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# Adam Smith's moral foundations of self-interest and ethical social order

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**Abstract**

This article draws on textual evidence from *The Theory of Moral Sentiments* and *The Wealth of Nations* to address mistaken interpretations of Adam Smith's fundamental concept of self-interest as greed that has been said to have had a corrosive influence on markets, commercial behaviour, and widening inequality. To the contrary, Smith's complex set of human motivations, including self-interest, his economic system that is based on free markets, and institutional frameworks governing productive property rights and the rule of law are argued to increase aggregate wealth, improve the position of those least well off, and maintain ethical social order.

**KEYWORDS**

Adam Smith, ethics, greed, impartial observer, inequality, moral philosophy, self-interest, sympathy, *Theory of Moral Sentiments*, *Wealth of Nations*

**JEL CLASSIFICATION**

A10, B12, D63, D72, N00

## 1 | INTRODUCTION

Adam Smith is credited as the progenitor of modern economics for his work on systemising economic activity as an independent discipline of political economy in his 1776 work *The Wealth*

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*of Nations* (WN). WN has come to overshadow Smith's earlier 1759 work *The Theory of Moral Sentiments* (TMS) where he expanded on David Hume's account of moral philosophy by developing the concepts of 'sympathy' (or sympathetic imagination that enables us to grasp the situation and sentiments of others) and the 'impartial spectator' (an observer of our own behaviour and that of others) that culminated in the articulation of virtue ethics based on prudence, temperance, justice, benevolence, and self-command in commercial society. Smith's political economy laid the foundations for modern economics, arguing that markets should be free from government intervention. However, Smith's ideas about economics were not divorced from his moral philosophy. He believed that economics and morals were inextricably linked, and that a healthy economy depended on social cooperation under the division of labour shaped by institutional frameworks of private property and the rule of law.

The narrow interpretation of Smith's political economy has created a dominant narrative that presents an artificial separation between the concepts of self-interest and morality. It is a widely held view among mainstream neoclassical economists that the 'scientification' of economics has transformed the discipline, freeing it from any ideological, theological, or moral philosophy (Alvey, 1999; Robinson, 1962; Sen, 2010; Storr & Choi, 2019). Economic theory is considered as value-free, positive science void of any normative ethical considerations. Economic agents are portrayed as rational utility-maximising actors, *homo economicus*, behaving solely in their own self-interest and guided by the 'invisible hand' of the market. Self-interest is increasingly portrayed as greed (Zeelenberg & Breugelmans, 2022) contradicting the moral virtue of cooperation and mutual benefit.

The issue of greed has become particularly relevant in the twenty-first century, when society's focus on individualism and laissez-faire is said to have contributed to the global financial and economic crisis of 2008 that led to people losing their jobs, homes, and even their lifelong savings (Etzioni, 2015), and to their willingness to achieve their desired ends whatever the cost or the damage to others (Mussel et al., 2018; Veselka et al., 2014). Norman (2018) in his intellectual biography on Adam Smith further views greed as an underlying cause of the emergence of 'crony capitalism' that can be considered an economic and political environment in which pursuing and obtaining government favours is a part of everyday life for succeeding in business (Macey, 2014). Cronyism, rent seeking by businesses, and morally questionable executive behaviour have become increasingly commonplace even in market economies, although this is less pronounced than in some non-market or developing economies.[1] Stiglitz (2003) has summarised the prevailing sentiment by stating that Smith's invisible hand[2] theory has proven to be a great comfort to CEOs, for it told them that by doing well for themselves they were doing good for society; they should feel no guilt in greed, they should feel pride. Adam Smith's invisible hand and self-interest, which were previously considered the essential conditons of the benefits of the free-market system and the common good, have morphed into an economic system based on greed (Verburg, 2018).

In this article I address the mistaken interpretations of Adam Smith's fundamental concepts that are said to have had a corrosive influence on commercial behaviour. Both the political right and the left have used Smith for their own ideological purposes, as either the defender or the bogeyman of 'unfettered capitalism' that casts a shadow over his legacy, as have those economists who argue that Smith's economic thinking is 'amoral'. In response to the intellectual dishonesty over Smith's work, Amartya Sen (2010, p. 54) stated: "While some men are born small and some achieve smallness, it is clear that Adam Smith has had much smallness thrust upon him."

Using textual evidence from TMS[3] and WN,[4] I argue that a close reading of Smith's work reveals that although he promoted free-market competition as a prerequisite for wealth creation, and limited government intervention in economic and social affairs, he was a critic of

greed, the commodification and alienation of human relationships that resulted from the division of labour, and crony capitalism. Moreover, he was aware of the corrosive effect of inequality on human morality. As Boettke (2012) has pointed out, our moral sentiments within a commercial society manifest themselves in virtuous conduct that is embedded in the institutions of property rights, the rule of law, and consent.

## 2 | THE ECONOMICS OF GREED

Many interpretations of Smith's work incorrectly argue that he liberated economics from the realm of virtue and ethical concerns (Mehta, 2006). To the contrary, classical economics that originated with Smith's political economy was about how to avoid zero-sum/negative-sum outcomes in economic transactions across social classes. Smith described his political economy:

> ... as a branch of the science of a statesman or legislator, proposes two distinct objects; first, to provide a plentiful revenue or substance for the people, or, more properly, to enable them to provide such a revenue or substance for themselves; and secondly, to supply the state or commonwealth with a revenue sufficient for the public services. It proposes to enrich both the people and the sovereign.
>
> (WN, IV. i, p. 247)

Smith further articulated the aim of political economy to advance overall societal well-being, especially those at the lower rungs of society:

> Is this improvement in the circumstances of the lower ranks of the people to be regarded as an advantage, or as an inconveniency, to the society? The answer seems at first abundantly plain. Servants, labourers, and workmen of different kinds, make up the far greater part of every great political society. But what improves the circumstances of the greater part can never be regarded as an inconveniency to the whole. No society can surely be flourishing and happy, of which the far greater part of the members is poor and miserable. It is but equity, besides, that they who feed, clothe, and lodge the whole body of the people, should have such a share of the produce of their own labour as to be themselves tolerably well fed, clothed, and lodged.
>
> (WN, I. viii, p. 55)

From the 1870s onwards, the unit of economic analysis became the individual agent, household or firm aiming to maximise utility, satisfaction, or profit. This new neoclassical perspective shied away from treating economics as a system of political economy that focused on social aggregates such as social welfare. Neoclassical economics became grounded in the application of the technique of analysing decisions taken at the margin about whether to consume or produce one additional unit of a good under the conditions of perfect information in competitive markets. This new economic paradigm focused on the resources available in an economy under conditions of perfect competition that were used for the production of goods in the quantities and qualities that matched the wants of consumers. The central idea of neoclassical economics was the Pareto-optimal market equilibrium that was achieved by the optimal allocation of resources, where consumers maximised their utility by spending their income so that the marginal utility of each additional good bought equalled its price, and where producers maximised

their profit by increasing their production so that the marginal cost of each good that was produced equalled the price that consumers were willing to pay. Robinson (1962) lamented this marginal-utility-based economic paradigm as an ideology to end all ideologies, as it abolished the moral dimension in economic decisions such that it was only necessary for each individual to act egoistically for the good to be attained by all.

So embedded is the neoclassical economics paradigm that laboratory experiments conducted on students of economics support the argument that egoism is internalised through economics curricula that treat greed as the key driver of human action. A greedy disposition in economic exchanges leads to a tendency towards antisocial behaviours by economics students relative to their non-economic peers (Etzioni, 2015). Carter and Irons (1991) conducted the 'ultimatum' game[5] experiment with economics and non-economics students. The study found that economics students were much more likely than non-economics students to offer their partners small sums deviating from a 'fair' 50/50 spilt. (A utility-maximising theorem would suggest that any offer greater than zero should be accepted by the recipient as this would result in higher utility than refusing the offer. In practice, however, many game participants reject low offers that they perceive as unfair).

Another study (Frank et al., 1993) found that economics students were significantly more likely than their peers to defect in a standard 'prisoner's dilemma' game – with a much higher proportion of economics students justifying their choice simply in terms of the rules of the game rather than via appeal to notions like 'fairness'. Furthermore, the same research found that antisocial behaviour persisted outside of the laboratory. The research revealed that economics professors were both twice as likely to give no money to charity as were their non-economics peers and that they were 'among the least generous in terms of their median gifts to large charities' (Frank et al., 1993, p. 162). For non-economists, greed is perceived as a negative trait because it may inflict harm on others and cause negative societal outcomes. Wang and Murnighan (2011) in their study on greed concluded that individual greed benefits one person at the expense of others, resulting in zero-sum outcomes.

Concerns about the morally corrupting nature of markets that are driven by greed is not new (Storr & Choi, 2019). Karl Marx was perhaps the harshest critic of capitalism characterised by greed: "The boundless drive for enrichment, this passionate chase after value, is common to the capitalist and the miser; but while the miser is merely a capitalist gone mad, the capitalist is a rational miser" (1867, i, p. 254). He contended that, controlled by the desire for more (i.e. greed), the capitalist seeks to be, and actually becomes richer at the expense of the poor (Marx & Engels, 1848; Marx, 1867). He described the zero-sum, corrupting, and alienating nature of capitalist production and the credit system in society:

> Expropriation is the starting-point of the capitalist mode of production, whose goal is to carry it through to completion, and even in the last instance to expropriate all individuals from the means of production ... within the capitalist system itself, this expropriation takes the antithetical form of the appropriation of social property by a few.
>
> (1867, iii, p. 571)

Modern critics, including Michael Sandel (2012), echo Marx and argue that markets undermine our morality. Sandel asserts that markets have a coercive side that can force desperate people to be exploited to sell goods and services (for example, organs such as kidneys) that they would not sell were they not in dire economic circumstances. Hence, these exploitative, egoistic, and greed-laden exchanges can corrupt and poison certain goods, practices, social relationships, and communities.

## 3 | GREED VERSUS SELF-INTEREST

In sociological literature, greed or avarice has long been identified as a negative force in social development and the maintenance of social cohesion (Veblen, 1899; Weber, 1930). Verburg (2018) identifies four characteristics of greed: (*a*) an excessive desire for money and wealth that (*b*) is not subject to diminishing marginal utility as money or wealth becomes an end in itself instead of a means to an end. To be morally reprehensible, (*c*) greed has to be wilfully harmful to others, violating the socially acceptable norm of fairness, or where wealth or money is acquired at the expense of others, and (*d*) where money or wealth generates a sentiment of pride and superiority over others, or a feeling of shame by those who are less well off.

More widely, the insatiable desire for more applies to anything that the individual may consider valuable beyond money, including friends, food, love, sex, power, or status (Mussel et al., 2018; Zeelenberg et al., 2022). In the psychology literature, pathological personality traits and the 'dark triad' of narcissism, sociopathy, and Machiavellianism have been positively associated with greed and it has been found to be a cause of unethical behaviours that lead people to take more than they are entitled to (Zeelenberg & Breugelmans, 2022). By contrast, self-interest is not inherently excessive. It may conflict with the interests of others, but it may also result in cooperation with others for mutual benefit or gain, and its exercise is not linked with sentiments of pride or shame. Self-interest, which can be considered of as morally conditioned and disciplined egoism, is an integral part of Smith's description of economic life; self-betterment provides the basis for the expanding system of commerce. Akerlof and Shiller (2009) describe self-interested passions and economic behaviour as 'animal spirits' that include trust and cooperation, rules and conscience, codes of honour, corporate responsibility, integrity and the like.

Writing at the dawn of the Industrial Revolution (*c*.1760–1840), Adam Smith wanted to show that removing artificial feudal and mercantilist restrictions on trade, labour, prices, and the supply of goods and services, often imposed by the Crown, landed gentry and other privileged interest groups, would give self-interest the free rein that would bring about universal improvement in living standards. Without interference, consumers would respond to prices, labour to changes in wages, and the profit motive would drive entrepreneurs to seek opportunities through creative destruction (Schumpeter, 1943) that drives innovation in an economy. As a consequence, capital would be directed where profit margins are attractive, and in free markets, at least in theory, competition restores prices to their natural "repose and continuance" (Smith, WN, I. vii, p. 44).

But to take this view as evidence that economics is free from the restraints of morality, or that economic behaviour is motivated by greed, misses the moral valency of Smith's self-interest. Interpreting Smith's legacy as unenlightened selfishness would contradict his assertion that "all for ourselves and nothing for other people is a vile maxim" (WN, III. iv, p. 238).

The central theme of *The Theory of Moral Sentiments* (TMS), further developed in WN, is the idea that human beings have an innate moral sense that steers our behaviour, but it needs to be guided by the 'impartial spectator' in order to arrive at normatively endorsable judgements (Herzog, 2016). Smith did not think that humans are Hobbesian egoists (Herzog, 2016), nor did he subscribe to Mandeville's concept of morality as outlined in *The Fable of the Bees: or, Private Vices Publick Benefits* (1714). Mandeville likened a 'proto-capitalist' economy to a beehive. Each bee acts out of morally void self-interest, but this has the systemic effect that the hive functions well and keeps all the bees alive. Mandevillian morality presents a challenge for most virtue ethical theories because it has the counterintuitive consequence that private vice can

sometimes result in a valuable or morally good contribution to society as a whole. McCloskey (2019, p. 128) states that "Adam Smith loathed Mandeville's embrace of vice". She quotes Smith (TMS, VII. iv, p. 265):

> Such is the system of Dr. Mandeville which once made so much noise in the world, and in which, though, perhaps, it never gave occasion to more vice than would have been without it, at least taught that vice, which arose from other causes, to appear with more effrontery, and to avow the corruption of its motives with a profligate audaciousness which had never been heard before.

McCloskey concludes "Smith did *not* say, ever, that greed is good" (2019, p. 128).

Smith's moral philosophy was influenced by authors such as the Earl of Shaftesbury, Anthony Collins, and his own tutor, Francis Hutcheson. Smith argued that humans are social creatures who naturally desire to be liked and accepted by others. This desire can lead us to act in ways that are considered moral or socially acceptable. Smith contended that this desire for approval is the foundation of our moral sense, the impartial spectator that is the source of our ability to understand and appreciate the feelings and perspectives of others. Through sympathy, we are able to put ourselves in the place of others and understand their emotions and motivations. This understanding allows us to develop moral principles that guide the development of institutional frameworks, our behaviour, and our interactions with others. In TMS Smith acknowledged that self-interest is an essential part of human nature. However, he also argued that self-interest must be tempered by a sense of justice and compassion for others. He believed that it is this combination of self-interest and sympathy that creates the foundation for moral behaviour. The moral dimension of Smith's self-interest is contained in the paragraph that has probably become the most cited passage in WN:

> But the man has almost constant occasion for the help of his brethren, and it is in vain for him to expect it from their benevolence only. He will be more likely to prevail if he can interest their self-love in his favour, and show them that it is for their advantage to do for him what he requires of them. Whoever offers to another a bargain of any kind, proposes to do this. Give me what I want, and you shall have this which you want, is the meaning of every such offer; and it is in this manner that we obtain from one another the far greater part of those good offices which we stand in need of. *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 own necessities but of their advantages*. Nobody but a beggar chooses to depend chiefly upon it entirely. The charity of well-disposed people, indeed, supplies him with the whole fund of his subsistence.
>
> (WN, I. ii, pp. 21–2; emphasis added)

This paragraph is often misinterpreted by focusing on two sentences only to justify a view that WN "is a stupendous palace erected upon the granite of self-interest" (Stigler, 1971, p. 265).

Modern scholarship (McCloskey, 2006; Mehta, 2006) claims that the emphasised sentences passage in the above-quoted passage refer to specific kinds of transactions. What other motive in our commercial transactions with the butcher, the brewer, and the baker should we appeal to than their self-interest? To appeal to their benevolence would be a moral failing on our part

if we had the means to offer something that they want (money) in return for their services, unless, as the last two sentences of the passage state, we are without means and must appeal to their humanity, and benevolence, and rely on charity. A more comprehensive reading of the passage shows the complexity of human motives in Smith's thinking. Successful commercial exchanges that are motivated by self-interest also require us to consider other peoples' interests and the achievement of mutual benefit. The concepts of mutuality and the satisfaction we derive from our virtuous conduct is developed in TMS. A paragraph from Smith's discussion in Part III of TMS (*Of the Foundation of our Judgments concerning our own Sentiments and Conduct, and of the Sense of Duty*) illustrates the complex interaction between self-interest and the concern for others that is not the domain of only the truly magnanimous, but is rather deeply embedded in the human psyche.

> When the happiness or misery of others depends in any respect upon our conduct, we dare not, as self-love might suggest to us, prefer the interests of one to that of many. The man within immediately calls to us, that we value ourselves too much and other people too little, and that by doing so, we render ourselves the proper object of the contempt and indignation of our brethren. Neither is this sentiment confined to men of extraordinary magnanimity and virtue. It is deeply impressed upon every tolerably good soldier, who feels that he would become the scorn of his companions, if he could be supposed capable of shrinking from danger, or of hesitating, either to expose or to throw away his life, when the good of the service required it.
>
> (TMS, III. iii, p. 121)

For Smith, self-interest was not the only human motivation; rather, we act from a complex set of motives of which self-interest is an important one among others, including cooperation, finding joy in the joy of others, feeling the pain of others, and benevolence. He acknowledged that self-interest is an essential part of human nature, but he also argued that it must be tempered by a sense of justice and compassion. When we make moral judgments, we imagine ourselves to be impartial observers of our own actions. This perspective allows us to see our actions objectively and evaluate our actions in terms of their moral implications. Smith's moral theory opposes Mandevillian morality, where all human motives are fundamentally in pursuit of self-interest regardless of their possible positive societal outcomes. The opening paragraph of TMS, rarely cited by those who caricature Smith as the proponent of greed, is very telling of the complexity of human motivation that combines self-interest with sympathy:

> How selfish soever man may be supposed, there are evidently some principles in his nature, which interest him in the fortune of others, and render their happiness necessary to him, though he derives nothing from it except the pleasure of seeing it ... That we often derive sorrow from the sorrow of others, is a matter of fact too obvious to require any instances to prove it; for this sentiment, like all the other passions of human nature, is by no means confined to the virtuous and humane, though they perhaps may feel it with the most exquisite sensibility. The greatest ruffian, the most hardened violator of the laws of society, is not altogether without it.
>
> (TMS, I. i, p. 10)

According to Smith, a virtuous individual was one who acted with integrity and honesty, even when it was not in their immediate self-interest. Smith believed that a virtuous society was one that was characterised by compassion and concern for the welfare of others. He emphasised the role of public universal education in shaping our moral sense. Smith wrote in WN:

> Were there no public institutions for education, no system, no science would be taught for which there was not some demand; or which the circumstance of the times did not render it either necessary, or convenient, or at least fashionable, to learn.
>
> (WN, V. i, p. 439)

He argued that such public education was necessary for developing our sense of morality and our ability to make ethical judgments. Education should focus not only on developing our material and technical skills but also on developing our ability to empathise with others and understand their perspectives.

## 4 | SELF-INTEREST AND THE WIDER SOCIETY

Given the complexity of Smith's motivations, the question we must turn our attention to is: how does acting from self-interest in economic transactions results in beneficial outcomes for the individual and the wider society? To answer this, Smith replaced the self-interest of those who exercise power with the self-interest of those over whom power was exercised. He did not replace a motive of public good with self-interest but argued that in economic transactions such as the choice of occupation, the allocation and investment of capital, or the production of a good or service, those actors closest to the commercial transaction were better judges of their self-interest than if it were judged by the powerful, who themselves were likely to be guided by their own interests. Again, a passage from WN where Smith discussed restrictions on corn trade clarifies this:

> The law that prohibited the manufacturer from exercising the trade of a shopkeeper endeavoured to force this division in the employment of stock to go on faster than it might otherwise have done. The law which obligated the farmer to exercise the trade of a corn merchant endeavoured to hinder it from going on so fast. Both laws were evident violations of natural liberty, and therefore unjust; and they were both, too, as impolitic as they were unjust. It is in the interest of every society that things of this kind should never either be forced or obstructed. The man who employs his labour or his stock in a greater variety of ways than his situation renders necessary can never hurt his neighbour by underselling him. He may hurt himself, and he generally does so. Jack-of-all-trades will never be rich, says the proverb. But the law ought always trust people with the care of their own interest, as in their local situations they must generally be able to judge better of it than the legislature can do.
>
> (WN, IV. v, pp. 301–2)

Even if the actor closest to the economic transaction were to make a miscalculation, the loss to society would be less than the aggregate societal loss incurred by a mistake made by those who

wield political power but who are removed from day-to-day commercial decision-making. By arguing that property rights and economic decision-making belonged to the actors closest to commercial transactions, Smith positioned himself against interest groups who had the power to exercise and pass judgment over others. Moreover, he criticised monopoly-seeking merchants, employment-restricting guilds, as well as spendthrift kings and the clergy in equal measure.

> People of the same trade seldom meet together, even for merriment and diversion, but the conversation ends in a conspiracy against the public, or in some contrivance to raise prices.
>
> (WN, I. x, p. 82)

> It is the highest impertinence and presumption, therefore, in kings and ministers, to pretend to watch over the economy of private people ... They are themselves always, and without any exception, the greatest spendthrifts in the society. Let them look after their own expense, and they may safely trust private people with theirs. If their own extravagance does not ruin the state, that of their subjects never will.
>
> (WN, II. iii, p. 202)

Smith was vehemently against what we would today call 'crony capitalism' as a perversion of the free-market system. He saw crony capitalism as the result of government intervention in the market, which creates opportunities, through lobbying, for rent-seeking, corruption, and the emergence of monopolies. He wrote:

> Civil government supposes a certain subordination. But as the necessity of civil government gradually grows up with the acquisition of valuable property, so the principal causes which naturally introduce subordination gradually grow up with the growth of the valuable property ... Civil government, so far as it is instituted for the security of property, is in reality instituted for the defence of the rich against the poor, or of those who have some property against those who have none at all.
>
> (WN, V. i. b, p. 403)

Dominant interest groups disrupt the natural flow of competition, stifle innovation, and lead to inefficiencies. Smith also believed that crony capitalism undermined the public's trust in the market and government. When people see businesses using their political influence to gain an unfair advantage, they lose faith in the market's ability to allocate resources fairly and efficiently. Smith believed this loss of trust could lead to political instability and social unrest.

To prevent crony capitalism, Smith advocated a limited role for government in the market. He believed that the government should provide only essential services, including defence, justice, infrastructure, and education, and it should refrain from interfering in the market. Smith's argument for limited government was based on his belief that government officials were not competent to handle much beyond the needs of defence and the administration of justice. In addition, Smith's writings show a lack of respect for the type of people who go into politics. According to Smith, vanity leads them to seek fame and power, motivated by the presumption by which they regard themselves as morally superior to others, and the arrogance by which they think they know the people's interests and needs better than the people do themselves. In

Smith's view, politicians tend to be manipulated by merchants who do not have the good of the nation as a whole at heart. In contrast to government officials and other special interest groups, Smith had great respect for the competence and virtue of the common people. He didn't subscribe to the view that a class of wise and virtuous people ought to rule over the population.

## 5 | TAXATION AND PUBLIC GOODS

Smith's advocacy of limited government didn't exclude the provision of public goods funded by taxation in support of those on the lower rungs of society. He advocated *just* progressive taxation, taxation of luxury goods that he considered 'frivolous', and inheritance laws that should partition fortunes among the heirs, so preventing wealth from being passed on only to the firstborn because large plots could not be effectively cultivated, and legislation that should be focused on thwarting rentiers and manipulators (WN, I. vi). Concerning taxes, he unequivocally stated:

> Every different order of citizens is bound to contribute to the support of the sovereign or commonwealth ... Every tax, however, is to the person who pays it a badge, not of slavery, but of liberty. It denotes that he is subject to government, indeed, but that, as he has some property, he cannot himself be the property of a master.
>
> (WN, V. ii, pp. 464–5)

According to Smith, taxation was a sign of a free society where individuals engaged in wealth creation and where individual property rights were respected, and of a civic society where the state had a responsibility, through taxation, to provide public goods to be consumed collectively by the people. Examples of Smith's public goods included national defence, infrastructure, public parks, education, and clean air. Smith argued that the provision of public goods was a critical function of government and that, without government intervention, public goods could be underproduced or not produced at all. To overcome this problem, Smith argued that the government should finance the provision of public goods through taxes. By taxing individuals and businesses, the government can collect the necessary funds to build and maintain public goods that would otherwise not be produced, or underproduced by markets.

Smith recognised that taxation can be controversial and that it can be difficult to determine the appropriate level of taxation. He believed that taxation should be limited and should be levied in a way that minimises the negative impact on economic growth and individual aspiration for advancement. In the section titled *Of the Sources of the General or Public Revenue of the Society* in WN (V. ii, pp. 459–512). Smith outlined four maxims with regard to taxes in general: (*a*) taxes should be proportionate to income or wealth, meaning that those who earn more should pay more, and (*b*) taxes should be certain, not arbitrary. He believed that this approach to taxation was (*c*) fair and would not discourage individuals from working hard and pursuing economic success. Smith also advocated the elimination of tax loopholes and exemptions, which he believed unfairly benefited the wealthy and distorted economic incentives. In addition, Smith was a strong proponent of simplicity and transparency in taxation. He believed that taxes should be (*d*) easy to understand and administer and that individuals should be able to see clearly how their taxes are being spent. Smith argued that complex and opaque tax systems could lead to corruption and inefficiency that can discourage economic activity.

Smith recognised that there were limits to the amount of taxation that a society can bear without causing economic harm. He believed that high tax rates can discourage investment and entrepreneurship, leading to slower economic growth and lower living standards. Smith argued that the government should prioritise spending on public goods that provide the greatest benefits to society while minimising the burden of taxation.

## 6 | WEALTH AND INEQUALITY

My discussion of Adam Smith's economic and moral philosophy would not be complete without addressing his attitudes towards wealth and inequality. Smith's concept of equality should not be interpreted in the style of the French Enlightenment idea of 'equality of material outcome'. Smith considered equality as a combination of two novel ideas at the time: an economic idea of liberty for ordinary people and a democratic social idea of dignity for such people. Smith saw equality as "the egalitarian opinion people have of each other, whether street porter or moral philosopher" (McCloskey, 2019, p. 199).

Smith considered a degree of economic inequality to be the inevitable result of a flourishing commercial society, and he considered that a certain amount of inequality would be positively useful as a means of encouraging productivity. However, Smith considered the pursuit of wealth predominantly to be "the parade of riches" and wealth and greatness "mere trinkets" (TMS, IV, p. 183), which feed upon the envy of those with lesser means. According to Smith, the rich gained far more pleasure from being observed by those with lesser means than from their possessions. Hence, the effort to pursue wealth results from the universal desire for admiration that motivates us to strive, driven by the baser characteristics of human nature:

> ... that there is scarce perhaps a single instant in which any man is so perfectly and completely satisfied with his situation, as to be without any wish of alteration or improvement of any kind. An augmentation of fortune is the means by which the greater part of men propose and wish to better their condition.
>
> (WN, II. iii, p. 200)

On the other hand, Smith was concerned with extreme economic inequality, and he was critical of the old feudal institutions that allowed the consolidation of property such as inheritance laws, primogeniture and entails, which were used to tie up land for generations and increase inequality (Norman, 2018). Smith unequivocally identified the institutions that protected the property rights of the landed gentry as a key reason why Western Europe had significantly slower growth rates than countries such as America with a free market for land acquisition and ownership, because tied-up land in Europe was not used for productive purposes. The critical property rights for Smith to protect were those of the yeoman or small farm owner who would use the land for productive purposes:

> If landed estates ... were divided equally among all children, upon the death of any proprietor who left numerous family, the estate would generally be sold. So much land would come to market, that it could no longer sell at monopoly price.
>
> (WN, III. iv, p. 240)

Smith wanted to use taxation to incentivise the productive employment of capital, while targeting the rich to prevent the concentration of capital. He also opined that government legislation should be used to prevent those who live by profits alone from oppressing weaker economic groups.

Smith was also aware of the dehumanising effects of unvaried work on people who spend their lives "performing a few simple operations", and under such conditions he "generally becomes as stupid and ignorant as it is possible for a human creature to become" (WN, V. i, p. 439). It should not be surprising that Marx was an admirer of Smith with respect to the alienating nature of work that resulted from the division of labour. Smith advocated widespread universal education that even included dancing on Saturdays and the provision of public goods to mitigate against "this very state into which the labouring poor, that is, the great body of the people, must necessarily fall, unless government takes some pains to prevent it" (WN, V. i, p. 440). Smith's emphasis on education was probably rooted in Scottish Calvinism, which required, unlike in England, that all boys and even girls had to be able to read. Taxes should be used to finance the education of the poor, not only for positive economic outcomes but because of the human scope that literacy provides (McCloskey, 2019).

Smith was an advocate of high wages of labour as the true measure of a nation's wealth:

> It is not the actual greatness of national wealth, but its continual increase, which occasions a rise in the wages of labour. It is not, accordingly, in the richest countries, but in the most thriving, or in those which are growing rich the fastest, that the wages of labour are the highest.
>
> (WN, I. viii, p. 50)

Smith addressed inequality indirectly, not through what one would today consider a social democratic redistributive policy, but by envisioning an economic and political system that, if fully implemented, would preclude steep inequalities. This was not out of a normative concern with equality, but by virtue of institutional frameworks that aimed to maximise national wealth (Boucoyannis, 2013). Smith praised Holland as the most advanced economy of his time and as an example for Great Britain:

> The province of Holland ... in proportion to the extent of its territory and the number of people, is a richer country than England ... The wages of labour are said to be higher in Holland than in England, and the Dutch, it is well known, trade upon lower profits than any other people in Europe ... the ordinary rate of profit would be very small, so that usual market rate of interest which could be afforded out if it, would be so low as to render it impossible for any but the very wealthiest people to live upon the interest of their money.
>
> (WN, I. ix, p. 61)

For Smith, competitive markets and low market entry barriers would keep profits low and labour wages high. Such an economic system would also prevent the emergence of a social class living off interest alone, a form of Smith's unproductive labour. Hence, wages should rise with increased national wealth and do so naturally, not only as a result of the simple factor of supply and demand. The key principles of Smith's legislation and taxation of unproductive wealth formed a system against the concentration of wealth, freeing capital for productive purposes. In a structurally sound and competitive economy, wealth concentration should not occur. Smith

thought that profit rates were tied to capital availability: the scarcer the capital, the worse off the economy and the higher the interest rate. When capital is abundant, by contrast, it is cheap, so interest rates are low, and the economy prospers (Boucoyannis, 2013). When capital is scarce, lowering wages while increasing the price of goods makes everyone worse off, except manufacturers. Smith illustrated this relationship by citing the case of France, where interest rates were high and so were profits, much higher than in Britain. Yet in France living standards were lower, despite richer natural resources. For Smith, high profits denoted economic pathology (Boucoyannis, 2013). The rate of profit, he said, was "always highest in the countries which are going fastest to ruin" (WN, I. x, p. 148). This pathology resulted from the incentives for the economic groups living by profit alone. Smith believed the interests of profit-seekers were structurally and "directly opposite to that of the great body of the people because the rate of profit does not, like rent and wages, rise with the prosperity, and fall with the declension of the society. On the contrary, it is naturally low in rich, and high in poor countries" (WN, I. x, p. 148). It is only through government intervention and as a result of lobbying by special interest groups that wage growth could be suppressed. Wages are only lowered artificially, through state intervention, because of the sophistry of merchants and manufacturers who are much more adroit in manipulating legislatures to pass laws in their favour. Moreover, employers enjoy a bargaining advantage over workers and can coerce them to accept worse terms, because they need individual workers less than individual workers need employment (Boucoyannis, 2013).

For Smith, land should be distributed widely and evenly, inheritance laws should partition fortunes, taxation could be high to incentivise the productive use of capital, and legislation was necessary to thwart rent-seekers and manipulators. Such a corrective system provides both an economic and moral logic for increasing national wealth, preventing a rise in steep inequalities, and resulting in improved living standards, especially for the working poor.

## 7 | CONCLUSION

Adam Smith was first and foremost a moral philosopher. He believed that any decent human life and civic society requires certain virtues, and that this depends on the respect and love of individuals for the people around them.

In this article I have argued that it is impossible to separate Smith's moral philosophy from his work on political economy. He stated in TMS (I. v, p. 25):

> And hence it is, that to feel much for others and little for ourselves, that to restrain our selfish, and to indulge our benevolent affections, constitutes the perfection of human nature; and can alone produce among mankind that harmony of sentiments and passions in which consists their whole grace and propriety.

Smith's concepts of sentiments and sympathy were a mechanism for moral judgement that allows us to judge the appropriateness of our behaviour. Within the judgements generated by the impartial spectator, there would be room for virtuous pursuit of self-interest. The artificial separation between self-interested behaviour and morality has given rise to the mistaken interpretation of the invisible hand of the market and self-interest as concepts that have emptied neoclassical economics of moral considerations, leaving greed as the key driving human motivation in maximising utility. If this were the case, then society would become a community of ruthless profiteers. Smith made a clear distinction between destructive greed and self-interest

that results in positive-sum social cooperation produced by mutually beneficial transactions in free competitive markets. Smith was well aware of the morally corrupting nature of hyper-aggressive rivalry and rent-seeking behaviour. Yet it is not inevitable, as he stated in WN (IV. iii, p. 282):

> The violence and injustice of the rulers of mankind is an ancient evil, for which, I am afraid, the nature of human affairs can scarce admit of a remedy. But the mean rapacity, the monopolising spirit of merchants and manufacturers, who neither are, nor ought to be, the rulers of mankind, though it cannot perhaps be corrected may very easily be prevented from disturbing the tranquillity of anybody but themselves.

The morally corrupting nature of 'runaway capitalism' based on greed has always been a central theoretical topic in ethics (Wells, 2014). What is required is a new social compact for the twenty-first century that will channel the benefits of Smith's commercial society in a fair way and protect all of us, but especially the most vulnerable, from its excesses. Instead of blaming Adam Smith for 'runaway capitalism' we should look to TMS and WN to appreciate the moral foundations he laid for civic culture and the wealth-creating and wealth-distributing mechanisms of free markets, and to recover a new public imagination to resuscitate the importance of Smith's economic and moral philosophy in maintaining an ethical social order.

## ENDNOTES

[1] *The Economist* (2022) publishes a crony-capitalism index based on data gathered by Forbes and the IMF. In March 2022 the five leading countries measured by billionaire wealth as a percentage of GDP (2021) were Russia, Malaysia, Singapore, Philippines, and Ukraine. Western market economies performed relatively well: Britain (15), United States (17), France (18), and Germany (21).

[2] For some, the invisible hand is a fundamental idea in which a competitive market is an equilibrium mechanism that transforms individual self-interest into general welfare. For others, it is a symbol that gives legitimacy to a winner-takes-all economic system. Yet the metaphor is used only once in TMS and once in WN. In WN, Smith used the concept to argue for the proposition that domestic capital is a valuable resource for a nation's defence, and that capital regulations are not required because the extra cost and risk of foreign trade give people natural economic incentives to invest in domestic markets. TMS proposes that our desire for wealth and status acts like an invisible hand as a spur for self-improvement.

[3] Citations of TMS refer to the 2022 Logos edition (Smith, 1759).

[4] Citations of WN refer to the 2018 Sofia Publisher edition (Smith, 1776).

[5] In the ultimatum game one player is given a sum of money. This player is tasked with splitting it with another player, who knows what the total sum is. Once the first player communicates his decision, the second player may accept or reject the offer. If the second player accepts, the money is split per the offer; if the offer is rejected, both players receive nothing. Both players know in advance the consequences of the responder accepting or rejecting the offer.

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