

LETTER TO THE EDITOR: A COMMENT ON MARIA PIA PAGANELLI'S MISTAKEN TREATMENT OF ADAM SMITH'S "FOUR STAGES" THEORY OF ECONOMIC DEVELOPMENT

BY

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I. INTRODUCTION

Three principal problems with Maria Pia Paganelli's (2022) treatment of Adam Smith's "Four Stages" theory of (socio-)economic development are, first, her doubting whether Smith argues the "four stages" theory or a "stadial model" of economic development; second, her preference for only the equivalent of time-series data to evaluate Smith's four stages theory; and third, her misrepresenting several of Smith's arguments in the *Wealth of Nations* (hereinafter *WN*). From these flaws in her analysis and ignoring the development economics literature that appreciates the relevance of Smith's explanations, Paganelli invites us to inquire again into the causes of the wealth of nations since Smith has failed in that effort: "when none of the empirical data fits our stadial model of economic development, maybe it is time to *inquire* again into what causes nations to develop and grow richer" (2022, p. 98; italics original). She also appears not to have paid much attention to Smith's explanation in the "Introduction and Plan of the Work" of his goals in the five books of the *Wealth of Nations*, namely: (a) to explain the "causes of [the] improvement, in the productive powers of labour, and the order, according to which its produce is naturally distributed among the different ranks and conditions of [people] in society" (*WN*, pp. 10–11); (b) to "explain in what has constituted the revenue of the great body of the people, or what has been the nature of these funds which, in different ages and nations, have supplied their annual consumption" (p. 11); and (c) to explain the proper role of government in the economic development process. Paganelli's arguments are thus incorrect and misleading. My comment elaborates.

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II. UNCERTAINTY ABOUT SMITH'S AUTHORSHIP OF THE "FOUR STAGES" THEORY

In casting doubt on Smith's authorship of the four stages theory of economic development, Paganelli argues that analysts, in effect, have been misled by Ronald Meek's (1971) account of Smith's theory of the evolution of societies from the stage of hunters, pasturage, agriculture, and to commerce as far back as in his Edinburgh lectures before 1755. Thus, she argues, "*if* Smith uses that model ...," typically with the "*if*" italicized. But Meek documents the evolution of Smith's explanation of the process of economic development from his Glasgow lectures, including noting Smith's declaration, "Little else is requisite to carry a State to the highest degree of opulence from the lowest barbarism, but peace, easy taxes, and a tolerable administration of justice; all the rest being brought about by the *natural course of things*" (1971, p. 19; italics added), as an embryonic form of Smith's four stages theory. Meek (1971) also notes the coincidence of "the genuinely original and independent discovery [of the four stages theory] by two young men in their twenties, in two different countries and at exactly the same time" (p. 24); Anne Robert Jacques Turgot of France was the other. Furthermore, Meek (1976, pp. 116–130) documents from Smith's Glasgow lectures the evolution of government and property rights, particularly from the agricultural to the commercial stages, to explain the process of economic development in his theory.

Indeed, in Chapter 1, Book III, "Of the natural Progress of Opulence," from which Paganelli cites a statement by Smith as representing a refutation of the stadial model, Smith argues: "According to the *natural course of things* ... the greater part of the capital [savings] of every *growing society* is, first, directed to agriculture, afterwards to manufactures, and last of all to foreign commerce. This order of things is so *very natural*, that every society that had any territory, it has always, I believe, been in *some degree* observed" (WN III.i, p. 380; italics added).

Paganelli does not dispute Smith's having made these declarations. She thus appears inconsistent with the text in claiming, "Smith *allegedly* offers a clear stadial model of development" (p. 95; italics added), or that "Smith also presents lists of historical examples that contradict his alleged model, perhaps questioning the validity of the model instead of endorsing it, *if* he does indeed use that model at all" (p. 95; italics original). Besides, Paganelli does not explain who else's model of the four stages of socio-economic development Smith could be disputing when she argues, "Smith either does not adopt a model of stadial development as a model of development, or, *if* he uses it, he does it to criticize it, not to endorse it" (p. 96; italics original). She also claims that "a possible alternative way of reading Smith may instead be that Smith knew well that the four stages could be used as a development model *à la* Meek, but he could not get himself to support it" (p. 97).

III. THE LEGITIMATE METHOD OF EVALUATING A THEORY OF DEVELOPMENT

Paganelli appears to think the only legitimate method of evaluating a theory of economic development is to document for each economy their four stages of

development. Thus, she argues, “if I were to give an historical example to explain and corroborate [a development] model, I would say: take country x for example. During century y, people were few and they were hunters. As population increased, they became shepherds. In century yy, more or less, they started to cultivate land extensively and, now, x is in its commercial age” (p. 99; italics original). Smith instead offers in his *Lectures on Jurisprudence* the examples of roving Indian tribes in North America (hunters), the Tartars and Arabians (shepherds), and France (developed agriculture and commerce) as illustrations of the four stages of economic development. Paganelli rejects the citations as a legitimate form of illustrating the stages of economic development because, “And France, well, we are simply not told. France is just France. These may be good examples of *classification*, not of development” (p. 99; italics added).

In spite of Smith’s discussions of economies at their different stages of development in the *Wealth of Nations*, Paganelli also claims that “the explicit mention of the four stages of development [there] disappears” (p. 99). In fact, the claim is refuted in Smith’s “Introduction and Plan of the Work” and in Book V, Chapter 1, “Of the Expences of the Sovereign or Commonwealth.” To the latter the editors attach a footnote: “LJ (A) i.27 comments that ‘There are four distinct states which *mankind passes thro* ... 1st, the Age of Hunters; 2ndly, the Age of Shepherds; 3rdly, the age of agriculture; and 4thly, the Age of Commerce’ (WN V.i.a, p. 689n2; italics added).” It is because there is little need for the expense of government in the earlier two stages of societal development that consideration for taxation for government to fulfill its first duty of “protecting the society from the violence and invasion of other independent societies ... by means of a military force” (WN V.i.a, p. 689) does not arise. But security of persons and private property as well as the administration of justice are necessary for the development and growth from the agricultural to the commercial/manufacturing stages, Smith explains.

Further to deny that Smith employs the four stages theory of development in the *Wealth of Nations*, Paganelli argues:

Assuming the implicit presence of the four stages model, what does Smith tell us of civilizations that have evolved over time? Take Rome. Smith tells us ‘Rome ... was originally founded upon an Agrarian law’ (WN IV.vii.a.3, p. 556). Where is the age of shepherds, not to speak of the age of hunters, that precedes the age of agriculture? They may have been there, but this is not what Smith tells us. Rome was founded on agrarian law—no mention of what was there before, if anything. (pp. 99–100)

But the chapter from which Paganelli takes the quote is devoted to explaining “Of the Motives for establishing new Colonies.” The full sentence reads, “Rome, like most of the other ancient republicks, was originally founded upon an Agrarian law, which divided the publick territory in a certain proportion among the different citizens who composed the state” (WN IV.vii.a.3, p. 556). This is followed by, “The course of human affairs, by marriage, by succession, and by alienation, necessarily deranged this original division, and frequently threw the lands, which had been allotted for the maintenance of many different families into the possession of a single person” (pp. 556–557). The rest of the passage describes life in Rome that included slaves, freemen, traders, and manufactures in a stage much above roving hunters.

However, it is quite legitimate to infer from cross-section data the evolution of economies, just as we can infer the evolution of the share of a country's labor force in agriculture from the data in different countries at different stages of development—low income, lower-middle income, upper-middle income, and high income—as development economists do. Similarly, we can test the hypothesis that the share of saving (purchase of interest- and/or dividend-earning financial assets) in personal disposable income rises as that income increases from cross-section budget data. Paganelli's rejection of Smith's illustration of his four stages theory thus has little merit.

Before Smith's Chapter 1, Book III, "Of the natural Progress of Opulence," he precedes that in Book II with discussions of "the Nature, Accumulation, and the Employment of Stock [Savings]," that include five chapters: "Of the Division of Stock," "Of Money considered as a particular Branch of the general Stock of the Society, or of the Expence of maintaining the National Capital," "Of the Accumulation of Capital, or of productive and unproductive Labour," "Of Stock Lent at Interest," and "Of the different Employment of Capitals." In these chapters we learn from Smith that there is hardly any saving in the first two stages of societal development. From the savings out of agricultural "surplus," capital accumulation funds domestic manufacturing and foreign trade through individual loans or through commercial banks.

However, the insecurity of private property, either from foreign invasion or the encroachment upon it by theft or excessive domestic government taxation, inhibits the increase of savings. Besides, Smith also explains that "the principle which prompts us to save is the desire of bettering our condition, a desire which, though generally calm and dispassionate, comes with us from the womb, and never leaves us till we go into the grave" (*WN* II.iii, p. 341). Thus, Smith argues:

When we compare ... the state of a nation at two different periods, and find, that the annual produce of its land and labour is evidently greater at the latter than the former, that its lands are better cultivated, its manufactures more numerous and more flourishing, and its trade extensive, we may be assured that its capital [savings] must have increased during the interval between those two periods, and that more must have been added to it by the good conduct of some, than had been taken from it either by the private misconduct of others, or by the publick extravagance of government. (*WN* II.iii, p. 343)

That is why the correct interpreters of Smith recognize him as having argued a savings theory of economic growth. They also understand his criticisms of the mercantilist policies of high government taxation, subsidies to manufacturing, high (protective) tariffs on foreign manufactured goods to promote their domestic alternatives, and the discouragement of domestic agriculture for retarding economic growth.

Instead of recognizing these arguments in Smith, Paganelli claims that "the stages of society in Smith are simply a pedagogical heuristic, a *classification of different kinds of society*. ... The four stages are a taxonomy of different relations between means of production and social, moral, political, and legal institutions, not a model of development from one stage to another" (p. 97; italics original). Incorrect!

IV. PAGANELLI'S MISINTERPRETATIONS OR MISREPRESENTATIONS OF TEXT

There are several renditions of Smith's arguments in Paganelli's article that are not consistent with the texts. The most serious appears to be in regard to Smith's observation at the end of Chapter 1, Book III:

But though this *natural order of things* must have taken place in some degree in every [growing] society, it has, in all the modern states of Europe, been, in *many respects*, entirely inverted. The foreign commerce of *some of their cities* has introduced all their finer manufactures, such as were fit for distant sale; and manufactures and foreign commerce together, have given birth to the principal improvements of agriculture. The manners and customs which remained after that government was greatly altered, *necessarily forced* them into this unnatural and retrograde order. (WN III.i, p. 380; italics added)¹

Smith here refers to the government's having been "greatly altered," which forced the "unnatural and retrograde order." His argument also hints at his explanation of the economic inefficiency of European feudalism and the use of slave labor (Chapter 2, Book III) after the fall of the Roman Empire and his criticism of the mercantilist policy of favoring some manufactures at the expense of agriculture (chapters 8 and 9, Book IV). Paganelli instead misrepresents Smith's observation thus:

Smith describes the development of Europe as actually "unnatural and retrograde" (WN III.i.9, p. 380). Rather than going from an agricultural stage to the commercial one, Smith tells us, we went from an agricultural stage back to a barbaric stage, to then jump into a commercial stage, following which agriculture improved. Europe developed foreign trade first [in what?], then manufactures, and only later agriculture. This is not a minor point Smith makes. He spends *three* of the four chapters telling his readers the story of how the natural course of things is inverted. (p. 100; italics original)

Not so.

Smith explains the destruction of some cities and production, "brought about by the irresistible superiority which the militia of a barbarous, has over that of a civilized nation; which the militia of shepherds, has over that of a nation of husbandmen, artificers, and manufacturers" (WN V.i.a, p. 704), as well as the inefficiency of feudalism in Chapter 2, Book III. He follows that in Chapter 3 with explaining the natural development of manufactures based upon the development of agriculture:

An inland country naturally fertile and easily cultivated, produces a great surplus of provisions beyond what is necessary for maintaining the cultivators, and on account of the expence of land carriage, and inconveniency of river navigation, it may frequently be difficult to send this surplus abroad. ... They work up the materials of manufacture which the land produces, and exchange their finished work, or what is the same thing the price of it, for more materials and provisions. ... They are thus both encouraged and enabled to increase this surplus produce by a further improvement and better cultivation

¹ Note that favoring manufacturing in the cities at the expense of agriculture in the countryside does not mean the complete destruction of agriculture.

of the land; and the fertility of the land had *given birth to the manufacture*, so the progress of the manufacture re-acts upon the land, and increases still further its fertility. ... The corn, which could with difficulty have been carried abroad in its own shape, is in this manner virtually exported in that of the complete manufacture, and may easily be sent to the remotest corners of the world. In this manner have *grown up naturally*, and as it were of *their own accord*, the manufactures of Leeds, Halifax, Sheffield, Birmingham, and Wolverhampton. Such manufactures are the offspring of agriculture. (*WN* III.iii, p. 408–409; italics added)²

Smith's earlier explanation in the "Introduction" of what he says in Chapter 3, Book III is:

Nations tolerably well advanced as to skill, dexterity, and judgment, in the application of labour, have followed very different plans in the general conduct or direction of it; and those plans have not all been equally favourable to the greatness of its produce. The policy of some nations has given extraordinary encouragement to the industry of the country; that of others to the industry of town. Scarce any nation has dealt equally and impartially with every sort of industry. Since the downfall [sic] of the Roman empire, the policy of Europe has been more favourable to arts, manufactures, and commerce, the industry of towns; than to agriculture, the industry of the country. The circumstances which seem to have introduced and established this policy are explained in the Third Book." (*WN*, p. 11)

Paganelli uses what Smith says in Chapter 2, Book III, as contradicting Meek's (1976) account of Smith's "Four Stages" theory of economic development. She says, "I take issue with ... the idea of the stages of development that implies a more or less 'orderly sequence or succession of different modes of subsistence through which societies could be conceived as progressing over time' (Meek 1976, p. 23)" (Paganelli 2022, p. 96). However, Meek's statement there is about John Locke's discussion of the evolution of private property and the nature of diets in ancient times as mentioned in Genesis:

At this juncture, let us merely note one of [Locke's idea's] more important implications: that hunting, pasturage, and agriculture did *not* in fact coexist in the 'first ages' of Asia and Europe, as Genesis had led so many to believe. The way was thus for the first time really laid open for the emergence of the idea of an orderly sequence or succession of different modes of subsistence through which societies could be conceived as progressing over time. (Meek 1976, pp. 22–23; italics original)

Meek, indeed, adds: "These writings on the historical origins of property, taken together, constituted the first of three important seventeenth-century traditions or 'streams of thought' which directly or indirectly contributed to the eventual emergence of the four stages theory in the middle of the following century" (1976, p. 23). But neither Smith nor his correct interpreters have claimed that once a nation attains the commercial/manufacturing stage of development, it could not be devastated by war or the choice of bad policies.

² Arthur Lewis (1978, p. 9) restates Smith's argument, noting that "the dependence of an industrial revolution on a prior or simultaneous agricultural revolution" enables its success.

Another of Paganelli's misrepresentations of text is regarding Smith's explanation that "in a country where the funds destined for the maintenance of labour were sensibly decaying," there would occur "[w]ant, famine, and mortality ... till the number of inhabitants in the country was reduced to what could easily be maintained by the revenue and stock [savings] which remained in it, and which had escaped either the tyranny or calamity which had destroyed the rest" (*WN* I.viii, pp. 90–91). Smith likens such a situation to "nearly the present state of Bengal, and of some other of the British settlements in the East Indies" (*WN* I.viii, p. 91), and relates the condition to the nature of government: "The difference between the genius of the British constitution which protects and governs [colonial] North America, and that of the mercantile company which oppresses and domineers in the East Indies, cannot perhaps be better illustrated than by the different state of these countries" (*WN* I.viii, p. 91).

Paganelli's version of Smith's explanation does not mention the scarcity of capital or the oppression and domineering mercantile company. Rather, she says, "indeed, Smith tells us that the difference between the success of America and the degradation of Bengal is the adoption of the British constitution in America (*WN* I.viii.26, p. 91)" (2022, p. 101).

V. CONCLUSION

Paganelli asks, "*If* Smith does use the four stages of development, not just as a taxonomy of different kinds of societies but as an actual model of development ... why does Smith offer so much contradicting data?" (p. 102; italics in original). Well, Smith doesn't. Smith explains the factors causing economic development towards the most developed stage, including the importance of national defense against foreigners to sustain it. The problem is with Paganelli's misreading or misinterpreting what Smith and Meek have written. Thus, neither Smith nor his correct interpreters, including Meek, have argued an "inevitable linearity of the development of the four stages" (Paganelli 2022, p. 101) as Paganelli attributes to them. Reversals, although not usually to the hunting and pasturage stages, because of wars or bad government policies, are possible.

In his Glasgow lectures, Smith also argues, "All governments which thwart this natural course of things, which force things into another channel, or which endeavour to arrest the progress of society at a particular point, are unnatural, and to support themselves are obliged to be oppressive and tyrannical" (in Meek 1971, p. 19). The Marxist/socialist attempts at economic development in the former Soviet Bloc, Maoist China, North Korea, Cuba, Venezuela, and several Third World countries well attest to Smith's prescient argument. So are the failures of import substitution industrialization strategies of the 1950s and 1960s in several Third World countries. The development economics literature well documents all that; see, for example, Hla Myint (1971), Tony Killick (1978), Arthur Lewis (1978), Gerald Meier and James Rauch (2005), and Dwight Perkins et al. (2013). Paganelli's view of "the system of natural liberty that is part of economic development [being] indeed the result of peculiar circumstances and historical accidents" (p. 102), rather than that of deliberate government policy, is quite misleading and unhelpful. Smith's *Wealth of Nations* is an essential guide to what governments

should do and not do to promote and sustain the efficient development of their economies.

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