

The Dynamism of Liberalism: An Esoteric Interpretation of Adam Smith

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Abstract: Several scholars have noted that entrepreneurship, innovation, and market dynamism more generally —“creative destruction”— are largely absent from Smith’s characterization of what his “liberal plan” tends to bring about. Indeed, in reading Smith’s body of work, one gets the impression that Smith’s opinion of innovation ranged from oblivious to skeptical. I argue, however, that the scant attention to innovation and market dynamism is not an oversight on Smith’s part; nor did Smith believe that innovation was typically undesirable. Instead, I argue that we must read Smith esoterically. Smith recognizes that prejudices against commercial activity are ancient and deep—even natural. Market dynamism generates moral and social tumult. Innovation breaks from, and sometimes disrupts, traditional ways of living. A liberal order tends toward greater cultural detachment and moral fragmentation. Smith downplayed the tumultuous effects of market dynamism, and, on the surface, he did sometimes disparage the effects of innovation. Beneath the surface, however, Smith recognizes that innovation is an inherent component of the liberal package—a mixed blessing but, at any rate, an integral part of the liberal plan. In his work the careful reader can find guidance on how people can adjust to, and make the best of, a liberal order. The economic growth promised by liberalism hinges on innovation; the virtues of tolerance and reserve must be learned. To make the liberal plan palatable, Smith recognizes that he must adopt a pedagogy that leaves some of his teachings indirect or nonobvious.

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1. Introduction

In a 1787 letter from Jeremy Bentham (2008) to Adam Smith, Bentham argues that Smith's defense of usury prohibitions is misguided. Smith defended usury laws because they prevent money from being lent to "prodigals and projectors" who are likely to squander it. Bentham rightly points out that projectors, a pejorative label at the time, are instigators of improvements to the division of labor. Projectors include what we might today call entrepreneurs. Although their projects are likely to be riskier, their experiments are necessary to the material progress of societies.

Bentham's criticism highlights an interesting feature of Smith's thinking: entrepreneurship, innovation, and dynamism more generally seemingly play bit parts in *The Wealth of Nations*.² Aside from a reference to "philosophers and men of speculation" in Smith's exposition of the division of labor, as well as several references to projectors, entrepreneurship is rarely mentioned (WN, p. 21). More importantly, Smith seems to pay little attention to the wider social changes that a dynamic, commercial society would bring about. Liberalism not only entails economic dynamism but social dynamism as well – the mixing of cultures, the proliferation of communities, experimentation in norms and mores, and a general openness to society unique to the commercial age.

Smith was living at the beginning of this great transformation. His ignorance of it could simply be because he did not see it play out. Murray Rothbard (1995, 444), for instance, indicts

² Referred to as WN.

Smith for being unaware of the coming Industrial Revolution. Although Smith could not have foreseen the immense material changes that the industrial revolution would bring about, I argue that his alleged ignorance of the dynamism of market societies can be explained through an esoteric reading. Smith was aware that liberal, market societies would be a serious departure from the traditional societies which humans were accustomed to. Though he could not foresee the exact details of this departure, he did recognize the magnitude of the departure. Further, he recognized that liberalism, though it promised great benefits materially and socially, would also be at odds with many of our ingrained, even instinctual, moral intuitions. Liberalism is open-ended and dynamic; humans are accustomed to close-ended and stable societies. Liberalism impels people to confront the foreign and the novel, and as a result, often provokes repugnance and indignation. Smith, recognizing our atavistic tendencies, downplayed the dynamic aspects of liberalism.

2. Smith on Dynamism and Entrepreneurship: The Traditional Interpretation

I will be treating entrepreneurship and innovation as sub-phenomena of dynamism more generally. Dynamism refers to the constant change inherent in market societies. In *The Future and Its Enemies*, Virginia Postrel defines a dynamic society as one of “constant creation, discovery, and competition” (xiv). Dynamic societies are open-ended, in that there is no fixed plan or hierarchy that individuals within such a society are obliged to adhere to. Each individual is free to pursue her own ends in her own way, and even free to decide, within the bounds of commutative justice, what those ends are to be. Accordingly, dynamic societies are constantly changing, and in ways that are often unforeseen or even unknowable.

As Postrel writes, such change “attracts enemies, philosophical as well as self-interested” (xv). Innovation, even while it produces economic growth, also produces new winners and losers

based on who best navigates and foresees changing conditions. Schumpeter famously described such innovation as “creative destruction,” but the change resulting from market societies is social as well as economic (1962, 83). Established ways of living are constantly challenged in a dynamic society. Where once individuals lived in close-knit communities, cooperating largely with people they knew, adhering to customs that had been passed down for generations, market societies induce individuals to cooperate with strangers, and free them to adopt and shape their own customs. Although dynamic societies can be liberating, such liberation can also be a burden. *The Communist Manifesto* captures the essence of the dynamic society far better than Smith when he wrote:

Constant revolutionizing of production, uninterrupted disturbance of all social conditions, everlasting uncertainty and agitation distinguish the bourgeois epoch from all earlier ones. All fixed, fast frozen relations, with their train of ancient and venerable prejudices and opinions, are swept away, all new-formed ones become antiquated before they can ossify. All that is solid melts into air, all that is holy is profaned, and man is at last compelled to face with sober senses, his real condition of life, and his relations with his kind. (Marx and Engels 1967, 83)

The dynamism of the “bourgeois epoch” constantly incites resistance. Postrel defines those who oppose dynamism as “stasists” (xiv). Stasists hope to either preserve the past or to manage the future in some predictable way. The divide between dynamists and stasists lies at the heart of many political struggles since Smith’s time (although there are also divides between different types of stasists, and between different types of dynamists). Yet, Smith seems to be rather silent on the ways in which liberalism would remake society.

One aspect of Smith’s silence on dynamism is his alleged ignorance of entrepreneurship and innovation, narrowly speaking. In the introduction to the Glasgow edition of the *Wealth of*

Nations, R.H. Campbell and Andrew Skinner (1976), provide what has become the standard interpretation on Smith and entrepreneurship:

Innovation is no more central to the analysis. Projectors pass through the pages of the WN, frequently to be dismissed as detrimental rather than helpful to economic growth. In spite of his stress on psychological propensities in other parts of his works, Smith did not extend his analysis in a serious way to evaluate the qualities which determined the ability to innovate successfully. (p. 49)

Similarly, Joseph Schumpeter argues that the entrepreneur plays a limited role, and to the extent that there is an entrepreneur, he hardly resembles the modern figure:

A. Smith glanced at the type occasionally—he speaks occasionally of the undertaker, the master, the merchant—and, if pressed, would not have denied that no business runs by itself. Nevertheless this is exactly the over-all impression his readers get. The merchant or master accumulates ‘capital’—this is really his essential function—and with this ‘capital’ he hires ‘industrious people,’ that is, workmen, who do the rest. In doing so he exposes these means of production to risk of loss; but beyond this, all he does is to supervise his concern in order to make sure that the profits find their way to his pocket. (1954, 529)

R. Koebner (1959, p. 383) notes that Smith seemed to pay little attention to the more innovative developments of his time period:

The passages which could be taken as testifying to Smith's interest in recent technical progress are very sparse and rarely explicit. The hints, if there are any, are very casual, and betray none of that eagerness to be exactly informed on the most various aspects of contemporary economic life which he shows in his expositions of money transactions, labour conditions, soil conservation, and the corn trade.

Adding to Koebner's analysis, C.P. Kindleberger (1976, p. 4) highlights the many innovations which Smith gave scant attention to from improvements in cotton textiles to the proliferation of canals and turnpikes which had greatly reduced travel times.

Mark Blaug (2000, 77-79) argues that the entrepreneurial function is not well isolated in WN, writing that, “Adam Smith did not distinguish in any way between the capitalist as the provider of the ‘stock’ of the enterprise and the entrepreneur as the ultimate decision-maker.” Blaug emphasizes this omission by noting that Smith had read Cantillon, who does offer a theory of entrepreneurship.

Rothbard (1995, p. 351) makes the stronger argument that there is almost no trace of the entrepreneur in WN. Rothbard characterizes Smith’s system as one that is “perpetually in a state of long-run equilibrium [which] rules out the real world of uncertainty” and thus the need for an entrepreneur. Although Rothbard is engaging in some exaggeration in claiming that Smith’s system totally precludes a role for the entrepreneur, he is hitting on the general impression most readers have of Smith.

McCloskey (2016) also views entrepreneurship and dynamism as lacking in Smith. She writes that “courage plus prudence yields enterprise (a virtue not much admired in Smith, who recommended instead safe investments in agriculture)” (p. 190). Indeed, Smith emphasizes prudence, which he says is “rather cautious than enterprising” (TMS, p. 213), much more than the courage needed for entrepreneurial endeavors. The creative entrepreneur seems to get little praise in Smith’s corpus. Indeed, it is the “prudent man” that Smith identifies, and praises, as the stock figure of commerce. As Salim Rashid (1998, p. 62) adds “the active, restless, creative entrepreneur not only gets no praise, Smith classifies such individuals with the derogatory class of ‘projectors.’ The projectors are the subject of considerable sarcasm.” Although projector is not synonymous with entrepreneur, Rashid rightly points out Smith’s skeptical attitude toward risky business ventures.

Some scholars have noted that Smith was not entirely ignorant of entrepreneurship. G.B. Richardson (1975) argues that Smith in WN offers two accounts of economic activity: “a theory of economic equilibrium and a theory of economic evolution.” The former, the account more commonly focused on, is the one highlighted by Blaug and Rothbard; the latter account highlights the more dynamic aspects of the market economy, which are frequently claimed to be missing from Smith’s corpus. Additionally, Michael Bradley (2010) argues that some elements of an Austrian theory of entrepreneurial competition can be found in Smith.

When we turn to Smith’s corpus, we first find invention in his famous exposition of the division of labor. The division of labor makes inventions possible, since it allows people to focus on simple, specific tasks. As Smith writes, “Men are much more likely to discover easier and readier methods of attaining any object, when the whole attention of their minds is directed towards that single object, than when it is dissipated among a great variety of things” (WN, p.21). Smith speculates that a boy, employed to open and close a valve on a steam engine, was probably the one who discovered how to automate the process. Smith also highlights another source of innovation made possible by the division of labor:

All the improvements in machinery, however, have by no means been the inventions of those who had occasion to use the machines. Many improvements have been made by the ingenuity of the makers of the machines, when to make them became the business of a peculiar trade; and some by that of those who are called *philosophers or men of speculation*, whose trade it is, not to do any thing, but to observe everything; and who, upon that account, are often capable of combining together the powers of the most distant and dissimilar objects. (WN, p. 21, italics added)

Once exchange makes the division of labor possible, some individuals in society are able to specialize, not in some specific task, but in spotting connections between “dissimilar objects.” In doing so, they can combine these dissimilar objects into new, profitable configurations. Smith’s

philosopher, like Israel Kirzner's (1973) entrepreneur, reinterprets old and known elements to discover something new. As Smith wrote in the 'Early Draft' of the WN:

When an artist makes any such discovery he shows himself to be not a meer artist but a real philosopher, whatever may be his nominal profession. It was a real philosopher only who could invent the fire-engine, and first form the idea of producing so great an effect by a power in nature which *had never before been thought of*. (LJ, p. 570, italics added)

It is through these philosophical acts that innovation and novelty are injected into the economy leading to "universal opulence" (WN, p. 22).

Along with the philosopher, the projector often seems to play the role of the entrepreneur in *The Wealth of Nations*. As Smith writes, "The establishment of any new manufacture, of any new branch of commerce, or of any new practice in agriculture, is always a speculation, from which the projector promises himself extraordinary profits" (WN, p. 131). Although Blaug seems to believe that this projector is never more than a capitalist, or owner of stock, the fact that the projector sometimes makes extraordinary profits, in the face of uncertainty, owing to the discovery and implementation of some new practice, suggests a more entrepreneurial interpretation. It is after the projector's competitors gain knowledge of this opportunity that "the competition reduces [the profit] to the level of the other trades" (WN, p. 132). Thus, it seems that Smith was trying to articulate a theory of an economy "in a state of constant and internally generated change" (Richardson 1975, 351). In other words, and contra Rothbard, an economy in which entrepreneurship and innovation play a role, even a vital role.

Although Smith does speak to some extent of entrepreneurship and innovation, the literature on the subject views him as largely ignorant. We might forgive the bookish academic for his ignorance of the dynamism that was only dawning. But I argue that Smith was aware that

rising commercial society was marking a serious departure from traditional ways of living, but chose to downplay the tumult of commerce, choosing to paint market societies as routine and natural, in order to make the liberal market order more palatable to both policymakers and educated lay readers. In adopting this rhetorical strategy, Smith does not speak in a clear or systematic fashion with respect to innovation. Nevertheless, I think Smith understood the importance of innovation to economic growth.

4. Overlooked Passages of Smith on Entrepreneurship

The received interpretation of Smith on innovation views him as anywhere from ignorant of innovation's import to skeptical about its impact. However, the received interpretation misses many places in which Smith speaks of entrepreneurship either indirectly, or in a way that might simply be missed by modern eyes. Where past historical stages were marked with routine and stability, the commercial stage would be subject to a great deal of innovation and change, generating instability in routines and customs. For many, such instability could, of course, be frightening and undesirable. Nevertheless, Smith recognized that innovation was both necessary for the wealth of nations and was simply a concomitant of "the liberal plan." But when Smith discusses innovation, he does not always make it clear that he is doing so, and he often downplays the importance of it (or at least fails to convey the importance of it).

Smith's stark contrast between the enslaved miners in Turkey and the free miners in Hungary illustrates his belief in the natural ingenuity of people when granted liberty. The enslaved miners of Turkey lack an entrepreneurial impulse; even if they proposed an innovation, their master would suspect them of laziness and "instead of reward, would probably meet [them] with much abuse" (WN, p. 684). In contrast, "the Hungarian mines are wrought by freemen, who employ a great deal of machinery, by which they facilitate and abridge their own labour" (WN,

p. 684). When people are given freedom, Smith observes, they naturally seek to innovate. Smith uses an extreme case—enslaved-versus-free—to make his point; he allows the reader to draw the conclusion—abridgments to liberty, even those that fall short of slavery, can undermine ingenuity and innovation.

In general, Smith has a highly optimistic outlook toward human ingenuity—especially for his time period. He writes that:

What takes place among the labourers in a particular workhouse, takes place, for the same reason, among those of a great society. The greater their number, the more they naturally divide themselves into different classes and subdivisions of employment. More heads are occupied in inventing the most proper machinery for executing the work of each, and it is, therefore, more likely to be invented. (WN, p. 104)

In other words, increases in the labor supply need not reduce common laborers to bare subsistence as many might have believed in Smith's day and age. The human mind, as Smith recognizes, in the spirit of Julian Simon (1981), is an unending source of creativity. Smith's optimistic outlook toward human ingenuity stands in stark contrast to many of his contemporaries. As Christopher Martin (2015) has pointed out, a key group of interlocutors for Smith were those who defended the "utility-of-poverty" doctrine. Martin notes that advocates "of the utility of poverty" doctrine, of which we might count Sir William Petty and Bernard Mandeville, "tended to speak of workers as a kind of instrumental caste whose purpose was to furnish biddable, affordable workers and servants for the better off" (ibid., 561). The idea that common laborers could be sources of innovation and ingenuity was foreign to many eighteenth-century minds. For Smith to view common laborers as potentially creative was likely more radical in his day than in ours—although even in our day authors such as Simon (1981) have to teach the public about creativity and positive-sum processes.

Relative to his contemporaries, Smith seems optimistic about the future of economic growth, though his optimism is generally guarded. Smith (WN, p. 344) observes that the “annual produce of the land and labour of England” was much greater in his time than it was at the restoration of Charles II in 1660. Nevertheless, he writes:

at present, few people, I believe, doubt of [England’s increased wealth], yet during this period, five years have seldom passed away in which some book or pamphlet has not been published, written too with such abilities as to gain some authority with the public, and pretending to demonstrate that the wealth of the nation was fast declining, that the country was depopulated, agriculture neglected, manufactures decaying, and trade undone. (ibid)

Even in periods of national economic growth, some industries or regions suffer; Smith attributes the pessimism of his contemporaries to their inability to see the whole picture. But Smith recognizes that things could have been better. Even in the relatively peaceful period following the Restoration, several wars had wasted the capital and industry of the country:

So great a share of the annual produce of the land and labour of the country, has, since the revolution, been employed upon different occasions, in maintaining an extraordinary number of unproductive hands. But had not those wars given this particular direction to so large a capital, the greater part of it would naturally have been employed in maintaining productive hands, whose labour would have replaced, with a profit, the whole value of their consumption. The value of the annual produce of the land and labour of the country, would have been considerably increased by it every year, and every year’s increase would have augmented still more that of the following year. More houses would have been built, more lands would have been improved, and those which had been improved before would have been better cultivated, more manufactures would have been established, and those which had been established before would have been more extended; and *to what height* the real wealth and revenue of the country might, by this time, have been raised, *it is not perhaps very easy even to imagine* (WN, p. 345, italics added).

Not only would more of the known – houses, land, manufactures, etc. – have been produced but improvements and innovations which were previously unknown would have been discovered as

well. Smith elsewhere recognizes the import of market competition to discover the unthought-of. But even here, Smith nods toward the difficulty of imagining the counter-factual – we can hardly conceive of how much things would have improved had the state not wasted the country’s capital fighting unnecessary wars.

Smith says that when people are able to specialize, they are put in a position to make inventions and innovations since “[m]en are much more likely to discover easier and readier methods of attaining any object, when the whole attention of their minds is directed towards that single object, than when it is dissipated among a great variety of things” (WN, p. 20). Thus, with property comes exchange, with exchange comes specialization, and with specialization comes innovation. In Smith’s explanation for why the division of labor leads to increases in productivity, invention is one of the three reasons he gives.³ He also cites “dexterity” and “the saving of time” as two other reasons (WN, p. 17). He observes in the pin factory that if ten laborers had worked separately, each of them could make “perhaps not one pin in a day” (ibid.). But, due to specialization, they can produce roughly forty-eight thousand in a day. Smith doesn’t explicitly state which of the three reasons is most important for the massive increase in productivity. But he writes that it is so obvious “how much labour is facilitated and abridged by the application of proper machinery” that it is “unnecessary to give any example” (WN, p. 19). Invention, unlike dexterity and saving time, can lead to vast advances in the division of labor and would seem to be the main factor that explains the increase in productivity. But Smith does not explicitly say as much. Machinery, as Smith notes, allows “one man to do the work of many” (WN, p. 17). When a machine allows one worker to do the work of many, the many are enabled

³ I am indebted to Donald Boudreaux for the following observation that Smith appears to downplay the importance of invention.

to pursue other trades and specializations. Although “saving time” and “dexterity” surely increase productivity, an invention in one industry can lead to discoveries in other industries—if not the creation of wholly new industries. As Allyn Young (1928) later observed, the invention of the printing press not only made possible improvements in printing, but also new ventures in wood pulp, paper, ink, and so on.

Smith elsewhere recognizes that innovation can generate increasing returns. He observes that in the long-run the competitive entrepreneurial process tends to reduce the price of goods. In pushing against the claim made by apologists for the East India Company that competition among traders had raised the price of goods in India, Smith argued that:

The increase of demand, besides, though in the beginning it may sometimes raise the price of goods, never fails to lower it in the long run. It encourages production, and thereby increases the competition of the producers, who, in order to undersell one another, have recourse to new divisions of labour and new improvements of art which might never otherwise have been *thought of*. (WN, p. 748, italics added)

Smith seems to have in mind a downward-sloping long-run supply curve, a long-run locus of points associated with serial spontaneous creative downward shifts in cost functions. Initially, the increase in demand raises the price of goods; however, the higher price acts as a signal to entrepreneurs and encourages them to enter the market. These entrepreneurs, upon entering the market, devise new innovations which, as I have emphasized above, might never have been thought of in the absence of the high price. Smith frequently uses the phrase “thought of” in connection to entrepreneurship and innovation. The phrase calls to mind a Kirznerian interpretation of the market process in which prices spur market participants toward previously unnoticed opportunities. As Kirzner observed, price ceilings not only “block the upper reaches of a given supply curve,” but also:

may inhibit the discovery of as yet unsuspected sources of supply (which in the absence of the ceiling would have tended to shift the entire supply curve to the right) or of as yet wholly unknown new products (tending to create supply curves for whole new graphs). The lure of pure profit tends to uncover such as *yet unknown* opportunities. (1985, p. 143, italics added)

Kirzner's "yet unknown" corresponds exactly to Smith's frequent talk of the "unthought of."

Smith views the market as a process by which new discoveries, inventions, and innovations are constantly generated. Such innovations would be necessary to explain the fall in prices that Smith observes. When the market process is stunted, unthought of discoveries remain unthought of, and the fall in the prices never occurs. As Smith observed in the aforementioned Turkish slave mines, wherein there are no market signals to encourage innovation, "the arms of those slaves are the only machines which the Turks have ever *thought of* employing" (WN, p. 684, italics added).

In pushing against another mercantilist belief of the eighteenth century, the idea that the importation of gold and silver were the primary benefits of the colonies, Smith argued instead that it was the opening of new markets, the discovery of new goods and services, that was the primary benefit. He writes that, as a result of the colony trade:

The productive powers of labour were improved, and its produce increased in all the different countries of Europe, and together with it the real revenue and wealth of the inhabitants. The commodities of Europe were almost all new to America, and many of those of America were new to Europe. A new set of exchanges, therefore, *began to take place which had never been thought of before*, and which should naturally have proved as advantageous to the new, as it certainly did to the old continent. (WN, p.448, italics added)

As Smith sees it, the colony trade enhanced the wealth of the Old World because it allowed for the discovery of new channels for mutually beneficial exchange. In turn, these new markets gave "occasion to new divisions of labour and improvements in art" (ibid.). Smith is arguing, much

like Friedrich Hayek in “Competition as a Discovery Procedure” (1978), that the benefits of market are unknown and undiscoverable except through the market process. The market process allows human ingenuity to be put toward productive purposes, the results of which cannot be anticipated much less planned in advance. Smith saw the benefits of the market process even in the provision of education, as Scott Drylie (2020) argues. The flipside of the creativity of markets, which Smith also fails to mention, is the destructive aspect – some industries, firms, and even ways of life will be threatened by the innovations generated by the market process.

These passages indicate that Smith was well-aware of the innovative potential of markets, although his beliefs on the subject might not have been clearly articulated. If Smith is aware of innovation, the mystery then becomes why did Smith leave his thoughts on the subject obscure? Additionally, why did so many economists in Smith’s wake, and so many historians of thought long after Smith, fail to recognize the role of entrepreneurship and innovation in his *Wealth of Nations*?

5. Smith as Esotericist

I think the failure to see entrepreneurship in Smith stems from two causes. The first is that modern readers have looked for “the entrepreneur” in corresponding terms like “the projector” or “the undertaker.” Such types are often few and far between in Smith. Instead, entrepreneurship for Smith is often identified in attributes that anyone can possess, regardless of his or her nominal profession. Terms such as “vigilance,” “application,” “industry,” “invention,” “ingenuity,” and “judgment”⁴ seem to stand-in for terms like “creativity” and “innovation,” that modern scholars of entrepreneurship might use. To revisit Smith’s comparison of “private

⁴ Smith uses “judgment” three times in WN’s “Introduction and Plan of the Work,” and in a way that could include thinking of the previously unthought of (WN, 10-11).

adventurers” and “joint-stock companies,” he extols the “vigilance” of the adventurers as compared to the joint-stock companies (WN, p. 755). By “vigilance” Smith is speaking of the ability of the adventurers to be alert (as a Kirznerian might say) to changes in market conditions:

To buy in one market, in order to sell, with profit, in another, when there are many competitors in both; to watch over, not only the occasional variations in the demand, but the much greater and more frequent variations in the competition, or in the supply which that demand is likely to get from other people, and to suit with dexterity and judgment both the quantity and quality of each assortment of goods to all these circumstances, is a species of warfare of which the operations are continually changing, and which can scarce ever be conducted successfully, without such an unremitting exertion of vigilance and attention, as cannot long be expected from the directors of a joint stock company. (ibid.)

Entrepreneurship becomes more readily observable in *The Wealth of Nations* when readers are attuned to the way Smith speaks of entrepreneurship.

Second, and more importantly, I think Smith deliberately chose to downplay the dynamic elements of the market economy, including entrepreneurship. Smith’s deliberately obscure rhetoric can be considered an instance of esoteric writing. Esoteric writing, as described by Arthur Melzer (2014) in *Philosophy Between the Lines*, is a form of rhetoric in which the author purposefully seeks to make some aspect of his thought non-obvious. The esoteric writer might convey two teachings: an exoteric teaching, the obvious reading of the text which most people can grasp, and an esoteric teaching which is less obvious and communicated indirectly to a narrower subset of readers. It is important to note that the exoteric and esoteric teachings need not contradict each other. In Smith’s case, I argue that he has chosen to downplay the dynamic elements of the market economy in order to make the liberal system more palatable to readers. Indeed, we should consider Smith as writing esoterically for political reasons – he was hoping that the *Wealth of Nations* would encourage reform in a more liberal direction. The obvious

question becomes, why would Smith need to downplay dynamism to make liberalism more palatable for his audience?

Smith seems to have had intuitions in line with the atavism thesis later put forward by F.A. Hayek (1979). Our genes have changed very little since the days of the hunter-gatherer band. These bands were small, members generally shared the same moral framework, and the bands were largely egalitarian. We still long for the encompassment of the band, and, in that respect, commercial society falls short. Whereas the band was intimate and closed, commercial society is impersonal and open. Paul Seabright (2010, 4) captures the magnitude of the change, writing that “The same shy, murderous ape that had avoided strangers throughout its evolutionary history was now living, working, and moving among complete strangers in their millions.”

Smith has an incomplete picture of our evolutionary history but knows enough to recognize commercial society as an important departure from the past. In the *Lectures on Jurisprudence*, Smith discusses life in “the age of hunters” (LJ, p. 201). He recognizes the cohesive, egalitarian nature of hunter life, writing that, “In the age of the hunters there can be very little government of any sort, but what there is will be of the demoraticall kind [sic]” (ibid). He adds that “disputes betwixt others can in this state but rarely occur, but if they do... the whole community then interferes to make up the difference” (ibid). Such societies are small enough to work by cooperation “afforded from love, from gratitude, from friendship, and esteem” (TMS, p. 85).

Upon the introduction of property, in “the age of shepherds... men become in any considerable degree dependent on others,” and disputes begin to multiply (LJ, p. 202-3). Society becomes larger and more complex as the age of shepherds gives way to agriculture, but

traditional agrarian societies retain many of the same features of the band – stability, cohesion, and routine. It is only with the rise of commercial society that dynamism, dislocation, and dis cohesion arise in great degree.

With the emergence of commercial society, we begin to rely on strangers more than our close community. Catering to the demands of strangers as the primary means for our subsistence is far removed from the lifestyle of the tight-knit hunter-gatherer band in which people produced primarily for the benefit of their loved ones. Even though commercial society will lead to great material wealth, it will also place unique burdens on us. Smith writes that we generally feel that “an artificer is the *servant* of his customers,” and this servitude can be disagreeable (WN, p. 379, italics added). Not only must we keep up with competitors and innovators to retain the business of these strangers, but these strangers might hold beliefs and morals that are at variance with ours—the problem of societal dis cohesion. We often pine for a simpler existence, like that of the “planter who cultivates his own land, and derives his necessary subsistence from the labour of his own family, [and] is really a master, and independent of all the world” (ibid.). In commercial society people may feel “alienated.”

Rousseau criticized commercial society for making us dependent on others. This dependence, Rousseau argued, resulted in vanity and obsequiousness. In commercial societies, people are constantly putting on airs, compromising their principles, and engaging in all manner of deceit to win others over. Man in his primitive state was happy; civilization corrupted him. Smith recognized, and appreciated, the intuitive appeal of Rousseau. Smith discusses Rousseau’s Discourse in a 1756 letter to the *Edinburgh Review*. In the letter, Smith writes that “the life of a savage, when we take a distant view of it, seems to be a life of either profound indolence, or of great and astonishing adventures; and both of these qualities serve to render the description of it

agreeable to the imagination” (Smith, 1980, 251). Rousseau, Smith recognized, intended to “paint the savage life as the happiest of any,” by presenting “only the indolent side of it to view, which he exhibits indeed with the most beautiful and agreeable colours.” (ibid.). Although Rousseau’s image of the noble savage was rather lacking in man’s immersion within a band, the noble savage, of whatever variety, is a romantic ideal which plays on our atavistic instincts and inflates them, furthering the suspicion held by many in the eighteenth century (and long before) that commercial society corrupted our inner moral goodness.

Moreover, commercial society is subject to significant and frequent change which is seemingly unplanned – the dynamism which Postrel refers to. The liberal plan proposes to allow such change to occur. As a result, dislocation occurs as individuals are directed by market signals rather than the dictates of their superiors, in finding their livelihoods. Karl Polanyi, in *The Great Transformation*, recognizes this as a major departure from traditional governance, writing that:

A belief in spontaneous progress must make us blind to the role of government in economic life. This role consists often in altering the rate of change, speeding it up or slowing it down as the case may be; if we believe that rate to be unalterable—or even worse, if we deem it a sacrilege to interfere with it—then, of course, no room is left for intervention. (Polanyi 2001, 39)

I believe Smith recognized that commercial society, especially when governed by the liberal plan, would bring with it dislocation. Indeed, reaction against dislocation was already occurring before and during Smith’s time. The Luddite riots, as G.N. Clark points out, were just one of many such incidents of machine-breaking:

In England, for instance, the first saw-mills had to stop working in 1663 because of popular opposition, and the same thing happened again at Limehouse as late as 1767. There were disturbances against the ribbon-loom in 1676. There was smashing of stocking-frames in 1710. In 1726—we do not know for what provocation—frame-breaking was made a capital offence. The great textile inventions of the eighteenth century were followed step by step by wrecking,

from the sacking of Kay's house at Bury in 1753 to the Luddite riots of 1811-12.
(Clark 1936, 146)

Given that commercial society would conflict with our atavistic biases, I think Smith chose to paint commercial society in such a way that was non-threatening – to focus on those aspects of commercial society that appealed to our natural way of living. The biases against commerce are ancient and deep, something Smith recognized. In the *Lectures on Jurisprudence*, Smith is recorded as saying, “In a rude society, nothing is honorable but war. In the Odyssey, Ulysses is sometimes asked, by way of affront, whether he be a pirate or a merchant. At that time a merchant was reckoned odious and despicable.” (p.527). Throughout English history, such slurs as “engrossers, regraters, and forestallers” had been affixed to those who made a living by mercantile activity (WN, p.396).

But in Smith’s era commercial activity was being honored for, largely, the first time. As McCloskey (2010) has argued, a change in beliefs about commercial behavior in northwest Europe and England around the seventeenth and eighteenth centuries propelled the industrial revolution. Everyday beliefs and rhetoric about honest income-making changed such that it became dignified to be a merchant, manufacturer, or money-lender. Smith was very much part of this rhetorical change.

Thus, Smith focused on how commerce could be dignified, and how commercial society, although it could never be as cohesive as traditional society, could still offer community and order. For instance, in TMS, Smith points out that in commercial societies, the relations of the extended family begin to fade: “the descendants of the same family, having no such motive for keeping together, naturally separate and disperse, as interest or inclination may direct” (p. 223). Readers in Smith’s time might have bemoaned these fraying familial relations. Smith doesn’t

attack their nostalgia but attempts to redirect it: the affection of blood relations, he points out, is built on habituation and not blood itself. Smith argues that such affection can also be found in the commercial order:

Among well-disposed people, the necessity or conveniency of mutual accommodation, very frequently produces a friendship not unlike that which takes place among those who are born to live in the same family. Colleagues in office, partners in trade, call one another brothers; and frequently feel towards one another as if they really were so... The Romans expressed this sort of attachment by the word *necessitudo*, which, from the etymology, seems to denote that it was imposed by the necessity of the situation. (TMS, p. 223-4)

Although we might reasonably question whether the bonds formed in commercial society could be as strong as those formed in the intimate order, it is noteworthy that Smith is trying to show how some primordial tendencies might still be satisfied in the modern, commercial world.

Moreover, Smith, in trying to elucidate the logic of markets, did so in way which might appeal to our atavistic instincts. As Hayek (1979, p. 5) writes of our hunter-gatherer past in the “Atavism of Social Justice,” “in its primitive form the little band indeed did possess what is still attractive to so many people: a unitary purpose, or a common hierarchy of ends, and a deliberate sharing of means according to a common view of individual merits.” Although commercial society could not possibly have a “unitary purpose,” let alone a “common view of individual merits,” Smith showed how the logic of the market directed economic activity in a way in which a benevolent beholder might approve (Klein 2017). Smith’s “invisible hand” passage is one instance of this:

As every individual, therefore, endeavours as much as he can both to employ his capital in the support of domestic industry, and so to direct that industry that its produce may be of the greatest value; every individual necessarily labours to render the annual revenue of the society as great as he can. He generally, indeed, neither intends to promote the public interest, nor knows how much he is promoting it. By preferring the support of domestic to that of foreign industry, he

intends only his own security; and by directing that industry in such a manner as its produce may be of the greatest value, he intends only his own gain, and he is in this, as in many other cases, led by an invisible hand to promote an end which was no part of his intention. (WN, 456)

Smith is trying to get readers to see that the market process, though a departure from the direct system of rewards which governed us in the band, performs much the same function. Rather than relying on the praise or blame of our band to tell us what is economically productive, in commercial society we make use of prices and profit-and-loss signals. Smith even compares grain dealers searching for profit with prudent shipmasters, writing that:

It is the interest of the people that their daily, weekly, and monthly consumption, should be proportioned as exactly as possible to the supply of the season. The interest of the inland corn dealer is the same. By supplying them, as nearly as he can judge, in this proportion, he is likely to sell all his corn for the highest price, and with the greatest profit; and his knowledge of the state of the crop, and of his daily, weekly, and monthly sales, enable him to judge, with more or less accuracy, how far they really are supplied in this manner. Without intending the interest of the people, he is necessarily led, by a regard to his own interest, to treat them, even in years of scarcity, pretty much in the same manner as the prudent master of a vessel is sometimes obliged to treat his crew. When he foresees that provisions are likely to run short, he puts them upon short allowance (WN, 524-5)

By analogizing the market process with a small-scale example, Smith is showing that the market is not a chaotic anarchy but is rather orderly. The order of the market is simply difficult to see from our limited perspective.

However, talk of dynamism and creative destruction might have obscured the image of orderliness that Smith tried to elucidate. To show that the logic of the market need not be frightening, indeed, to show that market had a logic, I think Smith downplayed dynamism. An orderly image of the market would have appealed to policymakers and educated laymen who might have feared giving free rein to the market. In doing so, Smith could give policymakers a

basic maxims and precepts that could help them navigate the complexity of the market, rather than focusing on the more speculative aspects of the market process.

We might question whether Smith's obscure rhetoric with respect to innovation is a genuine example of esoteric writing. When we think of esoteric writing, we generally think of what Melzer calls "defensive esotericism," esoteric writing which results from the author's concern about personal consequences (2014, p. 4). The Soviet-era writings of Czech dissident Vaclav Havel provide a hallmark example of defensive esotericism. Havel went to great lengths to conceal his true intentions from Soviet censors while also communicating knowledge to fellow travelers (Melzer 2014, p. 129). Smith seemed to worry little about persecution, at least as concerned innovation. Indeed, Smith (1987, p. 251) was frequently quite clear in his condemnation of monopolists and mercantilists, even writing himself that he had waged a "very violent attack . . . upon the whole commercial system of Great Britain," indicating that fear of provoking the wrath of government-protected monopolies was not exactly on Smith's radar.

But not all esotericism is born out of a fear of persecution. Rather, Smith's esotericism with respect to dynamism is best categorized by what Melzer calls "political esotericism" (2014, p.4) Political esotericism was especially prominent during the Enlightenment as philosophers came to believe that they could effect change. Smith was at times subversive, as his optimism about human ingenuity cited above shows, but almost always measured. After all, Smith warned readers of the dangers of pushing too zealously against established opinion in his famous passage on "the man of system:"

[The man of system] is often so enamoured with the supposed beauty of his own ideal plan of government, that he cannot suffer the smallest deviation from any part of it. He goes on to establish it completely and in all its parts, without any regard either to the great interests, or to the strong prejudices which may oppose it. He seems to imagine that he can arrange the different members of a great

society with as much ease as the hand arranges the different pieces upon a chess-board. He does not consider that . . . every single piece has a principle of motion of its own (TMS 233-34)

Given that the dynamism of the market society clashes with our atavistic biases, it is not surprising that Smith would speak cautiously of dynamism. Other scholars have pointed to instances of Smith writing cautiously for possibly esoteric reasons. Jonathon Diesel (forthcoming) argues that Smith's public defense of usury laws stems from his desire to not come across as too radical or rationalistic in affirming the liberty maxim. Mark Bonica and Daniel Klein (forthcoming) argue that Smith was intentionally equivocal with respect to reputation and commutative justice, since arguing that reputation should not be protected like property would have been an iconoclastic opinion at the time. Michael Clark (forthcoming), responding to scholars such as Emma Rothschild (1994) and Samuel Fleischacker (2004) who have advanced a social democrat reading of Smith, argues that these scholars have mistaken Smith's cautious approach to public policy for significant skepticism of the market.

Finally, we might wonder why other readers did not seem to grasp that Smith was writing esoterically on dynamism and innovation. Indeed, most scholars who write on Smith and innovation have argued that Smith was largely ignorant on the subject. Almost none of Smith's contemporaries pointed out that he was being esoteric on innovation. However, the one exception is Bentham. Bentham (2008, p. 68), in criticizing Smith's defense of usury laws, used Smith's own text against him, writing that, "Should it be my fortune to gain any advantage over you, it must be with weapons which you have taught me to wield, and with which you yourself have furnished me" Bentham points out to Smith the passages in which Smith recognizes the importance of projectors in bringing about innovation, even if their projects are risky. This is

evidence that at least one contemporary of Smith's saw the role of innovation in the *Wealth of Nations*.

Bentham, however, does not discern that Smith had some sort of esoteric intent. This should come as no surprise. As the world was becoming more open to radical ideas in the late 18th century, the original motivation for esoteric writing began to fade. As Melzer (p. 282) points out, the writers of Smith's time were moving away from esotericism, and even felt resentment toward "the need for esoteric restraint." Soon enough esoteric writing came to be either forgotten or considered "the practice of mystics and astrologists" (ibid, p. 284). That Bentham, and other economists in Smith's wake, failed to grasp his esoteric intent is unsurprising, since esotericism fell out of favor in the 19th century. Indeed, as economists attempted to build the reputation of their new science, we should find it unsurprising that they focused largely on exoteric meaning.

6. Conclusion

I think we should reconsider the long-held consensus among economists and historians of thought that Smith was blind to innovation. The evidence that I have presented suggests that Smith had some idea of innovation and entrepreneurship in mind, even if it was not always well-articulated. In determining why Smith spoke obscurely on innovation, we should consider that he did so deliberately. After all, Smith is recorded as saying in the *Lectures on Rhetoric and Belles Lettres* that "the perfection of stile consists in Expressing in the most concise, proper and precise manner the thought of the author" (p.55). Yet, on entrepreneurship and other issues related to the dynamism of the market, Smith's thoughts are anything but concise.

I think Smith chose to be deliberately obscure, because he recognized that the dynamism of the market could be frightening and unsettling to many. Indeed, even today we should

recognize that many objections to the market are not necessarily that it won't produce economic growth, but that such growth will plunge us into the unknown, that all that is solid will melt into air. Some policies might be able to mitigate the downsides of creative destruction, but ultimately the market relies on a culture that is tolerant to, and accepting of, the unknown.

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