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# ETHICAL FOUNDATIONS OF ADAM SMITH'S POLITICAL ECONOMY

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## ABSTRACT

As part of the revival in Smith's political economy that has occurred since 1976, there has been considerable interest in the connection between Smith's ethics and his political economy. I will be seeking to locate ethical elements in his writings, especially those with an economic flavour. The paper comprises seven sections. The first section discusses some interpretations of Smith which make strong claims about the ethical foundation of his political economy and the second section turns to some biographical and theological background. The third section mentions some of the intellectual context of Smith's ethical and jurisprudential ideas. The fourth and fifth sections sketch some relevant ideas in the *Theory of Moral Sentiments* (or *TMS* hereafter), Smith's early works and lectures. The sixth section discusses some ethical components in the *WN* and the seventh section concludes the paper.

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\* Correspondence to: Department of Applied and International Economics, Massey University, Private Bag 11-222 Palmerston North, New Zealand. E-mail: J.E.Alvey@massey.ac.nz An earlier, shorter version of the paper was presented at History of Economic Thought Society of Australia, Women's College, University of Queensland, Brisbane, Australia, 10-3 July, 2007. This paper forms part of a larger study of the history of relationship between economics and ethics.

Most commentators<sup>1</sup> on the history of economic thought claim that modern economics began with Adam Smith (whose major contributions were made between the late 1750s and 1790), even though the reason for their conclusion varies. Many see his *An Inquiry into the Nature and Causes of the Wealth of Nations* (*WN* hereafter)<sup>2</sup> as the foundational document because it was here that they claim a separate science of economics began, one that explicitly broke from theology and ethics.<sup>3</sup> This interpretation was popular throughout much of the twentieth century but it has been contested recently by those who classify Smith as a member of the ethical tradition of political economy that stretches back to the ancient Greeks. In this paper I will support the newer view.

What do I mean by the “ethical tradition” of political economy? A useful starting point for answering this question is the work of Amartya Sen, a Nobel Prize winner in economics. Sen refers to “the historical evolution of modern economics largely as an offshoot of ethics” (1987, 2). He says that the “ethics-related tradition,” can be traced back at least to Aristotle (Sen 1987, 3). Roughly corresponding to the two categories that I mentioned above, Sen thinks that there are at least two ethical aspects of economics: “the ethics-related view of motivation” and the ethical view of “social achievement” (Sen 1987, 4). Both aspects can be found in Aristotle. First, in the ethical view of motivation, “ethical deliberations” do affect “actual human behaviour” (Sen 1987, 4). How one should/should not act is closely connected to larger questions such as “How should one live?” (Aristotle 1980, 1-2 cited in Sen 1987, 3). Second, the “ethics-related view of social achievement” cannot stop the evaluation short at some arbitrary point like satisfying ‘efficiency.’ The assessment has to ... take a broader view of ‘the good’” (Sen 1987, 4; see Aristotle 1980, 1-7). Later, Sen implies that social achievement includes distributive justice (1987, 33).

In addition to ethics, Sen admits that there is a second origin of economics: “what might be called ‘engineering’” (Sen 1987, 3). This approach also has a long history. In the engineering approach, ends are assumed to be *given* and it is concerned with logistical (rather than ethical) issues of means. “Ethical considerations ... are not given much role” in its analysis of human motivation (Sen 1987, 6).

Both origins “have some cogency of their own,” according to Sen (1987, 6). The two approaches are not mutually exclusive and can be combined in “varying proportions” (1987, 6). Nevertheless, over time the engineering tradition became dominant and virtually drove out the ethical tradition. Sen sees himself as a member of the Aristotle-Smith ethical tradition in economics. I will have more to say below about Sen and others who place Smith in an ethical tradition of political economy.

Building on Sen, I have in mind three characteristics for an “ethical science.” First, it is concerned that the study contributes to moral *ends*. Second, it is concerned that moral *means* are used to achieve given ends, whatever they are. An “ethical science” need not be one in

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<sup>1</sup> See Friedman and Friedman (1980, p. 19). Some commentators say that economics began earlier (Petty) or later (Marshall).

<sup>2</sup> References below are to Smith unless otherwise indicated.

<sup>3</sup> See Lux (1990, 21, 98, 120). Chapter 5 of Rima (1972) is entitled “Adam Smith: From Moral Philosophy to Political Economy.” See also Fitzgibbons (1995, 7-8).

which all three characteristics are found. Third, it adopts a *method* which is consistent with moral or human concerns, as distinct from that adopted by the natural sciences. The engineering approach seems to fit better with the natural rather than the moral science methodology. The term is somewhat elastic: it can stretch from a thick notion (where all three characteristics are found) to a thinner notion (where at least the second or third characteristic is found). In what follows I will focus on the second and third characteristics.

The paper comprises seven sections. The first section discusses some interpretations of Smith which make strong claims about the ethical foundation of his political economy and the second section turns to some biographical and theological background. The third section mentions some of the intellectual context of Smith's ethical and jurisprudential ideas. The fourth and fifth sections sketch some relevant ideas in the *Theory of Moral Sentiments* (or *TMS* hereafter), Smith's early works and lectures. The sixth section discusses some ethical components in the *WN* and the seventh section concludes the paper.

## 1. SOME INTERPRETATIONS OF SMITH

Because of Smith's seminal place in the discipline of economics, a vast literature has developed commenting on his work. Smith's work has been interpreted, re-interpreted and misinterpreted over the past 250 years. While a full account is not possible here, a brief discussion of some relevant interpretations will follow.

Smith's reputation as an ethical theorist, and a political economist who grounded his work in ethics, has waxed and waned.<sup>4</sup> The early commentators saw Smith's work as a continuation of the moral philosophy tradition, in which political economy was subordinate to ethics (Stewart 1980, 308-10, 314-5). With changes in philosophic taste and a sustained attack on political economy from the outside, Smith's reputation as an ethicist declined. As a consequence, economists came to dominate the secondary literature on Smith and they tended to emphasize technical/engineering components in his work.

Smith scholarship took a dramatic turn in the second half of the nineteenth century when various German commentators undertook detailed analysis of Smith's entire *oeuvre*.<sup>5</sup> They identified what they perceived to be a fundamental inconsistency in it. For them, his first book (the *TMS*), had an ethical foundation but this was abandoned in his second book (the *WN*), which was devoted to political economy. This change in perspective they attributed to a change of mind which had occurred between 1759 and 1776 (the dates of the first publication of the *TMS* and the *WN* respectively). In any event, *Das Adam Smith Problem* declared that Smith's *political economy* represented a clear break from the ethical tradition.

By the end of the nineteenth century the tide began to turn against this interpretation, as new texts (mainly student notes from Smith's lectures) came to site and defenders of Smith turned their attention to overcoming the *Problem*. One response was that the *TMS* also admitted a

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<sup>4</sup> Reeder says that by the 1830s interest in Smith's ethical theory had died out (1997, viii).

<sup>5</sup> See Raphael and Macfie 1976, 20-1; Montes 2004. Lux (1990) follows the line of these German commentators.

role for self-interest (see 1976a, 304; Montes 2004, 33-4). The *WN* was subject to the *TMS* framework but in the marketplace (where anonymity prevailed) less scope existed than elsewhere for the display of benevolent affections (see Section 4). No response thoroughly refuted the German challenge but it was often held that Smith's inconsistency had been overstated.

By the 1930s Logical Positivism had emerged and began impacting on the social sciences. It was a philosophy of science which promoted an extreme version of the fact/value distinction: all ethical statements were said to be unscientific. Once ethics was classified as non-scientific, the "scientific" analysis of human behaviour quickly narrowed to self-interest. This perspective influenced Smith scholarship (see Young 1997, 107); the German view of Smith's political economy re-emerged in amended form through the positivists. Smith gained the reputation of being a supporter of radical individualism where self-interest or even selfishness was the only human motivation, at least in the realm of political economy. Smith was interpreted by positivists who sought to find in his economic work what they themselves believed; not surprisingly they found there a value-free science, which is based on the "fact" that humans behave in a rationally self-interested manner. The notion that humans are radically individualistic, and motivated exclusively by self-interest, may be called the Chicago view of the world, in honour of various economists from the University of Chicago, such as Friedman, Becker and Stigler, who have promoted that view.

The Chicago/positivist/German/narrowly self-interested interpretation of Smith (see Stigler 1975; cf. Evensky 2005, 245-64) has been assailed over the last 30 years or so. At least among Smith specialists, there has been a revival of the early view of Smith as a moral philosopher and ethicist. The reassessment has come about both from within and from outside of economics.

Although there have been exceptions, many economists who have specialized in Smith have undertaken the study from a position of having already formed a negative view of the Chicago school. Their critique of the Chicago approach spills over into their analysis of Smith. From the inside, the view that Smith has an ethical foundation for his political economy is to be found in commentators such as Sen (1987), Fitzgibbons (1995 and 1997 throughout), Young (1997), Duhs (1998, 1492-8), and Evensky 2005. Others, such as Brown, argue that Smith's *WN* is an amoral discourse (1994, 26, 46, 162, 195, 209, 215, 218).

Second, the disciplinary background of Smith scholars has widened greatly; those from outside of economics usually approach Smith without Chicago prejudices. Although they see Smith as a moral philosopher, they are less inclined to investigate the ethical dimensions of the *WN*. In any event, the centre of gravity of Smith scholarship has shifted considerably away from the Chicago view over recent years.

## 2. SOME BIOGRAPHICAL AND THEOLOGICAL BACKGROUND

Some background on Smith's life is useful at this point. A sketch of his lecturing programme, publication agenda and theology also provides useful context for what follows.

Smith was born in 1723 in Kirkcaldy, Scotland. At the age of fourteen, he entered the University of Glasgow and studied under Francis Hutcheson, the great Scottish Enlightenment thinker. Smith was deeply affected by Hutcheson's teaching of moral philosophy<sup>6</sup> and also his character. After further study at Oxford, and a period as a public lecturer, Smith returned to Glasgow as the Professor of Logic in 1751. In the following year he switched to the Chair in Moral Philosophy. Smith retained this position until 1764, when he resigned to become a private tutor. In 1778 Smith became a Commissioner of Customs for Scotland. Shortly before his death in 1790 Smith ordered that most of his manuscripts be destroyed but requested that some be preserved with a view to possible publication. After his death, *Essays on Philosophical Subjects* (*EPS* hereafter) was published containing some of these manuscripts.

As a young scholar Smith studied classical sources closely and throughout his life maintained an interest in current intellectual trends. In formulating his own ideas he was eclectic. Smith shunned controversy and sought to conceal various details of his private life and beliefs. Nevertheless, we do know that Smith's friends were Scottish Enlightenment figures, including David Hume, and that he donated considerable sums in private charity (see Rae 1965, 437).

Smith held that knowledge can be divided into physics (natural philosophy), moral philosophy and logic (1976b, 766). Most of his efforts were directed towards the second category. In his lectures on moral philosophy Smith followed a similar pattern to that adopted by Hutcheson. As recalled by John Millar (a student of Smith's), in his course on moral philosophy there were four parts: natural theology, ethics (published as the *TMS*), justice (published from student notes<sup>7</sup> as *Lectures on Jurisprudence*, *LJ* hereafter), and finally, "political regulations which are founded ... [upon] expediency, and which are calculated to increase the riches, the power, and the prosperity of the state" (and largely published as the *WN*) (quoted in Stewart 1980, 273-5). This seems to represent the hierarchical arrangement of Smith's divisions of moral philosophy. Political economy was an application of principles established earlier: theology, ethics and justice.<sup>8</sup>

Although Smith never intended to write a book on theology, he seems to have held that the study of human beings is ultimately grounded on theology. While much that is written about in theology is false (1976b, 770-1), a core is discoverable and foundational for the remainder

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<sup>6</sup> Clarke (2002) says that Hutcheson was *the* major influence on Smith.

<sup>7</sup> These two sets of lecture notes were published in 1896 and 1978. See Meek, Raphael, and Stein (1978, 4-13).

<sup>8</sup> See Evensky 2005. On the other hand, Smith's *Wealth of Nations* may have had an "unintended and quite unplanned" effect of "establishing political economy as an independent subject" (Hutchison 1978, 5-6).

of moral philosophy. Smith seems to have been a devout believer in a neo-Stoic natural theology (Fitzgibbons 1995, 18-9, 23-44, 106, 127; Kleer 1995; Kleer 2000; Evensky 2005, 3-5, 57 n.37, 103-8, 113 n.1). This largely optimistic view of the arrangement of the universe led him to a view of what its major purposes were.<sup>9</sup> Smith laid out five ends of nature which applied to human beings: self-preservation, procreation, order, happiness and perfection.<sup>10</sup> Three of these ends need elaboration. Order required domestic security (law and order based on a system of commutative justice), security from external threat and a class system (1976a, 52, 86, 91, 225-6, 253; 1976b, 412, 417-8, 687, 710; 1980, 48, 50-1; see Alvey 2003, 38). Happiness means more than a large aggregate of happiness, as occurs in a society with a large population; Smith's view took account of the happiness of the average and that of the poorest (1976a, 185, 229; 1976b, 96; see Winch 1978, 87, 143-4; Alvey 2003, 125, 156-8). Perfection required some degree of intellectual, moral and martial virtue (1976b, 781-2; see Alvey 2003, 159-63).<sup>11</sup> These ends of nature formed the framework within which his ethics, jurisprudence, and political economy operated.

Let me draw these points together. Smith taught moral philosophy, admired Hutcheson and appears to have acted ethically in private. He was unorthodox in religious belief but still developed his social sciences within an optimistic theological framework.

### 3. INTELLECTUAL CONTEXT OF SMITH'S ETHICAL AND JURISPRUDENTIAL IDEAS

A thorough treatment of influences is beyond the scope of this paper. A few points must suffice. Loosely speaking, Smith presented his theory of ethics in the *TMS* and his theory of jurisprudence in the *LJ*. These sources are not equal in stature, however. The former is foundational and more comprehensive than the latter. The *TMS*, therefore, plays a pivotal role in understanding much of Smith's social thought. Useful supplements are to be found in the *LJ* and the *EPS*. If Smith's political economy is framed by ethics and jurisprudence, we need to look to these other sources to understand his framework. What influences were important in forming this framework? Smith's ethical and jurisprudential ideas were influenced in differing degrees by many sources.

Clearly Smith was influenced by classical authors, both Greek and Roman.<sup>12</sup> Young (1997), in my view correctly, asserts that a modernized Aristotelian framework can be used to understand much of Smith's writing; he places emphasis on Aristotle's understanding of justice as a compound of commutative justice, distributive justice and general justice (justice

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<sup>9</sup> Evensky says that Smith "did not believe we can know the mind of the deity" (2005, 95 n.8). He is correct in noting that Smith rejected the ascetic morality which pretended to know that "heaven was to be earned only by penance and mortification" (1976b, 771). I assert that Smith was confident about *some* of the intentions of the deity.

<sup>10</sup> Smith 1976a, 77, 87, 166, 168; 1978, 571; see Alvey 2003, 32-6. I have suggested elsewhere, that there may be a sixth, implicit end: freedom (Alvey 2003, 35 and throughout).

<sup>11</sup> Montes places stress on self-command and martial virtue in Smith's account of virtue. He suggests that these give both a more masculine and civic flavour to Smith's account of virtue (Montes 2004, 61-9, 76-86, 95-6).

<sup>12</sup> On his agreement with Plato, see 1976a, 233, 260; on his agreement with Aristotle, see 1976a, 271; on the Stoics, see 1976a, 272-93; on his agreement with Cicero, see 1976a, 233. The depth of his agreement with the Stoics has led some commentators to call Smith a Stoic (Fitzgibbons 1995, 16, 19-21, 36, 168, 193).

as the common good). As stated above, Smith was favourably disposed towards Stoic views but Cicero was also important.

While Smith appears to have been less influenced by Christian moralists, some diluted effect has been discerned by some commentators (Young 1997, 112, 117-9, 121). Smith was strongly influenced by Renaissance and Enlightenment thinkers, both civic humanist and civil jurisprudential types. Of these two streams of thought, certain traces of civic humanism can be detected but the dominant influence is from the natural lawyers.<sup>13</sup>

In addition, there were also authors with whom Smith had personal contact, such as Hutcheson and Hume.<sup>14</sup> Smith thought highly of both and incorporated parts of their ideas into his own thinking. Fitzgibbons (1995) and Young (1997) seem to have underestimated Hume's immense influence on Smith.

Thus, much of Smith's work is an eclectic splicing together of views. Nevertheless, he also adds original components or twists of his own.

#### 4. THE THEORY OF MORAL SENTIMENTS

Smith's ethical theory is *primarily* developed in the *TMS*. I argue--contrary to the formulators of *Das Adam Smith Problem*--that its doctrine is not supplanted by the *WN*, which deals with economic matters more thoroughly. The first book sets out an ethical system that provides both a general framework for the economic realm and insights into specific economic themes. After a brief account of his ethics, I will note some remarks made by Smith on domestic and international trade, and economic development and growth.

In presenting his ethical system, Smith discusses both the *means* by which humans make ethical judgments and the *content* of virtue. The former is the focus of the *TMS*. In Smith's ethics there are eight types of moral judgments; once one sees moral judgments as always resulting in approval or disapproval, there are actually four pairs of such judgments (1976a, 18; see 9-178 throughout). First, we can judge the *causes of an action of someone else*, namely, whether it was a proper or improper response to a given situation. Smith calls this the propriety or impropriety of others. Second, we can judge whether the *consequences of someone else's act* deserve reward or punishment: the merit or demerit of others. Third, we can judge *our own propriety* or impropriety in a specific instance. Fourth, we can judge the *merit* or demerit *of a specific act of our own*. Consideration of these four pairs of judgments comprise the theoretical core of the *TMS*.

Moral judgment is the final step in a series of processes. Let me begin with a simplistic account of propriety. The starting point is Smith's assumption that human beings are social. They become accustomed to judging and being judged. Further, they fear isolation and even having others take a different view to them (1976a, 84-5; see also 1978, 493-4). They are compelled to

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<sup>13</sup> On the jurisprudential and civic humanist traditions, see Pocock 1983 and Montes 2004.

<sup>14</sup> On Hutcheson's influence, see Smith 1976a, 303-6 and Clarke 2002; on Hume, see 1976b, 790-1 and 1987, 217-21.

sympathize (what we call empathize) with others. In placing ourselves in the shoes of others, we seek to gather all of the relevant information about the circumstances and action of the one being judged. From this informed position, one can then begin to imagine how the agent may have felt in these circumstances (1976a, 9). The judge can then compare the sentiments of the imaginary spectator, which he/she experiences vicariously, with those displayed by the original actor (1976a, 16). At this point, moral judgment can be made. If the sentiments are in accord, approval follows: the actor is judged to have acted with propriety. If not, the actor is charged with impropriety (see Kleer 1995, 280; Otteson 2002, 109).

Next, Smith recognized that there are multiple levels of moral development. For a particular individual, moral improvement occurs through socialization, experience of deception and false accusations, and introspection on these experiences. For example, as judges we have to acquire self-command, so that in our actual, and especially in our imaginary, role of observer of another we are purified from a *partial* to an *impartial* spectator (1976a, 22-4). At the aggregate, social level, as time elapses, and examples multiply, *general rules* emerge which reflect consensus judgments based on spectator processes (1976a, 159, 319; see Otteson 2002, 101-33). These general rules become rules of thumb for individuals in judging others. Over time, these general rules evolve and are extended. From these last points we can draw out two conclusions. First, Smith's ethical theory underpins his jurisprudence. Second, routine adherence to general rules--while not engaging all the spectator processes--by requiring self-command, amounts to second-order *ethical* behaviour.

With this background, we can now turn to the content of virtue. I need to provide a little background before proceeding. Early moralists saw wealth as destructive of good morals and consequently opposed luxury; they saw a stationary state as the ideal. In the modern era, Mandeville proclaimed a series of paradoxes about virtue. He seemed to claim that social achievement in the form of economic development (the common good) was associated with private vice. It was into this environment that Hume made his bold departure. In responding both to Mandeville's "paradoxes" of values and the opponents of luxury, he propounded a more sanguine view than earlier moralists about the ethical effects of opulence and luxury. Hume claimed that "in the modern age, the virtue of the citizens can surpass that of earlier ages by means of refinement"; this "appeared sensational to his contemporaries" (Susato 2006, 174; see Hume 1987, 269). One of the major reasons for such a claim was that commercial society generates new "moral virtues peculiar to modern society--namely, industry, diligence, frugality, and honesty (Susato 2006, 173; see Hume 1987, 253-80, 632). In short, Hume proclaimed that "new morals" arise in the commercial era; he achieved a "transvaluation of values" (Susato 2006, 172; Lux 1990, 91-3, 112-3).

Let us now return to Smith. He assesses various types of behaviour. A moral hierarchy emerges. Some actions are regarded as virtuous and others, such as unprovoked harming of others, are called vice. Similarly, there is a hierarchy of actions within the virtuous range (Alvey 2001a, 7-9). The hierarchy is based on self-command and benevolence towards others.

The list of virtues includes the lower, commercial virtues of industry, frugality, prudence, vigilance, circumspection, temperance, constancy, and firmness (1976a, 54-6, 167-8, 189-90,

242, 304). In this context Smith speaks of the lower<sup>15</sup> of two types of prudence; this he defines as “the care of the health, ... fortune, ... rank and ... reputation of the individual” (1976a, 213; see also 189). This sounds like the type of rational calculation that is the focus of mainstream economics and the positivistic interpretation of Smith. For Smith, however, prudence is not a “fact” or datum, it is one of the lower virtues within his broad ethical system (1976a, 189; Sen 1987, 22-5; Alvey 2003, 60-1). The prudent man, Smith tells us, must sacrifice present for future pleasure and Smith’s “impartial spectator”--the judge of ethical sentiments--approves of the “self-command” required by delaying gratification (1976a, 215). Self-command was a central feature of Stoic ethics. Even within the *TMS*, capital accumulation--which is a central feature of the *WN* and which is analysed further below--is discussed and placed within an ethical framework (1976a, 63).

Another virtue that Smith discusses in the *TMS* is justice. As Young has shown, Smith’s writings embody all three components of justice (as understood in the Aristotelian tradition) but his focus is on commutative justice (Young 1997, 49-50, 129, 134, 134n., 136n., 148, 150, 152, 168-9, 172; Smith 1976a, 79-80, 269). This type of justice is not that demanding, hindering us “from hurting our neighbour”; “the violation of justice is *injury*: it does *real and positive hurt* to some particular persons, from motives which are naturally disapproved of” (1976a, 79, 82 emphasis added). Yet broad adherence to it is a necessary condition for the preservation of society and the end of order; compliance with commutative justice can be “extorted by force” (1976a, 79; see also 86). Breaches of this type of justice require punishment. While much of Smith’s discussion is linked to murder, physical harm, and criminal justice, he extends it to commercial matters (such as contracts). Commercial themes are developed much further in the *WN* but consider this insight:

In the *race for wealth*, ... he may run as hard as he can, ...in order to outstrip all his competitors. But if he should jostle, or throw down any of them, the *indulgence of the spectator* is entirely at an end. It is a violation of fair play, which they cannot admit of. (1976a, 83 emphasis added)

The rules of “fair play” can be distilled from the general rules discussed earlier; routine adherence to these rules is ethical (albeit of only moderate rank). Crucially, Smith places competition for wealth within his spectator moral theory.

Smith refers to many other virtues which are in the middle of the ethical hierarchy, such as humanity (1976a, 204-5). Finally, in the spirit of Hutcheson, Smith says that the peak of virtue is benevolence: “that to feel much for others and little for ourselves, that to restrain our selfish, and indulge our benevolent affections, constitutes the perfection of human nature”; beneficence “prompts us to promote” the happiness of others (1976a, 25, 262; Hutcheson 1969). Benevolence, like the virtues except justice, cannot be compelled (1976a, 86). Its requirements are inexact and it sometimes appears to be mere icing on the cake (1976a, 85-6, 339-40). For many commentators, Smith’s view of benevolence is equivalent to distributive justice (Young 1997, 51, 130; see Smith 1976a, 269-70).

Can Smith’s ethical system combine benevolence with prudence? His ethics adheres to the Stoic doctrine that there are various “spheres of intimacy” in human experience (see Nieli

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<sup>15</sup> The higher version of prudence refers to statesmanship (see 1976a, 216; Alvey 2001a, 9).

1986). The innermost sphere is oneself but next comes one's family (1976a, 219). As the social distance increases, the spheres expand to include neighbours, and so on; the largest sphere includes all of the individuals within the nation (1976a, 219-27). The display of intimacy and benevolence diminish as social distance increases.<sup>16</sup> Benevolence is limited and is focussed on those in the inner spheres. In the anonymous marketplace, the great social distance between actors produces only weak benevolent affections.<sup>17</sup> This "spheres of intimacy" approach overcomes many problems claimed in *Das Adam Smith Problem*.

Before closing this theme I should mention that some commentators claim that, for Smith, benevolence is undertaken entirely through *private* charity (Hont and Ignatieff 1983; see 1976a, 269-70). Actually, Smith explicitly entrusts to the magistrate a role in promoting "mutual good offices to a certain degree" (1976a, 81; Alvey 118-9; Young 1997, 146-9). It is a limited but important duty of government.

Next, let me turn to economic development and growth. Although these are tangential themes in the *TMS*,<sup>18</sup> Smith hints at his view which is developed in the *WN*. The "savage," he tells us, "frequently dies of pure want" (1976a, 205). "Savages" live under "a sort of Spartan discipline"; as all of "his countrymen" are "occupied with their own... necessities," the "savage" expects little assistance from others (even those in the same tribe) and offers little "indulgence" to their "distress" in return (1976a, 205). Savages must be firm to maintain a reputation for toughness to those outside of the tribe; they conceal their own passions even from fellow tribe members. The brutality of such conditions leads to the brutal treatment of the old, the weak and even the young; infanticide is allowed. Nevertheless, infanticide is "destructive of good morals" and shocks "the plainest principles of right and wrong" (1976a, 209).

In "civilized nations" things are otherwise; "general security and happiness ... prevail in ages of civility and politeness" (1976a, 205). "Poverty may easily be avoided"; necessity to endure danger, "labour, hunger, and pain" is infrequent (1976a, 205). Thus, "abstinence from pleasure becomes less necessary and the mind is more at liberty to unwind itself, and to indulge its natural inclinations" (1976a, 205). The capacity to empathize is innate but, in the new situation of relative "ease," ferocious self-command is unnecessary; we are enabled to activate compassionate feelings for the "distress" of others (1976a, 205). As a general rule, there is a softening of behaviour and concealment of passions is less necessary; infanticide is now abandoned.<sup>19</sup> There are other ethical effects of growth beyond the development of humanity; humans become polite and more "frank, open, and sincere" (1976a, 208; see 100-1, 204-8).

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<sup>16</sup> Whether the need (demand) is similarly proportioned is less certain. Does it reduce with "distance"?

<sup>17</sup> Those with whom we have regular contact, such as "partners in trade" and neighbours, are mentioned as belonging to some of the outer spheres (1976a, 224). If we are regular customers of a shop, our relationship with the shopkeeper is no longer in the outermost sphere, which belongs to anonymous members of the nation (1976a, 222-7).

<sup>18</sup> The remarks which follow about savage life seem to be a direct reply to Rousseau. See Rasmussen 2006.

<sup>19</sup> He admits that infanticide persisted in the ancient "states of Greece, even among the polite and civilized Athenians" (1976a, 210). Nevertheless, these were terrible exceptions to the norm.

Smith agreed with Hume's factual claim about the overall beneficial ethical effects of economic development and luxury. Further, he closely followed Hume's view that commercial society produced a new set of virtues. Both Hume and Smith, therefore, appeared quite opposed to old moral views but both advanced a new morality. These remarks on economic development also have relevance for Smith's evaluation of different economic systems.

Before closing this section it should be mentioned that some commentators see the *TMS* (as well as the *WN*) as a purely empirical account of human behaviour. This is supported by Smith's statement that: "the present inquiry [a section of the *TMS*] is not concerning a matter of right ... but concerning a matter of fact" (1976a, 77). This statement has misled many. Smith was also interested in "ought" statements (see Otteson 2002, 222-39). Even though the bulk of his work was empirical, Smith moved easily between empirical and "ought" discussions.

## 5. EARLY WORKS AND LECTURES

As well as his two famous books, Smith made other contributions which fill in gaps in his moral philosophy. From these sources we gain some insights into his jurisprudence and other topics as well. In this section, I will focus on ethical aspects of: domestic and international trade; economic growth and development; and comparative economic systems.

In Smith's view, autarkic households existed in early human history; gift-giving between such households arose to show goodwill and help bring about agreement with the other party (1978, 348, 493; Kleer 2000, 17-8). One-sided gifts become replaced by mutual gift-giving aimed at mutual persuasion; eventually this becomes ritualized. At a still later stage, a more calculating type of barter emerges.

Domestic and international trade develop symbiotically with the division of labour and supporting institutional arrangements. The establishment and evolutionary development of law, especially property law, is essential for the progress of trade. Smith traces the origins of some types of property back to his spectator theory of ethics (1978, 17, 459, 461, 475-6; Young 1997, 65, 73-4, 82, 84, 87-8). In this context, he refers to the spectator as being guided by whether injury was done; that "I have gone already and bestowed my time and pains," for Smith, legitimized property by occupation (1978, 17). Later, injury is used as the standard in quasi-contracts (Smith 1978, 475). As shown by these examples, Smith's jurisprudence is grounded on his ethics, especially his notion of injury.

In the lectures Smith also gives us some hints about his distributive views. He is reported as supporting a class structure in which there are fine gradations from poor to rich; there should be:

a gradual declension and subordinate degree of wealth. ... But when property goes on in the progression by great leaps or jumps, the arts, commerce and luxury can not creep after them. When this inequality goes on slowly, the arts follow ...; the luxury then easily traces the same course as the property. (1978, 262-3)

When the gap between the rich and the poor is too great, the conditions are established for absolutism. Smith prefers a multiplicity of ranks in which class mobility is relatively easy. His vision of distributive justice is characterized by Young as an “optimal degree of inequality” (1997, 136, 140, 145).

Next, let us consider some insights Smith supplies about economic development and growth. In early society, subsistence is “precarious” (1980, 50). With economic development and a transition through the four stages of history--“hunting, pasturage [shepherding], farming, and commerce” (1978, 459)--the commercial stage is reached. He is not precise in his language but often implies that only the commercial stage is civilized (Smith 1976b, 708-13; Cropsey 1957, 57,63).<sup>20</sup> In such “civilized” commercial societies, the inhabitants feel greater “strength and security,” and “magnanimity and cheerfulness” is acquired by all those with “generous natures” (Smith 1980, 50). As we saw earlier, Smith assumes that economic development produces moral improvement.

Let us now turn to comparative economic systems. In the lectures, Smith criticises the second and third stages of history because inequality there introduced absolutism; inequality was so great that the rich could force their dependents to fight for them in war (1978, 202, 249, 253). In feudal society primogeniture and entail are severely criticized by Smith. Entails are “manifestly absurd. The earth and the fullness of it belongs to every generation, and the preceding one can have no right to bind it up from posterity. Such extension of property is quite unnatural” (1978, 468; see 70). Likewise, one type of commercial society, the regulated (monopolistic/mercantile) version, is implicitly subject to his ethical critique. It is important to note, in this light, Smith’s view that:

Whatever tends to raise the market price above the natural one diminishes public opulence. ... For whatever abounds much will be sold to the inferior people, whereas what is scarce will be sold to those only of superior fortune, and the quantity will consequently be small, so far therefore as anything is a convenience or necessary of life and tends to the happiness of mankind, so far is the dearness detrimental 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 of the country. (1978, 362)

Smith is here concerned with public opulence (some aggregate of national well-being) *and* also its distribution. In this instance, Smith shows that it is hard to distinguish justice as the common good from distributive justice: “Indeed, Smith virtually equates public opulence with the happiness of the lower classes” (Young 1997, 143).

More examples could be given, but enough has been said to indicate that ethical concerns are important in framing the lectures and other early works. The next section turns to Smith’s political economy as it is presented in the *WN*.

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<sup>20</sup> Sometimes he implies that civilization begins half way between the start of the agricultural stage and the start of the commercial stage.

## 6. SMITH'S ETHICAL SCIENCE OF POLITICAL ECONOMY IN THE *WN*

A thorough treatment of his political economy in the *WN* is not possible here. Nevertheless, a sketch of some of the relevant ethical issues is undertaken below. I will argue that Smith did retain concern for ethics within his economics; he wrote in the ethical tradition and retained concern for ethical means and ethical ends. Nevertheless, two wrinkles should be noted at the outset. First, ethical aspects of exchange, which were matters of personal intention in earlier moralists, are transformed into institutional structures by Smith (Young 1997, 121-2). Rule following becomes the main form of ethical behaviour (c.f. Brown 1994).<sup>21</sup> Second, his view that economic growth “should be the normal state of society” and that opulence was associated with moral improvement separates him “from the debates of the earlier moralists” (such as Aristotle, who saw the stationary state as ideal) (Young 1997, 130; see also 154, 164-5; Stewart 1980, 312-3).

The first matter to discuss is whether Smith had any appreciation of the two approaches to economics described by Sen: the engineering tradition and the ethical tradition. Smith was aware of the engineering approach to political economy, even though the term was not used. The engineering approach was evident in the work of William Petty, who strove to create a more precise type of social study called political arithmetic; he strove to write and speak precisely in terms of “number, weight, or measure” (see his “Preface to Political Arithmetick”; see Petty 2007). By contrast, Smith stated that he had “no great faith in political arithmetic” (1976b, 534; see also Smith 1987, 288).<sup>22</sup> Unfortunately, he does not give any detailed explanation for this assessment. Nevertheless, Smith himself supplied some detailed statistics on wheat prices at the end of Book I of the *Wealth of Nations* (see 1976b, 267-75). In reality, as Sen says, Smith did combine both traditions but his *focus* was on the ethical tradition. The simple reduction of Smith to a precursor of neoclassical economics is doubtful.<sup>23</sup>

As stated above, concerning motivation, many commentators have portrayed the *WN* as based on self-interest and often quote the following:

It is not from the benevolence of the butcher, the brewer, or the baker, that we expect our dinner, but from their regard to their own interest. We address ourselves, not to their humanity but to their self-love, and never talk to them of our necessities but of their advantages. (1976b, 26-7)<sup>24</sup>

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<sup>21</sup> Brown says that the *WN* is an amoral book for two reasons. First, impartial spectator is missing from the work and second mere rule-following does not make the behaviour moral. There is little mention of the spectator in the *WN* but this is not decisive. On the other point, Brown does not seem to understand Smith's moral hierarchy.

<sup>22</sup> While Petty and perhaps Gregory King are exceptions, Smith's general opposition to political arithmetic is clear enough (see Smith 1987, 32; Smith 1976b, 59).

<sup>23</sup> The allegation that Smith's analytical model of economic development “is a classic example of hypothetic-deductive theorizing and cries out for mathematical formulation” is doubtful (Hollander 1979, 71-2). Evensky (2005, 246-7) explicitly rejects this tracing of neoclassical economics back to Smith.

<sup>24</sup> See Lux 1990, 88-91. Lux refers to Smith's promotion of self-interest over benevolence and calls this a “transvaluation” of values (1990, 92-3, 113). He is correct in seeing Smith as a promoter of a new morality but incorrectly characterizes its content.

As Evensky points out, this passage has misled many readers: “What is not on this page of the *WN* is the context” (2005, 115; see also Black 2006). Self-interest plays a benign role in the proper context. Indeed, “Smith’s economic writings ... present a subtle and diverse view of individual motivations” (Rothschild and Sen 2006, 357). Smith’s view of “the role of ethical considerations in human behaviour, particularly the use of behavioural norms,” have been neglected because these aspects became “unfashionable in economics”; Sen condemns this “narrowing of the broad Smithian view of human beings” in modern economics (1987, 28). He would also claim that “the broad Smithian view” also applied to social achievement; Sen uses as a frequent example in his capabilities approach to social achievement a standard taken from the *WN*: appearing in public without shame (1990, 44; see Smith 1976b, 870).

One decade ago, Fitzgibbons summarized some of the ethical dimensions of Smith’s political economy. In the table below he listed some of the Smithian virtues and their economic manifestations within the *WN*. It is a good starting point for the discussion of political economy and ethics. It is helpful for what follows. Note that, in Sen’s terms, the table covers both human motivation and social achievement. The range of virtues mentioned by Fitzgibbons is consistent with the balanced, broad view of human motivation mentioned earlier. Capital accumulation is both an individual and a social achievement.

**Table 1: The Intellectual Framework of the *Wealth of Nations***

Virtue	Location in the <i>Wealth of Nations</i>	Economic manifestation
Justice	Books I and IV	Free Trade
Prudence	Books II and III	Capital Accumulation
Benevolence	Book V	No alienation

Source: Fitzgibbons 1997, 98.

In what follows I will touch upon a series of topics relevant to the ethical foundations of Smith’s political economy. The section comprises four sub-sections: distribution and exchange; international trade; development and growth; and the evaluation of economic systems.

**a) Ethical Issues in Distribution and Exchange in the Domestic Economy**

In the *WN*, Smith focuses on commercial societies. These societies have an advanced division of labour and thus exchange plays a quantitatively larger and qualitatively different role from, say, a hunting society. Exchange in commercial society has been transformed; it is a necessity and takes a mercenary character (1976b, 26-8; Kleer 2000, 17-8). For Smith,

exchange and distribution in commercial societies were closely linked.<sup>25</sup> The ethical understanding of both is discussed below.

Smith is famous for his defence of freedom of trade internationally and domestically; the counterpart is that the sovereign's role is quite limited (1976b, 428, 456, 540, 687, 833). The operation of the economy should be largely left to the self-adjusting processes of the market. In Smith's view, by "allowing every man to pursue his own interest his own way, upon the *liberal plan of equality, liberty, and justice*," individual economic actors indirectly serve the interests of others (1976b, 664 emphasis added; see also 669). The "liberal plan of equality, liberty, and justice," accords with the impartial spectator theory.

As shown in Section 4, Smith's defence of competition in the market environment does not reduce to the rule of unfettered self-interest: exchange occurs within the *TMS/LJ* (ethical/jurisprudential) framework. Smith summarizes his ideal "simple system of natural liberty" this way: "Every man, *as long as he does not violate the laws of justice* is left perfectly free to pursue his own interest in his own way" (1976b, 687 emphasis added). Self-interest drives exchange in commercial society but it is bounded (ethically, not just by the extent of the market): for reciprocity to hold in the *WN*, *the rules of the game must be respected*. This "points clearly to a moral dimension in [Smith's] economics" (Temple-Smith 1997, 9; see also Fitzgibbons 1995, 187).

Are Smith's ethical concerns limited to procedure (as seems to be the case for many public choice and constitutional economists)? Do outcomes matter? Smith stresses procedure but he is also concerned with ethical outcomes. Fortunately, in his view, the ethical procedures coincide to a large degree with ethical outcomes.

Once the rules of the game are adhered to, will the exchange price be fair? This leads us into a maze of complexities, including the status of the market price and the natural price, as well as the return to wages, profit and rent. A detailed account is given in Young (1997, 55-103), whose interpretation is contrary to some commentators who see Smith as a labour theorist anticipating Marx (see Meek 1973, 62-3). I follow Young below.<sup>26</sup>

The market price gravitates towards the natural price, a sort of long-run equilibrium price (Smith 1976b, 47-81). The natural price will emerge as a consensus where no party feels injured; it turns out that not being injured, the real cost, is akin to opportunity cost (1976b, 72-3; Young 1997, 67, 73, 89).<sup>27</sup> The natural price conforms to the spectator theory spelt out in the *TMS*. Like Marion Bowley, Young concludes that "Smith's natural price is in fact a descendent of the Scholastics' just price, in that they both represent commonly agreed estimations of a fair price"; "Smith's natural price is a just price in that it will fulfil the requirements of commutative justice" (Young 1997, 68, 118; see 77, 123, 126; see Bowley 1973; Gillies *Ethics and Politics of Aristotle* 1786-97 cited in Stewart 1980, 336-7n).

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<sup>25</sup> Of course, Smith was well aware of inherited wealth, having served (1764-6) as the travelling tutor to the young Duke of Buccleuch.

<sup>26</sup> Elsewhere, I have undertaken a detailed assessment of Young's view (see Alvey, 2001b).

<sup>27</sup> Of the three components of cost (wages, profit and rent), rent is the most problematic.

Commutative justice is based on private property ownership, freedom to enter into contracts, and the return to the property owners of the revenue accruing from such contracts. Interference with that return will undermine commutative justice. Nevertheless, free exchange in the market is not sacrosanct; in addition, general justice (the common good) and distributive justice must be considered.

Justice as the common good includes many aspects but probably the leading features are internal order, security from external threat, general prosperity and happiness. When conflicts between one of these items and commutative justice occur, Smith will reveal his hand about possible marginal trade-offs. Let me give two examples. On the basis of the common good, Smith supports banking regulations and usury laws which interfere with free trade (1976b, 324, 356-7).<sup>28</sup>

Let me now turn to distributive justice. Although Smith does not give a systematic presentation of what a good distribution is, we can piece many components together.<sup>29</sup> It is well-known that Smith upheld the view that “natural liberty”--in a commercial (non-mercantilist) society where the rules of justice are observed--through economic growth, produces a “trickle down” of wealth to the lowest ranks (1976b, 22). According to Smith, competition in the market produces quite a reasonable distribution; elsewhere I refer to this as “rough” distributive justice (Alvey 2003, 131). “Smith’s perception of a high degree of consistency between the workings of ... [commutative and distributive justice] is a notable innovation” (Young 1997, 129). Nevertheless, Smith is aware of inconsistencies and often expresses sympathy for the plight of the poor (1976b, 96; see Rothschild and Sen 2006, 364).

What then is his ideal? As stated previously, Smith rejects a classless society; for him, social order requires a class structure. Nevertheless, the happiness of many existing societies can be increased when a greater share goes to the lower classes. Smith objected to the large share going to landlords, apparently on equity grounds; it did not conform to the “optimal degree of inequality” mentioned earlier (1976b, 161-2).

So, what can and should be done? Part of Smith’s answer can be found in his ethical theory: private charity (1976b, 27; Hont and Ignatieff 1983).<sup>30</sup> He goes further, however, to recommend public policies to improve distributive justice in commercial society; examples include progressive taxes, such as tolls on luxury carriages and taxes on house rents (1976b, 725, 842). Interference with the education market also has progressive effects (1976b, 151, 785-6). These trade-offs between distributive and commutative justice cannot extend very far, however, because doing so would threaten the commutative foundation of society and the whole system of natural liberty (see 1976a, 81).

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<sup>28</sup> On Smith’s view of banking, see Evensky 2005, 142-9. While opposing the prohibition of charging interest on loans, Smith endorsed the concept of usury laws (1976b, 356-7). Even during Smith’s lifetime, Bentham opposed him on this point (see Smith 1987, 386-404). Paganelli (2003) suggests that Smith’s defence of usury laws followed from ethical considerations.

<sup>29</sup> Young (1997, 129-55) presents Smith’s notion of distributive justice in detail. I will draw upon that account here.

<sup>30</sup> In the *WN* has a different flavour to the *TMS* on this point because in the former Smith is also concerned with the negative effects of charity: dependency (1976b, 802-4).

Smith's is a nuanced ethical account of exchange and distribution. Relative to earlier ethical accounts, his is more pro-market. He does place great stress on commutative justice but marginal trade-offs with other ethical principles are possible and recommended.

#### **b) Ethical Issues in International Trade**

We have seen Smith's favourable account of distribution and exchange in the domestic part of commercial society. Let us now consider Smith's extension of this analysis to the international economy.

Smith saw his major destructive task in the *WN* as attacking the restrictive mercantilist system of international trade (and associated domestic policies) (see 1976b, Bk IV). Unlike the "liberal plan of equality, liberty and justice," the mercantilist system is supported only by *partial* spectators. In 1780 Smith referred to "the *very violent attack*" he made in the *WN* "upon the whole commercial system of Great Britain" (1987, 251 emphasis added). Mercantilism is based on the "wretched system of monopoly" and breaches the moral requirement that the rules of the game be impartial (1976b, 461; see also 11; Fitzgibbons 1995, 174). By benefiting one group of merchants (and producers) over not merely other merchants (and other producers) but also all of the consumers, according to Smith, that system was "contrary to that justice and *equality of treatment* which the sovereign owes to all the different orders of his subjects" (1976b, 654; see 661-2). Further, the mercantile interests only obtained their monopoly rights because they had "extorted [them] from the legislature" (1976b, 648). The biased rules of mercantilism make it contrary to the general rules of fair play generated by spectator processes. It was also a potent source of warfare (1976b, 467-8, 852; see also 749) and thus opposed the common good.

This attack on mercantilism was the counterpart to Smith's promotion of international free trade, which greatly promotes cosmopolitanism and international harmony (1976b, 493). His position is more nuanced than *laissez-faire*, however. Justice as commutative justice is served by international free trade but this may conflict with justice understood as the common good. Smith conceded that some restrictions on free trade were needed to secure national defence (1976b, 464-5, 522-3).

Before concluding this section, let me turn to what some see as the central issue in Smith's approach to distribution: food. This issue links to the previous sub-section. For Smith, shortages in food are typically associated with regulations and impediments to trade. Hence, removal of domestic trade barriers will quickly overcome significant shortages; in cases where the entire domestic market is suffering a shortage, the opening of international markets will quickly solve the problem (1976b, 538-9). Nevertheless, critics have asserted that Smith gave absolute rights to property owners (commutative justice is allowed to trump distributive justice); indeed, colonial administrators in Ireland, India and China cited Smith as the authority for not intervening in famines (Hont and Ignatieff 1983, 24; Sen 1987, 27). By contrast, Smith himself held that in the case of extreme hardship, when starvation is threatened, the government will have to intervene (1976b, 539; see also 542-3). Hont and Ignatieff (1983) correctly point out that Smith's discussion was a modification of the traditional views but underestimate the depth of his distributive commitments. Smith's account on food was not simply a case of equity against efficiency, as in modern economic

analysis (in this view, ethics is an exogenous consideration or a normative imposition on the positive analysis).<sup>31</sup> For Smith, self-preservation, social order, and law abidingness (perfection) all come into play in trumping commutative justice.

The *general rule* that Smith applied was that free trade and property rights should be respected. Sometimes, however, commutative justice conflicted with other ethical principles (in this case, the common good) and trade-offs were required. Even so, the trade-offs remained within an ethical framework. Within commercial societies, Smith held that competition, exchange, and distribution (both domestically and internationally) play an ethical role. With this background in mind, let us now turn to his view of economic development and growth. These are related to Sen's classification of social achievement.

### **c) Ethical Issues in Economic Development and Growth<sup>32</sup>**

Smith stated that: "the great objects of the political economy of every country, is to increase the riches and power of that country" (1976b, 372; see also 428). Economic development and growth, therefore, were the core ends of Smithian economics. Moral aspects of these are investigated below.

First, let us consider the consequences of development and growth. Smith had a four-stage theory of economic development; he is not precise in his language but often implies that only the commercial stage is civilized (1976b, 689-94; 708-13; Cropsey 1957, 57,63). People in "civilized and thriving nations ... even of the lowest and poorest order ... may enjoy a greater share of the necessaries and conveniences of life than it is possible for any savage to acquire" (1976b, 10). This means that those living in "thriving nations," are not reduced--like those living in other nations--to the level of abandoning their old and destroying their children (1976b, 10; see also 89-90, 96-100; Alvey 2003, 84). Commercial society has many desirable ethical features (when one reads the *WN* in the context of his other works). In such societies wealth rarely lasts very long in the same family (1976b, 422). The gross dependency of the people of the second and third stages of history is reduced; liberty is enhanced (1976b, 711-3). In addition new commercial virtues arise; citizens also become more industrious (which will be discussed shortly). As a means to the end of Smith's political economy, capital accumulation must be promoted and, by doing so, it has ethical effects; political economy serves an ethical goal.

Second, I turn to the prerequisites for growth.<sup>33</sup> There are two primary factors responsible for economic growth: the skill and dexterity with which labour is applied and "the proportion between the number of those who are employed in useful labour and those who are not so employed" (1976b, p. 10; see Kleer, 1992, pp. 128-30).<sup>34</sup> The major influence on the second factor--the ratio between productive and unproductive labour in society, or the ratio between "capital" and "revenue" destined for immediate consumption--is the accumulation of capital,

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<sup>31</sup> Sen approves of Smith's position on social achievement as a sensible synthesis of markets and ethics.

<sup>32</sup> Fitzgibbons dedicates a chapter to arguing that there were "moral foundations of economic growth" (1995, title to Ch 10).

<sup>33</sup> The remainder of the paragraph and the following one draw on Kleer (1992, 149-53).

<sup>34</sup> Smith's distinction between productive and unproductive labour was widely accepted at the time but has been rejected in modern economics (see Blaug 1985, 55; cf. Hollander 1987, 1).

which, in turn, is strongly influenced by frugality (1976b, pp. 330-7). Clearly relevant, therefore, is the lower type of prudence (associated with calculating self-command to better one's financial condition). "[T]he fundamental behavioural assumption of the economic theory of growth [frugality] turns out to be the same thing as the desire to cultivate the virtue of prudence" (Young, 1997, 45-6; see also Smith, 1976a, p. 213). Prudence is an ethical prerequisite for capital accumulation and hence economic growth.

In addition to being a *prerequisite* for growth, capital accumulation also has another indirect, beneficial *effect*. Unproductive labour (or employment in what we call the services sector) requires only spasmodic attention and so induces idleness:

[t]he idleness of the greater part of the people who are maintained by the expense of revenue, *corrupts*, it is probable, the *industry* of those who ought to be maintained by the employment of capital, and renders it less advantageous to employ a capital there than in other places. (1976b, 336 emphasis added)

Capital accumulation therefore improves economic growth by requiring a greater proportion of productive to unproductive labourers and reducing the "corruption" of productive labourers.<sup>35</sup> Accumulation promotes the lower, bourgeois virtues, including the work ethic.

In order to produce economic growth, various virtues are required including prudence and industry. In other words, Fitzgibbons's table could be expanded to include other commercial virtues. For Smith, growth had ethical *prerequisites* and ethical *effects* (see Young 1997, 164-5). By aiming to promote economic development and growth, Smith's political economy is inherently an ethical enterprise.

#### **d) Ethical Issues in Evaluation of Economic Systems**

For Smith, certain minimal standards for human beings exist by nature. These benchmarks allow him to evaluate the human condition and rank the achievement of various human societies.

We saw earlier Smith's ethical critique of "savage" societies. Life is cheap there. Civilized societies, in part because they are wealthier, treat human life with more respect. As societies pass through the four stages, there are ethical improvements. Even so, Smith does not hide the ethical failures of any stage of history.

In sub-section a) we saw Smith's equity concerns about the large share going to landlords.<sup>36</sup> Young suggests that this forms the backdrop to Smith's critique of the feudal constitution (1997, 141). It is not the private property of land which is the problem, as shown in the case of the American colonies, but the institutions of primogeniture and entail (1976b, 384). Such laws may have arisen as a necessary response to anarchy but, considered in their own right, they fail the spectator test (1976b, 384). The right of inheritance there had been taken to

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<sup>35</sup> In this context Smith contrasts cities dominated by a royal court with regular cities (1976b, 336).

<sup>36</sup> Smith's theory of rent is problematic: "there is an unresolvable tension in Smith between rent as a cost or payment for a productive service that is scarce and rent as a surplus or residual above opportunity cost... It is ... simply not possible to reconcile all of Smith's pronouncements on rent" (Young 1997, 90; see 73-4).

absurd lengths; the property right to land vested in one family denied other families the possibility of ownership. Such partiality was inconsistent with equity (1976b, 384). Further, primogeniture and entail did not encourage agricultural improvement, as large landowners typically lacked the necessary virtues (1976b, 385). By restraining improvement, the “trickle down” of economic growth is further staunch: it opposed the common good. Smith’s critique applied both to feudalism and to the various feudal residues in commercial societies.

As a critic of the commercial epoch, Smith was not just concerned with certain residues from an earlier epoch. The mercantile version of commercial societies was a new development within the fourth epoch and Smith opposed it on various ethical grounds. Smith usually focussed on the degree of regulation/monopoly/mercantilism for his classification of commercial societies but he also considers the ethical character of commercial societies grouped according to a non-institutional scheme.

Nations, “like Holland and Hamburgh,” which are dominated by “merchants, artificers and manufacturers” are characterized by “narrowness, meanness, and a selfish disposition” (1976b, 668). France and England, with relatively more proprietors and cultivators have a better moral character. This pastoral/Physiocratic view would seem to underpin Smith’s high praise for many aspects of the American colonies (absence of the feudal restraints is an obvious advantage).<sup>37</sup> Nevertheless, he comments on the “vivacity and ardour of [the colonists’] excessive enterprise in the improvement of land”; in this fluid class society, “colonists are too eager to become excessively rich” (1976b, 943). Smith held that there is more to life than money.<sup>38</sup> There is a sort of mean to be aimed at.

Unlike Hume, Smith was also prepared to offer a general critique of commercialism. Echoing Rousseau, Smith used his ethical framework to criticize the alienating workings of the commercial economy.

In the progress of the division of labour ...[the labourer] generally becomes as stupid and ignorant as it is possible for a human creature to become. The torpor of his mind renders him, not only incapable of relishing or bearing a part in any rational conversation, but of conceiving any generous, noble, or tender sentiment, and consequently of forming any just judgment concerning even of the ordinary duties of private life. ... [H]e is equally incapable of defending his country. ... His dexterity at his own particular trade seems, in this manner, to be acquired at the expense of his *intellectual, social, and martial virtues*. (1976b, 781-2 emphasis added)

These, and other nearby passages in the *WN*, are some of the strongest ethical criticisms of existing commercial society ever made (1976b, 781-3; see Alvey 2003, 203-5). Such remarks about the social achievement of commercial society have been cited frequently by critics of commercial society and modern-day capitalism (including Marx).

Smith’s evaluation of economic systems again reflects his ethical framework. In this case we see Smith evaluating both ethical means and social achievement. Smith’s economics is not apologia for the status quo. There is neither a sharp fact/value distinction of later economists who adopted positivism, nor a “divorce between economics and ethics” (Young 1997, 5).

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<sup>37</sup> It is a little difficult to establish whether Smith would call them agricultural or commercial societies.

<sup>38</sup> See Smith’s critique of the poor man’s ambitious son (1976a, 181-3).

## 7. CONCLUSION

The struggle for Smith's soul is crucial for many participants. Some eulogize Smith as the founder of the independent science of economics, one that has been liberated from ethics. Others see him as adopting a modernized but ethical political economy. The proper interpretation of Smith's work is important because of its pivotal role in the history of the discipline of economics (see Duhs 1998, 1492-8).

Smith's moral philosophy was eclectic. He combined elements from Aristotle, the Stoics, Hutcheson and Hume. It was a mix of ancient and modern morality: of writers opposing with those in favour of commerce. Smith developed a new moral framework which was much influenced by Hume's. Nevertheless, he had a moral framework and this applied to his jurisprudence and political economy.

I have argued above that, contrary to the proponents of *Das Adam Smith Problem*, there is no break between the *TMS* and the *WN*. Regardless of his famous comments about the butcher, the brewer and the baker, Smith's ethical work is foundational for his political economy. The principal topics of Smith's political economy are economic development and growth. These have deep ethical pre-requisites and ethical consequences. Exchange, distribution (including food), banking (including the rate of interest), and international trade also have ethical dimensions. In Sen's terminology, Smith was concerned with both the ethical view of motivation and social achievement. I agree with Young's assessment that, in Smith's hands, economics served a traditional ethical purpose: his economics is a "moral science" in the truest sense (see Young 1997, throughout).<sup>39</sup>

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<sup>39</sup> Unlike "the perspective of modern positivism which still dominates the methodological views of mainstream economics," in Young's interpretation, Smith's economics "precluded neither normative inquiry nor normative conclusions" (1997, 8).

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