghers, whom they viewed as outside of their control, and they envied the burghers' wealth. The burghers, in turn, hated and feared the lords as plunderers. The king hated the lords as well since the lords interfered with his right to rule as he wished. But he viewed the burghers as his allies in limiting the power of the lords (WN, p. 402).

Smith stresses the importance of these grants of rights and exemptions, including internal magistrates, bylaws, personal rights, and self-protection through military discipline that established the foundation for good governance: "Without the establishment of some regular government of this kind, without some authority to compel their inhabitants to act according to some certain plan or system, no voluntary league of mutual defense could either have afforded them any permanent security, or enabled them to give the king any considerable support" (WN, p. 402). This "regular government" benefited both the king and the towns. They became natural allies (Alsford 2013, p. 12). "By granting them the farm of their town in fee, he took away . . . all ground of jealousy and suspicion that he would ever afterwards . . . oppress them" (WN, p. 402).

Smith notes that the kings, whose relations with their lords were often divisive, were the most liberal in their town grants, citing King John as an example (WN, p. 402). He also finds that the militias of the towns were not much inferior to the traditional militias of the lords; they were more numerous, and they could be called to action more quickly. Nicholas (1997a) writes that all cities had militias by 1200. They supplied the royal armies as well, deducting costs from their rents. Smith notes that these town strengths grew sufficiently in some localities, such as Italy and Switzerland, so that even the sovereign lost his authority and the towns became independent republics (WN, p. 403). In England, where this did not happen, the

⁸ At the same time, up to the Norman Conquest, land productivity rose along with population, leading to movement off the land and urbanization. See Crouzet (2001) at p. 14.

towns and cities still became so powerful that they could eventually prevent the king from imposing a tax on them without their consent. They came to provide a counterbalance “in the assemblies” to the lords (WN, p. 404).

This “good government,” as Smith calls it, evolved first in the commercial towns, but not in the country, so field workers had an incentive to come to the towns with their possessions (to escape servility and tallage) (WN, p. 405). The feudal obligations were of an ancient tradition (though not always practiced) that required the lord to renew his commitment to protect and provide for his serfs once each year. For this commitment, the serf pledged his allegiance in return. Living in the town for a year and a day broke this feudal bond, and the new town resident was free of any feudal obligations forever. For Smith, it is the development of the liberalizing effects of the merchant towns’ liberties and obligations that set the stage for renewed development that eventually spilled over to agriculture.

Smith explains how the renewed development arose. He finds that while the towns and cities must derive their support from the country, those on a seacoast who traded were not confined to their neighborhood (WN, p. 405). They could make rough manufactures and trade with other countries that might have certain products that local people recognized as better or preferable. Smith anticipates Hayek’s argument that the market is a discovery process (Hayek 1968). He notes, “A taste for the finer and more improved manufactures, was in this manner introduced by foreign commerce into countries where no such works were carried on” (WN, p. 407).

New manufactures were brought about in two ways, through imitation and innovations that arose from some local advantage. They underwent gradual improvement, drawing more workmen and creating better products that spurred the growth and wealth of the commercial and manufacturing towns (WN, p. 409). These preferred goods were initially available only to the wealthy, but with increasing popularity and demand, more local artisans sought to make them. The expanded supply caused prices to fall until they became available to the general population. Smith recognizes that this process had another effect. Increased manufacturing, either from foreign or domestic sources, added to the wealth of the towns as they specialized in various goods and services and broadened the scope of the market. This, in turn, had further consequences for agriculture.

One should not get the impression that everyone in the towns shared equally in these rights and liberties (Nicholas 1997a, 1997b).

The medieval towns were heterogeneous and difficult to categorize (Maitland [1897] 2020; Hilton 1992). Both Hilton and Nicholas find that the grants of rights varied greatly among the burgs. In addition, the high urban mortality rates saw a quarter to one-half of the residents replaced each year with new immigrants (Nicholas 1997a, p. 181). The law in the towns was often brutish, uneven, and slowly evolving. Yet, despite this, the rights granted were critical steps in ending feudalism. They deepened market relations that would flow over to improved agriculture and commerce and, eventually, lead to the Industrial Revolution. This early development of the institutions and laws protecting persons, property, and promises encouraged individual freedom, self-reliance, independence, and engagement, first for the towns and, eventually, the whole nation. The alignment of these personal rights reinforced the “good” laws and institutions. It established a sense of justice and security among the people, a powerful incentive for economic growth.

VI. A Return to English Agriculture

The commercial and manufacturing towns’ wealth from production and exchange improved their respective countries in three ways. First, by providing a ready and growing market for agricultural produce, it encouraged the cultivation and improvement of the land. While this affected their distant trading partners, it most benefited local markets, where transportation costs were lowest. Second, the wealth generated in the towns was often spent acquiring uncultivated land. Merchants’ ambitions to become country gentlemen caused them to seek profits out of their new lands and to be great improvers, using their habits of order, economy, and attention (WN, p. 412). Third and most importantly, commerce and manufacturing gradually introduced order and good governance into agriculture, which had been stuck in conflict and servile dependency (WN, p. 412).

In a country with little commerce, each lord consumed all of the produce of his lands except for the basic subsistence of his peasants and used the excess to surround himself with servants and retainers, who were as dependent on him as his tenants. The retainers and serfs hated each other, the peasants seeing the former as parasites and the courtiers viewing the peasants as ignorant inferiors. The lord used this animosity to hold each in check (WN, p. 414). He became the ultimate authority over all in his demesne, in which even the king could not interfere. Smith finds that this state existed with the Saxon lords even before the Norman Conquest. This is the period of the

allodial state, where the land was entirely controlled by the lords. During this period, the king's primary responsibility (beyond being a great lord himself) was to gather the lords and their knights for protection from outside threats (WN, p. 416).

For Smith, feudalism and feudal law, as they developed out of the allodial state, rather than bolstering the lords' rights, were a means of mitigating them. They established a regular subordination to the supreme king, giving him ultimate authority over all. While this necessarily strengthened the king's rule, it did not stop the petty princes' suppression of the country peasants since it did not change their property arrangements (WN, p. 417): "All for ourselves, and nothing for other people, seems, in every age of the world, to have been the maxim of the masters of mankind . . . But what the violence of the feudal institutions could never have effected, the silent and insensible operation of foreign commerce and manufacturing gradually brought about" (WN, p. 418). With growing commerce, the lords slowly progressed from consuming only their produce to consuming new and improved products of tradesmen and artificers in the growing towns, who gradually lost the need to rely on any individual lord. In time, the lords were forced to limit their servants and retainers to enable their increasing expenditures on manufactured and trade goods. They were also forced to raise their rents, to which their laborers would voluntarily agree only so long as they were secured in their property with longer leases sufficient to recover their improvement costs with the anticipation of a profit. This spurred the evolution of serfs into tenants and, in time, tenants with property rights. These leases became pecuniary and limited the lords' manorial rights: "His landlord must not expect from him even the most trifling service beyond what is either expressly stipulated in the lease, or imposed upon him by the common and known law of the land" (WN, p. 421).

The great proprietors, having reduced their entourage and given their tenants independence by their increasing desire for consumption, "became as insignificant as any substantial burgher or tradesman in a city" (WN, p. 421). Moreover, "a regular government was established in the country as well as in the city, nobody having sufficient power to disturb its operations in the one, any more than in the other" (WN, p. 421). Thus, the great lords lost their hold over the countryside. The benefits of good government, both from laws and individual liberty, spread from the merchant towns to the countryside. This returned England to its "natural path" of

development from which it had been diverted by the entrenched feudal institutions.

The towns arose not as a result of the improvement in agriculture, but rather as its cause. Smith finds this cause least noted by previous commentators, but most important. It is what rendered the yeomanry of England as secure, independent, and respectable as the law could make them (WN, p. 412). A lease for life valued at forty shillings a year was a freehold, entitling the holder to a vote for a seat in Parliament. And, as previously noted, the country gentlemen and small proprietors were the most industrious, intelligent, and successful of all improvers (WN, p. 423). Thus, it is the good laws supported by a productive, self-reliant population across the country that Smith sees as creating the wealth of the nation.

He completes book III by stressing agriculture's importance in England. It is agriculture and its durability under good government that lead to a country's long-term health. "That which arises from the more solid improvements of agriculture, is much more durable, and cannot be destroyed but by those more violent convulsions occasioned by the depredations of hostile and barbarous nations" (WN, p. 427). This is the improved state of English agriculture under the good laws and institutions that protect persons, property, and free exchange and align even the poorest workers' incentives with those laws and institutions.

VII. Concluding Remarks

Smith begins book III by describing England's and Europe's poor condition in both towns and farms at the fall of the Roman Empire. He notes the anarchy that occurred after the fall and suggests the disruption of the countryside of that period led to feudal institutions that diverted the natural progress of agriculture in Europe and England. While these institutions may have been initially prudent to protect the countries and their populations, over time, they prevented economic development and the creation of an independent and self-reliant populace.

He then traces the uneven but persistent evolution of merchant towns characterized by voluntary exchange in the marketplace and individual liberty entailing rights as well as obligations. It is the development of merchant towns that eventually dismantled the feudal institutions. Individual merchants, mechanics, town folk, lords, and kings responded to the incentives of free exchange in the marketplace to create good government in the towns without any

intention on their part. This good government protected persons, property, and contracts that provided “tolerable security,” while reinforcing town dwellers’ “civic ethics and self-command” (Evensky 2015, pp. 15, 67).

Smith closes the circle by tracing the effects of this evolution in the towns on agriculture, returning it to its natural course of progress. Development in the towns created the development of agriculture, which led to a liberalized and industrious English society.

Smith’s “good government” then is not an all-encompassing bureaucracy that intrudes into all facets of its citizens’ lives and so reduces their self-reliance and independence as we see so often today. Rather, his view is of a limited government that credibly commits to protecting citizens’ basic rights—to their person, property, and freedom to exchange. This commitment provides a nation with “tolerable security”; it aligns the formal institutions and laws with citizens’ informal civic ethics and self-reliance. The combination creates good governance. This is the Smithian “good government” that raises the living standards for all, especially the poorest. It ultimately leads to the wealth of the nation.

References

- Alsford, Stephen. 2013. “Introductions to the History of Medieval Boroughs.” The ORB: On-line Reference Book for Medieval Studies. College of Staten Island.
- Benson, Bruce. 1990. *The Enterprise of the Law: Justice Without the State*. San Francisco, CA: Pacific Research Institute for Public Policy.
- Blaug, Mark. 1996. *Economic Theory in Retrospect*. 5th ed. Cambridge, UK: Cambridge University Press.
- Crouzet, Francois. 2001. *A History of the European Economy, 1000–2000*. Charlottesville, VA: University of Virginia Press.
- Ekelund, Robert B., Jr., and Robert F. Hebert. 1997. *A History of Economic Theory and Method*. 4th ed. New York: McGraw-Hill.
- Evensky, Jerry. 2015. *Adam Smith’s Wealth of Nations, A Reader’s Guide*. New York: Cambridge University Press.
- Fleischacker, Samuel. 2005. *On Adam Smith’s Wealth of Nations: A Philosophical Companion*. New Jersey: Princeton University Press.
- Harpham, Edward J. 1999. “Economics and History: Books II and III of *Wealth of Nations*.” *History of Economic Thought*, 20(3): 438–55.
- Hollander, Samuel. 1973. *The Economics of Adam Smith*. New York: University of Toronto Press.
- Hayek, Friedrich A. 1945. “The Use of Knowledge in Society.” *American Economic Review*, 35: 519–30.
- Hayek, Friedrich A. 1968. “Competition as a Discovery Process.” *Quarterly Journal of Austrian Economics*, 5(3): 9–23.
- Hilton, R. H. 1992. *English and French Towns in Feudal Society: A Comparative Study*. New York: Cambridge University Press.

- Maitland, Frederic William. (1897) 2020. *Domesday Book and Beyond: Three Essays in the Early History of England*. Project Gutenberg.
- McGuire, Martin C., and Mancur Olson Jr. 1996. "The Economics of Autocracy and Majority Rule: The Invisible Hand and the Use of Force." *Journal of Economic Literature*, 34: 72–96.
- Nicholas, David. 1997a. *The Growth of the Medieval City: From Late Antiquity to the Early Fourteenth Century*. New York: Addison Wesley Longman.
- Nicholas, David. 1997b. *The Later Medieval City: 1300–1500*. New York: Addison Wesley Longman.
- Niehans, Jurg. 1990. *A History of Economic Theory: Classical Contributions 1720–1980*. Baltimore, MD: Johns Hopkins University Press.
- O'Driscoll, Gerald P. (Ed.). 1979. *Adam Smith and Modern Political Economy: Bicentennial Essays on The Wealth of Nations*. Ames, IA: Iowa State University Press.
- Otteson, James R. 2002. *Adam Smith's Marketplace of Life*. Cambridge, UK: Cambridge University Press.
- Otteson, James R. 2005. "On Adam Smith's 'Wealth of Nations': A Philosophical Companion Book Review." *Independent Review*, 10(3).
- Otteson, James R. 2018. *The Essential Adam Smith*. Vancouver, Canada: Fraser Institute.
- Ross, David. Ed. 2006. "Medieval England—Daily Life in Medieval Towns." BritainExpress.com.
- Paganelli, Maria P. 2022. "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.
- Rothschild, Emma. 2001. *Economic Sentiments: Adam Smith, Condorcet, and the Enlightenment*. Cambridge, MA: Harvard University Press.
- Sagar, Paul. 2022. *Adam Smith Reconsidered: History, Liberty, and the Foundations of Modern Politics*. Princeton, NJ: Princeton University Press.
- Smith, Adam. (1776) 1981. *An Inquiry into the Nature and Causes of the Wealth of Nations*. 4th ed. Indianapolis, IN: Liberty Fund.
- Sowell, Thomas. 1979. "Adam Smith in Theory and Practice." In *Adam Smith and Modern Political Economy: Bicentennial Essays on The Wealth of Nations*, ed. J. P. O'Driscoll, 3–18. Ames, IA: Iowa State University Press.