Session II

Protectionism and Cronyism
BOOK IV

Of Systems of political Economy

INTRODUCTION

1 Political economy, considered as a branch of the science of a statesman or legislator, proposes two distinct objects; first, to provide a plentiful revenue or subsistence for the people, or more properly to enable them to provide such a revenue or subsistence for themselves; and secondly, to supply the state or commonwealth with a revenue sufficient for the publick services. It proposes to enrich both the people and the sovereign.

2 The different progress of opulence in different ages and nations, has given occasion to two different systems of political economy, with regard to enriching the people. The one may be called the system of commerce, the other that of agriculture. I shall endeavour to explain both as fully and distinctly as I can, and shall begin with the system of commerce. It is the modern system, and is best understood in our own country and in our own times.
CHAPTER I

Of the Principle of the commercial, or mercantile System

1. That wealth consists in money, or in gold and silver, is a popular notion which naturally arises from the double function of money, as the instrument of commerce, and as the measure of value. In consequence of its being the instrument of commerce, when we have money we can more readily obtain whatever else we have occasion for, than by means of any other commodity. The great affair, we always find, is to get money. When that is obtained, there is no difficulty in making any subsequent purchase. In consequence of its being the measure of value, we estimate that of all other commodities by the quantity of money which they will exchange for. We say of a rich man that he is worth a great deal, and of a poor man that he is worth very little money. A frugal man, or a man eager to be rich, is said to love money; and a careless, a generous, or a profuse man, is said to be indifferent about it. To grow rich is to get money; and wealth and money, in short, are, in common language, considered as in every respect synonymous.

2. A rich country, in the same manner as a rich man, is supposed to be a country abounding in money; and to heap up gold and silver in any country is supposed to be the readiest way to enrich it. For some time after the discovery of America, the first enquiry of the Spaniards, when they arrived upon any unknown coast, used to be, if there was any gold or silver to be found in the neighbourhood? By the information which they received, they judged whether it was worth while to make a settlement there, or if the country was worth the conquering. Plano Carpinc, a monk sent ambassador from the king of France to one of the sons of the famous Gengis Khan, says that the Tartars used frequently to ask him, if there was plenty of sheep and oxen in the kingdom of France? Their enquiry had the

1 The thesis that opulence does not consist in money is examined in LJ (A) vi. 127–71, LJ (B) 244–70, ed. Cannan 190–211, and ED 4.6–10. While there are differences of detail, all three versions follow a similar plan: The statement of the mercantile fallacy is followed by an appreciation of paper money (see above, II.ii) before proceeding to review the errors of the system in practice, e.g. the prohibition of the export of bullion, the doctrine of the balance of trade, the thesis that intervention will upset the natural balance of industry (see for example, IV.ii.3). In each case, Smith also emphasized the benefits of free trade and highlighted the problems of national animosity, in a manner which is reminiscent of Hume. In both ED and LJ (B) the critique of Law’s Mississippi Scheme is included as a part of the general critique of the mercantile system, i.e. treated as one of the errors to which it had given occasion. See above, II.ii.78. The subjects of this particular chapter are considered in LJ (A) vi. 127–46 and LJ (B) 244–56, ed. Cannan 190–200.

2 See below, IV.i.1. This is explained above, I.v.5.

3 Cannan has noted that there may be a confusion between Plano Carpini, sent as a legate by Pope Innocent IV in 1246, and Guillaume de Rubruquis, sent as ambassador by Louis IX in 1253. Cannan also observes that both are mentioned in N. Bergerot’s Voyages faits principalement en Asie dans les xii., xiii., xiv., et xv. siècles (La Haye, 1729).
same object with that of the Spaniards. They wanted to know if the country was rich enough to be worth the conquering. Among the Tartars, as among all other nations of shepherds, who are generally ignorant of the use of money, cattle are the instruments of commerce and the measures of value. Wealth, therefore, according to them, consisted in cattle, as according to the Spaniards it consisted in gold and silver. Of the two, the Tartar notion, perhaps, was the nearest to the truth.

3 Mr. Locke remarks a distinction between money and other moveable goods. All other moveable goods, he says, are of so consumable a nature that the wealth which consists in them cannot be much depended on, and a nation which abounds in them one year may, without any exportation, but merely by their own waste and extravagance, be in great want of them the next. Money, on the contrary, is a steady friend, which, though it may travel about from hand to hand, yet if it can be kept from going out of the country, is not very liable to be wasted and consumed. Gold and silver, therefore, are, according to him, the most solid and substantial part of the moveable wealth of a nation, and to multiply those metals ought, he thinks, upon that account, to be the great object of its political economy.

4 Others admit that if a nation could be separated from all the world, it would be of no consequence how much, or how little money circulated in it. The consumable goods which were circulated by means of this money, would only be exchanged for a greater or a smaller number of pieces; but the real wealth or poverty of the country, they allow, would depend

* The Spanish attitude to colonisation is mentioned at Lxi.c.36 and IV.viii.a.17.
* See above, Liv.3, where it is mentioned that cattle were used as instruments of commerce in the "rude ages of society".
* It is difficult to find a parallel passage in Locke. The nearest probably are: 'Money has a value, as it is capable, by exchange, to procure us the necessaries or conveniences of life, and in this it has the nature of a commodity; only with this difference, that it serves us commonly by its exchange, never almost by its consumption.' (Some Considerations of the Consequences of the Lowering of Interest, and raising the Value of Money, Works (1832), v.34.) "Thus came in the use of money, some lasting thing that men might keep without spoiling, and that by mutual consent men would take it in exchange for the truly useful, but perishable supports of life." (Essay on Civil Government, Works (1832), v.365.) In LJ (A) vi.135, Locke is referred to as a follower of the mercantile system, and one who had given it 'somewhat more of a philosophicall air and the appearance of probability by some amendments'. In this connection, Smith cited the allowance which Locke is said to have made for the fact that cattle and corn could be regarded as part of a nation's wealth, albeit less significant than money. Cf. LJ (B) 359, ed. Cannan 196–9.
* Harris admitted: 'In a country having no foreign commerce, any quantity of money will, in a manner, be sufficient for all purposes; and any increase or diminution of the original stock, if it be but gradual and slow, will scarce be attended with any consequence of moment.' But later he wrote: 'In the days of prosperity...it would be prudent to lay up a kind of dead stock of the precious metals, against any emergencies that might happen...He that is ready armed, is less liable to be assailed; and silver and gold are keen and destructive weapons.' (Essays, i.80 and 99–100.) Hume argued in his essay 'Of Money' that 'If we consider any one kingdom by itself, it is evident, that the greater or less plenty of money is of no consequence.' (Essays Moral, Political, and Literary, ed. Green and Greene, i.309.)
altogether upon the abundance or scarcity of those consumable goods. But it is otherwise, they think, with countries which have connections with sovereign nations, and which are obliged to carry on foreign wars, and to maintain fleets and armies in distant countries. This, they say, cannot be done, but by sending abroad money to pay them with; and a nation cannot send much money abroad, unless it has a good deal at home. Every such nation, therefore, must endeavour in time of peace to accumulate gold and silver, that, when occasion requires, it may have wherewithal to carry on foreign wars.

5 In consequence of these popular notions, all the different nations of Europe have studied, though to little purpose, every possible means of accumulating gold and silver in their respective countries. Spain and Portugal, the proprietors of the principal mines which supply Europe with those metals, have either prohibited their exportation under the severest penalties, or subjected it to a considerable duty. The like prohibition seems antiently to have made a part of the policy of most other European nations. It is even to be found, where we should least of all expect to find it, in some old Scotch acts of parliament, which forbid under heavy penalties the carrying gold or silver forth of the kingdom. The like policy antiently took place both in France and England.

6 When those countries became commercial, the merchants found this prohibition, upon many occasions, extremely inconvenient. They could frequently buy more advantageously with gold and silver than with any other commodity, the foreign goods which they wanted, either to import into their own, or to carry to some other foreign country. They remonstrated, therefore, against this prohibition as hurtful to trade.

7 They represented, first, that the exportation of gold and silver in order to purchase foreign goods, did not always diminish the quantity of those metals in the kingdom. That, on the contrary, it might frequently increase that quantity; because, if the consumption of foreign goods was not thereby increased in the country, those goods might be re-exported to foreign countries, and being there sold for a large profit, might bring back much more treasure than was originally sent out to purchase them. Mr. Mun compares this operation of foreign trade to the seed-time and harvest of agriculture. "If we only behold," says he, "the actions of the husbandman in the seed-time, when he casteth away much good corn into the ground, we shall account him rather a madman than a husbandman.

---

9 The point is elaborated below, IV.v.a.19.
11 The subjects of this and the preceding paragraph follow the argument of LJ (A) vi.147-8; cf. LJ (B) 257-8, ed. Cannan 200-1.
12 See below, IV.iii.a.3.
But when we consider his labours in the harvest, which is the end of his endeavours, we shall find the worth and plentiful increase of his actions."  

8 They represented, secondly, that this prohibition could not hinder the exportation of gold and silver, which, on account of the smallness of their bulk in proportion to their value, could easily be smuggled abroad. That this exportation could only be prevented by a proper attention to, what they called, the balance of trade. That when the country exported to a greater value than it imported, a balance became due to it from foreign nations, which was necessarily paid to it in gold and silver, and thereby increased the quantity of those metals in the kingdom. But that when it imported to a greater value than it exported, a contrary balance became due to foreign nations, which was necessarily paid to them in the same manner, and thereby diminished that quantity. That in this case to prohibit the exportation of those metals could not prevent it, but only, by making it more dangerous, render it more expensive. That the exchange was thereby turned more against the country which owed the balance, than it otherwise might have been; the merchant who purchased a bill upon the foreign country being obliged to pay the banker who sold it, not only for the natural risk, trouble and expense of sending the money thither, but for the extraordinary risk arising from the prohibition. But that the more the

13 Thomas Mun, England's Treasure by Forraign Trade (London, 1664, reprinted Oxford, 1667), 19, which reads 'we will rather accustom him a mad man'. Smith comments on the prohibition on the exportation of bullion in L.J. (A) v.75-5 where he states that it was based on a mistaken notion. He added:

The wealth of a kingdom has by almost all authors after Mun been considered as consisting in the gold and silver in it. In his book called England's treasure by foreign trade, he endeavours to shew the balance of trade is the only thing which can support England, as by this means gold and silver are brought into the kingdom, and in these alone he says the wealth of the kingdom can consist, as they alone are not perishable. On this doctrine of his, which however foolish has been adopted by all succeeding writers, these laws [of felony] have been founded.

Smith added that the exportation of bullion was first allowed by King William 'on the importunities of the merchants'. A similar point is made in L.J. (B) 256-7, ed. Cannan 200-201, and see also L.J. (B) 83, ed. Cannan 59, L.J. (A) vi.147-148, L.J. (A) vi.125 remarks, with regard to mercantilism, that 'Mr. Mun was the first who formed it into a regular system' and in ED 4.5 he states that confusion of wealth with money 'has given occasion to the systems of Mun and Gee; of Mandeville who built upon them; and of Mr Hume who endeavoured to refute them'. On the subject of felony, see below, IV.viii.19.

14 See III.i.1 and IV.iii.2, where it is stated that nothing can be 'more absurd' than this doctrine. Mandeville held in Remark L that good politicians will 'keep a watchful Eye over the Balance of Trade in general, and never suffer that all the Foreign Commodities together, that are imported in one Year, shall exceed in Value what their own Growth or Manufacture is in the same exported to others ... If what I urg'd last be but diligently look'd after, and the Imports are never allow'd to be superior to the Exports, no Nation can ever be impoverish'd by Foreign Luxury.' (The Fable of the Bees, pt.i.15, ed. Kaye, i.116.) Cantillon also held that 'To revive a State it is needful to have care to bring about the influx of an annual, a constant and a real balance of Trade.' (Essai, 236, ed. Higgins 193.) See also, J. Child, New Discourse of Trade (1694), 15a.
exchange was against any country, the more the balance of trade became necessarily against it; the money of that country becoming necessarily of so much less value, in comparison with that of the country to which the balance was due. That if the exchange between England and Holland, for example, was five per cent. against England, it would require a hundred and five ounces of silver in England to purchase a bill for a hundred ounces of silver in Holland: that a hundred and five ounces of silver in England, therefore, would be worth only a hundred ounces of silver in Holland, and would purchase only a proportionable quantity of Dutch goods: but that a hundred ounces of silver in Holland, on the contrary, would be worth a hundred and five ounces in England, and would purchase a proportionable quantity of English goods: That the English goods which were sold to Holland would be sold so much cheaper; and the Dutch goods which were sold to England, so much dearer, by the difference of the exchange; that the one would draw so much less Dutch money to England, and the other so much more English money to Holland as this difference amounted to: and that the balance of trade, therefore, would necessarily be [145] so much more against England, and would require a greater balance of gold and silver to be exported to Holland.

9 Those arguments were partly solid and partly sophistical. They were solid so far as they asserted that the exportation of gold and silver in trade might frequently be advantageous to the country. They were solid too in asserting that no prohibition could prevent their exportation, when private people found any advantage in exporting them. But they were sophistical in supposing, that either to preserve or to augment the quantity of those metals required more the attention of government, than to preserve or to augment the quantity of any other useful commodities, which the freedom of trade, without any such attention, never fails to supply in the proper quantity. They were sophistical too, perhaps, in asserting that the high price of exchange necessarily increased, what they called, the unfavourable balance of trade, or occasioned the exportation of a greater quantity of gold and silver. That high price, indeed, was extremely disadvantageous to the merchants who had any money to pay in foreign countries. They paid so much dearer for the bills which their bankers granted them upon those countries. But though the risk arising from the prohibition might occasion some extraordinary expence to the bankers, it would not necessarily carry any more money out of the country. This expence would generally be all laid out in the country, in smuggling the money out of it, and could seldom occasion [146] the exportation of a single six-pence beyond the precise sum drawn for. The high price of exchange too would naturally dispose the merchants to endeavour to make their exports nearly balance their imports, in order that they might have this high exchange to pay upon

14 See IV.v.a.19 and above, II.ii.30.
as small a sum as possible. The high price of exchange, besides, must necessarily have operated as a tax, in raising the price of foreign goods, and thereby diminishing their consumption. It would tend, therefore, not to increase, but to diminish, what they called, the unfavourable balance of trade, and consequently the exportation of gold and silver.16

Such as they were, however, those arguments convinced the people to whom they were addressed. They were addressed by merchants to parliaments, and to the councils of princes, to nobles and to country gentlemen; by those who were supposed to understand trade, to those who were conscious to themselves that they knew nothing about the matter.17 That foreign trade enriched the country, experience demonstrated to the nobles and country gentlemen, as well as to the merchants; but how, or in what manner, none of them well knew. The merchants knew perfectly in what manner it enriched themselves. It was their business to know it. But to know in what manner it enriched the country, was no part of their business. This subject never came into their consideration, but when they had occasion to apply to their country for some change in the laws relating to foreign trade. It then became necessary to say something about the beneficial effects of foreign trade, and the manner in which those effects were obstructed by the laws as they then stood. To the judges who were to decide the business, it appeared a most satisfactory account of the matter, when they were told that foreign trade brought money into the country, but that the laws in question hindered it from bringing so much as it otherwise would do. Those arguments therefore produced the wished-for effect. The prohibition of exporting gold and silver was in France and England confined to the coin of those respective countries. The exportation of foreign coin and of bullion was made free. In Holland, and in some other places, this liberty was extended even to the coin of the country. The attention of government was turned away from guarding against the exportation of gold and silver, to watch over the balance of trade, as the only cause which could occasion any augmentation or diminution of those metals.18 From one fruitless care it was turned away to another care much more intricate, much more embarrassing, and just equally fruitless. The title of Mun's book, England's Treasure in Foreign Trade,19 became a fundamental maxim in the political economy, not of England only, but of

---

16 Compare Mun's comment that 'the undervaluing of our money in exchange, will not carry it out of the Kingdom, as some men have supposed, but rather is a means to make a less quantity thereof to be exported, than would be done at the Par" pro parte' (England's Treasure by Foreign Trade (reprinted 1967), 41-2.)

17 See below, IV.ii.21.

18 In LJ (B) 252, ed. Cannan 196 Smith also quotes Joshua Gee on the problems of an adverse balance, and John Locke at 254, ed. Cannan 198. Gee is also cited in LJ (A) vii.167.

19 'By' not 'in'.
all other commercial countries. The inland or home trade, the most important of all, the trade in which an equal capital affords the greatest revenue, and creates the greatest employment to the people of the country, was considered as subsidiary only to foreign trade. It [148] neither brought money into the country, it was said, nor carried any out of it. The country therefore could never become either richer or poorer by means of it, except so far as its prosperity or decay might indirectly influence the state of foreign trade.

II. A country that has no mines of its own must undoubtedly draw its gold and silver from foreign countries, in the same manner as one that has no vineyards of its own must draw its wines. It does not seem necessary, however, that the attention of government should be more turned towards the one than towards the other object. A country that has wherewithal to buy wine, will always get the wine which it has occasion for; and a country that has wherewithal to buy gold and silver, will never be in want of those metals. They are to be bought for a certain price like all other commodities, and as they are the price of all other commodities, so all other commodities are the price of those metals. We trust with perfect security that the freedom of trade, without any attention of government, will always supply us with the wine which we have occasion for: and we may trust with equal security that it will always supply us with all the gold and silver which we can afford to purchase or to employ, either in circulating our commodities, or in other uses.

---

20 See above, II.v.25, for an elaboration of this point.
21 Hume develops this theme in his essay 'Of the Balance of Trade', Essays Moral, Political, and Literary, ed. Green and Croce i.330–45.
22 LJ (B) 247, ed. Cannan 192: 'Goods will always bring in money, and as long as the stock of commodities in any nation increases, they have it in their power to augment the quantity of coin.'
23 This term is explained above, I.vii.8, and below, IV.vi.13.
It would be too ridiculous to go about seriously to prove, that wealth does not consist in money, or in gold and silver; but in what money purchases, and is valuable only for purchasing.\textsuperscript{32} Money, no doubt, makes always a part of the national capital; but it has already been shown that it generally makes but a small part, and always the most unprofitable part of it.\textsuperscript{33}

It is not because wealth consists more essentially in money than in goods, that the merchant finds it generally more easy to buy goods with money, than to buy money with goods; but because money is the known and established instrument of commerce, for which everything is readily given in exchange, but which is not always with equal readiness to be got in exchange for everything. The greater part of goods besides are more perishable than money, and he may frequently sustain a much greater loss by keeping them.\textsuperscript{34} When his goods are upon hand too, he is more liable to such demands for money as he may not be able to answer, than when he has got their price in his coffer. Over and above all this, his profit arises more directly from selling than from buying, and he is upon all these accounts generally much more anxious to exchange his goods for money,

\textsuperscript{31} Cf. II.iv.15.
\textsuperscript{32} See above, I.v.
\textsuperscript{33} See above, II.i.19, where money is stated to be a part of the circulating capital of society. It is remarked at II.ii.23 that this part of capital does not contribute to revenue. See generally II.ii and especially §1–23.
\textsuperscript{34} Smith comments on the problem of perishable commodities in discussing price determination at I.vii.10.
than his money for goods. But though a particular merchant, with abundance of goods in his warehouse, may sometimes be ruined by not being able to sell them in time, a nation or country is not liable to the same accident. The whole capital of a merchant frequently consists in perishable goods destined for purchasing money. But it is but a very small part of the annual produce of the land and labour of a country which can ever be destined for purchasing gold and silver from their neighbours. The far greater part is circulated and consumed among themselves; and even of the surplus which is sent abroad, the greater part is generally destined for the purchase of other foreign goods. Though gold and silver, therefore, could not be had in exchange for the goods destined to purchase them, the nation would not be ruined. It might, indeed, suffer some loss and inconvenience, and be forced upon some of those expediency which are necessary for supplying the place of money. The annual produce of its land and labour, however, would be the same, or very nearly the same, as usual, because the same, or very nearly the same consumable capital would be employed in maintaining it. And though goods do not always draw money so readily as money draws goods, in the long-run they draw it more necessarily than even it draws them. Goods can serve many other purposes besides purchasing money, but money can serve no other purpose besides purchasing goods. Money, therefore, necessarily runs after goods, but goods do not always or necessarily run after money. [155] The man who buys, does not always mean to sell again, but frequently to use or to consume; whereas he who sells, always means to buy again. The one may frequently have done the whole, but the other can never have done more than the one-half of his business. It is not for its own sake that men desire money, but for the sake of what they can purchase with it.\text{\textsuperscript{34}}

\textsuperscript{34} Money is described as 'the great wheel of circulation' at II.ii.23; see also IV.vi.27, where money is described as a commodity with regard to which every man is a merchant.
I thought it necessary, though at the hazard of being tedious, to examine at full length this popular notion that wealth consists in money, or in gold and silver. Money in common language, as I have already observed, frequently signifies wealth, and this ambiguity of expression has rendered this popular notion so familiar to us, that even they, who are convinced of its absurdity, are very apt to forget their own principles, and in the course of their reasonings to take it for granted as a certain and undeniable

See generally, IV.i.

The Nature and Causes of truth. Some of the best English writers upon commerce set out with observing, that the wealth of a country consists, not in its gold and silver only, but in its lands, houses, and consumable goods of all different kinds. In the course of their reasonings, however, the lands, houses, and consumable goods seem to slip out of their memory, and the strain of their argument frequently supposes that all wealth consists in gold and silver, and that to multiply those metals is the great object of national industry and commerce.
ADAM SMITH
An Inquiry into the Nature and Causes of the Wealth of Nations

GENERAL EDITORS
R. H. CAMPBELL
AND
A. S. SKINNER

TEXTUAL EDITOR
W. B. TODD

VOLUME 2

Liberty Fund
Indianapolis
CHAPTER VIII

Conclusion of the Mercantile System

1. Though the encouragement of exportation, and the discouragement of importation are the two great engines by which the mercantile system proposes to enrich every country, yet with regard to some particular commodities, it seems to follow an opposite plan: to discourage exportation and to encourage importation. Its ultimate object, however, it pretends, is always the same, to enrich the country by an advantageous balance of trade. It discourages the exportation of the materials of manufacture, and of the instruments of trade, in order to give our own workmen an advantage, and to enable them to undersell those of other nations in all foreign markets: and by restrain-ing, in this manner, the exportation of a few commodities, of no great price, it proposes to occasion a much greater and more valuable exportation of others.\(^1\) It encourages the importation of the materials of manufacture, in order that our own people may be enabled to work them up more cheaply, and thereby prevent a greater and more valuable importation of the manufactured commodities. I do not observe, at least in our Statute Book, any encouragement given to the importation of the instruments of trade. When manufactures have advanced to a certain pitch of greatness, the fabrication of the instruments of trade becomes itself the object of a great number of very important manufactures. To give any particular encouragement to the importation of such instruments, would interfere too much with the interest of those manufactures. Such importation, therefore, instead of being encouraged, has frequently been prohibited. Thus the importation of wool cards, except from Ireland, or when brought in as wreck or prize goods, was prohibited by the 3d of Edward IV.;\(^2\) which prohibition was renewed by the 39th of Elizabeth,\(^3\) and has been continued and rendered perpetual by subsequent laws.\(^4\)

2. The importation of the materials of manufacture has sometimes been encouraged by an exemption from the duties to which other goods are subject, and sometimes by bounties.

3. The importation of sheep's wool from several different countries,\(^5\) of

---

\(^1\) See above, IV.i.35, where the general outlines of the mercantile policy are given.

\(^2\) 3 Edward IV. c. 4 (1463).

\(^3\) 39 Elizabeth I. c. 14 (1597).


\(^5\) 12 George II. c. 21 (1738) allowed the import of wool from Ireland duty free. H. Saxby The British Customs (1757), 143, states that Spanish wool for clothing and Spanish felt-
cotton wool from all countries, of undressed flax, of the greater part of [487] dying drugs, of the greater part of undressed hides from Ireland or the British colonies, of seal skins from the British Greenland fishery, of pig and bar iron from the British colonies, as well as of several other materials of manufacture, has been encouraged by an exemption from all duties, if properly entered at the customhouse. The private interest of our merchants and manufacturers may, perhaps, have extorted from the legislature these exemptions, as well as the greater part of our other commercial regulations. They are, however, perfectly just and reasonable, and if, consistently with the necessities of the state, they could be extended to all the other materials of manufacture, the publick would certainly be a gainer.

4 The avidity of our great manufacturers, however, has in some cases extended these exemptions a good deal beyond what can justly be considered as the rude materials of their work. By the 24 Geo. II. chap. 46, a small duty of only one penny the pound was imposed upon the importation of foreign brown linen yarn, instead of much higher duties to which it had been subjected before, viz. of sixpence the pound upon sail yarn, of one shilling the pound upon all French and Dutch yarn, and of two pounds thirteen shillings and four pence upon the hundred weight of all spruce or Muscovia yarn. But our manufacturers were not long satisfied with this reduction. By the 29th of the same king, chap. 15, the same law which gave a bounty upon the exportation of British and Irish linen of [488] which the price did not exceed eighteen pence the yard, even this small duty upon the importation of brown linen yarn was taken away. In the different operations, however, which are necessary for the preparation of linen yarn, a good deal more industry is employed than in the subsequent operation of preparing linen cloth from linen yarn. To

---

3-5 pounds 2A; 4-6

wool was also duty free. 26 George II, c. 8 (1733) permitted the importation of wool and woollen yarn from Ireland to the port of Exeter. See below, xii.ii.24.

4 6 George III, c. 52 (1766).

8 George I, c. 15 (1721). See IV.viii.38, where the drugs which may be imported are listed and their significance evaluated.

9 George III, c. 39 (1769), continued by 14 George III, c. 86 (1774) and 21 George III, c. 29 (1781). See above, xii.ii.ii.

10 15 George III, c. 31 (1775).

11 23 George II, c. 29 (1749). See above, iv.vii.b.37 and 42.

12 24 George II, c. 46 (1750) imposed the duties Smith cites, but the other sums quoted are the values of the various types of yarn in the Book of Rates of 12 Charles II, c. 4 (1660), and not the duties levied on them. The duty on the specified values was increased by various measures to a total of 20 per cent. H. Saxby The British Customs (1757), 264-5.

13 29 George II, c. 15 (1756), continued by 10 George III, c. 38 (1770) and 19 George III, c. 27 (1779). See below, iv.viii.3, xii.ii.24. In LJ (E) 232-3, ed. Cannan 180, the bounty was payable when coarse linen was 'under 12 pence a yard'.
say nothing of the industry of the flax-growers and flax-dressers, three
or four spinners, at least, are necessary, in order to keep one weaver in
constant employment; and more than four-fifths of the whole quantity
of labour, necessary for the preparation of linen cloth, is employed in
that of linen yarn; but our spinners are poor people, women commonly,
scattered about in all different parts of the country, without support or
protection. 14 It is not by the sale of their work, but by that of the com-
plete work of the weavers, that our great master manufacturers make their
profits. As it is their interest to sell the compleat manufacture as dear, so
is it to buy the materials as cheap as possible. By extorting from the legis-
lature bounties upon the exportation of their own linen, high duties upon
the importation of all foreign linen, and a total prohibition of the home
consumption of some sorts of French linen, 15 they endeavour to sell their
own goods as dear as possible. By encouraging the importation of foreign
linen yarn, and thereby bringing it into competition with that which is
made by our own people, they endeavour to buy the work of the poor
spinners as cheap as possible. They are as in-[436]tent to keep down the
wages of their own weavers, as the earnings of the poor spinners, and it
is by no means for the benefit of the workman, that they endeavour either
to raise the price of the compleat work, or to lower that of the rude materi-
als. It is the industry which is carried on for the benefit of the rich and
the powerful, that is principally encouraged by our mercantile system.
That which is carried on for the benefit of the poor and the indigent, is
too often, either neglected, or oppressed.

14 See above, I.x.b.31, and IV.vili.b.24 and note 33.
15 18 George II, c. 36 (1744); 21 George II, c. 36 (1747); 32 George II, c. 32 (1758);
7 George III, c. 43 (1766). See also IV.vili.a.1 and IV.vili.7.
16 By 10 George III, c. 38 (1770) and 19 George III, c. 27 (1779). See above, § 4.
17 See above, IV.vili.b.45.
18 3 and 4 Anne, c. 9 (1704) in Statutes of the Realm, viii.354-6; 3 and 4 Anne, c. 10
in Ruffhead's edition. See above, IV.vili.b.36.
To hurt in any degree the interest of any one order of citizens, for no other purpose but to promote that of some other, is evidently contrary to that justice and equality of treatment which the sovereign owes to all the different orders of his subjects. But the prohibition certainly hurts, in some degree, the interest of the growers of wool, for no other purpose but to promote that of the manufacturers.

It cannot be very difficult to determine who have been the contrivers of this whole mercantile system; not the consumers, we may believe, whose interest has been entirely neglected; but the producers whose interest has been so carefully attended to; and among this latter class our merchants and manufacturers have been by [520] far the principal architects. In

---

90 See above, IV.v.a.24.  91 See above, IV.vi.3.  92 See above, IV.vii.c.63.
93 See below, V.iii.92, and above, IV.vii.c.64, IV.i.26, II.iii.35.

The mercantile regulations, which have been taken notice of in this chapter, the interest of our manufacturers has been most peculiarly attended to; and the interest, not so much of the consumers, as that of some other sets of producers, has been sacrificed to it.  

(At this point in 3 Smith supplies as an 'Appendix' various computations relating to IV.v which he had previously incorporated in the text of 2A. This 'Appendix' now appears at the conclusion of the present edition, pp. 948-50.)
A License to Shampoo: Jobs Needing State Approval Rise

By
Stephanie Simon
Updated Feb. 7, 2011 12:01 a.m. ET

(See Corrections and Amplifications item below.)

Amid calls for shrinking government, lawmakers across the country are vowing to cut regulations that crimp economic growth. President Barack Obama recently said it's time to root out laws that "are just plain dumb."

Licensed florist Monique Chauvin in Louisiana. RUSH JAGOE FOR THE WALL STREET JOURNAL

Tell that to the cat groomers, tattoo artists, tree trimmers and about a dozen other specialists across the country who are clamoring for more rules governing small businesses.
They're asking to become state-licensed professionals, which would mean anyone wanting to be, say, a music therapist or a locksmith, would have to pay fees, apply for a license and in some cases, take classes and pass exams. The hope is that regulation will boost the prestige of their professions, provide oversight and protect consumers from shoddy work.

But economists—and workers shut out of fields by educational requirements or difficult exams—say licensing mostly serves as a form of protectionism, allowing veterans of the trade to box out competitors who might undercut them on price or offer new services.

"Occupations prefer to be licensed because they can restrict competition and obtain higher wages," said Morris Kleiner, a labor professor at the University of Minnesota. "If you go to any statehouse, you'll see a line of occupations out the door wanting to be licensed."

While some states have long required licensing for workers who handle food or touch others—caterers and hair stylists, for example—economists say such regulation is spreading to more states for more industries. The most recent study, from 2008, found 23% of U.S. workers were required to obtain state licenses, up from just 5% in 1950, according to data from Mr. Kleiner. In the mid-1980s, about 800 professions were licensed in at least one state. Today, at least 1,100 are, according to the Council on Licensure, Enforcement and Regulation, a trade group for regulatory bodies. Among the professions licensed by one or more states: florists, interior designers, private detectives, hearing-aid fitters, conveyor-belt operators and retailers of frozen desserts.

Permission Slip

Percentage of workers who need a state license to do their jobs

At a time of widespread anxiety about the growth of government, the licensing push is meeting pockets of resistance, including a move by some legislators to require a more rigorous cost-benefit analysis before any new licensing laws are approved. Critics say such regulation spawns huge bureaucracies including rosters of inspectors. They also say licensing requirements—which often include pricey educations—can prohibit low-income workers from breaking in to entry-level trades.

Texas, for instance, requires hair-salon "shampoo specialists" to take 150 hours of classes, 100 of them on the "theory and practice" of

https://www.wsj.com/articles/SB10001424052748703445904576118030935929752#U401848555757MHE
shampooing, before they can sit for a licensing exam. That consists of a written test and a 45-minute demonstration of skills such as draping the client with a clean cape and evenly distributing conditioner. Glass installers, or glaziers, in Connecticut—the only state that requires such workers to be licensed—take two exams, at $52 apiece, pay $300 in initial fees and $150 annually thereafter.

California requires barbers to study full-time for nearly a year, a curriculum that costs $12,000 at Arthur Borner's Barber College in Los Angeles. Mr. Borner says his graduates earn more than enough to recoup their tuition, though he questions the need for such a lengthy program. "Barbering is not rocket science," he said. "I don't think it takes 1,500 hours to learn. But that's what the state says."

Regulators in many states say the educational requirements are developed in consultation with industry experts and stress critical skills like sanitation and safety. A shampoo specialist in Texas, for instance, learns about neck anatomy and must practice skills such as regulating water temperature.

"There's a lot of different things that go into it," says Elizabeth Perez, the state's cosmetology program manager.

But critics say the licensing push is restricting job growth at a time when the U.S. can scarcely afford it. The service sector—which is the focus of many licensing laws—accounts for three-quarters of gross domestic product and most job growth in the U.S., according to McKinsey Global Institute, a research arm of McKinsey & Co. In a coming report, the institute will call for an aggressive effort to root out "unnecessary regulatory barriers that limit competition in pockets of the economy."
Mr. Kleiner, of the University of Minnesota, looked at census data covering several occupations that are regulated in some states but not others, including librarians, nutritionists and respiratory therapists. He found that employment growth in those professions was about 20% greater, on average, in the unregulated states between 1990 and 2000.

Licensing can also drive up costs to consumers. Licensed workers earn, on average, 15% more than their unlicensed counterparts in other states—a premium that may be reflected in their prices, according to a study published by the National Bureau of Economic Research and conducted by Mr. Kleiner and Alan Krueger, an economist at Princeton University.

Mr. Kleiner estimates that across the U.S. economy, occupational licensing adds at least $116 billion a year to the cost of services, which amounts to about 1% of total consumer spending. In a look at dentistry, Mr. Kleiner found that the average price of dental services rose 11% when a state made it more difficult to get a dental license.

State regulators say licensing is vital to protect the health and safety of citizens, and industry experts generally agree that certain professions should be monitored. Inept or untrained electricians or tree-trimmers, for example, could put innocent bystanders in danger. Acupuncturists, tattoo artists and massage therapists can potentially inflict more direct harm.

However, in many service trades, licensure "is totally out of control," says Charles Wheelan, a lecturer in public policy at the University of Chicago. He says the marketplace might be a better judge than the government of whether a barber or a yoga instructor is competent. "It's fairly easy for you to tell whether you've gotten a bad haircut or not, and if quality turns out to be bad, it's not a big social problem," says Mr. Wheelan.

"Who cares if [a bouquet] is color-coordinated?" says Monique Chauvin, a licensed florist in Louisiana, where would-be flower arrangers have to pass a written exam with questions on plant names and complimentary colors. "If you like it, you like it."

When a trade group does succeed in getting a licensing law passed, it sometimes exempts existing workers from the testing requirements. In Michigan, for instance, it will soon be a felony to practice massage without a license. Newcomers to the field must take 500 hours of classes and pass an exam to
get that license. But a grandfather clause exempts most current massage therapists, including those who may never have taken a class at an accredited school.

Arthur Borner, center, checks a student's work at Arthur Borner's Barber College in Los Angeles. MICHAL CZERWONKA FOR THE WALL STREET JOURNAL.

Karen Armstrong, a massage therapist and chair of the Michigan Board of Massage Therapy, acknowledges that some ill-trained therapists will get licensed because of the grandfather clause. But since new entrants to the field will be better-educated, the standards of the profession will rise over time and consumers will get better care, she says.

Plus, she says, so many other trades are now licensed that massage therapists risked being relegated to second-class status if they didn't have their own state regulatory structure: "Not being licensed really puts our profession back behind a lot of other professions."

But whether licensing guarantees better-quality work is an open question. Several academic studies in the 1970s and '80s found that licensure boosted quality in professions such as dentistry, optometry, plumbing and real-estate sales. More recent studies have found no evidence that licensing improves the quality of teachers or mortgage brokers.

It's harder to measure quality in more subjective fields such as interior design or hair styling. But a look at consumer complaints about manicurists suggests licensing doesn't necessarily correlate with quality.

Alabama has perhaps the strictest licensing requirements in the nation: 750 hours of schooling and a written and practical exam. The state gets, on average, four public complaints a year about poor service, according to the Alabama Board of Cosmetology.

https://www.wsj.com/articles/SB10001424052748703445904576118c30935929752#U401848555757MHE
Connecticut, which doesn't require manicurists to get licenses, has averaged just six complaints a year to the state over the past five years. Two-thirds of those complaints are about gift certificates that aren't honored, according to data from the consumer protection division of the state attorney general's office.

Dusty Brummitt, a locksmith in Enid, Okla., says a new state law licensing his trade ensures the public gets quality work. Anyone who wants to be a locksmith must now prove he's in the U.S. legally, submit to a criminal background check, pay fees of up to $350 a year and pass a 50-question exam. Just 32% of applicants pass the locksmith exam, state data show.

Mr. Brummitt says the law has "gotten rid of about 90% of the scammers in our state" since it took effect in 2007.

But it's unclear how many scammers there were. The consumer-protection unit of the state attorney general's office received just two complaints about locksmiths in more than a decade—one in 2006, the year before the law took effect, and one in 2008, the year after, according to Tom Bates, who runs the division. Three applicants for licenses were rejected because of criminal history.

Mr. Brummitt says licensure wasn't intended to stifle competition. But he acknowledges that in some Oklahoma cities, the requirements have prompted immigrant entrepreneurs and retirees who did the work as a hobby—and who often undercut traditional locksmiths on price—to drop out of the trade. As a result, he said, some veteran locksmiths, who didn't have to pass the exam because they were grandfathered in, have "definitely seen an increase in business."

Cracking down on unlicensed workers generally falls to state regulatory agencies. Texas appropriated $151 million this fiscal year to regulate scores of occupations though independent boards and a state agency with about 400 employees. Colorado's Department of Regulatory Agencies oversees more than 70 occupations, including hunting guides and kick-boxers.

In Kentucky, the Board of Hairdressers and Cosmetologists has eight full-time inspectors who spend much of their time responding to anonymous tips about unlicensed manicurists. The inspectors rarely catch the alleged offenders, says Charles Lykins, the board's administrator, because "they take off running."

https://www.wsj.com/articles/SB100014240527487034459045761-8030935929752#LJ401848556757MHE
Mr. Lykins says it's in the public's interest to insist manicurists are well-trained. "Have you ever had a nail fungus? It's terrible," he says. "That's why we're there."

All this enforcement doesn't necessarily cost state taxpayers. Many states require their regulatory agencies to cover all their expenses from licensing fees.

Some agencies even turn a profit, which can be used to subsidize other state services. Over the past two years, Connecticut's general fund made nearly $21 million on licensing fees, after accounting for the cost of running the state's primary regulatory agency. California's general fund borrowed $96.5 million from its regulatory bodies' ample reserves in fiscal year 2008-9.

Still, some critics see a broader cost to the economy. It's tough for workers to move around the country, for example, when each state has a different list of jobs that require licenses—and a different set of standards to pass. More than 1,100 professions require a license in at least one state, but only about 60 trades are licensed in every state, according to the Council on Licensure, Enforcement and Regulation.

Florida for years required anyone marketing their services as "interior design" to get a license that called for six years of education and apprenticeship and a two-day exam. That requirement stunned Barbara Vanderkolk Gardner, a mostly self-taught designer who worked on luxury homes in New Jersey—no license required—and wanted to open a practice in Florida. If clients wanted to hire her to pick out pillows, paints and furnishings, Ms. Gardner says, she couldn't understand why the state would object: "I view myself as an artist, and I don't think art needs to be licensed."

Ms. Gardner worked with the Institute for Justice, a nonprofit libertarian law firm, to sue the Florida regulatory body in charge of interior design in U.S. District Court in Tallahassee, claiming the law violated their First Amendment rights to call themselves interior designers. A federal judge last year struck down the licensing law for residential designers. But the court upheld a requirement for commercial interior design, holding that the state had a rational basis for protecting the public from inept design, which could create safety hazards.

Ms. Gardner says her residential business is now flourishing in Sarasota, Fla., but she remains frustrated that she has to turn down jobs designing offices.

https://www.wsj.com/articles/SB10001424052748703445904576118030935929752#U4018485555757MHE
In Ohio, dieticians, athletic trainers and boxing promoters are among the professions that require licenses. If Kimberly Raisanen has anything to say about it, cat groomers might one day make it onto the list, too. Ms. Raisanen, a groomer in Fairview Park, Ohio, helped found the Professional Cat Groomers Association of America in 2008 to establish better education standards for the animal specialists who trim, clip, style and fluff felines.

The association has established written tests and a hands-on exam that helps determine which members of the trade are "worthy of being called a certified master cat groomer," Ms. Raisanen says.

But the group would like to go further. As soon as she can build up her organization, Ms. Raisanen says she'd like to begin lobbying Ohio and other states to license cat groomers, requiring anyone entering the trade to first prove his or her competency. Regulation, she says, would ensure "you are educated before you put a cat on that table."

Corrections & Amplifications
Occupational licensing is estimated to add at least $116 billion a year to the cost of services, or about 1% of total U.S. consumer spending. An earlier version of this story incorrectly said the dollar amount represented 0.1% of consumer spending.

Write to Stephanie Simon at stephanie.simon@wsj.com
Viewpoint

Bruce Yandle

Bootleggers and Baptists—The Education of a Regulatory Economist

The search for regulatory relief is as young as the Reagan administration, and as old as man. When the American Medical Association clashes under Federal Trade Commission oversight, it feels the same frustration Adam must have felt at the menu regulations he faced in Eden. But often people want relief not from regulation but through the protections regulation can provide. Today, some airline executives want succor from the uncertainties they confront in a world without regulated (uniform) pricing. The London weavers felt that same way about their trade in the thirteenth century and obtained relief through a provision in the Magna Carta requiring all cloth woven in the realm to be of uniform dimensions—conforming to the London standard. Nothing is new under the sun.

Economists from Adam Smith on (and including Karl Marx) have realized that government regulation is a sword that cuts in both directions, and all have called for reforms to improve the good regulations and prune the bad. But desiring reform and achieving it are obviously two different things. What we want to find out here is under what circumstances they can coincide. When can we achieve regulatory reform?

Regulation and Murphy’s Law

In my studies of the relationships between governments and business, my attention was first attracted to the unbelievably costly things that governments do when attempting to control businesses. It seemed, as Murphy might have said, that if there was a wrong way of doing something, the regulators would adopt it. I found countless cases where rules and regulations imposed tremendous costs while delivering little if any benefit.

- Freight rates for one class of shippers were subsidized by another class of shippers. As a result, factories were located on the basis of false signals, real costs were hidden, and goods were shipped great distances at lower fares to be processed in higher-cost plants.

- Catalytic converters were installed on automobiles for the purpose of reducing emissions. But, for the converters to operate properly, unleaded gas had to be used—and it is more expensive than regular. So cost-conscious drivers put leaded gas in their tanks, which turned the converters into so much junk and added more emissions to the environment than there would have been had engines been even slightly modified or some other plan introduced.

- Petrochemical plants were required to reduce emissions at each and every stack by the same percentage. If instead managers had been given plant-wide targets and left free to attain them efficiently, the same degree of pollution control could have been achieved at much lower cost.

- Petroleum companies that found oil on Alaska’s North Slope and sought to bring it to the lower forty-eight states by way of the West Coast were barred from doing so by complex environmental rules. Logic would then have dictated that the oil be shipped to Japanese refineries, which could have returned the refined product to the United States. But that was against federal law too. Instead, the crude oil...
is being shipped from Alaska to Texas, where it is unloaded and refined, all at considerable extra cost.

- Precise fuel economy standards were prescribed for automakers, to prod them into building the kind of cars that probably would have been produced and purchased voluntarily if the price of gasoline had been higher. But the price of gasoline was regulated so it could not rise; and the automakers had to ration their larger cars, which U.S. buyers wanted, while forcing smaller cars into the market. Eventually, the price of gasoline was deregulated and the effects of the mandated fuel-economy scheme tended to evaporate—for the time being, at least.

The list could go on and on. Not only does government rarely accomplish its stated goals at lowest cost, but often its regulators seem dedicated to choosing the highest-cost approach they can find. Because of all this, I and others in academe became convinced years ago that a massive program in economic education was needed to save the world from regulation. If we economists could just teach the regulators a little supply and demand, countless billions of dollars would be saved.

Bootsleggers and Baptists

My views began to change after I joined the Council on Wage and Price Stability in 1976. There my assignment was to review proposed regulations from the Environmental Protection Agency (EPA), the Federal Trade Commission (FTC), the Department of Transportation (DOT), and parts of the Department of Health, Education, and Welfare (HEW). The field was white unto the harvest, and I was ready to educate the regulators. But then I began to talk with some of them, and I began to hear from people in the industries affected by the rules. To my surprise, many regulators knew quite a bit about economics. Even more surprising was that industry representatives were not always opposed to the costly rules and occasionally were even fearful that we would succeed in getting rid of some of them. It was in considerable confusion that I returned later to my university post, still unable to explain what I had observed and square it with the economics I thought I understood.

That marked the beginning of a new approach to my research on regulation. First, instead of assuming that regulators really intended to minimize costs but somehow proceeded to make crazy mistakes, I began to assume that they were not really trying to minimize costs at all—at least not the costs I had been concerned with. They were trying to minimize their costs, just as most sensible people do. And what are some of those costs that keep regulators from choosing efficient ways of, say, reducing emissions of hydrocarbons?

- The cost of making a mistake. Simple rules applied across the board require fewer decisions where mistakes can be made.

- The cost of enforcement. Again, simple rules requiring uniform behavior are easier to monitor and enforce than complex ones, and they also have a false ring of fairness.

- Political costs. A legislator is likely to be unhappy with regulators who fail to behave in politically prudent ways—who fail, in the legislator's view, to remember the industries and the workers in his area.

Second, I asked myself, what do industry and labor want from the regulators? They want protection from competition, from technological change, and from losses that threaten profits and jobs. A carefully constructed regulation can accomplish all kinds of anticompetitive goals of this sort, while giving the citizenry the impression that the only goal is to serve the public interest.

... what do industry and labor want from the regulators? They want protection from competition, from technological change, and from losses that threaten profits and jobs.

Indeed, the pages of history are full of episodes best explained by a theory of regulation I call "bootsleggers and Baptists." But bootsleggers, you will remember, support Sunday closing laws that shut down all the local bars and liquor stores. Baptists support the same laws and lobby vigorously for them. Both parties gain, while the regulators are content because the law is easy to administer. Of course, this theory is not new in a democratic society, eco-
economic forces will always play through the political mechanism in ways determined by the voting mechanism employed. Politicians need resources in order to get elected. Selected members of the public can gain resources through the political process, and highly organized groups can do that quite handily. The most successful ventures of this sort occur where there is an overarching public concern to be addressed (like the problem of alcohol) whose "solution" allows resources to be distributed from the public purse to particular groups or from one group to another (as from bartenders to bootleggers).

...the challenges of regulatory reform are institutional... The fact that a regulation has come into being as a result of a costly political exchange means that reform can hardly be gained easily.

What all this implies is that the challenges of regulatory reform are institutional. Regulation is relief for some and a burden for others, so that reform is a burden for some and a relief for others. The fact that a regulation has come into being as a result of a costly political exchange means that reform can hardly be gained easily. This is not to suggest that all is for naught, that there are no opportunities for reducing net (overall) regulatory costs or removing the protective regulatory cocoons woven so tightly and carefully around this activity and that But it is to say that we can scarcely expect full-scale deregulation to occur often. Not when the Baptists and the bootleggers vote together.

Shocking the System: Pareto-Paperwork

Let us accept for the moment the proposition that all regulation produced in a given period has value at least sufficient to justify the direct costs borne by those supporting it. Since those who opposed a given regulation most probably fought it, rather than allowing it to proceed by default, we will not assume that the value of the regulation exceeds the total costs incurred by the winners, losers, and regulators.

Now consider an equilibrium state in which the political-economic market has produced a given quantity of regulation and will continue to maintain it unless there is an outside shock to the system. Imagine that you are regulatory czar, subject to all the economic forces at play in the system (other activities and actions being held constant) and with a free rein to reform the regulatory process. Finally, to make the situation more interesting (and more illuminating), imagine also that you are a long-suffering student of the regulatory system, with a long list of regulations you are convinced cannot be justified at all, or at least not in their present form. What would you do?

Regulatory paperwork would likely be your best candidate for reform—for it is an area where you might be able to reduce costs for both the regulated and the regulators (making both better off, no one worse off, in a kind of Pareto move), without disturbing the equilibrium state established by the interplay of rules and regulations. Of course, reducing paperwork is not nearly so dramatic as deregulating the airlines, speeding up new drug approvals, or removing import quotas (supposing any of these appealed to you). Still, it would not be a minor accomplishment. The cumulative savings from paperwork reduction for the years 1981 through 1983 are expected to reach 300 million hours. If you managed that as czar, we might well rise up and call your name blessed.

Unfortunately, other reforms would be much more difficult. Remember that you must act within the existing political forces, that the actors in the drama are all well-informed, and that the existing equilibrium is the product of a massive struggle.

Changes in the Demand for Regulation. So, let us ask, how might you upset that equilibrium by creating new players or causing the current players to acquire an interest in deregulation? Put differently, what factors might shift the demand for regulation?

- Technological change A technology protected or even induced by regulation can nonetheless become obsolete, and the regulated businesses can find themselves hamstrung by the very rules that protected them.
- Demographic change With migration and population growth, patterns of production and distribution supported by regulation can
become so costly over time that the producer chooses to throw back the protective blanket.

- Significant changes in factor costs Regulated firms generally seek regulations that fit production arrangements based on predicted prices for labor, materials, and capital—which means that unpredicted changes in those prices can alter the amount and incidence of the benefits of regulation.

- New information. With increasing scholarly and press attention to regulatory issues, voter/taxpayer/consumer groups might discover that their benefits from regulation are less than their costs.

Looking down the roster of successful regulatory reforms, it is not difficult to find cases that can be explained in part or as a whole by some combination of the above factors. For example, take the impact of technological change on the AT&T monopoly. Microwave, computer, and satellite technology outstripped the basic “hard-wire” systems used in Bell’s telephone operations, creating competitive opportunities and weakening the demand for monopoly privilege. The field of action that had been created partly by innovations of the major telephone companies, yet barred to them, came to offer greater opportunities for growth and profit than the older regulated field. Technological change was also a crucial factor in banking and finance. The electronic transmission of funds, coupled with the Federal Reserve Board’s dominant position in the check-clearing process, contributed significantly to a new technical base for financial institutions. This development, along with the unexpectedly high interest rates that commercial banks and savings and loans were barred from paying, made the old regulatory structure obsolete.

Changes in other two demand factors arguably undermined the traditional regulatory framework in trucking and other surface transportation. The unexpected increase in the price of energy magnified the costs associated with circuitous routes and empty backhauls, and changing population patterns made old route structures less desirable. Both developments fueled the demand for reform. Finally, take airline deregulation. In this case, it was rising energy prices, changing patterns of equipment utilization, and population shifts—combined with the development of new aircraft and intensive reporting of research on the effects of these changes—that shifted the demand for regulation.

As for future reforms, what might we predict on this same basis? Two come to mind. First, like AT&T, the U.S. Postal Service has stuck to an obsolete technology. With electronic transmission of messages, arguments about natural monopoly status have lost any credibility they may have once had, and, for that reason among others, the statutes barring competition in the delivery of first class mail are under increasing fire. Energy regulation is another likely candidate for reform. Technical change and rapidly shifting relative prices have placed enormous pressures on existing regulatory structures, so that producers and consumers are now seeking greater flexibility than the present “public utility” status of much of the industry will allow. For example, the need for appropriate incentives to increase the amount of natural gas delivered to the market is widely recognized, and alternative systems for pricing and arranging the distribution of electricity are being explored. (Here, at least, we may have found one beneficial aftereffect of OPEC and its works.)

Changes in the Supply of Regulation. The supply side of regulation, like the demand side, helps determine the quantity of regulation produced in political-economic markets. Among the variables here are the bureaucracy and the electoral and legislative process.

- Bureaucratic incentives and structure. If lawyers and economists can improve their expected lifetime earnings by filing enforcement actions against specific industries, for example, those actions will tend to be filed. More broadly, how agencies are organized (whether they are independent commissions or headed by a single administrator), what voting rules are applied in making decisions, to what extent the agency specializes in an industry or product, and whether there is competition from other agencies for jurisdiction are traditionally thought to affect the supply of regulation.

- Congressional oversight. The legislative component of the supply side is closely related to demand, since elected officials also represent special interests who seek regulatory benefits. But, even so, the competition among legislators, their voting rules, and their committee organizations are supply characteristics.
Assuming that demand is held constant, to what extent will changes in these supply-side characteristics affect the quantity or quality of regulations produced? For example, will a reduction in the number of commissioners (as is happening now at the FCC), or a shift in the party mix of agency oversight committees, cause regulation to change?

Empirical research suggests strongly that the supply side matters. For example, Barry Weingast and Mark Moran report that, contrary to some opinions, the FTC’s regulatory behavior mirrors the conservative-liberal makeup of the agency’s key congressional committees. In other words, the agency is hardly ever “out of control” (Regulation, May/June 1982) Roger Faith, Donald R. Leavens, and Robert Tollison find that the FTC has been less likely to take actions against firms headquartered in the districts of congressmen who sit on the FTC’s congressional committees than against firms not so favorably situated (Journal of Law and Economics, October 1982) My recent research on the FTC suggests that the agency’s behavior is influenced not only by shifts in the chairmanship from a Democrat to a Republican and vice versa, but also by shifts in how the chairman is chosen (in 1950 the method was changed from rotation to presidential designation).

...there are strong possibilities for regulatory reform when the institutions involved are changing for other reasons...

Putting all this together, we may say that there are strong possibilities for regulatory reform when the institutions involved are changing for other reasons anyway. Such changes would help explain the flurry of deregulation initiatives at the FCC, especially those dealing with broadcasting, as well as the shift away from industry-wide rulemaking and structural antitrust investigations at the FTC. Moreover, the cautious attitude now shown by the Justice Department and the FTC when considering price discrimination, resale price maintenance, and vertical combinations, along with the probing economic analysis applied in such investigations, reflect new learning in law and economics and changes in the structure of the two agencies. Indeed, the significant overall reduction in new regulatory initiatives across the entire federal government reflects a coordinated effort that draws on each of the items mentioned.

Other Agents of Change

So far I have hardly mentioned yet another interest group—those who gain special satisfaction from participating in the regulatory process in ways that will improve economic efficiency. While some might conclude that students of the process can only observe, record, and analyze, I have a more sanguine view. Simply put, people and their ideas do make a difference.

Some individuals, for example, make a difference by continuing to raise questions about grand principles—overall social efficiency, the appropriate role of government, economic freedom, the virtues of the price system. The more articulate and informed of these point out the compromises being made by the rest of us. Of equal importance are those whose goals are to understand how the regulatory process works, what interests are driving it, and how its outcome might be predicted. These are the academic researchers, the public policy analysts, the economists with private firms and in government, who struggle to bring about marginal adjustments. Their task is the creative application of economic logic. At yet a third level, there is active participation in decision making itself. When I observed the effect of an Alfred Kahn at the CAB, a Darus Gaskins at the ICC, and a James Miller at the FTC—to say nothing of the less visible but nonetheless significant work performed by scores of others in the arena where decisions are made—I must believe they make a difference, a very great difference.

Finally, one should not expect to see sudden and widespread transformation in regulation. Like all market processes, the market for regulation is relatively stable, the result of thousands of transactions and years of institutional development. Yet, also like other markets, the forces of supply and demand do change, and the agents for change can and do have marginal but significant impact on political demand and regulatory supply. Bootleggers and Baptists may have been agitating for a century or more, but the saloon is still with us—and usually on Sundays, too.
ADAM SMITH

An Inquiry into the Nature and Causes of the Wealth of Nations

GENERAL EDITORS
R. H. CAMPBELL
AND
A. S. SKINNER

TEXTUAL EDITOR
W. B. TODD

VOLUME 1
27 People of the same trade seldom meet together, even for merriment and diversion, but the conversation ends in a conspiracy against the publick, or in some contrivance to raise prices. It is impossible indeed to prevent such meetings, by any law which either could be executed, or would be consistent with liberty and justice. But though the law cannot hinder people of the same trade from sometimes assembling together, it ought to do nothing to facilitate such assemblies; much less to render them necessary.

28 A regulation which obliges all those of the same trade in a particular town to enter their names and places of abode in a publick register, facilitates such assemblies. It connects individuals who might never otherwise be known to one another, and gives every man of the trade a direction where to find every other man of it.

29 A regulation which enables those of the same trade to tax themselves in order to provide for their poor, their sick, their widows and orphans, by giving them a common interest to manage, renders such assemblies necessary.

30 An incorporation not only renders them necessary, but makes the act of the majority binding upon the whole. In a free trade an effectual combination cannot be established but by the unanimous consent of every single 'trader', and it [201] cannot last longer than every single 'trader' continues of the same mind. The majority of a corporation can enact a bye-law with proper penalties, which will limit the competition more effectually and more durably than any voluntary combination whatever.

27 member of it & 28 member of it
30 See above, Ix.2 and Iv.3. 31 See below, III.iv.
The pretence that corporations are necessary for the better government of the trade, is without any foundation. The real and effectual discipline which is exercised over a workman, is not that of his corporation, but that of his customers. It is the fear of losing their employment which restrains his frauds and corrects his negligence. An exclusive corporation necessarily weakens the force of this discipline. A particular set of workmen must then be employed, let them behave well or ill. It is upon this account that in many large incorporated towns no tolerable workmen are to be found, even in some of the most necessary trades. If you would have your work tolerably executed, it must be done in the suburbs, where the workmen having no exclusive privilege, have nothing but their character to depend upon, and you must then smuggle it into the town as well as you can.

It is in this manner that the policy of Europe, by restraining the competition in some employments to a smaller number than would otherwise be disposed to enter into them, occasions a very important inequality in the whole of the advantages and disadvantages of the different employments of labour and stock.

Secondly, The policy of Europe, by increasing the competition in some employments beyond what it naturally would be, occasions another inequality of an opposite kind in the whole of the advantages and disadvantages of the different employments of labour and stock.

It has been considered as of so much importance that a proper number of young people should be educated for certain professions, that, sometimes the publick, and sometimes the piety of private founders have established many pensions, scholarships, exhibitions, bursaries, &c. for this purpose, which draw many more people into those trades than could otherwise pretend to follow them. In all christian countries, I believe, the education of the greater part of churchmen is paid for in this manner. Very few of them are educated altogether at their own expence. The long, tedious and expensive education, therefore, of those who are, will not always procure them a suitable reward, the church being crowded with people who, in order to get employment, are willing to accept of a much smaller recompence than what such an education would otherwise have entitl’d them to; and in this manner the competition of the poor takes away the reward of the rich. It would be indecent, no doubt, to compare either a curate or a chaplain with a journeyman in any common trade. The pay of a curate or chaplain, however, may very properly be considered as of the same nature with the wages of a journeyman. They are, all three, paid for their work according to the contract which they may happen to make with their respective superiors. Till after the middle of the fourteenth century, five merks, containing about as much silver as ten pounds of our present money,

See below, V.i.f.12.
was in England the usual pay of a curate or stipendiary parish priest, as we find it regulated by the decrees of several different national councils. At the same period four-pence a day, containing the same quantity of silver as a shilling of our present money, was declared to be the pay of a master mason, and three-pence a day, equal to nine-pence of our present money, that of a journeyman mason. The wages of both these labourers, therefore, supposing them to have been constantly employed, were much superior to those of the curate. The wages of the master mason, supposing him to have been without employment one-third of the year, would have fully equalled them. By the 12th of Queen Anne, c.12, it is declared, "That whereas for want of sufficient maintenance and encouragement to curates, the cures have in several places been meanly supplied, the bishop is, therefore, empowered to appoint by writing under his hand and seal a sufficient certain stipend or allowance, not exceeding fifty and not less than twenty pounds a year". Forty pounds a year is reckoned at present very good pay for a curate, and notwithstanding this act of parliament, there are many curacies under twenty pounds a year.

---

33 In 1778 the stipend of curates was raised from five marks to eight marks a year. The intention, according to Burn, was to give the curate 'double of what would reasonably pay for his board'. R. Burn, Ecclesiastical Law (London, 1763), i.434.

34 12 Anne, c.11 (1713) in Statutes of the Realm, ix.922; 12 Anne, st.2, c.12 in Ruffhead's edition. The quotation which follows is not verbatim.

Thirdly, The policy of Europe, by obstructing the free circulation of labour and stock both from employment to employment, and from place to place, occasions in some cases a very inconvenient inequality in the whole of the advantages and disadvantages of their different employments.

The statute of apprenticeship obstructs the free circulation of labour from one employment to another, even in the same place. The exclusive privileges of corporations obstruct it from one place to another, even in the same employment.

[210] It frequently happens that while high wages are given to the workmen in one manufacture, those in another are obliged to content themselves with bare subsistence. The one is in an advancing state, and has, therefore, a continual demand for new hands: The other is in a declining state, and the super-abundance of hands is continually increasing. Those two manufactures may sometimes be in the same town, and sometimes in the same neighbourhood, without being able to lend the least assistance to one another. The statute of apprenticeship may oppose it in the one case, and both that and an exclusive corporation in the other. In many different manufactures, however, the operations are so much alike, that the workmen could easily change trades with one another, if those absurd laws did not hinder them. The arts of weaving plain linen and plain silk, for example, are almost entirely the same. That of weaving plain woollen is somewhat different; but the difference is so insignificant, that either a linen or a silk weaver might become a tolerable workman in a very few days. If any of those three capital manufactures, therefore, were decaying, the

---

41 a defalcation from the fortunes of the rest of the citizens, who would therefore never consent to the admission of new members: Cf. Lf (A) v.87–8. See below, IV.vii.c.77, where Smith discusses the problems faced by Rome after having adopted a less restrictive policy.
42 This topic is examined at some length in V.i.i.
43 In I.x.c.9 Smith recognised that the Statute of Apprenticeship could be circumvented, but J. H. Clapham has pointed out that it was more likely to be enforced if backed by the 'coercive power of a company' (Concise Economic History of Britain to 1750, 256).
44 See below, IV.ii.42.
45 In his essay 'Of the Jealousy of Trade' Hume made a similar point: 'If the spirit of industry be preserved, it may easily be diverted from one branch to another; and the manufacturers of wool, for instance, be employed in linen, silk, iron, or any other commodities, for which there appears to be a demand.' (Essays Moral, Political and Literary, ed. Green and Grose, 1-347.)
workmen might find a resource in one of the other two which was in a more
prosperous condition; and their wages would neither rise too high in the
thriving, nor sink too low in the decaying manufacture. The linen manu-
facture indeed is, in England, by a particular statute,⁴⁹ open to every body;
but, as it is not much cultivated through the greater part of the country,
[211] it can afford no general resource to the workmen of other decaying
manufactures, who, wherever the statute of apprenticeship takes place,
have no other choice but either to come upon the parish, or to work as com-
mon labourers, for which, by their habits, they are much worse qualified
than for any sort of manufacture that bears any resemblance to their own.
They generally, therefore, chuse to come upon the parish.

Whatever obstructs the free circulation of labour from one employment
to another, obstructs that of stock likewise; the quantity of stock which can
be employed in any branch of business depending very much upon that of
'the' labour which can be employed in it. Corporation laws, however, give
less obstruction to the free circulation of stock from one place to another
than to that of labour. It is everywhere much easier for a wealthy mer-
chant to obtain the privilege of trading in a town corporate, than for a poor
artificer to obtain that of working in it.

The obstruction which corporation laws give to the free circulation of
labour is common, I believe, to every part of Europe. That which is given
to it by the poor laws is, so far as I know, peculiar to England. It consists
in the difficulty which a poor man finds in obtaining a settlement, or
even in being allowed to exercise his industry in any parish but that to
which he belongs. It is the labour of artificers and manufacturers only of
which the free circulation is obstructed by corporation laws. The difficulty
[212] of obtaining settlements obstructs even that of common labour. It
may be worth while to give some account of the rise, progress, and pre-
sent state of this disorder, the greatest perhaps of any in the police of
England.⁵⁰

⁴⁹ 15 Charles II, c.15 (1663).
⁵⁰ Even more than in his discussion of the Statute of Apprenticeship Smith con-
centrates on the statutory basis of the law of settlement and not on its operation. Interference
with the mobility of labour was probably much less in practice than he believed. D.
⁵¹ See below, vii.g.22, where Smith comments on the historical role of the clergy with
regard to charity.
⁵² 43 Elizabeth I, c.2 (1601), An Act for the Relief of the Poor.
St. Louis area factories say they have plenty of work, but not enough skilled workers

By Jim Gallagher, St. Louis Post-Dispatch

Jan 16, 2017

Steve Weaver, a machinist at Laciny Brothers, Inc. for the past 12 years, operates a machining mill at Laciny Brothers, Inc. on Thursday, Jan. 12, 2017, in University City. Qualified skilled technical workers like machinists have been in short supply for companies like Laciny Brothers, Inc. Photo by Chris Lee, clee@post-dispatch.com

Tim Laciny pointed at a couple of idle machines on the big shop floor at Laciny Brothers in University City.

“I have work and machines — and nobody to run them,” Laciny said. “Probably my biggest problem is finding machinists.”

Manufacturing employment is down just 1.3 percent in metro St. Louis in the year ending in November. But that disguises a serious shortage of workers in highly skilled factory trades.

“it’s a problem today, and it will be a bigger problem going forward because of the graying of the workforce,” says Sally Safranski, chapter executive in St. Louis for the National Tooling and Machining Association.

Factories around St. Louis can find plenty of people for grunt jobs — lifting boxes, sorting parts and such. They have a much tough time finding hands-on machinists, computer numerical control, or CNC, machine operators, toolmakers, industrial electricians, multi-skilled maintenance mechanics and other jobs that require math talent and a couple of years of schooling.

A recent national survey of association members found that 90 percent have moderate or serious trouble finding qualified employees.

So, jobs paying $20, $25 and sometimes $40 an hour are going unfilled.

The St. Louis region’s 4.3 percent unemployment rate — a 15-year low — is part of the reason. But manufacturing executives complain that young people just aren’t training for the work.

It seems that factory work has an image problem.

Laciny’s shop floor is a busy place. About 34 people work designing and making specialized machinery and parts. All pretzels made at Gus’ Pretzels come out of a machine built by Laciny. A pint poured in a St. Louis brewpub may have passed through a Laciny device. He’s now making fermenters for the giant Gallo winery in California.

On the shop floor, Tim Laciny holds up a long, shiny metal arm with a hand rest at the end. It’s part of a special device to help a handicapped woman in Clayton move from a wheelchair to shower.
“We don’t have a product line. We are job to job, and we never know when the next job is coming in,” Laciny said. “I don’t sell products. I sell talent.”

So, he needs talented machinists who can craft odd metal and plastic parts. They are very hard to hire.

“I have tried everything — trade schools, hiring from high school, headhunters.” He runs a perpetual help-wanted ad.

He’s picked new high school graduates, hoping to train them, but often found they lack basic skills. “It’s basically all math and hard labor. I have had kids that make the effort, but they don’t have the brain power.”

So, he finds himself having to farm out some work that he’d rather do in-house.

“I had a machinist that left for Ameren, and he was making six figures,” Laciny said. “Once they become great, they want more money.”

Around St. Louis; the median wage for a machinist is $22 per hour, according to Bureau of Labor Statistics.

Wages are rising at 3 to 5 percent a year for skilled workers at Homeyer Precision Manufacturing in Marthasville, where a top toolmaker can earn $80,000 to $100,000 a year. “We’ve had to entice them with better insurance, retirement plans, vacation days,” says Herb Homeyer, company president and chairman of the National Tooling and Machining Association.

A 2015 study by the Deloitte consulting firm estimates that nearly 3.5 million factory jobs will open before 2025, mainly as boomers retire. Two million of those jobs won’t be filled because of the skills gap, says Deloitte.

“There is a lot of gray hair in my shop,” notes Mark Bockerstett, president of Modern Screw Products in St. Louis.
Part of the problem is that factory work has changed. Machinists, for instance, need programming skills, as well as knowing how to run a lathe.

The skill requirements are especially high in precision manufacturing. Homeyer, for instance, makes parts for lasers. “You take one piece of hair, split it 1,000 times, and that’s the tolerance we have,” Homeyer said.

Schools such as Ranken Technical College and Southwestern Illinois College run two-year associate’s courses in hands-on factory trades. “My guys hire them in the first year of the program at Ranken, because by the second year they’ve already been hired,” Safranski said.

Employers including Hydromat and True Manufacturing teamed with Ranken to start apprenticeship programs combining classes with on-the-job training. “They can grow their own machinists,” said Dan Kania, dean of academic affairs at Ranken.

They might start at $10 to $12 an hour while training, and make $28 to $30 as a journeyman five years after graduating.

The school also signed on with auto parts maker TG Missouri in Perryville, to train “multi-craft” mechanics capable of fixing many different machine types.

Bockerstett toured machine shops in Switzerland, and found that every one had a section set aside to train apprentices. America is far behind in that, he said, and it would be hard for a smaller shop to do alone.

But an apprentice program won’t work unless smart young people want to be apprentices. That’s a problem, people in the business say.

While factory work has changed, its gritty image is stuck in the 1950s, and employers think that discourages young people from signing up. “People think that what we do is dark, dirty and dangerous. At one point, manufacturing was that, but it’s changed,” Bockerstett says.