

# Adam Smith's Moral Science Of Economics

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Young, Jeffrey T. *Economics as a Moral Science: The Political Economy of Adam Smith*. Cheltenham, U.K.: Edward Elgar, 1997. Pp. x + 225. ISBN 1-85898-267-7.

Jeffrey Young is well-known in history of economic thought circles in Australia because of his collaboration with the late Barry Gordon. This collaboration is shown again in the book under review, where two chapters are based on this teamwork. Young's intellectual debt is also shown in the dedication of the book to Barry Gordon and Kenneth Boulding. Through the prior publication of some articles in scholarly journals, a moderate portion of the book has already become known to the history of economic thought community. Nevertheless, there are a number of new things in this publication.

The content of Young's book is better indicated by the sub-title, *The Political Economy of Adam Smith*, than by the title, *Economics as a Moral Science*. The title is a better indication of the approach adopted to the study of Smith. As Young says 'In this book I attempt to offer a coherent interpretation of Smith based on the interplay of economics and moral philosophy' (p. ix). The view that 'moral concepts affect economic analysis and that economic analysis helps to shed light on moral science' is summed up by Boulding in the 'concept of economics as a moral science' (p. 26; see Boulding 1969). Boulding's concept 'serves as a template for the organisation of the [Young's] book' (p. 26). Young's book is a short but important work on Adam Smith from the perspective of economics as a moral science, but those seeking a full-scale examination of the history of economic thought from this perspective will be a little disappointed.<sup>1</sup>

Given the particular focus on Smith, we learn quite a deal. According to Young, Smith was 'a moral philosopher' who became 'interested in economics without ceasing to be a moral philosopher'; 'in Smith's hands analytical economics has a profoundly moral purpose which, I contend, explains why a moral philosopher would be motivated to master it' (pp. 7, 28). This is almost exactly the opposite of the view adopted by Lux, who uses the following as the sub-title for his book on Smith: *How a Moral Philosopher Invented Economics and Ended Morality* (see Lux 1990 and my review, Alvey 1994). On the other hand, Young's book is consistent with a number of recent interpretations, such as Fitzgibbons's, which have sought to show that Smith adheres to the view that economics fits within a broad, moral, social science (see Fitzgibbons 1995).

Before turning to the substance of Young's book, let me make a few preliminary points about how Young approached his reconstruction of Smith. I will return to some of these points at the end of the review.

## Methodology

In order to understand Smith, one needs to keep in mind that he wrote more than two hundred years ago in an intellectual milieu very different from today's. One has to rise out of the current intellectual context. It is claimed by Young that the prevailing view of economists (despite a host of critics) is indifference towards moral issues: 'modern economics is and has been for a long time, divorced from

ethics. Economists eschew tackling ethical issues, and they are generally uncomfortable with moralistic discourses which reason about rights, duties, and obligations' (p. 4). While one might wonder about whether they are uncomfortable with discourses about rights, it is true that they often attribute the success of modern economics to the 'escape' of economics from its 'moralistic past'; only then could economics become a 'purely analytical, or positivistic enterprise' (p. 5). As Young points out, many economists now think that the idea of economics as a moral science is ridiculous; the very notion of a moral science is seen as a contradiction in terms (p. 5). This view has arisen from the influence of positivism.

Contrary to the mainstream of economists, Young rejects positivism. He notes that '[t]he concept of a value free science which the positivists embrace is itself an ethical value' (p. 6). Apart from noting the self-contradictory nature of positivism, Young spends little time on its faults. Nevertheless, the rejection of positivism is essential to his approach.

Regardless of its own coherence, positivism has been very influential. For more than three decades after World War II 'positivistic readings [by economists] of Adam Smith' dominated the literature on Smith (p. 107). This style of interpretation of Smith has declined in recent times, partly due to the emergence of Smith scholars from disciplines outside of economics. Nevertheless, the influence of the earlier writers remains strong, especially outside of the circle of Smith specialists. In many instances Smith's reputation today is due to the positivists. Particularly in the positivistic period mentioned above, many misleading interpretations of Smith were proposed by economists, some going so far as to claim that the divorce of economics from ethics began with Smith's own *Wealth of Nations* (*WN*) (p. 5). In reading Smith, these commentators assumed the validity of the positivistic approach and used that as the methodology for interpretation. It is important that this false methodology is rejected in the reconstruction of Smith, because he himself accepted neither positivism nor the divorce between economics and ethics. The divorce came later. 'The twin dichotomies of positive/normative and efficiency/equity which arose in the process of divorcing economics from ethics cannot be found in Smith' (p. 8; see also p. 6). As Smith was not an adherent of this false methodology, Young can proceed to reconstruct the former's work along more appropriate, non-positivistic lines (ones that Smith may have thought more appropriate).

Having freed himself from positivism, and many of the old interpretations of Smith, Young sets himself the task of providing a coherent, new, interpretation of Smith. How does Young approach Smith's texts? Young 'assumes that Smith's body of work must be understood as a unified whole'; the *Theory of Moral Sentiments* (*TMS*) and the *WN* are 'part of an integrated, consistent body of thought' (pp. 7, 20; see p. 203). He rejects the view that the *TMS* and the *WN* are inconsistent in the way suggested by the German originators of *Das Adam Smith Problem*. The argument against the gross inconsistency interpretation has three elements: biographical evidence, the internal evidence from the published works and the evidence of the uncompleted research programme that can be gleaned from student notes (pp. 20-6).

The structure of Smith's research programme gives a strong presumption, not only of consistency, but also of the relevance of his moral theory for understanding his political economy. There is, in addition, strong internal textual evidence that the ideas themselves are consistently followed throughout. (p. 24)

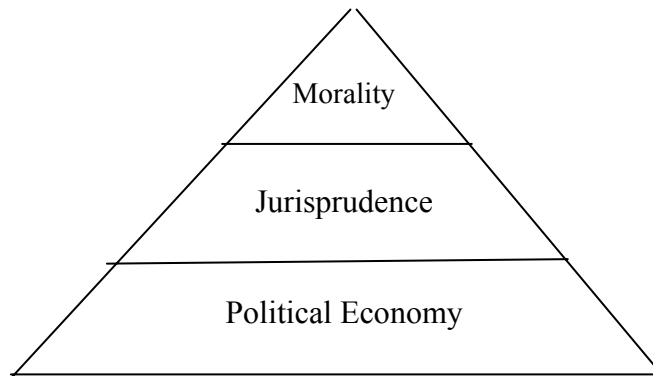
'[T]he "old" Adam Smith problem is refuted' (p. 28; see p. 34); Young says that it has now been solved by several authors. The considerable variety in solution, however, means that 'a "new" Adam Smith problem concerning the precise nature of their [the *WN* and the *TMS*] relationship has supplanted it... The present work is an attempt to solve this "new" Adam Smith problem' (p. 26).

In presenting his task in this way, one is led to ask several questions about Young's book. How does Young suggest that Smith's books are connected? Does Young's own book seem internally consistent? Is his reconstruction plausible? Is it more satisfactory than others? I will return to these questions at the end of the review. Next, I will turn to the first of these questions: how are Smith's texts related to each other?

### The Relationship between Smith's Works

The *TMS*, the *Lectures on Jurisprudence (LJ)*, and the *WN* correspond to Smith's writings on moral philosophy, jurisprudence, and political economy respectively. The first and the third were books published during Smith's lifetime, while the second remained uncompleted at the time of Smith's death. Smith's work on jurisprudence has become available to us from student notes and published in book form as the *LJ*. Young places considerable stress on Smith's jurisprudence. How are Smith's three works related to each other? The *TMS* 'provides the general theory of human nature and morality which informs the more particular inquiries into law, government and economics' discussed in the other two works (p. 23). Young tells us that the three major works of Smith are connected hierarchically. '[I]n moving from morality to jurisprudence to political economy he [Smith] is moving from the general to the particular; from the higher levels of abstraction to the lower. Moral philosophy shades into jurisprudence, which in turn shades into economics' (p. 23). I have summarised this in Diagram 1 below.

**Diagram 1**



Let me begin with the highest level of abstraction and generality before working my way down. Smith believed in 'an immutable, universal human nature which transcends cultural and social class distinctions' (p. 42). Despite its immutability, human nature is dual: 'human nature is both self-interested and other-regarding' (p. 31). There are anti-social and social passions.<sup>2</sup> This duality creates problems, as humans always live in society. By living in society, we can imagine

ourselves in the situation of another and imagine what it would be like to experience what another is experiencing or has experienced. This exercise, called sympathy, is not a selfish principle, and is entirely natural (p. 31). The anti-social sentiments can be counterbalanced by the sympathetic experiences in society and by our innate desire to be approved of by others. The light and the dark sides of human nature are described by Smith and they lead to different models of behaviour and institutional arrangements. I will elaborate on these models later. From human nature we also have the foundation of Smith's moral theory.

Smith's moral theory is fairly well-known and needs only to be sketched here. Where Young advances our knowledge is in his identification of the importance of 'injury' directly for Smith's moral theory and indirectly for his jurisprudential and economic theories.

Smith argues that sympathy is the key to moral approval or disapproval. Frequent observation of others, combined with imagined switching of places with others, introspection and socialisation, lead to moral judgment of others. When someone (A) is injured by another (B) for no justified reason, as observers of such an incident we share the resentment of the injured party. We morally condemn the offender and may even assist the innocent in seeking revenge. The partial observer (C), who is closely associated with A by kin or other tie, but not to B, is likely to exaggerate the harm and his sympathetic resentment will be carried too far. The cool, rational, cosmopolitan observer, (D), is called the impartial spectator by Smith. Such an observer of the original incident may also vicariously experience concern at the injury but not be affected nearly to the same degree as C. This impartial spectator will only experience a moderate degree of resentment. The notion of injury is crucial both to the immediate and direct resentment of actor (A) and to the indirect, vicarious resentment of the observers (C and D). Observer C has to learn to bring his passions down to the level of D's. In Smith's scheme it is the resentment of the impartial spectator (D) that provides the true test of the moral disapproval (and appropriate level of punishment) of B.

In addition, Smith says that we take introspection a step further and consider our own actions from the point of view of the impartial spectator. 'Smith turned the theory inward and extended it to become a theory of conscience' (p. 36). We try to master our own passions and act in such a way that we ourselves would be approved of by the impartial spectator. We do so because of our innate desire for approval. From the judgment of others and of ourselves, external general rules of behaviour in society emerge. The civil laws aim at a universal standard of natural jurisprudence based on observers like D. For Young, Smith was not a moral relativist; he adopted some higher morality, where 'universal,' 'external, objective' standards apply that 'transcend culture and history' (pp. 41, 40n., 163n.; see also 39-43, 52, 56). It is in this context that Young says that Smith is a 'natural lawyer,' one who adopts natural law in his thinking (p. 52; see also pp. 16, 42-3). But it is important to recognise that civil law is an imperfect embodiment of morality, only evolving over time towards the ideal.

The ideal includes a range of moral virtues. Young then spells out the range of virtues found in Smith's moral theory. The four principal virtues are self-command, benevolence, prudence, and justice. Prudence comes in two types: the higher version refers to statesmanship and the lower version refers to the care of one's wealth. Self-command is the virtue that over-arches all other virtues. Smith includes within his hierarchy of virtues several lower, commercial virtues such as the lower type of prudence, frugality, vigilance, circumspection, temperance,

firmness, and industry (see p. 46 quoting *TMS* VII.ii.15,16). It follows, therefore, that Smith's morality includes both self-regarding and other-regarding virtues; the self-regarding ones arise because of the need to exercise self-command. In short, Smith has a 'complex view of the morality of self-interest and the pursuit of wealth,' including various commercial attributes within his moral schema as they tend to promote the interest of the individual and the 'common good' (p. 48).

Perhaps in the middle of the moral hierarchy is justice, by which Smith usually means equality in return, in individual-to-individual dealings. Justice is important both in Smith's moral theory and in his theory of jurisprudence. Justice has at least two attributes that differentiate it from the other virtues. First, the rules of justice are capable of exact specification (p. 50 quoting *TMS* III.6.10,11). Second, justice can be extorted by force because of the need to redress injury (p. 49 quoting *TMS* II.ii.1.5); without it social stability would be threatened by people spontaneously seeking retribution. Civil law aims to prevent injury or, where that fails, to injure the perpetrator; for example, this may mean depriving the perpetrator of life or liberty.

Finally, we can move to the level of political economy. Markets, trade, and so on, have to be seen within the context of the moral and jurisprudential theories sketched above (p. 55). Honesty and the adherence to law form the necessary background to the working of the market. Voluntary exchange in a competitive environment, we will see shortly, ensures that neither party is injured. Through adherence to equality in exchange (commutative justice), there is a moral foundation to markets.

### **Markets as Moral Phenomena**

Chapters 3 and 4 of Young's book take the preliminary information developed in chapters 1 and 2, presented above, and show how the moral/jurisprudential framework is extended to various economic subjects. Young looks at the division of labour, trade, and price in both the early and the advanced states of society. I will concentrate on the early state.

Smith discusses the exchange between hunters of different types, which occurs in the beginnings of society, before a system of civil laws (which aim at the universal natural jurisprudence) is established. Smith's presentation of the exchange between the deer and beaver hunter is well-known. But why do they exchange at all? Young suggests that three distinct motives--lying on a moral continuum--may be present: 'benevolence, rooted in the desire for approval, pure self-interest, and selfishness, or greed, rooted in the desire to dominate and enslave' (p. 57). A combination of motives is most likely: either benevolence is combined with self-interest or the desire to dominate is combined with self-interest. From these two combinations Young establishes two fundamental types of human interaction (hinted at earlier in this review) which, in turn, result in two types of economic relations.

Trade can be between family and friends or between strangers and/or unequals. Trade between 'us' and 'us' will be more likely to have the moral sentiments in operation than in trade between 'us' and 'them' (p. 58). The trade between the two hunters, of the surplus from their hunts, takes place in the form of mutual gift-giving because they 'know each other and are part of the same social grouping' (pp. 58, 61). In this type of contact, benevolence is mixed with self-interest, and 'moral sentiments are more likely to operate properly'; contact with

strangers and unequals is more likely to exhibit ‘moral irregularities rooted in avarice and the desire to dominate’ (p. 58). The former model of trade is called the ‘benevolent’ model, while the latter is called the ‘malevolent’ model (p. 58). This fundamental distinction, which is developed by Young throughout the chapter and the book, is only hinted at by Smith himself.

The ‘two models of the exchange relationship’ differ both in the motives underlying the actions of the traders and in the consequences of the trade for the general well-being of the community (p. 58). The benevolent model is closely associated with what most economists think of as trade in general. The great benefits that Smith saw in such trade are well-known and need little discussion here. Suffice it to say that trade along the benevolent lines leads to the division of labour, and it, in turn, leads to economic growth and ‘extensive utility’ (p. 59 quoting *WN* I.ii.1)

Despite this, human intention did not include such beneficial results. Using the *LJ*, Young argues that the origins of trade and the division of labour lie in the desire to persuade, which is closely associated with the innate desire for approval (p. 60). This allows him to suggest a new interpretation of a famous passage from the *WN*: ‘Commerce ought naturally to be, among nations, as *among individuals, a bond of union and friendship*’ (p. 61 quoting *WN* IV.iii.c.9; emphasis added by Young). Note Young’s stress on trade as a form of friendship. This reciprocal exchange arrangement between friends precedes the bargaining in the market proper, where trade is extended to strangers.

In the context of friends, the operative virtue (discerned from the study of the *TMS*) is gratitude for the gift; we should provide equal in return and, apart from justice, gratitude is the virtue ‘of which the rules are most precise’ (p. 62 quoting *TMS* III.6.9). The rules of gratitude between friends gradually evolve over time into the even more precise rules of justice.

The virtue of justice, being more precise in its general rules, then establishes that equality in a much more rigorous and formal way in the market place. Equilibrium price and the laws of justice replace the virtue of gratitude in regulating the terms of trade between the beaver and deer hunters. (p. 62)

Markets now appear in a different light from the way that they are often presented in today’s textbooks. They are ‘benign social institutions,’ and exchange is a ‘social activity’ involving the sympathetic mechanism of spectatorship (p. 62). This makes perfect sense with regard to the face-to-face dealings of the early societies (p. 66). ‘The friendship/gifts/self-interest/persuasion/exchange nexus’ of the benevolent model must be contrasted with the malevolent model (p. 63).

In the malevolent model, ‘self-interest’ becomes corrupted into ‘greed and selfishness,’ which lead ‘to violence and the desire to dominate and coerce’ (p. 63). This is the ‘dark side to human nature’; ‘slavery, colonialism, monopoly, and international trade under the mercantile policy are all instances of this model’ (pp. 63-4; see also p. 76). The benevolent model is compatible with the cosmopolitan, impartial spectator (see observer D above) approval but the malevolent model seems to rely on a narrow, partial spectator (see observer C above) approval.

Young’s most important economic step is the next one. He turns to the ratio of exchange between the two hunters under the benevolent model. Exchange at the ratio of labour hours expended will be agreed upon, because any other ratio would bring about injury to one of the participants, whose reasonable expectation is

that he be fully compensated for his labour expended. This exchange rate is also adopted by the impartial spectator. 'The natural price will be a consensus price which individuals and the [impartial] spectator view as fair in the sense of not causing harm' (p. 67). Smith's theory of value is neither Lockean nor Marxian; 'Smith's concept of natural price is in fact a descendent of the Scholastics' just price in that they both represent commonly agreed estimations of a fair price' (p. 68).

This approach is then developed further from the context of the early societies to that of advanced societies. Gift-giving gradually evolves into regular commercial exchange, where the benevolent affections are not so obvious. While there are differences in detail, the essential principles that apply in the early societies remain valid in the commercial societies. The benevolent model applying to friends gradually expands and is transformed through an evolutionary process. The sense of justice witnessed in the early state leads to general rules based on equality of exchange; these rules develop into civil laws, which in turn evolve towards a superior administration of justice (p. 71). '[T]he moral sentiments and the rulings of the impartial spectator do have a role to play in the advanced state' (p. 72). The moral sentiments are active in the emergence and evolution of the law. If the moral prerequisites of exchange within the community can be incorporated into institutional arrangements, the benefits of the benevolent model can be extended to strangers (p. 58). The benevolent model leads to a moral case for international free trade.

In chapter 4 Young develops at length Smith's theory of property, the details of the theory of natural price, and the place of Smith's natural price theory in the history of economic thought. There is not sufficient space here to go through the details of these discussions. A few key points will have to suffice to show how Young continues the themes already discussed.

In the *LJ* Smith discusses the five ways of acquiring private property. According to Young's interpretation, the impartial spectator mechanism underlies the justification for them. Consider the case of acquisition by occupation. Young concludes that 'a person acquires property by occupation if an impartial spectator would sympathise with his belief that he has a reasonable expectation of use which, if denied, would cause him injury' (p. 82). The right to property is a 'natural right' based on 'a moral principle'; by contrast, for Hume property is based merely on utility (p. 84).

Next, Young turns to investigate the relationship between these property rights and Smith's theory of value. Given the spectator principles, returns to the owners of labour, land and stock are all legitimate in the advanced societies. Compensation for labour needs to take account of anything that the spectator would consider reasonable. This standard takes account of not just labour time but also severity of the work, risk and skill (p. 88). In the case of the return to owners of land and stock, the spectator looks to the standard of injury again. The key to spectator approval here is opportunity cost (pp. 89, 95). Payment of less would mean incurring injury. The Smithian theory of value then relies on the impartial spectator approval of avoidance of injury; this 'moral philosophy/jurisprudential concept of injury' informs his concept of cost (p. 85; see also p. 80). Payment at the natural price means that neither party is injured.

Finally, Young tries to re-evaluate Smith's place in the history of economic thought, focussing on the theory of value. Looking backward from Smith's time, he suggests that 'the link between Smith and the just price tradition of

the Greeks, Scholastics, and Protestant natural lawyers is stronger than is generally recognised' (p. 96). Looking forward into the next century, Young considers whether Smith fits into one of the three cost of production value theories: labour embodied, disutility or opportunity cost (p. 96). Young argues that Smith's theory is closer to the disutility, or 'real' cost, tradition than any of the others, but it 'is broader than, and actually subsumes, the others found in the subsequent development of economics' (p. 98).<sup>3</sup>

The work that Young has done in these two chapters is very important and puts us in a very different frame of reference when we consider Smith's views on markets, the division of labour, exchange and price. We now have a whole matrix of social and moral factors to consider which are overlooked in most interpretations by economists. In addition, the distinction between the benevolent model and the malevolent model provides a very useful dichotomy for considering Smith's writings as a whole. Finally, Young's claim about Smith's natural price as a just price is really quite striking and he develops it in his next chapter.

### **Commutative Justice and the Just Price Tradition**

Following his view of the close connection between Smith and the Scholastics, Young structures the second part of his book around a Scholastic schema. He refers to the Scholastic division of justice into three parts: commutative justice, distributive justice, and general justice (or the common good) (p. 110; see also p. 118). In order to establish Smith as an adherent to the Scholastic tradition, Young deals with Smith's views on each type of justice in turn: chapter 5 discusses commutative justice, chapter 6 considers distributive justice, and chapters 7 and 8 look at the common good. In this section I look at the first of these types of justice and then turn to the others in the following two sections.

Commutative justice has actually been discussed throughout this review already, as Smith's shorthand for this term is 'justice': 'the virtue of justice is the same thing as commutative justice' (p. 51; see also p. 119 quoting *TMS* VII.ii.1.10). It is the virtue that can be extorted by force. In the context of the criminal justice system, we discussed Smith's stress on the notion of 'equal in return for equal'; this notion today it is often called retributive justice. In the economic context, we discussed it under the labels of 'equality in exchange' or the 'just price.'

Therefore, commutative justice is discussed by Young throughout his book but it is the focus of chapter 5. The chapter is essentially an extended history of ideas, showing how Smith adheres to the just price/commutative justice tradition of the Scholastics and the natural law philosophers. The purpose of this chapter ought, therefore, to be three-fold. First, it ought to show how the just price doctrine develops throughout the centuries from ancient to medieval to modern times and how Smith continues that tradition in some sense. Second, it ought to show how Smith modifies the tradition in significant ways; otherwise Smith could not have gained the reputation that he did from positivists. Third, there ought to be some indication as to why Smith's modifications are less significant than his continuities with the tradition.

In this chapter Young and Gordon sketch the economics of the Schoolmen, Grotius, Pufendorf, Hutcheson, and finally Smith, with a view to highlighting their views on commutative justice. Young and Gordon say that, despite various disputes, the Schoolmen 'were at one in treating the question of the just price as an issue in the realm of commutative justice' (p. 110). Subsequently, they show

'strong lines of affiliation between ... Scholastic economics and those found among the natural law philosophers' (p. 117). Finally, they attempt to show that Smith adheres to this broad tradition. 'Smith's natural price is a just price in that it will fulfil the requirements of commutative justice' in both the early and advanced types of society (p. 118).

Second, Young and Gordon do indicate areas where Smith and the Scholastic tradition diverge. In Smith's case 'the virtue of [commutative] justice is reflected more in the institutions which protect property and contract than in individual intentions and moral choices,' which is the key for the Scholastics (p. 121). Smith replaced the 'casuistry of the Scholastics,' 'which tried to lay down the requirements of justice in explicit detail for all conceivable situations, with the economic analysis of competitive markets' (p. 122). As market prices gravitate towards the natural price under competitive conditions, the market price approximates to a just price. Consequently, the detailed assessment by individuals of the particular circumstances of the other party in the exchange is not required.

Third, there ought to be a weighing up of what has been indicated above in this section. In my view the chapter falls down somewhat in assessing Smith's agreements against his disagreements with the 'Scholastic/natural law tradition' (p. 118; see also p. 127). I will return to this at the end of the review.

In their mini-history of ideas, Young and Gordon make an interesting case for Smith's inclusion in the Scholastic/natural law tradition on commutative justice. One of the major innovations of Young's book is the attempt to show that Adam Smith's economics (and especially his price theory) is part of the Scholastic tradition. This claim has been made previously by Marion Bowley, but Young's work is a much more thorough attempt to justify such a claim (see Bowley 1973, pp. 127-32). The claim that Smith adopted Scholastic economics will strike many generalists as odd. So too they will find odd the claim that Smith advocated distributive justice (as a separate category from commutative justice). Distributive justice is taken up next.

### **Distributive Justice**

In the next chapter Young and Gordon try to piece together Smith's writings on distributive justice. While many of the quotations are familiar, the grouping of them together in one chapter is useful. Young and Gordon claim that this survey is an innovation in Smith scholarship (p. 131).<sup>4</sup>

According to Young and Gordon, the bulk of commentators do not see any concern for distributive justice in Smith: 'there seems to be a general impression that Smith's political economy eschews the employment of distributive equity as a normative criterion' (p. 131). If that is true, this chapter serves as a good corrective. It has been my impression, however, that Smith specialists recently have been recognising Smith's distributive concerns.

Perhaps many of the recent studies I have read concentrate on Smith's view of distributive justice as an area requiring the exercise of personal virtue through benevolence, notably in the form of charity (see pp. 51, 130). Redistribution towards the poor could occur in this way, in which case Young and Gordon suggest that distributive justice would then be 'out of the hands of the sovereign' and also out of 'the scope of political economy' (p. 131). But they contend that Smith also assigns a role to government in achieving distributive goals.

In this light they discuss a key passage from the *TMS* which does give a role to government in achieving distributive justice (pp. 133-4 quoting *TMS* II.ii.1.8). Like them, I have also given this considerable stress (see Alvey 1996, 1998). Young and Gordon conclude that 'distributive justice ... is both a private and a public responsibility' (p. 134). They also show that this responsibility is taken further by Smith in various policy areas, where he recommends policies that the wise sovereign would adopt in order to achieve distributive justice (pp. 146-9). Clearly, Smith does have concerns about distributive justice, even to the point where the latter outweighs commutative justice on occasion; in these circumstances, commutative justice is traded-off at the margin for distributive justice (p. 152).

Second, Smith's distributive views are complicated. Young and Gordon show that he held both 'a decidedly antiegalitarian view' (social stability rested on maintaining a class structure, or division of ranks) and 'an obvious sympathy for the labouring poor' (p. 135). The resolution of this tension in Smith's thought is found by Young and Gordon in their concept of an 'optimal degree of inequality'; this is a condition which is 'more equal than Smith's contemporary society, but yet does not embrace ideas of class levelling or expropriation of property' (p. 136). They then flesh out some of the detail of Smith's position a little. Smith's ideal society, one with a 'gradual class gradation coupled with [class] mobility we label the "optimal degree of inequality" and we suggest that it lies at the core of Smith's thinking on distributive justice' (p. 140). They then go on to suggest how Smith uses this standard to condemn the degree of inequality in feudalism and mercantilist commercial societies (pp. 141-6). It is also used in Smith's analysis of occupational mobility (p. 145).

Third, Smith's distributive concerns have to be seen in the context of his theory of political economy. In his preferred 'system of natural liberty,' economic growth is normal. By assuming and advocating economic growth, there was reduced conflict between distributive and commutative justice than existed for the Scholastics, who assumed and advocated a stationary state (p. 154). The change meant that Smith could concentrate on commutative justice in his analysis, whilst not dispensing with distributive justice. Any redistributions would be marginal rather than vast.

This chapter does not deny that Smith's focus in his writings is on commutative justice. Nor does it deny Smith's view that there is a general coincidence of commutative and distributive justice in a commercial society where the system of natural liberty holds sway. What this important chapter does do is highlight various issues related to Smith's concern for distributive justice, even showing cases where Smith makes marginal trade-offs between commutative and distributive justice.

### **General Justice or the Common Good**

The 'third category of justice found in the Aristotelian and Scholastic texts' is called 'general justice, [or] the obligation of the individual to the community. This is the realm of things which pertain to the common good' (p. 157). Young devotes two chapters to this topic because 'virtually everything Smith wrote' ultimately aimed at this (p. 157). Whereas the 'vulgar' view is that Smith's 'invisible hand' eliminates the need for any moral dimension to individual action, Young argues

that, for Smith, 'both the individual and the government are under important moral obligations' to achieve the common good (p. 157).

The first point is to establish that Smith does accept that there is a category called the common good. The standard that Smith uses in economic matters is often per capita income. Under the 'system of natural liberty' for which Smith is well-known, frugality and industry are encouraged and economic growth usually results. It is in this context that Smith's moral concerns come into play in his advocacy of that economic system: there are 'moral pre-requisites of growth' (frugality and industry) and 'morally uplifting effects of growth' (people are not required to abandon their old and their young) (pp. 165-6). Young also refers to the civilising effects of growth (pp. 169-72).

In addition, Young makes a series of claims about the role in Smith's work of individual responsibility for achieving the common good. Some of these claims have been addressed earlier. The individual has 'a moral choice between frugality and prodigality, and the result of the choice affects the common good' by affecting the rate of economic growth (p. 173). The great landlords are able to survive quite well without improving their lands; they attend instead to ornament or display. This behaviour opposes the public good, where the lands are improved and consequently 'the economic and moral well being of the poor tenants' rises (p. 175). Using private correspondence, however, Young suggests that 'Smith places the landlords under a moral obligation to improve their lands' (p. 175).

Then Young turns to the governmental role in achieving the common good. This takes us into the political sphere proper. Here he develops a similar distinction to that between the benevolent and malevolent models in the economy. The distinction Young makes in the political sphere is between societies following a 'virtuous sequence' and those following a 'corrupt sequence' (p. 178). The former is 'where the moral sentiments operate properly'; here 'the political culture will be characterised by public virtue, a desire on the part of the political agents to promote the common good, based on a correct understanding of the connection between the laws and their consequences for public welfare' (p. 178). Once again, it is benevolence arising from Smith's higher virtues that is critical to Young's account. The 'corrupt sequence,' by contrast, is the situation where the moral sentiments are corrupted 'by self-seeking factions ... which confuse their own interest for that of the public' (p. 178). This dichotomy is developed through case studies, initially looking at the income shares that accrue during the growth process.

In Smith's growth model it is well-known that real wages and land rents would rise, but profits would fall. Smith concludes that the interests of the labourers and landlords coincide with the public interest but the interests of the owners of stock are contrary to it (p. 179). Unfortunately, neither the labourers nor the landlords understand the correct system of political economy (which shows the advantages of trade under the system of natural liberty) and so lack a comprehension of how their private interest coincides with the public interest. They are easily hoodwinked by the crafty owners of stock, the 'capitalists.' Apart from knowing their personal interest very well, the latter also have a type of system knowledge which Smith calls mercantilism; Young calls this 'pseudo knowledge' (p. 181). The common good is lost sight of and is replaced by faction, deception, and sophistry.

This approach is then extended into an examination of mercantilist institutions at the micro-level. Corporations, guilds, and other micro-level combinations 'have created a form of "corrupted society" in the political

community of the nation' (p. 183). In such societies one seeks the approval of the other interest group members; one appeals to the partial spectators (type C observers mentioned earlier) within the group. 'The social dynamics, therefore, leads to a corruption of the moral sentiments' (p. 183). The process is self-generating, by creating laws which provide exclusive privileges, which 'require the formation of such corrupt societies at the micro-level' (p. 183).<sup>5</sup> The impartial spectator (type D observers) and the invisible hand are absent. The "corrupt sequence" is the political culture which produces and perpetuates the mercantile policy' (p. 178; see also p. 181).

The alternative is the 'virtuous sequence,' which is 'the type of political culture which will implement and maintain natural liberty' (p. 178). For this to come about, the coincidence of self-interest and the common good cannot be relied upon. A significant role must be played by a great statesman in order for the system of natural liberty to be brought into being. Such a statesman must have knowledge of the true system of political economy, which shows how natural liberty promotes the public good. Apart from a high level of intellectual virtue, the statesman must have a high level of moral virtue. He must be public-spirited in order to want to promote the public good (p. 186).

Once the system of natural liberty is established by this outstanding individual, how is it maintained? Smith's answer, according to Young, is the virtuous sequence itself. The virtuous sequence is 'rooted in the other-regarding principles of human nature' (p. 187). People in this society seek the approval of the impartial spectator. In such a society, it is possible to 'cultivate public spirit' (p. 189). But such spirit still requires correct system knowledge, and Young suggests that 'producing such knowledge must have been the primary factor motivating Smith to write *WN*' (p. 192). Smith must have been public-spirited himself, and wanted to aid in creating the virtuous sequence.

After having established the grounds for the virtuous sequence, Young then makes a few remarks about Smith's policies for bringing this about and the role of government in promoting the common good. Young shows us some cases (which may be familiar to Smith specialists) where Smith places the common good above commutative justice. He also shows Smith's recommendation that the government subsidise 'the education of the common people' as a way of directly promoting the common good and also indirectly helping bring about the virtuous sequence itself (p. 200).

Hence Smith is depicted by Young throughout the book as a moralist who actively promotes all three classical types of justice. Smith is rehabilitated from the charge of the positivist interpreters that he began the divorce (or elevation) of economics from ethics.

## Problems

Now let me turn to some concerns I have about Young's book. First, having placed such stress on the rejection of positivism and the distinction between positive and normative, it is confusing to find that Young uses this distinction in his own descriptions and explanations. It may be that he thinks that the typical reader of his book is a mainstream economist who is very ready to lapse back into the old, false categories and Young accommodates his writing to that reader from time to time. Let me give some examples. Young makes the remark that chapters 3 and 4 of *his* book are 'primarily concerned with the positivistic influence of Smith's *TMS* on his

political economy' (p. 55). In the introduction to chapter 4 he says that in the earlier chapters of his book 'I was more interested in exploring the influence of the analysis of *TMS* on Smith's positive microeconomics' (p. 79). Other examples could also have been chosen (see pp. 123, 153, 203). These may be minor slips, but there may also be a deeper confusion in Young's own mind. Why, for example, does he make the positive/normative split the major structural divide of his book? Part I is called 'Positive Economics: The Impartial Spectator, Jurisprudence and the Theory of Natural Price.' Part II is called 'Normative Economics: Natural Liberty, Justice and the Common Good.' Part II of the book 'is essentially the realm of normative economics' (p. 27). Reconstruction of the *oeuvre* of major thinkers is always a difficult task, but Young's titles for his interpretation divisions are especially unfortunate as he apparently ignores his own warnings about positivism.

Second, we are told throughout the book of the origin of Smith's ideas in the writings of earlier moral thinkers. Indeed, 'Smith's concept of the natural price can be seen as having evolved from the just price literature of Aristotle and the Scholastics via the natural law theorists, Grotius, Pufendorf, and Hutcheson' (p. 27). To suggest that such diverse thinkers can be grouped together into one moral tradition--'the Scholastic/natural law tradition'--seems highly questionable, especially when that combined tradition 'does not display a high degree of coherence in dealing with the relationships of the categories of justice in their economic applications' (pp. 118, 127). Even given this lack of coherence or agreement amongst these 'earlier moralists,' Smith's view that there is 'a high degree of consistency' between commutative and distributive justice 'is a notable innovation' (p. 129). Further, Smith's assumption of a growth economy as normal and desirable was a 'revolutionary step' away from the Scholastic tradition (p. 154). How Smith can be part of a tradition and at the same time take a 'revolutionary step' away from that tradition is not clear. Perhaps Young means that, just as the natural jurisprudence thinkers took a step away from the Scholastics, so Smith took a further step away from them both. Of course, that would be my gloss on his statements, not what Young actually says. Further still, it is not clear whether a weighing up is undertaken by Young (and Gordon) of Smith's agreements with the Scholastics on one side of the scale, against his disagreements with them on the other. If all of this is not enough, in the second part of the book we are presented with Smith's membership of yet another intellectual tradition. Two-thirds of the way through the book we are suddenly told that Smith adhered to the civic humanist tradition (p. 163).<sup>6</sup> This new claim is by itself highly controversial, but reconciling civic humanism with the Scholastic/jurisprudential tradition is another major task which is not undertaken by Young. Perhaps it cannot be done, or, if it is done, it reduces both traditions to meaningless categories.

Third, after refusing to discuss Smith's theology throughout the book (see p. 38), Young's short concluding chapter suddenly introduces this wild card.<sup>7</sup> It is as if it has been secretly held up the sleeve until the final round of the game, when the stakes are highest. In the conclusion Young indicates a number of areas in Smith's writings that remain difficult to resolve. The one that he stresses is the following. As both the 'benevolent' and the 'malevolent' models arise from human nature, there is a difficulty in saying 'on what basis Smith considers one of them "true" and the other "false"' (p. 205). The 'benevolent' model provides a better economic performance and this may 'offer some empirical test' (p. 206). After indicating that this 'may, in fact, be the way that Smith would have answered the question,' Young then goes on to suggest an alternative answer (p. 206). He says

that '[t]here is a fundamental moral imperative at the heart of the "benevolent" model, and it is that all human beings are in some sense equal' (p. 206). The malevolent model is based on inequality. The assumption of equality 'is a moral commitment which is ultimately grounded in Scripture' (p. 207 quoting Gal. 3:28). He continues:

Ultimately, then, Smith must have believed that the 'benevolent' model was God's, and the malevolent was not... This is the reason why the 'benevolent' model is more 'natural' than the malevolent model. (p. 207)

The sudden emergence of this problem and its solution are disturbing. A sustained argument is needed as to why one model is preferable to the other, but little is offered in the conclusion. In my view, the answer to this particular problem highlighted by Young does not lie in Smith's theology; it can be found in an empirical test, but one that is broader than that suggested by Young. The test is whether a model meets the ends of nature that Smith himself sets out in his work.<sup>8</sup>

## Conclusion

Young has done a great service to the history of economic thought community by providing a thorough treatment of Smith from the perspective of economics as a moral science. Viewed in this light, a proper understanding of political economy depends on an understanding of the framework provided by jurisprudence, which, in turn, is framed by moral science. In other words, the political economist without knowledge of these other disciplines will be a bad political economist. But the detachment of economics from other disciplines has been the basis of the smugness of economists. According to Young's presentation, Smith would find no basis for such smugness.

In addition, Young has provided us with an innovative analysis of Smith as an adherent to the Scholastic/natural law tradition, and one who incorporates distributive justice and the common good into his analysis. He has also provided several innovative concepts in Smith scholarship: the benevolent model and the malevolent model; the corrupt sequence and the virtuous sequence; and the optimal degree of inequality. The audience for the book, I suspect, will be Smith specialists who need little convincing of the importance of moral themes in interpreting Smith. In other words, Young will be preaching to the converted in most instances. To influence others, mostly mainstream economists, will require a different vehicle, and whether the message would be heeded is not a matter about which Young or any reader of this journal can be optimistic. Had he wanted to persuade the positivistic economists of the errors of their approach, he should have developed his argument much more in the present work than he did in the few sentences that were devoted to the faults of positivism.

Overall, Young's suggested connections between Smith's writings generally make sense, his reconstruction seems plausible and his book is generally internally consistent. His reconstruction is more satisfactory than many others. I rank this book, along with Fitzgibbons's, as one of the most serious and best interpretations of Smith in recent times.

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## Notes

- <sup>1</sup> For a start at such a work, see Alvey 2000.
- <sup>2</sup> In addition, there are self-interested passions which are not anti-social.
- <sup>3</sup> I wish to thank Jeffrey Young for a clarification of his position here, which was provided through personal correspondence.
- <sup>4</sup> I discuss it at length in Chapters 4 and 5 in Alvey 1996.
- <sup>5</sup> Smith says that government 'ought to do nothing to facilitate' meetings of such corrupt societies (*WN* I.x.c.27).
- <sup>6</sup> The validity of a civic humanist tradition stretching throughout thousands of years is also highly questionable.
- <sup>7</sup> Young does suggest that Smith follows the Stoic philosophy (pp. 161-3). The Stoics, of course, were not Christians. Contrast this with Young's conclusion, discussed below.
- <sup>8</sup> I discuss these at length in my PhD dissertation (Alvey 1996).

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