

# A Retrospective Look at Adam Smith's Views on University Education

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"I have satisfied myself that the present state of degradation and contempt into which the greater part of these societies [universities] have fallen in almost every part of Europe arises principally, first, from the large salaries which in some universities are given to professors, and which render them altogether independent of their diligence and success in their professions; . . ."<sup>1</sup>

## I. Introduction

As the quotation beginning this short paper indicates, Adam Smith was a fervent critic of the universities of his day, particularly those outside of Scotland. The full force of Smith's criticisms first struck me some eight years ago, when I was teaching a course in the History of Economic Thought at one of our Ontario universities. This was a time of student unrest, with radical solutions to the ills of society in general and of the universities in particular much in vogue. Accordingly, it was a real delight to be able to show inquiring young minds that they were not really the first to entertain such disenchanted views concerning the status

quo, and that a great mind like Adam Smith's had also had his doubts about the universities of his day. In this paper, I shall summarize Adam Smith's views on the universities of his day, pointing up his critical and often acerbic comments on them that may be found in *The Wealth of Nations*. Smith's discussion of the European universities of his day is found principally in a subsection (pp. 716-740) of Part III of Chapter I of Book V; this chapter is concerned, in our parlance, with the expenditure side of public finance questions. However, developments in the universities were not unrelated to ecclesiastical institutions, particularly during Smith's time, and so the discussion in following subsection (pp. 740-766), which discusses principally religious instruction, contains some further illuminating comments. In the third section of this paper, Smith's analysis and recommendations for improving conditions in the universities is presented. Finally, the concluding section presents an analogy with the current method of financing university education in Ontario. What is, to my mind, the striking characteristic of Smith's genius is that his ideas on this subject, as on so many others, are still worthy of discussion. Very few of us

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<sup>1</sup>Adam Smith, as quoted in John Rae, *The Life of Adam Smith*, 1895. Reproduced by George J. Stigler and Claire Friedland, *1976 Calendar of Economists' Birthdays* (Chicago: The Graduate School of Business of the University of Chicago, 1975).

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(in any age) would succeed (or have succeeded) in writing material that can still be discussed with profit some two hundred years later.

## 2. Smith's Criticisms of the Universities of His Time

All was not well in the universities of his time, particularly those in England, according to Smith. One of the most telling commentaries is the following remark:

In England, it becomes day more and more the custom to send young people to travel in foreign countries immediately upon their leaving school, and without sending them to any university. Our young people, it is said, generally return home much improved by their travels. A young man who goes abroad at seventeen or eighteen, and returns home at one and twenty, returns home three or four years older than he was when he went abroad; and at that age it is very difficult not to improve a good deal in three or four years. In the course of his travels, he generally acquires some knowledge of one or two foreign languages; a knowledge, however, which is seldom sufficient to enable him either to speak or write them with propriety. In other respects, he commonly returns home more conceited, more unprincipled, more dissipated, and more incapable of any serious application either to study or business, than he could well have become in so short a time, had he lived at home. By travelling so very young, by spending in the most frivolous dissipation the most precious years of his life, at a distance from the inspection and controul of his parents and relations, every useful habit, which the earlier parts of his education might have had some tendency to form in him, instead of being rivetted and confirmed, is almost necessarily either weakened or effaced. *Nothing but the discredit into which the universities are allowing themselves to fall, could ever have brought into repute so very absurd a practice as that of travelling at this very early period of life.* By sending his son abroad, a father delivers himself, at least for some time, from so disagreeable an object as that of a son unemployed, neglected, and going to ruin before his eyes.<sup>2</sup>

Earlier, Smith has remarked that, ideally, a university education is the best way to train young men, particularly gentlemen and young men of fortune, for "the real business of the world." Unfortunately, as the quotation suggests, the universities of his day were failing to provide a proper preparation for such business.

Smith by no means confined himself to generalities; he stated bluntly:

In the university of Oxford, the greater part of public professors have, for these many years, given up altogether even the pretence of teaching.<sup>3</sup>

Nor were matters much better in France, for Smith remarks one page later:

Whoever has attended for any considerable time to the administration of a French university, must have had occasion to remark the effects which naturally result from an arbitrary and extraneous jurisdiction of this kind [an outside non-academic authority, such as that of a bishop or secular governor].<sup>4</sup>

Forty-four pages later, Smith implies that the universities of nearly all Roman Catholic countries of Europe, and not only those of France, are in bad shape because the most eminent men of letters leave the employ of the university for better-paying positions in the church. We may return to this point in our summary of Smith's analysis of the problem.

It would appear that complaints about rotten teaching have existed for at least two hundred years, and probably as long as the universities have been in existence. The following admittedly long quotation, in which I take great delight in reading to my students, is very revealing in this regard:

If the teacher happens to be a man of sense, it must be an unpleasant thing to him to be conscious, while he is lecturing his students,

<sup>2</sup>Adam Smith, *The Wealth of Nations*, Modern Library version of the Cannan edition, p. 728. The emphasis has been added.

<sup>3</sup>*The Wealth of Nations*, p. 718.

<sup>4</sup>*The Wealth of Nations*, p. 719.

that he is either speaking or reading nonsense, or what is very little better than nonsense. It must too be unpleasant to him to observe that the greater part of his students desert his lectures; or perhaps attend upon them with plain enough marks of neglect, contempt, and derision. If he is obliged, therefore, to give a certain number of lectures, these motives alone, without any other interest, might dispose him to take some pains to give tolerably good ones. Several different expedients, however may be fallen upon, which will effectually blunt the edge of all those incitements to diligence. The teacher, instead of explaining to his pupils himself the science in which he proposes to instruct them, may read some book upon it; and if this book is written in a foreign and dead language, by interpreting it to them into their own; or, what would give him still less trouble, by making them interpret it to him, and by now and then making an occasional remark upon it, he may flatter himself that he is giving a lecture. The slightest degree of knowledge and application will enable him to do this, without exposing himself to contempt or derision, or saying anything that is really foolish, absurd, or ridiculous. The discipline of the college, at the same time, may enable him to force all his pupils to the most regular attendance upon this sham-lecture, and to maintain the most decent and respectful behaviour during the whole time of the performance.

The discipline of colleges and universities is in general contrived, not for the benefit of the students, but for the interest, or more properly speaking, for the ease of the masters. Its object is, in all cases, to maintain the authority of the master, and whether he neglects or performs his duty, to oblige the students in all cases to behave to him as if he performed it with the greatest diligence and ability. It seems to presume perfect wisdom and virtue in the one order, and the greatest weakness and folly in the other. Where the masters, however, really perform their duty, there are no examples, I believe, that the greater part of the students ever neglect theirs. No discipline is ever requisite to force attendance upon lectures which are really worth the attending, as is well known wherever any such lectures are given. . . . Such is the generosity of the greater part of young men, that, so far from being disposed to neglect or despise the instructions

of their master, provided he shows some serious intention of being of use to them, they are generally inclined to pardon a great deal of incorrectness in the performance of his duty, and sometimes even to conceal from the public a good deal of gross negligence.<sup>5</sup>

As Vincent W. Bladen has remarked,<sup>6</sup> Adam Smith appeared to have more confidence in the discriminating powers of the students than in the public spirit or "instinct of workmanship" on the part of the professors. One may remark in addition that academic regulations, like laws in general, are generally made for deviant cases; in particular, the problems in university teaching generally arise from the *odd* students whose diligence has been substandard, rather than from "the greater part of the students." Nevertheless, this long quotation generally goes over quite well with students, for whom the typical reaction is surprise that one who is popularly considered such a defender of the established order as Adam Smith could be so vitriolic with regard to the universities of his day.

### 3. Adam Smith's Analysis and Recommendations

Smith's discussion of the economics of the universities of his day is a good illustration of his general principle that self-interest is a marvelous mechanism of social control, *provided that* appropriate institutional arrange-

<sup>5</sup>*The Wealth of Nations*, pp. 720 and 721. It is interesting to note that this long quotation (with the spelling of the word "behaviour" americanized) forms the greater part of David Friedman's Chapter II, "A Radical Critique of American Universities," pp. 81-84 of his *The Machinery of Freedom*. The whole of this short chapter is a reprint of portions of Adam Smith's discussion of the European universities of his day. Thus David Friedman would appear to claim even more relevance for Adam Smith's two centuries old commentary (transported across the Atlantic Ocean) than would I.

<sup>6</sup>Vincent Bladen, *From Adam Smith to Maynard Keynes: The Heritage of Political Economy*, Chapter 13 of Book One, especially p. 98.

ments can be made to rule.<sup>7</sup> Thus, in terms of ordinary markets, *laissez-faire* is a suitable policy to promote the public good, provided that something resembling pure competition or unfettered rivalry can rule among the suppliers of particular goods or services. Smith appeared to apply this principle to the provision of university teaching services and indeed, to the provision of public services generally. Indeed, as Mark Blaug has pointed out, virtually the whole of Chapter 1 of Book V (or at least its analytical core) is taken up with the problem of devising appropriate incentive systems for lawyers, clerks, judges, clergymen, teachers, and university professors, so that their pursuit of their own self-interest (or at least their view of this notion) will serve the interests of society as a whole, rather than conflict with these interests.<sup>8</sup> Thus, for example, he thinks that the English system of paying judges according to the number of cases decided (but not, of course, according to their verdicts!) is excellent, for this encourages them to render swiftly and efficaciously their verdicts in the docket of cases before them.

Turning to Smith's discussion of the economics of university teaching, one can agree with Blaug that the analytical portion of this discussion is devoted to the issue of how professors may best be compensated for their

services. Here, as elsewhere, Smith is a strong believer in the virtues of the unfettered operation of the market system. It soon becomes clear that he is against the payment of fixed salaries, either out of endowments or out of state revenues, because these provide the recipients with no incentive ("interest, at least as interest is vulgarly understood") to be of service to their students.<sup>9</sup> In addition, there are other deleterious effects. If the straight salary is paid out of endowment funds, the collegiality of professors will form a combination or cartel, "and every man [will] consent that his neighbour may neglect his duty, provided he himself is allowed to neglect his own." (p. 718). Furthermore, Smith argues later on (p. 727) that the willingness of universities to innovate by introducing new materials and discarding "exploded systems and obsolete prejudices" appears to be negatively correlated with the size of their endowments. On the other hand, if the fixed salary is paid by an outside authority, then the professors do indeed have an incentive to please that outside authority; but obsequious behaviour and attention to the whims of a high, nonacademic governor will not, in general, further the scholarly objectives of the institution. The quotation on the French universities is then given for illustrative purposes.

Instead, Smith favours a payment of professors by fees from his students, much as physicians are now (and were then) remunerated. Woven through the discussion of this long section are arguments that such a system would promote better university teaching and would make the professors more serviceable to his students. Thus the kind of nonsense outlined

<sup>7</sup>This point has been clearly recognized by Nathan Rosenberg in a stimulating article, "Some Institutional Aspects of the *Wealth of Nations*," *Journal of Political Economy*, Vol. LXVIII, No. 6 (Dec. 1960), pp. 557-570, which has already been available for some time now. Rosenberg argues that Smith's vitriolic criticism of educational institutions of his day, particularly the English universities, is *not* the "mere *curiosum*" (p. 568) which it is often considered to be. Rosenberg interprets Smith as arguing that these schools and universities are a particular case of institutional failure, in which the incentive mechanisms are so badly structured that the pursuit of individual self-interest does not redound to the public weal. This is the point of view developed in this section, also.

<sup>8</sup>Mark Blaug, *Economic Theory in Retrospect*, Revised Edition, pp. 63-64.

<sup>9</sup>In fact, it seems clear to me that the key word in the quotation with which this paper begins is "salaries," not "large." Smith appeared to have no fundamental objection to large incomes if they were earned by serving the public, rather than by failing to serve the public through exploiting some loaded market position, such as a monopoly.

in the long quotation above could not survive the rigours of the wintry blast of competition, as "rivalship and emulation render excellency, even in mean professions, an object of ambition and frequently occasion the very greatest exertions." (p. 717). Smith strongly believed that such a system would suitably reward a professor who has earned "the affection, gratitude, and favourable report of those who have attended upon his instructions," and that the best way to earn such a reputation was to work hard and well at deserving it. (In Section 4 below I shall comment upon this somewhat optimistic faith.) Smith had no objection to a mixed system, in which a base salary was combined with honoraries or fees for services, provided the second component of the professors' gross income was large enough to serve as a suitable incentive to him to serve his students well.<sup>10</sup>

We may put these theoretical arguments in perspective by looking at two related questions, namely education for women (in Smith's day, university education was only for men, and rare indeed were the women—or men—who questioned this state of affairs) and also the relation of the *level of church benefices* to the calibre of university teaching (!). On the first subject, it is again desirable to let Smith speak for himself:

There are no public institutions for the education of women, and there is accordingly nothing useless, absurd, or fantastical in the common course of their education. They are taught what their parents or guardians judge it necessary or useful for them to learn; and they are taught nothing else. Every part of their education tends evidently to some useful purpose; either to improve the natural attractions of their person, or to form their mind to re-

serve, to modesty, to chastity, and to oeconomy; to render them both likely to become the mistresses of a family; and to behave properly when they have become such. In every part of her life a woman feels some conveniency or advantage from every part of her education. It seldom happens that a man, in any part of his life, derives any conveniency or advantage from some of the most laborious and troublesome parts of his education.<sup>11</sup>

Two comments on this quote will have to suffice. First, here we have a specific example of how payment by results induces socially desirable results, at least in the minds of those paying for the services. Secondly, it is well to recall that standards of reference change dramatically over the centuries, and that the eighteenth century mind would be amazed that a charge of what we call "sexism" could be levied against the author of this statement.

A related issue concerns the relation of the level of church remuneration or "benefices" to the quality of university teaching. Well into his discussion on religious instruction (on pp. 762-764), Smith digresses into this issue. His conclusions are straightforward, even simplistic: where church benefices are high, such as in France and other Roman Catholic countries of Europe, the church tends to "drain" the universities of their most eminent men of letters; where church salaries are low (in all the Protestant countries of Western Europe except England, and in the Protestant cantons of Switzerland), the converse is true, and the universities drain the church of its most eminent men of letters.<sup>12</sup> Once again, the structure of society's system of rewards is critical in

<sup>11</sup> *The Wealth of Nations*, p. 734.

<sup>10</sup> Edwin Cannan reports in a footnote that, according to John Rae, *The Life of Adam Smith*, Smith's salary at the University of Glasgow was £70 a year with a free house, while his fees were nearly £100 annually. Hence he appears to be saying implicitly that the Scottish universities had their incentives better structured than most other European universities.

<sup>12</sup> Smith buttresses this point by discussing briefly the case of one particular scholar who evidently found it to his advantage to leave the employ of the university for a church benefice. Smith also mentions that his point applies much less in law and "physic" [medicine] as these are two fields for which the church is unlikely to have a demand.

inducing the quantity and quality of effort that is desired, at least on the part of the groups that have the power to influence these outcomes.<sup>13</sup> Thus, if good teaching and a high level of scholarship are desired in the universities, the rewards of a university teaching career have to be at least high enough to attract—and retain—the leading scholars, in a particular society.

#### 4. Commentary

Most of us, I suspect, would not share Smith's faith that payment of professors according to the number of students that they succeed in attracting would lead to socially desirable results. In the university world as we know it, many of us would have a concern that the competition would be along lines that Smith did not foresee, such as attempting to amuse students as a *raconteur*, rather than by providing a solidly based foundation in a particular discipline. Alternatively (or additionally), the competition between professors could deteriorate into a contest to see who could provide the softest grading system; students are already rather adept at ferretting out easier courses and making their selection accordingly. The system proposed by Smith (namely payment according to enrolments) might enlist the professors on the side of such a game, to the detriment of the student's long run interest, as

judged by himself or herself (say) some five or ten years after graduation from a university.<sup>14</sup>

Some further light on these issues may be shed by the experience over the recent past of the jurisdiction in which I teach, the province of Ontario. For almost ten years now, we have had a system of formula finance to meet the costs of instruction and operation of the universities of the province. The system functions roughly as follows. Provided students (from within or outside the province) meet minimum standards, they are admitted to the program of their choice;<sup>15</sup> they then pay a modest tuition fee, averaging roughly \$600 per student in 1976. The bulk of the operating costs of Ontario universities is met by the provincial government, out of tax revenues; the amount of the grant is determined by the number of students and the weight that the province attributes to the program (e.g. graduate or undergraduate, liberal arts vs. medicine, etc.) that the student has chosen to pursue. Hence the larger the student body (and, of course, the more oriented this student body toward the more heavily weighted programs of study), the larger the grant of the university. Thus it would appear that the province of Ontario took Smith's recommendations and applied them to the individual universities, rather than individual professors, as the economic unit or agent. (Of course, imputations can—and often are—made to smaller subdivisions of the university community.) While it appears that this was

<sup>13</sup>It is interesting to note that Smith himself terminated his university teaching career in 1764 at the comparatively young age of 41, first to serve as the private tutor to a young nobleman on his continental tour (sic!), and later to retire on a generous pension to write *The Wealth of Nations*. When Smith did return to active employment (in 1778), he took a very well paid position as a civil servant, namely as a collector of customs in the port of Edinburgh. Thus Smith's own life may serve as a dramatic illustration of these points. From our point of view, probably only the years after 1776 were a social waste; that Smith didn't teach during the period 1764–1776 was offset, most of us would argue, by the gain of succeeding generations.

<sup>14</sup>David Laidler informs me that a similar system ruled in the German universities for many years, and functioned reasonably satisfactorily in the context of a stable system. When the great expansion in numbers going to university hit that country, certain weaknesses and abuses came to the fore, and this method of remunerating the professors was finally abandoned.

<sup>15</sup>In some schools, particularly in recent years, absolute limitations have been placed on some programs in the liberal arts faculties. For many professional schools, such as law and medicine, such enrolment quotas have existed more or less since these schools came into existence.

done primarily to end the wrangling among the universities of Ontario concerning the size of their individual grants, there may have been some opinion that such a system would induce competitive pressures to induce the universities of Ontario better to serve the student population and the public in general. How well has it worked out in practice?

In my judgment, far from ideally. To raise the issue of economic efficiency, one can question whether the discrepancies between private and social benefits and costs are so great in the domain of university education that subsidies of the magnitude in question are in fact justified. Thus one can ask whether the third-party benefits are sufficiently great that so large a share of the total costs of providing these services should be borne socially. I do not pretend to have definitive answers to these admittedly difficult questions, but the reader will no doubt notice a certain scepticism on these matters. Less doubtful would appear to be the effects on the distribution of income; an increased supply of educated workers (such as university professors, for example) has a tendency to lower their relative incomes, as Smith himself remarked.<sup>16</sup> Of course, in an age in which there are a number of restrictions to entry into the various occupations, the outcome may simply be an increase in the involuntary unemployment (or underemployment) of the university-educated labour force.

More concretely, it seems apparent from a casual look at the universities of Ontario that all is not optimal (or even efficient) in this particular industry. Thus the new rules of the game appear to have stimulated a tremendous

<sup>16</sup>Adam Smith's analysis of these circumstances (Book I, Chapter X, Part II, pp. 129-132) is still refreshingly applicable. Smith argues that the tendency to establish "pensions, scholarships, exhibitions, bursaries, etc." produces an excess supply of "that unprosperous race of men commonly called men of letters," and that in consequence their level of remuneration is much lower than the average of lawyers and physicians, the bulk of whom have been educated at their own expense.

rivalry for students (including students from outside the borders of the province), and many would feel that the form that this competition has taken on is less than ideal. Thus universities advertise in local (or, at times, in distant) newspapers, and this advertising seems at times to go far beyond the simple information function.<sup>17</sup> Standards of admission have apparently suffered; one hears increasingly complaints of students unable to function at basic levels of their maternal language or to perform elementary mathematics at a level of secondary school performance. Furthermore, no one seems particularly happy with the resulting system. The politicians and the general public are understandably unhappy because this sort of mechanism costs more than was first anticipated. The students are unhappy because they claim that the professors are unresponsive to their needs and desires. The professors are unhappy with the flood of marginal students (and also because the financial squeeze affects faculty salaries and resources available for research). The administrators (and the support personnel) find themselves at the intersection of these three sources of pressure. What can be done about it?

To give a full answer to this last question would take many more pages than have been written so far, and would take me far off the main focus of this paper. I suggest, however, that suggestions for correcting what has gone wrong can be found in Adam Smith. In particular, it's my view that when only one-sixth of the cost is borne directly by the individual consumer, it is not surprising (as Smith would have predicted) to find the producer unresponsive to the wishes of the consumer. Thus I per-

<sup>17</sup>While it must be admitted that some advertising has the function of providing information to an incompletely informed buyer, the advertising of some Ontario universities (other than the ones with which the present writer has been associated, of course!) seems to have gone beyond this point and to have begun to take on the frenetic character of some differentiated oligopolies, such as the cigarette industry.

sonally support strongly the move to make tuitions bear a more realistic resemblance to the cost of furnishing the service. (The income distribution aspect could be handled by an expansion of the grant-loan mechanism for students that the province has already put in place.) Beyond the specifics, it seems to me that Smith's general point regarding suitable reward mechanisms is an important part of the answer. If, for example, one wishes to encourage good university teaching, then good teaching must be made visible and suitably rewarded. Thus the introduction of questionnaires for evaluating teaching performance and the institution of prizes (typically with a small purse but with a large amount of honour) appear to be suitable steps in a corrective direction. To a large extent, however, I feel that the answer will come only when the governments and the public of Ontario and of Canada decide more or less on their priorities. But this takes us a long way from Adam Smith and his discussion of the eighteenth century universities of his day. What is remarkable is, in my judgment, that so much of what he had to say has a sympathetic ring today, two hundred years after he wrote his master work.

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