

# Measuring “The Happiness of Nations”: The Conundrum of Adam Smith’s “Real Measure of Exchangeable Value”

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There has long been a suspicion that Adam Smith’s “real measure of exchangeable value” was designed, at least in part, to serve as an index of social welfare or happiness. However, in spite of a remarkable degree of consensus in the relevant literature that Smith’s conception of welfare or happiness should be understood in subjective and individualistic terms, there is a no less remarkable divergence of opinion over the precise welfare application of the “real measure.” On some interpretations, Smith’s aim was to measure the social product in terms of the quantity of subjective satisfaction that it yields in consumption; on other interpretations, he had the aim, complementary or otherwise, of measuring the subjective cost of producing the social product, although here there is disagreement as to whether the relevant cost is the one incurred by the laborer, or the opportunity cost of employers, or that incurred by consumers generally who have been saved the chore of producing the output themselves. Nor do the interpretative choices end there. Smith may, or may not, have assumed a constant real wage in his welfare analysis; he may, or may not, have used his measure to designate population, or potential growth

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in output, or both, as (additional) measures of social welfare; and he may, or may not, merely have intimated a welfare use for the standard and done nothing further at all.<sup>1</sup>

In agreement with the “skeptical” interpretations, I will suggest that Smith did not develop a direct welfare application for the real measure in the *Wealth of Nations* (WN). His uses of the measure in WN were directed to ends—including the measurement of “riches,” the qualitative indication of changes in future employment and output, and the isolation of changes in exchangeable value resulting from changes in the labor expended on the production of commodities—that were related only indirectly to social welfare, if related at all. But this raises a conundrum because, as I explain, the measure is, in its very design and in what may have been its initial conception, precisely a measure of welfare or happiness, although not of the subjective, individualistic variety that figures in the generality of welfare interpretations. Rather, the welfare to which the measure related was informed by Smith’s philosophical understanding of “happiness” (or “real happiness”), which would stand irrespective of the often defective judgments of individuals. Furthermore, the *potential* welfare significance of the measure was directed exclusively to the condition of the laboring poor, “the great body of the people.” It would provide an indication of the (changes in) happiness derived from (changes in) their material consumption relative to the “ease, liberty and happiness” that they must sacrifice to acquire or achieve that consumption. Why, then, was this usage of the real measure not developed in WN? I will suggest two answers: first, because Smith may have come to realize its limitations as a measure of welfare; second, because he had made a tactical decision to downplay his concern with social welfare, so that the direct welfare application of the measure was consciously suppressed.

The article proceeds as follows. Section 1 considers Smith’s position on happiness in his *Theory of Moral Sentiments* and its relevance to his conceptualization of social welfare. Section 2 offers a reconstruction of his early use of labor as “the true measure of value” based on the *Lectures on Jurisprudence* and the “Early Draft” of WN. Section 3 investigates in turn the potential welfare relevance of the real measure in WN, the meaning of

1. The principal welfare interpretations have been advanced by Mark Blaug (1959; 1996, 48–51), Samuel Hollander (1973, 128–36), Glenn Hueckel (1998), and Hla Myint (1948, 16–26). Those who have been skeptical, to varying degrees, of any (sustained) welfare application of the real measure by Smith include O. H. Taylor (1960, 106), Maurice Dobb (1973, 50), Rory O’Donnell (1990, 75), and, preeminently, Joseph Schumpeter (1954, 188 n. 20, 309–10).

the laborer's sacrifice of "ease, liberty and happiness," and the lack of a welfare application of the measure in WN. Section 4 then considers the main uses to which the measure was put by Smith in WN and suggests possible reasons for the absence of a developed welfare application. Section 5 contains a brief summary and concluding remarks.

### 1. Happiness in *The Theory of Moral Sentiments*

The subject of happiness—of its nature and its relationship to the pleasures of the body and external fortune—had been debated for millennia by the time of Smith's *Theory of Moral Sentiments* (TMS). Placed in that historical context, it could be argued, perhaps, that there are few individual ideas of great originality in his account, whether he is compared to Hume, Hutcheson, and Shaftesbury or, further removed, to the (Roman) Stoics or to Aristotle, save for the exception of Smith's singular emphasis on the role of the "impartial spectator" in the development of virtuous behavior and the (true) happiness with which it is accompanied. Indeed, in terms of early antecedents, Smith presents what could be considered as a blend of Aristotelian and Stoic views, with some indication that he moved closer toward a Stoic position in the sixth edition of TMS<sup>2</sup> (published in 1790, the year of his death). However, leaving aside questions of provenance and originality, with which this article is not concerned, the "negative" importance of Smith's account for present purposes is that it establishes, beyond doubt, that he did not assess happiness, or welfare, in subjective, individualistic terms. So, how did he conceive of happiness, and how does his discussion relate to what we may term "economic welfare" from material possessions?

Aristotle had taught that happiness is "not a state of mind" but is rather "an activity in accordance with virtue" (*Ethics* I.viii, 41; X.vi, 300–301). For Smith, more in keeping with the Stoics in this respect, happiness is identified with the "composure and tranquillity of mind" (TMS I.ii.3.7)<sup>3</sup> that comes from leading a virtuous or "good life,"<sup>4</sup> and it is with this aspect

2. See Raphael and Macfie 1976, 6, 18; and Hont and Ignatieff 1983, 10.

3. References are to the relevant paragraph in TMS.

4. Cf. Seneca 2005, 33. He advises that "what you are [i.e., should be] longing for is great and supreme and nearly divine—not to be shaken. The Greeks call this steady firmness of mind 'euthymia' . . . but I call it tranquillity. . . . We are, therefore, seeking how the mind can follow a smooth and steady course, well disposed to itself, happily regarding its own condition and with no interruption to this pleasure, but remaining in a state of peace with no ups and downs: that will be tranquillity."

of happiness that Smith is mostly concerned in TMS, as one would expect. The pertinent question here is whether happiness depends on anything other than a morally commendable existence.

The Stoic answer, as related by Cicero (1971, 76), is that “happiness depends on moral goodness and nothing else whatever,” although it is allowed that “external” things, including wealth, food, clothing, shelter, and “things of the body,” are “advantageous” provided that they are indulged only in moderation and are treated with “proper contempt” (108). On this point, Smith veers more toward an Aristotelian position<sup>5</sup> in suggesting that the potential for happiness, or “real happiness,” may actually require the provision of some “external goods”: “personal liberty” (TMS III.3.31) and goods contributing to “ease of body” (IV.1.10).<sup>6</sup>

The requirement for “ease of body” is equated with shelter from the elements, want of hunger, and rare exposure to weariness. At a material level, ease of body depends on the provision of food, clothing, and lodging (IV.1.11). But, quite emphatically, Smith follows his own teacher, Francis Hutcheson, in adopting the “classical” position that happiness does *not* depend upon the accumulation of great wealth (see Hutcheson 1755, 1:163–65). As Smith pronounced, the “real satisfaction” from the trappings of wealth is “in the highest degree contemptible and trifling” (IV.1.9); and, in the same vein, “wealth and greatness are mere trinkets of frivolous utility,<sup>7</sup> no more adapted for procuring ease of body or tranquillity of mind than the tweezer-cases of the lover of toys” (IV.1.8). So, although one condition for happiness *is* related to material consumption to a point, when that point is reached the association breaks down. Hence:

What can be added to the happiness of the man who is in health, who is out of debt, and has a clear conscience? To one in this situation, all accessions of fortune may properly be said to be superfluous; and if he is much elevated upon account of them, it must be the effect of the most frivolous levity. (I.iii.1.7)

The “most frivolous levity” was not part of Smith’s understanding of happiness.

5. Even “the philosopher is human, and so will need the added help of external goods. . . . The thinker must have a sufficiency of health and food and whatever else is necessary to keep him going. . . . [Therefore] a man cannot be completely happy without external goods” (*Ethics* I.viii, 308; cf. I.viii, 43).

6. Passages added in the sixth edition of TMS come closer to the Stoic view that happiness depends *entirely* on tranquillity of mind (see, for example, III.3.27–33), although, in the context of TMS as a whole, this cannot be taken as Smith’s representative position.

7. He means *utility* in the sense of objective usefulness, not subjective satisfaction.

On the basis of TMS, we would expect Smith to judge an increase in the happiness of individuals not in terms of ever higher levels of material consumption by the rich, for these bring, in his estimation, only "contemptible," "trifling," and "frivolous" changes in pleasure or happiness. Nor is his case simply that increasing wealth is unproductive of greater happiness in itself. There is the supplementary argument that the effort of *acquiring* great wealth is inimical to happiness, as illustrated by his parable of the poor man's son.

The deluded young man is ambitious, admires the condition of the rich, and imagines that great riches will bring him correspondingly great happiness. He "devotes himself for ever to the pursuit of wealth and greatness" and, in doing so, "he submits in the first year, nay in the first month of his application, to *more fatigue of body and more uneasiness of mind* than he could have suffered through the whole of his life from the want of them" (IV.1.8; my italics): he sacrifices the happiness associated with the body *and* the mind. Tragically, "in the languor of disease and the weariness of old age," he at last comes to see power and riches for "*what they are*, enormous and opiose machines contrived to produce a few trifling conveniences to the body, consisting of springs the most nice and delicate, which must be kept in order with the most anxious attention. . . . They are immense fabrics, which it requires the labour of a life to raise" (IV.1.8; my italics). They were not worth the labor of acquisition or, as Smith expressed the point elsewhere, they were not worth "all that toil, all that anxiety, all those mortifications which must be undergone in the pursuit of [wealth and greatness]; and what is of yet more consequence, all that leisure, all that ease, all that careless security, which are forfeited for ever by the acquisition" (I.iii.2.1). The difference with "the inferior ranks of people" is that although they too must suffer in the acquisition of food, clothes, and lodging through their "painful industry," an improvement in their material circumstances *is* consistent with an improvement in their happiness (V.2.3, IV.1.11).<sup>8</sup>

It also emerges that the criterion by which we would judge the happiness of individuals is not (in general) in terms of their own subjective evaluations; and that happiness cannot be reduced to one single dimension. Individuals frequently overrate the difference between poverty and riches (III.3.31); they are, on a grand scale, deluded and deceived into thinking that wealth and power are sources of "real happiness" (I.iii.2.1–2, IV.1.8); and they pursue goals that they sometimes barely understand (I.iii.3.8). Rather, the criteria for happiness are those identified

8. For contrary readings, see Grampp 1948; Brown 1994, 90; and Hueckel 1998.

by Adam Smith: they are his *philosophical* criteria that would be appreciated fully, and shared, only by a “small party” of “the wise and the virtuous” (I.iii.3.2) and, perhaps, by other, formerly misguided souls, “in the languor of disease and the weariness of old age.”<sup>9</sup> As to the measurement of happiness, at no point did Smith propose its reduction to one single measurable dimension; indeed, he expressly condemned Epicurean philosophy for having “indulged a propensity . . . to account for all appearances from as few principles as possible” by referring “all the primary objects of natural desire and aversion to the pleasures and pains of the body” (VII.ii.2.14).<sup>10</sup> Not only would it be odd to find the author of TMS associating an increase in happiness with the greater material consumption of the rich; it would be baffling to find him reducing that happiness to the single criterion of subjectively perceived utility.

Finally, it might be objected that Smith’s discussion of happiness applied only to individuals, and that (for some reason) it would not carry over to the evaluation of social happiness or welfare. But that objection falls flat. As Smith averred, although the “happiness of mankind” is always best promoted by the prevalence of wisdom and virtue (as conducive to tranquillity of mind), the “public welfare” or happiness is also advanced by policies that result in subjects’ being better lodged, clothed, and fed (IV.2.1, IV.i.11). The same criteria of happiness apply to societies as they do to individuals.

## 2. Opulence, Happiness, and the Labor Measure in the *Lectures on Jurisprudence* and the “Early Draft” of *The Wealth of Nations*

The *Lectures*<sup>11</sup> contains Smith’s first extant allusion to labor as the measure of value: “We have shewn what rendered money the measure of value, but it is to be observed that labour, not money, is the true measure of value” (LJB, 244).<sup>12</sup> He (or his student) did not elaborate on the role of

9. The subjective evaluations of these people, and only these people, would coincide with Smith’s philosophically based judgments. (For a less “restrictive” interpretation, see Levy 1995.)

10. Smith was following Hutcheson on this point (see Hutcheson 1775, 1:23–24, 148).

11. There are two extant reports of the lectures that Smith delivered on jurisprudence at the University of Glasgow, the first from 1762–63, the second from 1766. These are conventionally designated as LJA and LJB, respectively.

12. References to LJ give the volume (where applicable) and page number of the manuscript.

labor as the "true measure," but the context in which the pronouncement was delivered offers a basis on which to reconstruct his meaning.

The reference to labor as the true measure occurs in Smith's discussion of "opulence," described as a state of society in which "a little labour can procure abundance" (LJB 215). On this conception of opulence there is a striking degree of uniformity in both versions of the *Lectures* and in the "Early Draft."<sup>13</sup> To take some examples from the *Lectures*:<sup>14</sup>

That state is opulent where the necessaries and conveniences of life are easily come at, whatever otherwise be its condition, and nothing else can deserve the name of opulence but this comeattibleness. That is, a state is opulent when by no great pains and a proper application of industry these things may be easily obtaind. (LJA vi.33–34)

The opulence of a state depends on the proportion betwixt the moneyd price of labour and that of the commodities to be purchased by it. If it can purchase a great quantity then it is opulent; if a small then it is poor. (LJA vi.52)

And, from the "Early Draft" (ED):

That state is properly opulent in which opulence is easily come at, or in which a little labour, properly and judiciously employed, is capable of procuring any man a great abundance of all the necessaries and conveniences of life. (ED 12)<sup>15</sup>

National opulence is the opulence of the whole people, which nothing but the great reward of labour, and consequently the great facility of acquiring, can give occasion to. (12)<sup>16</sup>

The opulence of a state is conceived in terms of the come-at-ability or affordability of the necessaries and conveniences of life to the laborers. How might this relate to labor as the "true measure"?

Labor or, more exactly, labor-*time*, would measure the affordability of necessaries and conveniences, hence the opulence of society, relative to

13. The document, known in full as "An Early Draft of Part of *The Wealth of Nations*," was "probably" written "at some time shortly before April 1763" (Meek, Raphael, and Stein, in Smith 1978a, 561).

14. Also see LJA ii.33, where the "wealth of a state" is effectively defined in terms of the "comeatableness" of "provisions and all other necessaries and conveniences of life."

15. References to ED give the page number of the manuscript.

16. Also see ED 32.

the sacrifice that laborers must make to acquire those commodities. If the commodities can be acquired with “great facility”—that is, by the sacrifice of “a little labour”—then a state is “properly opulent.” It is also a *happier* state than one in which the same commodities are affordable only to a few: “So far . . . as goods are a conveniency to the society, the society lives less happy when only the few can possess them” (LJB 230). The link between happiness and affordability to the “inferior” members of society had also been made in LJA:

So far . . . as any thing is a convenience or necessary of life and tends to the *happiness* of mankind, so far is the dearness detrimintall as it confines the necessary to a few and diminishes the happiness of the inferior sort. Whatever therefore raises or keeps up the price of them diminishes the opulence and happiness and ease of the country. (LJA vi.84)

On the nature of the sacrifice itself, the material from 1762–66 reinforces Smith’s view in TMS of labor as “painful” and points to the further sacrifice of personal liberty.<sup>17</sup> Of all those who are engaged in supplying the necessaries and conveniences of life, it is the “poor labourer” who endures the greatest loss of ease and the most severe labor (see LJA vi.27–28, LJB 213). So severe are the working conditions of the “poor labourer” who “bears, as it were, upon his shoulders the whole fabric of human society,” that he “seems himself to be pressed down below ground by the weight, and to be buried out of sight in the lowest foundations of the building” (ED 5). Additionally, those laborers who do not work for themselves are deprived “of that liberty which every man wishes to enjoy” (LJB 178), although, as a qualification, Smith is recorded as saying that many people misunderstand the real nature of liberty and “freedom” (LJA iii.128). Evidently, Smith’s own judgment of the laborers’ sacrifice of liberty would stand regardless of the judgments of the laborers themselves.

My suggestion, therefore, is that Smith may have arrived at a welfare conception of labor as “the true measure of value” in terms of which changes in the (material) welfare or happiness of laborers are related to changes in their consumption relative to the sacrifice that they must make to acquire their “necessaries and conveniences.” At the same time, his estimation of the power and wealth of the rich by the number of people (labor-

17. The sacrifice of liberty was mentioned in TMS, but only with reference to those who pursue “greatness” and exchange their personal liberty “for the lordly servitude of a court” (TMS I.iii.2.1, I.iii.2.7).



ers) who *could* have been supported (LJA i.116–17, iv.22–22, iv.45) is indicative of one of the several additional uses to which he would later put his labor (commanded) measure, thereby serving to obscure its welfare relevance.<sup>18</sup>

### 3. The "Real Measure" and Welfare in *The Wealth of Nations*

Smith announced his intention "to shew . . . what is the real measure of . . . exchangeable value; or, wherein consists the real price of all commodities" at the close of book I, chapter IV, of WN. He added, presciently, that his account "may, perhaps, after the fullest explication which I am capable of giving of it, appear still in some degree obscure" (I.iv.18).<sup>19</sup> In this section I first consider the potential relevance of the "real measure" to measuring welfare and the interpretation of Smith's "axiom" of the invariability of labor-time on which the real measure is predicated—two issues that have turned out to be enduringly obscure. I then investigate the extent to which a welfare connection was developed by Smith.

A possible welfare role for the real measure is first intimated by Smith's announcement that the "real price of every thing, what every thing really costs to the man who wants to acquire it, is the toil and trouble of acquiring it," where the "toil and trouble of acquiring" refers to "the toil of our own body" in producing something that is either consumed directly or exchanged for another commodity, produced by the same quantity of labor (I.v.2).<sup>20</sup> The "real price" of a good is the time that the laborer must sacrifice in order to acquire it, either by producing it or by producing something else with which it is obtained through exchange.

Smith elaborated:

The price which he [the laborer] pays must always be the same, whatever may be the quantity of goods which he receives in return for it. Of these, indeed, it may sometimes purchase a greater and sometimes a smaller quantity; but it is their value which varies, not that of the labour

18. One later use that seems not to be foreshadowed in the material from 1762–66—the one that came to prominence in WN—is the use of the real measure to reveal changes in the labor expended on the production of commodities. In agreement with Marian Bowley (1973, 110) and Ronald L. Meek (1973, 51), there is no evidence in the early material of a "labor quantity" perspective on exchangeable value from which that use of the real measure would arise.

19. References to WN give the relevant paragraph.

20. On this interpretation of the early paragraphs of WN I.v, see Peach 2009.

which purchases them. At all times and places that is dear which it is difficult to come at, or which it costs much labour to acquire; and that cheap which is to be had easily, or with very little labour. Labour . . . is alone the ultimate and real standard by which the value of all commodities can at all times and places be estimated and compared. It is their real price; money is their nominal price only. (I.v.7)

This passage invites two possible readings. On the first, Smith continues to refer to a situation in which independent laborers produce goods either for their own consumption or for exchange. In that case, the quantity of goods they can acquire for a given sacrifice of their labor-time, either directly or indirectly through the exchange of their products, will vary with changes in their physical productivity. But, as Smith says, it is the “real price” of the goods that would change in these circumstances: the goods are dear or cheap depending on whether they may be acquired by the laborers at a greater or lesser sacrifice of their time.

Alternatively, the passage may be read as referring to a context in which the laborers no longer own, consume, or exchange the products of their own labor, but are employed as *wage*-laborers. The “labour to acquire” then becomes the sacrifice of time that they must make to earn sufficient wages to afford a good. However, the real price of goods continues to depend on the sacrifice of their acquisition by the laborers. All that has changed is the computation of the sacrifice: it is no longer the labor-time sacrificed in the production of a good; it is the labor-time sacrificed to earn sufficient wages to *purchase* a good.

From the perspective of the employer, in contrast,

the price of labour seems to vary like that of all other things. It appears to him dear in the one case, and cheap in the other. In reality, however, it is the goods which are cheap in the one case, and dear in the other. (I.v.8)

Smith is here reaffirming his conception of the meaning of “dear” and “cheap” as the sacrifice of acquisition by laborers (plainly, in context, wage-laborers).<sup>21</sup>

What did that sacrifice consist in? Smith’s answer was (an invariable amount of) the laborer’s “ease, his liberty, and his happiness”:

21. This conceptualization of “dear” and “cheap” had been made in the *Lectures*. See LJA vi.73, 84, and LJB 230.

But as a measure of quantity, such as the natural foot, fathom, or hand-ful, which is continually varying in its own quantity, can never be an accurate measure of the quantity of other things; so a commodity which is itself continually varying in its own value, can never be an accurate measure of the value of other commodities. Equal quantities of labour, at all times and places, may be said to be of equal value to the labourer. In his ordinary state of health, strength and spirits; in the ordinary degree of his skill and dexterity, he must always lay down the same portion of his ease, his liberty, and his happiness. The price which he pays must always be the same, whatever may be the quantity of goods which he receives in return for it. (I.v.7)

So it is, then, that labor "is the only universal, as well as the only accurate measure of value, or the only standard by which we can compare the values of different commodities at all times and at all places" (I.v.17).

For generations of commentators,<sup>22</sup> regardless of whether they proceeded to develop a welfare interpretation of the real measure, Smith's meaning was that the sacrifice or "disutility" of work *as subjectively perceived by laborers* is identical for each ("common") laborer and invariable over time and space. However, we know from TMS that Smith did not reduce happiness to any single metric, certainly not to one of subjectively perceived pleasure or utility. It would therefore be strange, to say the least, now to find him assimilating "ease, liberty and happiness" to the single metric of subjectively perceived disutility. But that interpretative step has only ever been taken on Smith's behalf, in gratuitous disregard for his own philosophical approach.

I suggest that the laborers are conceived by Smith as sacrificing their happiness in *his* sense: they sacrifice their ease (of body), their personal liberty, and their happiness from "peace of mind." But this would represent the judgment of Smith the philosopher. It would not equate to the sacrifice of disutility as subjectively perceived by laborers themselves, nor could it in view of Smith's belief that laborers have, at best, only an imperfect understanding of their "real" sacrifice.

Take the sacrifice of liberty. From the *Lectures* we know that any form of contractual employment, including day-laboring, was regarded by Smith as a sacrifice of "personal liberty," and we also know his opinion that

22. For example, *Observations* 1821, 47; Jevons [1871] 1965, 167; Marshall [1890] 1920, 627; Nicholson [1887] 2000, 643–44; Myint 1948, 16; Blaug 1959; Taylor 1960, 105; Bowley 1973, 113; Hollander 1973, 129; Sowell 1979; Blaug 1996, 50; Hueckel 1998; and O'Brien 2004, 96.

“liberty” was often imperfectly understood, a view echoed in WN: “The common people of England . . . so jealous of their liberty, but like the common people of most other countries never rightly understanding wherein it consists” (I.x.c.59). The inclusion of liberty as an element in the laborer’s sacrifice might (and should) have given pause for thought from those who have imposed their subjective disutility interpretation. How could Smith coherently predicate the invariability of his real measure on the laborers’ subjective evaluation of something that, in his opinion, they may not properly understand?

We are left with the laborer’s sacrifice of ease and happiness as corresponding to the “ease of body and peace of mind” identified in TMS (along with personal liberty) as conditions for happiness. In the case of ease, we know already that Smith viewed labor as “painful” and “severe,” and the same perception is reaffirmed in WN.<sup>23</sup> In this respect, that of their “bodily” sacrifice, the laborers would perhaps concur with Smith’s judgment of the pain that they suffer. But, with their sacrifice of happiness—of the happiness associated with inner, mental tranquillity—they might have no idea that they were sacrificing anything at all.

As Smith pronounced in the fifth book of WN, happiness “must necessarily depend more upon the healthful or unhealthful, the mutilated or entire state of the mind, than upon that of the body” (V.i.f.60). But the working conditions of the laboring poor, “the great body of the people,” are such that they become “as stupid and ignorant, as it is possible for a human creature to become.” Not only are they “incapable of relishing or bearing a part in any rational conversation”; they are also incapable “of conceiving any generous, noble, or tender sentiment, and consequently of forming any just judgement concerning many even of the ordinary duties of private life” (V.i.f.50).<sup>24</sup> The laborers end up sacrificing their very capacity for happiness, so it cannot be they who are judging the sacrifice of something that their “mutilated” minds might not even comprehend. Once more we are presented with Smith’s philosophical assessment of the laborer’s sacrifice, a judgment that would stand whatever may be the subjective views and feelings (if any) of the laborer.

The laborer’s sacrifice “of his ease, his liberty, and his happiness”—of his *real* happiness—is the philosophical opinion of Smith, but how are we

23. See, for example, I.x.b.2, 15, and V.i.f.53.

24. This position was anticipated in the *Lectures*, hence the report of Smith’s judgment that “the people who cloath the whole world are in rags themselves” (LJB 330).

to understand the invariability of that sacrifice? Why is it that "equal quantities of labour, at all times and places, may be said to be<sup>25</sup> of equal value to the labourer"? Why must the "price which he pays . . . always be the same, whatever may be the quantity of goods which he receives in return for it"? I suggest a straightforward answer: because he "*must* always lay down *the same portion* of his ease, his liberty, and his happiness": one hour or one day of labor *is* one hour or one day of "sacrifice."<sup>26</sup>

The real measure would seem to present itself as a conceptually refined successor to labor as "the true measure of value" in the *Lectures*, the only substantial difference being the assertion in WN of the invariability of the laborer's sacrifice. It might have been expected, then, that Smith would use the measure generally to link improvements in (material) welfare with reductions in the real price/value of wage-goods and, specifically, to have made the case in favor of the system of natural liberty in terms of the higher (material) welfare of the laborers resulting from the growth-induced rise in the real price of labor and from the lower (natural) prices of goods consumed by laborers compared with the higher (monopoly) prices under a mercantilist system. However, although those links are implied by Smith's arguments, they are not developed explicitly. For example, Smith reported that many goods had become cheaper "during the course of the present century," including foodstuffs, clothing, and "many agreeable and convenient pieces of household furniture" (I.viii.35). He then posed the (rhetorical) question: "Is this improvement in the circumstances of the lower ranks of the people to be regarded as an advantage or as an inconveniency to the society?" The answer was "abundantly plain":

Servants, labourers and workmen of different kinds, make up the far greater part of every great civilized society. But what improves the circumstances of the greater part can never be regarded as an inconveniency to the whole. No society can surely be flourishing and happy, of which the far greater part of the members are poor and miserable. (I.viii.36)

25. Or, as he put it more bluntly in the first edition of WN, "*must* be" (my italics).

26. The general idea of the intertemporal invariability of the laborer's sacrifice may have been suggested to Smith by his teacher, Francis Hutcheson (1755, 2:58): "A days digging or ploughing was as uneasy to a man a thousand years ago as it is now, tho' he could not then get so much silver for it." Additionally, the claim that every "common" laborer incurs the *same* "sacrifice" may be taken to reflect Smith's belief, as Glenn R. Morrow (1928, 168) put it, in the "natural similarity and equality of all individuals."

However, Smith could have expressed the same point using his real measure: an increase in the real price of labor implies a reduction in the real prices/values of necessities and conveniences (an increase in their come-at-ability), and therefore the society is happier. He did not do so.

Likewise for an increase in the real price of labor arising from the growth in the demand for labor outstripping the supply. It is in such a “progressive” state of society that “the condition of the labouring poor, of the great body of the people, seems to be the happiest and the most comfortable” (I.viii.43); and, as Smith reiterated, the “rise in the real price of labour” is “owing to the peculiarly happy circumstances of the country” (I.xi.g.20). Again, the same point could have been made using the real measure: a growth-induced increase in the real price of labor implies a reduction in the real prices/values of wage-goods; therefore laborers are “happier.” But, as in the other case, an explicit welfare link with the real measure is absent.

The position is similar with Smith’s comparison of the monopoly prices of mercantilism with the lower prices of his favored system of natural liberty. It is, he declaims, “so very manifest” that “it always is and must be the interest of the great body of the people to buy whatever they want of those who sell it cheapest” (IV.iii.c.10), to which he adds later that people are “oppressed” by having to pay the higher prices of mercantilism (IV.vii.c.87). Had he applied the real measure, he could have added that “the great body of the people” experience a reduction in their welfare and happiness under the mercantilist system. Once more, he did not do so.<sup>27</sup>

We have a puzzle. On the one hand, the real measure would appear to have been designed as a measure of welfare directly in line with the views expressed by Smith in TMS, the *Lectures*, and the “Early Draft” of WN. But, on the other hand, Smith seemed to have forsaken its welfare application. In the following section I consider briefly the main uses to which the measure was actually put, and I suggest possible reasons why the welfare role came to be suppressed.

#### **4. The Obscuring of the “Real Measure” of Welfare**

The use of nonwelfare applications of the “real measure,” or of applications relating only indirectly to welfare, is heralded in the opening para-

27. Cf. Brown 1994, 150–54, 164.

graphs of book I, chapter V, where Smith alludes to its use both as a measure of the "toil and trouble of acquisition," which would form the basis for a welfare application, and as a measure of "riches," "poverty," and the "power of purchasing" generally (I.v.1–3). The last usage, whereby Smith associates greater purchasing power over commodities (or "riches") with greater command over labor (calculated as the nominal value of wealth, or income, divided by the nominal wage rate), occurs throughout WN.<sup>28</sup> In the "commercial" economy, however, it is applied only to the condition of the rich—the landlords, merchants, mine owners, and "grandeés"—not to the wage-laborers.<sup>29</sup> But if, as Smith had insisted in TMS, great(er) riches do not bring great(er) happiness,<sup>30</sup> then this cannot be considered as a welfare application of the measure, even with limited reference to non-laborers, and still less would it provide a measure of *social* welfare: an affluent person's "riches" (general purchasing power) will vary directly with command over labor (at a point in time), yet the real value or real price of wage-goods could be extremely high, meaning that the majority of society would be living in abject poverty.

The introduction of other applications for the real measure further detracts from a direct welfare role. Thus, Smith suggested that the labor commanded by a nation's net revenue, its real value, was a measure of the maximum additional labor that could (but never would) be employed in the following year, his point being that the greater the expenditure of the net revenue on "unproductive" labor (labor that is not directed to wealth-producing activities), the less that must remain for employing additional "productive" labor to increase the nation's future output (see I.vi.24 and II.iii.3). However, a greater labor commanded by net revenue—here viewed as a "good thing" from the perspective of the (qualitative) potential for growth in future output—would also be achieved by a reduction in wages; that is, by reducing society to a state in which "the far greater part of the members are poor and miserable." The real measure qua "index of productive capacity" as it has been termed, misleadingly (Hueckel 1998),<sup>31</sup>

28. This application of the real measure is discussed in Peach 2008.

29. For whom the labor commanded by *their* income is invariable, by virtue of its status as the *numéraire*.

30. This position is stated more boldly in TMS but, as Donald Winch (1978, 91) notes, "it is by no means absent in *The Wealth of Nations*." For example, see I.xi.c.31, I.xi.c.34, II.iii.28, III.iv.10, and III.iv.15.

31. The reason it is misleading is not only that some net revenue is *always* spent on unproductive labor, but also that the labor commanded by the remainder will never be expended on productive labor alone unless we assume, as Smith did not, that production is undertaken by

is, like the “purchasing power” use of the measure, separate from a direct welfare application, although in this case there could be an *indirect* link to the extent that an increase in labor commanded is realized in an actual increase in the demand for labor and therefore higher real wages and a lower real value of wage-goods.

Of all the additional uses of the real measure in WN, however, the one that totally submerges any possible welfare relevance is its deployment as the measure of the labor expended on the production of commodities, particularly silver.<sup>32</sup> For the purpose of this, ultimately doomed, exercise, Smith switches from a labor commanded to a corn commanded approximation to the real measure on the assumption of “nearly equal [i.e., constant] quantities of labour” per unit of corn output (I.xi.e.28). But, to finesse the association between corn commanded and labor commanded, he required the additional assumption of minimal fluctuations in the real wage rate (otherwise, corn would cease to be an acceptable proxy measure). This not only contradicted his acknowledgment of rising wages over time;<sup>33</sup> it also negated any possible improvement (or deterioration) in the welfare or happiness of the laborers. The possible welfare application of the standard had been neutralized.

The real measure had come to be used for purposes that were distinct from the welfare application for which it may have been originally intended. These usages were not directly concerned with the question of whether necessities and conveniences were more or less easily “come at” by the laborers, nor does it matter one jot for these applications if we think of laborers as always sacrificing the same ease, liberty, and happiness, or if we think of them as sacrificing anything at all.<sup>34</sup> However, the use of the measure for other purposes did not, in itself, necessarily rule out an additional direct welfare application. Why, then, did Smith abandon his real measure of welfare?

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*unassisted* productive laborers. If production is to be expanded, “an additional stock of materials” is required “in order to maintain and employ an additional number of industrious people” (II.ii.33). Assuming those materials are themselves produced and sold at a profit, the labor commanded by the surplus must *always* exceed the quantity that could be employed. Wisely, Smith himself made no pretense at quantifying productive capacity. His approach was more circumspect: a broad, qualitative indication of possibilities.

32. This application of the real measure is discussed in Peach 2009.

33. For example, see I.ix.6 and I.xi.g.20.

34. As a (rough) index of “riches” or potential future output, all that is required is the assumption of a given real wage; the use of the real measure to indicate changes in labor expended requires the additional assumption of a constant labor input to the production of corn. The conceptualization of the laborers’ sacrifice is irrelevant to all three applications.



One possible reason is that he had become aware of its limitations. So, in circumstances of a reduction in the real values of some "necessaries and conveniences" and a rise in the real values of others, it would take a separate, "much nicer" judgment (WN I.xi.n.10) to determine the overall impact: the real measure would not provide a clinching answer. In addition, there is the problem of deciding what are to count as the "necessaries and conveniences" that *do* contribute to "real happiness." As well as necessities "for the support of life," Smith would include "those things which the established rules of decency have rendered necessary to the lowest rank of people" (WN V.ii.k.3),<sup>35</sup> where the criterion of "decency" is, it seems, to be adjudicated by the sober, well-meaning philosopher.<sup>36</sup> Yet another task would be to determine whether the common laborer does remain "in the ordinary degree of his skill and dexterity"; otherwise, a change in his sacrifice of ease per unit of time would render the measure inapplicable "to all times and places." Finally, a comprehensive assessment of social welfare would have to consider not only material happiness but also the more intangible happiness from "peace of mind."<sup>37</sup> For all these reasons, Smith *may* have concluded that the real measure is a limited tool for determining (changes in) social welfare.<sup>38</sup>

There is also the possibility that Smith had no desire to emphasize the welfare relevance of the measure, limited or otherwise.

From one who wrote, "He is certainly not a good citizen who does not wish to promote, by every means in his power, the welfare of the whole society of his fellow-citizens" (TMS VI.ii.2.11),<sup>39</sup> and who claimed that the benefit of even "the weakest and the worst" of "political disquisi-

35. The inclusion of these "conventional" necessities would imply a blurring of the distinction between the happiness from "ease of body" and "peace of mind." A reduction in their real value would be conducive not so much to ease of body as to a type of mental tranquillity that comes from achieving "established rules" of material "decency."

36. "Beer and ale, for example, in Great Britain, and wine, even in the wine countries, I call luxuries. . . . Nature does not render them necessary for the support of life; and custom no where renders it indecent to live without them" (WN V.ii.k.3).

37. This is something that Smith did not shy away from. On his verdict, the laborers' increase in material happiness had been swamped by the decimation in their potential for inner tranquillity, resulting in his draconian proposal to coerce them into taking the panacea of education by the threat of severely limiting their opportunities for work if they failed to comply (WN V.i.f.57).

38. However, in view of Smith's attempted use of the measure for a purpose for which it was singularly unsuited—as a measure of "labour embodied"—it may be doubted if the reasons mentioned here would have deterred him from a welfare application. See Peach 2009.

39. Also: "Man was made for action, and to promote by the exertion of his faculties such changes in the external circumstances both of himself and others, as may seem most favourable to the happiness of all" (II.iii.3.3).

tions” was “to animate the public passions of men, and rouse them to seek out the means of promoting the happiness of the society” (TMS IV.1.11), it would be a startling *volte-face* to find Smith suddenly renouncing those concerns—as Dugald Stewart ([1793] 1980, I.8, p. 271) put it, “his ruling passion, of contributing to the happiness and the improvement of society”—when it came to writing WN.<sup>40</sup> But, as recent scholarship has rediscovered,<sup>41</sup> there is no reason to suppose he had done any such thing.<sup>42</sup> Indeed, one may read a central purpose of WN as being “to animate the public passions of men, and rouse them to seek out the means of promoting the happiness of the society” (cf. Evensky 2005, 213–14). In agreement with Donald Winch (1996, 96), however, it may be surmised that Smith’s tactic, of which a powerful clue is given in TMS, was not to appeal directly to his readers’ sense of virtue; for, as he explained, “if you would implant public virtue in the breast of him who seems heedless of the interest of his country, it will often be to no purpose to tell him, what superior advantages the subjects of a well-governed state enjoy; that they are better lodged, that they are better clothed, that they are better fed” (TMS IV.1.11). It would be far more effective, in Smith’s view, to show the man how a superior “system”—one more conducive to “the [material] happiness of the society”—“might be introduced into his own country, what it is that hinders it from taking place there at present, how those obstructions might be removed, and all the several wheels of the machine . . . be made to move with more harmony and smoothness” (IV.1.11). Smith continued:

It is scarce possible that a man should listen to a discourse of this kind, and not feel himself animated to some degree of public spirit. He will, at least for the moment, feel some desire to remove those obstructions, and to put into motion so beautiful and so orderly a machine. (IV.1.11)

Relating this to WN, the “so beautiful and so orderly . . . machine” or “system” was the system of natural liberty, the ultimate purpose of

40. Smith would have been steeped in this view. As his own teacher had instructed, the “grand end of our being is . . . the promoting of the most universal happiness” (Hutcheson 1755, 1:285; cf. 2:116).

41. The position had been clear enough to Dugald Stewart, who suggested that WN continued to aim “at the advancement of human improvement and happiness,” albeit less “professionally” than TMS (Stewart [1793] 1980, IV.12, p. 314).

42. See, for example, Winch 1978, 1996. Cf. Morrow 1928, 157–58. For a contrary view, see Bonar 1922, 172.

which was to increase the happiness of society through an extension of personal liberty and, critically, by improving the material standard of living of "the great body of the people." The latter end would be achieved as a by-product of the lower natural prices and, especially, by the economic growth engendered "naturally" by the system, so leading the society to the desired and desirable outcome in which the majority are "better lodged, better clothed, and better fed."

On the reading offered here, Smith may have calculated that the end he sought would not be best achieved by accentuating the welfare or happiness benefits of the system of natural liberty. Those benefits were therefore downplayed. All that survived in WN of the real measure of welfare, the vestigial hints of its welfare provenance, were the allusions to "comeatableness" and the widely misunderstood reference to the sacrifice of ease, liberty, and happiness. The true welfare relevance of the measure had been buried in obscurity.

## 5. Conclusion

If blame were to be apportioned for the pervasive misunderstanding of the "real measure," then a large share might go to Smith himself. Having introduced the measure in terms that were highly suggestive of a *direct* welfare application, he then proceeded to use it for other purposes: to provide qualitative indications of changes in future employment and output, to measure "riches," and to indicate changes in the labor expended on the production of commodities. In so doing he almost invited the conflation of welfare with nonwelfare uses, which, on the argument of the present essay, is precisely what has happened. The array of so-called welfare interpretations mirrors, almost exactly, the variety of other uses to which the measure was put by Smith.

Yet, of all the barriers to understanding the suppressed welfare relevance of the measure, seemingly the most insurmountable has been erected by Smith's commentators: a failure to comprehend, even to investigate, Smith's own understanding of happiness and social welfare, and the mis-translation of "ease, liberty and happiness" in terms of subjective disutility. Admittedly, Smith did not spell out his meaning in WN, possibly by design, but the material in TMS, the *Lectures*, and the "Early Draft" of WN, all of which is consistent with remarks in WN, points directly to the conception of social welfare in terms of Smith's philosophical understanding of happiness *and* of the laborers' sacrifice as the sacrifice of that

happiness. Subjective, utility-based conceptions of happiness and sacrifice were alien to his philosophical outlook.

Smith's approach was to associate one condition or element of happiness—the happiness deriving mainly from “ease of body”—with material consumption relative to the happiness that must be sacrificed by laborers in its acquisition. The real measure, possibly in its original conception, was a measure of (changes in) welfare from material consumption for the social majority. As to the question of why Smith did not develop and highlight that usage in *WN*, I have suggested that the answer may be found in a possible recognition of limitations to the welfare application of the measure and, perhaps more importantly, in his tactical decision to engage a readership more likely to be interested in, and captivated by, the mechanics of wealth-generation and the aesthetic appeal of the “system” rather than the welfare of the laboring poor. The readers of *The Wealth of Nations* were to be led by *Smith's* hand to promote an end that may have been no part of their intention.

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