The history of Scottish economic thought holds a special place in the history of global economic thought since the central figure, Adam Smith, has been identified by many as the ‘father’ of modern economics. But Scottish economic thought consists of much more than the work of Smith, and Smith himself cannot be fully understood independently of his Scottish context. Further, while the eighteenth century saw the most important contributions to economic thought, the tradition of which Smith was a part continued for a time. It was then revived in the late nineteenth century, continuing through to the twentieth century, although with ever-diminishing impact on the discipline. In what follows, we set out the cultural and business background particularly in the seventeenth and eighteenth centuries in which the Scottish tradition was moulded. Special emphasis is placed on Scottish enlightenment philosophy, of which the newly emerging political economy was a product; David Hume and Adam Smith made their pioneering contributions to economics on the basis of their philosophy. We proceed to provide an account of the main economic ideas emerging from this tradition. But we emphasise particularly the approach taken to economics on the grounds that it is this which most clearly distinguishes the history of Scottish thought. Finally, we bring the account forward to the present day, with a separate discussion of how the Scottish tradition was disseminated elsewhere.

**Cultural and business traditions**

While for a long time major Scottish figures like Hume and Smith were considered isolated geniuses, it is now widely accepted that they were part of a more general phenomenon with a national character, the Scottish enlightenment (Campbell and Skinner, 1982; Broadie, 1990; Buchan, 2003), and that their economic thinking was a product of the particular political-economic environment. The Scottish enlightenment philosophy tradition, of which the Scottish political economy tradition was a product, is to be distinguished from other national enlightenment traditions. While, following Descartes, French enlightenment philosophy emphasised the sufficiency of deductive reason and, following Bacon and Newton, the English enlightenment emphasised empiricism, the Scottish enlightenment pursued a path which combined reason and evidence within a theory of human nature. This philosophical approach in turn was influenced by wider cultural and economic conditions in Scotland.
The cultural and economic conditions for the flowering of economic thought in Scotland in the eighteenth century were established at least as early as the seventeenth century. The court had moved to London when James VI also became James I of England in 1603; the removal of the political centre to London was cemented in 1707 with the Union of the Parliaments. The focus for public debate therefore had shifted away from politics and more towards issues concerning religion and moral issues more widely.

The context and character of such debate was coloured by the continuing presence of distinctive Scottish institutions: the Church of Scotland which is non-established, the legal system based on Roman law, and a national education system built on a foundation of general literacy. The aim to maximise access to good education meant that higher education was made available to students from all parts of the country at an early age. The structured approach to higher education played a crucial part in laying the foundations both for Scottish inventiveness in practical matters and for the development of Scottish enlightenment philosophy (Dow, Dow and Hutton, 1997). Disciplines were taught from a historical perspective, providing exemplars of systems of thought which had been suited to particular historical circumstances rather than one ‘best’ system. Further, the degree was structured such that students would be exposed at the start to moral philosophy, a subject within which topical issues would be debated.

The content of Scottish philosophy was subject to particular influence from continental Europe. Cultural and educational links with the continent were strong as a result of long-standing political forces, notably conflict with England. In particular, Pufendorf’s application of natural law philosophy to economic questions, introduced to Scotland by Gershom Carmichael, was to prove highly influential in both the philosophy and the economics which developed during the enlightenment period. This continental influence on Scottish philosophy continued well into the eighteenth century, strengthened by extended stays in France on the part of Hume, Smith and Sir James Steuart. There was continuity also in the distinctiveness of non-governmental institutions in Scotland.

In the pre-enlightenment period, Scotland had been a relatively poor country, although already employing technical improvements. The scope for trade was restricted by England, but Scotland had long-standing trading and cultural ties with continental Europe. The eighteenth century saw not only a loss of government and the loss of a separate currency in 1707, but also a number of important socio-economic developments resulting from what we might encapsulate with the term ‘commercialisation’: the emergence of banking from 1695, the opening up of trade with England and English colonies, agricultural improvements and increasing migration into towns. There was further the cultural, economic and demographic upheaval associated first with the 1715 and 1745 Jacobite rebellions and then with the consequent suppression of Highland culture and economic organisation.

These developments brought to the fore a number of important questions. A particular focus for moral philosophy was the moral challenge of commercialisation. But further, there were practical issues surrounding the problem of promoting Highland improvement. This, together with issues related to the opening up of the New World and comparisons with the English economy, posed the ‘rich-country poor-country problem’: how to understand differences in economic advancement. Indeed it can be argued that the content not only of ideas on economic development, but also that of moral philosophy, were influenced profoundly by the history of Scottish culture and economic circumstances surrounding Highland-Lowland differences (see Dow, 2009a). In the absence of a parliament, civic humanism encouraged the formation of societies to address particular issues, such as the Honourable Society for Improvement in the Knowledge of Agriculture, founded in 1723, and its sequential successors, the Select Society,
and the Edinburgh Society for Encouraging Arts, Sciences, Manufactures, and Agriculture in Scotland, whose membership included Hume and Smith.

An education system drawing more on Roman than Greek texts and covering a range of approaches which had been applied to different historical contexts was well-suited to addressing practical problems, leading to an impressive array of technical innovations in the eighteenth century. Indeed the epistemology underlying the structuring of education in Scotland arguably also paved the way for innovations in moral philosophy and its offshoots, including economics. In the spirit of this interdependence between ideas and real experience, Scottish enlightenment philosophy developed in such a way as to underpin these scientific advances with a new general theory of knowledge based on a science of human nature. The influence of continental philosophy on Hume (1739–40) encouraged him to grapple with the rationalism of the French enlightenment, only to conclude that reason was an insufficient foundation for knowledge. But evidence (‘experience’) was also inadequate given the problem of induction: since real processes are too complex for human understanding, there can be no assurance that past experience is a reliable guide to the future. Knowledge, rather, is built from social conventions with the aid of imagination, but any such knowledge is inevitably partial and open to challenge by experience. Hume and Smith thus employed the Scottish interpretation of Newton’s experimental methodology, which was to draw inferences from experience which would be developed into theories and confronted with further experience. Unlike the axiomatic approach of Descartes, this was a method for deriving general principles which were provisional in the face of further evidence and likely to require adaptation to different contexts.

This science of human nature has had a lasting legacy in that it spawned a range of disciplines, such as psychology and sociology, in addition to economics. As far as Scottish philosophy itself is concerned, there was a complex range of currents, but there was sufficient continuity and commonality for a national enlightenment tradition to be identified in the modern literature (see Broadie, 1990). But in the post-enlightenment period, Hume in particular was interpreted very differently, both as a sceptic destructive of science and as the father of logical positivism. It could be argued, therefore, that Scottish enlightenment philosophy had its greatest lasting impact only through what many now regard as misinterpretation (Dow, 2002b).

Scottish philosophy was perpetuated within Scotland after the enlightenment through the continuing emphasis until the late twentieth century on history, moral philosophy and logic and metaphysics in higher education (in spite of strong arguments from Oxford in the early nineteenth century against the teaching of philosophy to undergraduates). Other Scottish institutions and culture also continued to be distinctive, although there has been a gradual process of homogenisation with the rest of the UK. The Scottish economy continued to flourish through trade and heavy industry until the early twentieth century, but then lost ground to the rest of the UK, only reviving through diversification in recent decades. The centrifugal political draw of Westminster (now reversed somewhat by the re-establishment of the Scottish parliament in 1999) has been mirrored in other areas (notably industry and academia), encouraging leaders in these fields to locate in or near London. This has reinforced the marginalisation in the UK of the traditional Scottish form of civic humanism and its philosophical underpinning.

The development of ideas over the long term

The literature on the history of Scottish economic thought is dominated by attention to the work of Adam Smith (see Ross, 1995 for a biography). Yet Smith was influenced by a range of others, from his precursors Carmichael and Hutcheson to his contemporaries such as Hume and Anderson. Further, his ideas should be considered in relation to the range of economic
ideas put forward by others within the Scottish tradition: Smith was not an author generous in giving credit to others (see Dow, 1984). The key figures in the eighteenth and nineteenth centuries can be identified as Francis Hutcheson, David Hume, Adam Smith, Sir James Steuart, Adam Ferguson, Dugald Stewart, John Rae, Thomas Chalmers, W.S. Nicholson and William Smart. But there was a much wider range of contributors to economic debate over these two centuries, meticulously recorded by Rutherford (2012). We will discuss below the sense in which the approach taken to analysing economic issues followed a particularly Scottish tradition. But first we outline a selection of the main economic ideas and areas of debate within that tradition; a more comprehensive coverage would include additional areas, such as public finance, where Smith in particular made a pioneering contribution.

**Stages approach to development**

Before the enlightenment, indeed with origins dating back to ancient times, there had been discussion of change in the means of subsistence and associated modes of organisation by means of stages of development. But the eighteenth century saw a much greater focus on understanding economic history in terms of advance from one stage of development to another. Smith identified these stages as: hunting and gathering, pastoral and agricultural stages, leading to the final stage of commercialisation, while other Scottish writers suggested different ways of classifying the stages. In the French approach, notably that of Turgot, the emphasis was on agriculture, but Smith changed the focus to one of growth in prosperity once the fourth stage, commercialisation, had been reached. He introduced the idea, drawing on natural law philosophy, that such growth might be the normal condition for commercial societies. The Scottish analysis of the stages put primary emphasis on social organisation, identifying the development of human institutions with respect to property rights and the rule of law as a necessary condition for progression from pastoral to agricultural to commercial stages of development.

**Moral issues with development**

There was debate as to how far movement through the stages was to be interpreted as progress. Indeed the Scottish enlightenment studies of different ‘savage’ societies indicated a respect for their moral legitimacy. There was widespread concern (expressed particularly by Ferguson, 1767) as to how far commercialisation would challenge the moral fabric of society. The specialised nature of non-subsistence production methods raised a widespread concern at what we would now call worker alienation, justifying state-sponsored education as a means of alleviating the stultifying effects on the mind.

Yet Hume emphasised also the positive, transformative features of commercial employment, arguing that it was a civilising influence and encouraged the ‘arts’ leading to further productivity growth. But the population movements into towns associated with commercialisation, with its disruptive social consequences, was a further concern which gathered force into the nineteenth century. Chalmers (1821) argued for community-based moral education as the most effective means of promoting moral behaviour and alleviating poverty through self-help (as well as community-based income redistribution), in opposition to the monetary payments of the Poor Laws.

**Population**

The focus on moral, social, psychological and political forces is also evident in debates in eighteenth-century Scotland over the nature and causes of demographic change. These debates
were given empirical grounding by early attempts at compiling population statistics for Scotland. Hume’s concern in looking at changes in these forces over the very long term was to consider whether population had increased or decreased from ancient times. Of more contemporary concern, particularly in relation to the depopulation of the Highlands, was whether increasing population was to be welcomed as a symptom of growth and a spur to further growth, or alternatively regretted as putting undue pressure on limited resources. But Smith differed from his contemporaries in being more sanguine that population movements would respond to the demand for labour. Malthus credited several Scottish writers as having influenced his theory of population.

**The division of labour**

While the idea was anticipated by Hutcheson, the division of labour is the cornerstone of Smith’s (1776) theory of economic development. Originally conceived by him in terms of an account of specialisation in philosophy, Smith drew on his extensive studies of different types and ages of society the general principle that commercial development arises from specialisation in production. Specialisation allowed for productivity gains, which in turn facilitated the build-up of capital for further investment. The range of application of this principle was debated in Scotland, and Smith himself accepted that the agriculture and manufacturing sectors might be developed in parallel. The principle encountered particular challenge when applied to Highland improvement, with Anderson (1777) for example arguing that diversification was preferable in geographically isolated regions. The theoretical foundations of the principle were later challenged by Rae (1834), who argued that invention was prior to the division of labour, so that growth should be understood as being built on invention and the necessary policy directed to promoting it.

**Free trade**

A direct implication of the principle of the division of labour is that it is limited by the extent of the market. As a corollary, free trade allows much more scope for the division of labour and thus for growth. Thus a central mechanism for encouraging growth, which could be observed to an increasing extent in Scotland in the eighteenth and nineteenth centuries, was international trade. This argument shifted the policy focus away from mercantilism, which had prioritised stocks of monetary wealth over the productive capacity of the economy. Not only did trade allow ever-increasing productivity, but trade had a dynamic effect on exporters and importers. Hume’s (1752) price-specie-flow theory focused on the way in which foreign earnings spurred exporters on to ever-higher levels of inventiveness and thus productivity (the attendant money flows being part of the process, but not the causal mechanism). At the same time, imports of luxury goods into lower-productivity economies exposed the population to new products which encouraged new tastes and the development of local import-substituting production. It was through this mechanism that Hume saw the catching-up process operating, such that other economies would also develop.

**Theory of value**

The theory of value which emerged from Scottish enlightenment thought was prompted by moral concerns with commercialisation as well as the more practical considerations of exchange; what was a fair price given the effort and resources which went into a product and the nature and degree of its usefulness? Influenced by Hutcheson and natural law philosophy, Smith
developed the notion of a natural price around which actual prices would fluctuate with changes in demand. The natural price was measured by the labour embodied in a product; by the same token, welfare was measured by labour commanded (Skinner, 2006a).

The invisible hand

One of the ideas most frequently drawn from Scottish economics is that markets are self-regulating, since self-interest is guided as if by an invisible hand to produce a socially optimal outcome. Smith had pointed out that commercial production would be aligned with demand by means of the price mechanism and the profit motive. But Smith’s use of the term ‘invisible hand’ referred to a limited range of positive externalities (such as the tendency for capital investment to occur in the home economy), rather than as a general phenomenon. Indeed Smith warned of tendencies for market competition to be reduced (by monopolies or collusion), thus limiting the benefits of market forces. Nevertheless Smith’s account of the benefits of market forces, based on a systemic analysis of markets, was one of the most influential Scottish economic ideas.

Institutions and approaches

A range of important economic ideas thus emerged and/or were developed in the Scottish enlightenment. There were disagreements about some of the key ideas, such as the division of labour. Nevertheless there is a commonality about economic discourse in Scotland which overrides these differences and which colours the way in which both concepts and analysis were understood or misunderstood. This commonality arose from the shared economic, political, social, cultural and intellectual background. This common Scottish approach was still evident up to the late twentieth century, in general public discourse as well as in economics. This approach arose from the Scottish enlightenment theory of knowledge, founded on a theory of human nature.

Political economy had become a university subject in its own right in the Scottish universities in the nineteenth century, after a period during which it was taught within the discipline of moral philosophy. The University of Edinburgh appointed the first Professor of Political Economy in the Scottish universities in 1871. Only in 1947 did the University of St Andrews do likewise, though from 1900 a Lectureship in Political Economy was instituted. (Incidentally the first incumbent of this Lectureship was William Scott, who invented the term ‘Scottish enlightenment’, and who became the second Professor of Political Economy appointed by the University of Glasgow in 1915.)

In effect the new university discipline reinvented the political economy of the Scottish enlightenment in Scotland to constitute the curriculum. History of thought was integral, and Smith figured centrally in the economic thought that was taught. The philosophical roots of the discipline were also respected and there was a concern for the practical, a desire almost that economic knowledge should be used to do good. In particular this tendency is to be found in the work of Smart, who was appointed in 1896 to be the first Professor of Political Economy at the University of Glasgow. He was a member of the UK Royal Commission on the Poor Law which reported in 1909. He drafted the Majority Report’s chapter on a social insurance scheme which informed the scheme implemented by the Liberal government in 1911. In this he may have had an important input into the development of the British welfare state.

Indeed there was an ‘applied economics’ characteristic of much of the work undertaken by Scottish-based economists in the middle of the twentieth century (Dow, Dow and Hutton,
Public service was an important contribution: the great exemplar of this approach was Sir Alec Cairncross, who had a career spanning public service and academic life. But William Smart, William Scott and Alec Macfie, likewise Professors in Political Economy at the University of Glasgow, shared this ethos, and served on many government committees as a result. Economic theory was used but not developed by the Scottish economists who founded (or revived if an earlier organisation is credited as predecessor) the Scottish Economic Society in 1954. But Macfie explicitly articulated their continuing commitment to the Scottish tradition in economic thought in 1955 (reprinted in Mair, 1990).

The main features of this Scottish political economy approach can be summarised as follows. First there was an awareness of the inevitability of more than one legitimate approach to knowledge, given the complexity of the subject matter and the basis of knowledge in human nature, and an acceptance therefore of the limitations of any theory and therefore of its provisional nature. There followed the need for persuasive argument based on recognition of the sociological and psychological aspects of theory appraisal. Theory was designed to address practical issues and to draw on several disciplines in an integrated manner. Arguments were developed from first principles (to be distinguished from axioms), and first principles were to be approached by discussing their contextual development, using a historical approach both to evidence of different contexts and as to ideas within their context. Finally, first principles were specified in terms of a non-individualistic representation of human nature, with an emphasis on conventional behaviour and moral issues.

On the basis of this theory of knowledge, whereby there was no scope for demonstrable truth, theories prevailed or not on the basis of persuasive discourse. The strength of the Scottish education system and the practical, policy focus of the economic ideas being developed meant that the range of individuals involved in this discourse was remarkable. As Rutherford (2012, 306) puts it: ‘How they argued!’

Over the history of modern economics, the most influential figure in the development of economic ideas and the approach to economics within the Scottish enlightenment was Adam Smith. Given that many of his ideas can be traced to earlier figures and were also developed by contemporaries in Scotland, the reason for this influence is arguably the fact that, more than any of his contemporaries, he took an open-systems approach (Skinner, 1996). Developing his psychological theory of theory appraisal, Smith (1795) likened theories to ‘imaginary machines’, whose aesthetic appeal arose from being derived from a few principles and connecting in a novel way with existing conventional knowledge. But, as with Hume, real experience was to be the arbiter of theory, in contrast to the deductivist axiomatic theory of Descartes. Experience, in turn, was to be analysed using what Skinner (1965) terms ‘analytical history’, i.e. incorporating historical evidence into a (provisional) theoretical system. Steuart (1767), for whom a systems approach could only support short chains of reasoning applied to particular contexts, had much less influence than Smith.

Recent advances and trends

We now consider the influence of the history of Scottish economic thought on the development of modern economics. We will see that this influence has been coloured by the way in which Scottish ideas were interpreted, in terms of the Scottish approach, or in terms of alternative approaches.

As the impetus for theoretical development shifted away from Scotland during the nineteenth century, the emergence of new ideas from Scotland diminished. Instead we saw a consolidation of applied economics using the Scottish approach, where applied economics continues to be
misunderstood in the wider discipline as something distinct from theoretical economics. It is, in fact, the philosophical and methodological approach to economics of the Scottish enlightenment, rather than particular theoretical ideas, which arguably has the most potential to contribute to modern debate. Yet this rich resource has largely gone unrecognised.

From the 1960s a range of different views have emerged about economics as a discipline, much of it in reaction to the growing dominance of the objectivist, deductivist mathematical approach, but in general without reference to Scottish economic thought. Kuhn promoted a view of the history of science in terms of successive paradigms, each with their own approach, none of which could be demonstrated as best. Skinner (1979) pointed out the way in which the Scottish enlightenment had laid the foundations for such an approach. The rhetoric approach revived interest in the persuasive element of the presentation of theories which Smith (1762–3) had pioneered. Further, while critical realist theory has been presented in opposition to Scottish enlightenment ideas, Dow (2002b) shows that Hume in fact provides a rich foundation for critical realist argument. More generally the approach taken in much of heterodox economics could benefit from more explicit recourse to Scottish enlightenment thought (Dow, 2009b).

Conclusion

Scottish economic thought had a profound influence on the development, first of classical economics and then of modern economics. It set the agenda for classical economics in terms of the analysis of the causes of economic growth and distribution, with an attendant focus on population, money, trade and public finance. The subsequent development of general equilibrium theory was presented as the completion of Smith’s analysis of markets in terms of the invisible hand. For many years the social focus of the *Theory of Moral Sentiments* was contrasted with the self interest of the *Wealth of Nations*, implying a contradiction (the ‘Adam Smith problem’). Now the consensus among Smith scholars is that the self whose interest Smith studied was a social self, conditioned by social norms. In the meantime, the wider political economy influence of Scottish thought had been acknowledged in an apparently disparate range of developments, such as in the founding of the United States and the work of Marx, Hayek and Keynes. More recently, experimental game theory has drawn new attention to Smith’s (1759) theory of social relations.

Such disparate developments can be understood in terms of the different interpretations of Scottish thought, and in particular how far this thought was understood in terms of Scottish philosophy. The general equilibrium interpretation of Smith understood his system as something amenable to formalisation, yielding universal laws by means of deduction from axioms. Smith (1795) had himself understood the rhetorical power of deductivism. But the interpretation of Smith’s system as an open historical process led to very different developments. Marx adopted the stages approach and much of the analysis of factors of production, while coming to different political conclusions. Hayek focused on Scottish enlightenment epistemology to support his methodologically individualistic analysis of market processes. Keynes similarly drew on Hume’s organicism and the resulting epistemology for his theory of probability. As with Hayek, the implication was that deductive formalism was an inadequate basis for argument.

It is uncontroversial to identify Scottish history of thought as having had profound and widespread influence on economics. This applies particularly to the enlightenment period, although Scottish thinkers continued to make contributions after that period and the Scottish approach was revived with the establishment of the discipline in Scottish universities in the nineteenth century. But the alternative deductivist approach which had arisen from other traditions came to dominate the subject. The post-enlightenment contributions from Scotland therefore were
misunderstood and devalued by the growing preference for formal mathematical modelling. While realist economic theory designed for application and applied economics continue to be regarded as second-class subsets of the discipline relative to formal deductivist economics, the philosophical grounding which could be provided for realist theory and applied economics by Scottish epistemology is largely ignored. Nevertheless new developments in methodology and theory outside the mainstream are increasingly referring to Scottish epistemology for grounding. While it is to theory that most literature on Scottish economic thought refers, it is the Scottish approach itself which has the potential to forge new developments in economic ideas.

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