

# ADAM SMITH'S PLURALISM AND THE SCIENCE OF THE LEGISLATOR

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## ABSTRACT

It is well established that we can make sense of Adam Smith's multi-faceted account of human agency without incurring "das Adam Smith-Problem". However, the relevance of his view of knowledge and agency for political economy *as science of the legislator* deserves to be studied more carefully. Smith's view of human agency is linked to political realism and pragmatic pluralism, emphasizing the benefits of the knowledge made available by scientific "systems", but also their limitations and incompleteness. Smith's *Theory of Moral Sentiments*, seen together with his realist discussions of mercantilist politics are suggesting explanatory and pragmatic advantages of such pluralism, while opening up horizons of problem-responsive second-best reforms avoiding fallacies of "the man of system".

**Keywords:** Impartial spectator, man of system, mercantile system, pluralism, science of the legislator.

**JEL Classification:** B1, B3, B4.

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**RESUMEN**

Está bien establecido que podemos entender la explicación multifacética de Adam Smith sobre la agencia humana sin incurrir en el “problema de Adam Smith”. Sin embargo, la relevancia de su visión del conocimiento y la agencia para la economía política como ciencia del legislador merece ser estudiada con más cuidado. La visión de Smith sobre la agencia humana está vinculada al realismo político y al pluralismo pragmático, enfatizando los beneficios del conocimiento que brindan los “sistemas” científicos, pero también sus limitaciones e incompletitud. La teoría de los sentimientos morales de Smith, vista junto con sus discusiones realistas sobre la política mercantilista, sugiere ventajas explicativas y pragmáticas de dicho pluralismo, al tiempo que abre horizontes de reformas de segunda opción que responden a los problemas y evitan las falacias del “hombre del sistema”.

**Palabras clave:** espectador imparcial, hombre de sistema, sistema mercantil, pluralismo, ciencia del legislador.

**Clasificación JEL:** B1, B3, B4.

## 1. INTRODUCTION: READING SMITH?

Smith's work was remarkably successful in his own time, followed by decades and centuries of varying interpretations and impacts. But why is it still worth reading today? Around two and a half centuries have passed since his main works were first published. Why does he still appeal to people and scholars with different backgrounds and leanings? And why is he repeatedly being rediscovered —not least in our own time? Smith evidently did not just hit a nerve of his own time. Many of the problems and perspectives that he addressed against the backdrop of his era of transition to modern market capitalism have become enduring problems and perspectives of modern economies and societies. Smith's oeuvre is about the functioning of societies and economies in a dynamic setting of evolving heterogeneity; societies in midst of a cumulative process of division of labour and specialisation, and in which science-based innovations are opening up possibilities that

were not even dreamed of decades ago. Finally, societies that are in the process of globalisation that hopefully will enable humanity to realise the potential inherent in the human condition for a richer life.

Today, as in Smith's time, this process is exposed to various kinds of menaces and crises. It now may seem obvious that such societies cannot be controlled with primitive commands. Nor can their ills be cured (or the prospects of a bright future enhanced) by way of Big-Bang remedies. But why? Smith does know that answering this question is crucially important, since (whatever crises and vicissitudes of enlightenment improvement might appear on the horizon) improvement and control will remain on the agenda of modern societies. His entire work is motivated by problems of understanding how such societies function, and how improvements are possible despite their incredible complexity, rendering unintended consequences of human agency (possibly including counter-movements) an inherent characteristic. It offers an attempt to answer the question: What must reforms be like such that economic progress changes societies for the better as a whole —and does not degenerate into a process of social division in which freedom and prosperity remain a minority program?

Smith's work does not provide cooking recipes for all this. A cookbook would correspond to all too simplistic ideas of control. But he develops principles (including those guiding the role of economics as the "science of the legislator") for the *transformation of state and politics* without which the prosperity of modern market economies is hardly conceivable. The centerpiece of all that is Smith's Political Economy. But both his analysis of and his vision for modernity go beyond economics. What he aspires to as a scholar is nothing less than this: To use scientific methods to explain and understand *all* manifestations of social life in human societies and to explore them in the horizon of advantageous reform options. Sometimes the scope of such options is greater, sometimes smaller, sometimes it may be missing altogether. Forming a sober judgment about these possibilities and limits cannot succeed in modern, complex societies without science. He therefore calls the science of economy and society that makes this possible *the science of the legislator*.

In the following, I will sketch Smith's social theory and political economy as a complex of systems in the horizon of improvement, highlighting in particular his critical discussion of the mercantile system (section 2).

Section 3 envisages Smith's behavioral theory of moral sentiments as a complement to this. Section 4 concludes with observations regarding conditions of "improvement".

## **2. MULTIPLE "SYSTEMS", UNINTENDED CONSEQUENCES, AND INSTITUTIONAL REFORM**

Both Book IV of *The Wealth of Nations* (WN) and Book VII of *The Theory of Moral Sentiments* (TMS) are dealing with a plurality of "systems": Of "Political Oeconomy" and "Moral Philosophy", respectively. The ambitious scientific program pursued by Smith should be considered in the context of such plurality. Smith's research program is far-reaching: What Newton achieved for natural science he wishes to achieve for the human sciences. All important manifestations of human civilization, from language to morality to law, state and market economy, are to be explained scientifically, based on a few, plausible and empirically verifiable principles. His friend David Hume (1739/40) had laid the philosophical foundations for this program and had already achieved significant insights in the fields of social science and economics. Smith is an Enlightenment thinker: He wants to explain, understand and demystify —and for that he needs science (*cf.* Phillipson, 2011). Like the Enlightenment thinkers of continental Europe, he sees that mystifications function to consolidate the power of the privileged —conditions that ensure that individuals and societies fall short of their potential. Compared to the French Enlightenment thinkers, however, Smith is more cautious when it comes to the political conclusions drawn from the new clarity. In any case, these do not consist in the immediate overthrow of all prevailing institutions. Such caution also is related to the insight that the Newtonian program needs to be qualified in the socio-economic domain, since excessive parsimony may fail to capture plurality of agency principles and the complexity of ensuing socio-economic processes in their historical dimensions. Dealing with multiple systems is one way of taking this into account.

Enlightenment is associated with scientific explanation of social mechanisms and relationships, showing that many privileges are based on pseudo-justifications —justifications that dissolve into nothing in the acid bath of scientific analysis. The Scottish enlightenment in particular

emphasizes the intricacies of human action in large societies with multiple interdependencies —and Smith in particular deals with the limits of models and theories considered as “the science of the legislator”. The Scots develop a specific view of social phenomena: Important complex phenomena such as language, morality and the level of economic development achieved are best understood if we model them as unintended results of human action. Based on such a view, it is obvious that institutional reforms (like all other activities) also have *unintended consequences*. This makes major institutional reforms a delicate undertaking. In Smith’s view and that of the Scottish Enlightenment, social institutions should not be treated like machines that can be easily scrapped and replaced with new, better ones once functional deficiencies have been properly identified.

Smith thus elaborates a theory of non-technocratic politics in the sense just outlined (see Sturn, 2010, 2024; cf. also the account of “classical liberalism” provided by Colander and Freedman, 2019). Its leitmotifs are set out in Part VI of his *Theory* (which was added in 1790), where Smith discusses the virtues of the *statesman*. The background to these virtues of the *statesman*, who initiates improvements in a clever, prudent, public welfare-oriented manner and with knowledge of relevant causal relationships, encompasses several dimensions. *Firstly*, the socio-theoretical and economic background outlined, which emphasises the complexity of interdependencies and unintended consequences. *Secondly*, Smith’s view of the importance and limits of scientific models, which he explains above all in his *History of Astronomy* (see *Essays on Philosophical Subjects*; abbr. as EPS). Scientific systems/models are by their nature always based on simplifications. Their practical-political application must never be mechanical, particularly in view of the heterogeneous socio-economic reality, but requires specific judgement. The *third* dimension of the background is Smith’s moral theory. Successful reforms and improvements therefore require not only understanding of causal relationships —but a sense of moderation. The statesman endowed with a good mix of political virtues, we read in TMS (VI. ii.2.16), will often be *content to alleviate defects*. He will not always work to eradicate them immediately. He will wisely moderate those abuses which he cannot eliminate “without the use of great force”. Like Solon, he will “introduce the best of those systems which the people can still tolerate” if the perfect system proves unrealizable. The *man of system*, on

the other hand, who is intent on implementing 1:1 the system worked out on the theoretical drawing board, is, Smith (TMS Vi.ii.2.17-18) continues, “often so enamored with the imagined beauty of his merely imagined plan of government that he cannot tolerate the slightest deviation from that plan [...]. He seems to imagine that he can arrange the various members of society with as much ease as the hand arranges the various figures. He does not consider that the pieces on the chessboard have no other principle of motion than that which the hand imposes on them, but that on the great chessboard of society each individual piece has a principle of motion of its own, quite different from that which the legislator may choose to impose on it. [...] If they are opposed to each other [...] the game will go on very badly, and society must then be in the greatest disorder and confusion. [...] Some [...] systematic conception of perfect political and legal conditions may no doubt be necessary” to guide the views of the statesman. But to make such a plan absolute in its practical implementation is presumptuous. This is presumptuous because it implies that the statesman and his staff of experts are the only ones in the whole country who have any relevant judgment.

Smith concludes these remarks with a criticism of “sovereign princes” for whom such presumptions are “quite common”. They have “no doubt whatsoever of the immense superiority of their own judgment” (TMS VI.ii.2.18). It is believed that Smith was targeting rulers of enlightened absolutism such as Frederick the Great. However, it is obvious that the considerations summarized here have more general relevance. They basically refer to the multiple kinds of knowledge reformers need to rely upon for sustainable and beneficial reforms. They not only need to take into account the beliefs, habits, and “little systems” anchored in the current agency of individuals and groups, but also more than one system of political economy. The “science of the legislator” as a whole is not monological, but pluri-systematic, as shown by Book IV of WN—which is not some historical afterlude to the presentation of Smith’s own system of political economy, but highlights the complex epistemological foundations of sustainable reforms under a still vigorous mercantile system. It is the most detailed showcase of Smith’s pertinent approach to policy-making.

Smith considers the “mercantile system” both as a theoretical system and in its multi-faceted historical co-evolution, given the rivalry of Eu-

ropean states and their imperial expansion. It appears in a narrative of strongly ambivalent modernization, taking more than 230 pages of the Glasgow edition (WN IV.i-viii.429-662). In contrast, the agricultural system “will not require so long an explanation” (WN IV.ix.1), since it “exists only in the speculations of few men of great ingenuity and learning in France” and thus “probably will never do any harm in any part of the world”. Agricultural systems are “more inconsistent than even the mercantile system” since they (unlike the mercantile system) “in the end discourage their own favourite species of industry” (WN IV.ix.49). Their practical motivation is a kind of second-best speculation: “if the rod be bent too much one way, says the proverb, in order to make it straight you must bend it as much the other” (WN IX.ix.4)<sup>2</sup>. While neither of the two systems succeeds in properly analyzing the most relevant socio-economic interdependencies, the political entanglements of the mercantile systems receive much more attention. Discussion of agricultural systems takes roughly 20 pages, while a summary of the first-best ideal, the “obvious and simple system of natural liberty” (WN IV.ix.51) including a clearly circumscribed role of the state concludes Book IV, setting the agenda for Book V.

Notice that WN IV.i.-viii. is devoted to a core concern of his work: Smith perceived his WN as “the very violent attack I had made upon the whole commercial system of Great Britain” (26 October 1780, Letter from Adam Smith to Andreas Holt: Corr 251), *i.e.*, as an attack upon its mercantile system. However, the 230 pages include contrasts and argumentations harboring ambivalences, tensions, and paradoxes. They include the passages of the WN which come closest to TMS in terms of integrating heterogenous, sometimes seemingly contradictory strands of theorizing within a multi-faceted body of reasoning — a kind of dialogical reasoning found by Vivienne Brown (1994) in TMS. This entails taking on board aspects and developments considered as manifestations of moral or societal-systemic corruption: In WN IV, such manifestations are often referred to without any further ado, while in TMS Smith is more inclined to embed them in providentialist speculations, hypothesizing

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<sup>2</sup> Some of Smith’s physiocratic tendencies (favouring agriculture) could be seen as policy-oriented second-best strategy bending the rod the other way.

some higher purpose. Above all, the reality of the “mercantile system” is described as a cluster of ambivalent forces. Co-evolving with the Post-renaissance European system of statehood and expansion (“discoveries”) on a global scale, mercantilism is distorted by corruption at a *systemic* level.<sup>3</sup> However, it is *not viewed as rotten, futile, or altogether false*, as it includes “partly solid and partly sophistical” arguments (WN IV.i.9). Its problems are elsewhere: “They who first taught it were by no means such fools as they who believed it.” (WN.IV.iii.c.10). Its “splendour and glory” is associated with “discoveries” and global expansion: Mercantilism’s splendour and glory is “one of the principal effects of those discoveries”. It is accompanied by “every sort of injustice in those remote countries” which the Europeans “were enabled to commit without impunity” due to their “greatly superior force”, and was followed by mercantilist monopolies in colonial trade, co-evolving with a setting of “jealousy of trade” intertwined with international power politics; see Hont, 2005 and WN IV.vii.c.80-81). The ambivalent and paradoxical traits of this setting can be summarized as follows: While

- pertinent policies “not only introduce very dangerous disorders into the state of body politick, but *disorders which it is difficult to remedy, without occasioning [...] even greater disorders*” (WN IV.vii.c.44, my italics), and
- they can be shown to be economically wasteful (even though it may appear otherwise, since the “natural good effects” of expanding markets in colony trade “more than counterbalance the bad effects of the monopoly”: Its advantages come about “in spite of the monopoly”, not “by means of the monopoly”; see WN IV.vii.c.50), and
- mercantilist economics is defective (based on fallacies regarding money, wealth, and on misperceiving the role of productive forces as well as the nature of interdependencies in an ongoing process of the division of labor), and
- mercantilist regulations, strategies, and tricks typically bring about undesirable consequences in terms of the common good,

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<sup>3</sup> *i.e.*, it is insufficient to deal with it at the level of individual morality. However, see TMS I.iii and III.iii.41-45 on inevitable distortive tendencies corrupting moral sentiments —which is a kind of corruption whose analysis shows differences as well as parallels to societal corruption in the mercantile system.



it unleashed a dynamism of “splendour and glory”, privileging and benefitting the systemically “right” kinds of activities and people under the premises of the system. Indeed, the splendour, glory, and resilience of this system motivates Smith time and again to deal with problems of appropriate speed and sequence of reform steps. A comparison of pertinent passages shows that Smith is not sure about “the ability of the economy to absorb dramatic changes” eventually implied by reforms (WN IV.vii.c.44; see Fn 28 in the Glasgow Edition). However, different nuances of pertinent conjectures are conditioned by assumptions applying to specific situations.

Book IV of WN is a part of his work much referred to, inter alia including the observation (often referred to in view of the recent surge in geopolitical tensions) that “defence is much more important than opulence”. However, such passages require understanding not only of specific contexts, but of the pluralistic architecture underlying Smith’s WN Book IV. Acknowledging all this allows for integrating some *prima facie* contradictory messages of Book IV as an ingenious multi-level complex of “pluralistic” theorizing, contributing to the understanding of politico-economic processes including the birth of modern market economies, nation states, and empires —and the dilemmas of globalization. As indicated, the chapters on the mercantile system are not confined to a critical theoretical reconstruction of that system, but are attempting to explain politico-economic processes characterizing the secular evolution of mercantilist regimes. In his attempts to reconstruct the rationales of the mercantile system at different levels, Smith employs/refers to different approaches and models applicable under specific assumptions. Approaches may be more or less appropriate for capturing the most important features of a specific aspect of the state of affairs, which is deemed most relevant for the problem setting at hand. In such contexts, Smith’s statements are not to be read as general and irrevocable truth claims, let alone as unqualified battle-cries calling for immediate action<sup>4</sup>. While sticking to a few general principles, Smith ex-

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<sup>4</sup> For arguments regarding the contingent vality of arguments put forward in WN IV, see Collins (2022). See LBLR i. 149 for the way in which controversial arguments are to be used in various types of discourses.

hibits a breathtaking versatility in playing with reasonings which he does not necessarily fully share, or deems limited to narrowly circumscribed sets of conditions. More specifically, mercantilism includes “partly solid and partly sophistical” arguments (WN IV.i.9), and the factual influence of mental models shaping the understanding needs to be taken into account. Prevailing mental models may capture some aspects of politico-economic reality, albeit in distorted ways. Anyway, their grip on the minds of people renders them effective, *e.g.*, in contributing to the resilience or volatility of some prevailing state of affairs, or in affecting the success of reform schemes. Last but not least, the disciplinary range of Smith’s theorizing is broad: In to-day’s scientific division of labor, the respective disciplinary counterparts would include economics, science of politics/state, and geopolitics: While the understanding of Smith’s oeuvre is in general benefitting from reconsidering it from the perspective of realist political theory (see Sagar, 2022; Larmore, 2020), his discussion of the mercantile system is a part of his work where this perspective is indispensable.

Barry Weingast’s (2018) discusses seemingly contradictory messages which can be integrated by considering them as result of suitable model-like reasoning, employed when addressing specific contexts, problems, and policy-issues:

1. Institution/governance-oriented “models” dealing with rent-seeking, monopoly regulations, and unsuitable colonial governance/public finance arrangements, employed in the analysis governance regimes either (i) developed in Britain’s American colonies and culminating in an encompassing crisis when Smith was finishing the WN, or (ii) implemented by “exclusive companies of merchants” (see WN IV.vii.b and c.103). Under those historically grown regimes (whose common denominator is the development of strongly *defective patterns of public-private interaction, remaining a challenge throughout the history of capitalism, as they annihilate/pervert the potential advantages of “modern” separation of economic and political power*), partial/private development of riches enabled by colonial policies is bringing about “nothing but loss” (WN IV.vii.c.64ff) for the general public — when considered in a forward-looking manner including institutional alternatives.

2. A process-oriented “model” of Division of labor (IV.vii.c.50) driven by the dynamics of exchange in a long-run perspective: Looking back on past development, acknowledging (dynamic) advantages of the divisions of labour “in spite of monopoly” allows for diagnosing “greatly advantageous” dynamic effects of imperial economic expansion: *Opening new markets would not have occurred otherwise*. This reasoning implies that monopoly may be part of the game in commercial evolution.
3. “Models” of protectionism and empire-building in a Hobbesian international environment, motivating the imperative of a zero-sum logic and the lexicographic political objective function as a basis for the conclusion that “defence is of much more importance than opulence” (WN IV.ii.29-30; given what has been argued above, it is obvious that this conclusion must not be understood as universally valid battle-cry), as well as strategic perspectives in international politics motivating the specific wisdom of the Navigation Acts, or Machiavellian manoeuvres for strengthening future ties between Great Britain and her former colonies after their independence, (see “*Smith’s thoughts on the state of contest with America*”: Corr., App B). This includes anticipation of ingredients of geopolitical models such as (neo-)realism concerned with hegemonic competition.

At a level clearly relevant beyond mercantilism as a historical era, Smith employs various scenarios for pertinent analyses: Depending on circumstances (mainly hinging upon the likelihood of war/peace) relevant for analysis of the problem at hand, two types of simplified frameworks (as sketched in WN IV.iii.2: “peace” vs. “hostility”<sup>5</sup>) are

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<sup>5</sup> This passage mainly explains implications of assuming a “state of peace and commerce”, while the “state of hostility” (dealt with at greater length in passages reconstructing the rationale of mercantilist regulations; e.g., WN IV.ii.29-30) is referred to as a contrast. “Wealthy neighbours are an advantage to a nation as well as an individual. The wealth of a neighbouring nation, however, though dangerous in war and politics, is certainly advantageous in trade. In a state of hostility it may enable our enemies to maintain fleets and armies superior to our own; but in a state of peace and commerce it must likewise enable them to exchange with us to a greater value, and to afford a better market, either for the immediate produce of our own industry, or for whatever is purchased with that produce. As a rich man is likely to be a better customer to the industrious people in his neighbourhood, than a poor, so is likewise a rich nation. A rich man, indeed, who is himself

considered, with contradictory implications regarding issues such as wisdom or folly of beggar-my-neighbour strategies (see WN.IV.iii.c.9-11)<sup>6</sup>. The peaceful scenario is sometimes used as a theoretical thought experiment envisaging the expansion of markets in a secular perspective under ideal conditions. In addition, a hybrid politico-economic framework including co-evolutionary 2<sup>nd</sup> best-perspectives adds some realism for purposes of discussing the development of mercantilism, integrating trade (including economic power) and geopolitics (including political/military power) beyond idealized assumptions (war or piece) is required: Thus, the strategic dynamism of trade policy is captured in what could be called “Jealousy of trade”-approach (WN IV.ii.38/39; Hont, 2005, p. 6), including issues such as retaliation in economic warfare. Colonial affairs are discussed under the hybrid framework, envisaging the mercantile system under competition between nations as well as the imperial expansion focusing Great Britain’s specific situation regarding her North American colonies.

Last but not least, some discussions in WN IV invoke politico-economic frameworks of reform processes, sketched in the more general context of “virtues of the statesman” in the 6<sup>th</sup> edition of TMS: Those “virtues” are a proxy reflecting the requirements occasioned by the complexities of the science-policy interface (see Sturn, 2024). Thus,

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a manufacturer, is a very dangerous neighbour to all those who deal in the same way. All the rest of the neighbourhood, however, by far the greatest number, profit by the good market which his expence affords them.”

<sup>6</sup> Palen (2014, p. 180) deals with a related ambiguity in WN reflected in different currents with contradictory agenda drawing inspiration from Smith’s reasoning on empire: “Cobden idealistically expanded upon the anti-imperial dimensions of Adam Smith’s *The Wealth of Nations* to conclude that international free trade and noninterventionism would ultimately bring about world peace. Correspondingly, Cobdenism condemned British mercantilism and colonialism for being atavistic, monopolistic, and unnecessarily expensive enterprises. [...] Following a brief flirtation with trade liberalization in the mid-nineteenth century, much of the Western world began turning instead to Anglophobia, economic nationalism, agricultural subsidization, and colonial expansionism as preferred prescriptions for the late nineteenth century’s frequent economic ills. In response, proponents of British imperial union at the turn of the century evolved into a formidable opposition to the prevailing Cobdenite orthodoxy well into the early decades of the twentieth century. And many of the most adamant advocates for imperial unity turned to none other than Adam Smith for their intellectual inspiration.”

straightforward implementation of some scientific system is a no-go for Smith. The realm of politics calls for a specific mix of normative standards supporting the legitimacy of political agency, avoiding unsustainable normative perfectionism and particularistic biases of all kinds (including the spurious universalism of the “man of system” — a particularism based on mistaking internal for external validity of the findings based on a particular system). Regarding core policy issues of mercantile systems and imperial policy, politico-economic perspectives of reform are discussed in the context of specific historical constellations, envisaging change processes beyond the above-sketched horizons of theorizing. Smith considers the mercantilist integration of politics and trade as an example of the kind of complexity ruling out successful Big-Bang free-trade reforms. Path dependencies and paradoxes of reform steps in a 2<sup>nd</sup>-best world have to be taken into account: “moderate and gradual relaxation of laws which gives Great Britain exclusive trade to the colonies” must be handled with care, since the “unfortunate” politico-economic “effects of all the regulations of the mercantile system” make remedies difficult, necessitating clever 2<sup>nd</sup>-best reform strategies, while attempts to implement some theoretical optimum may cause “still greater disorders.” (WN IV.vii.c.44). Over and above that, perfectly free trade is an unattainable utopia: “to expect that freedom of trade should ever be entirely restored in Great Britain, is as absurd to expect that an Oceana or Utopia should ever be established in it.” (WN IV.ii.43).

Interim conclusion: Understanding the overall politico-economic complex summarized by the term mercantilism in the context of the envisaged “science of the legislator” requires a combination of heterogeneous frameworks of thought and “models” of enquiry, including the ones sketched above. Minimizing the impact of interest-related biases is an enduring task of the science of the legislator. However, this does not preclude but requires taking into account non-ideal circumstances and prevailing mental models. Trying to implement a single system<sup>7</sup> would

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<sup>7</sup> Smith scepticism with regard to the working of the political sphere is context-dependent (mostly invoking the context of the mercantile system), as illustrated by the comparison of the following passages: “There may be good policy in retaliations of this kind, when there is a probability that they will procure the repeal of the high duties or prohibitions complained of. The recovery of a great foreign market will generally more than compen-

rest on the assumption that this system in itself neutralizes all biases — a kind of counterfactual assumption (by the “man of system”) which cannot be made coherent with the very nature of “system”. Systematic thought “may no doubt be necessary for directing the views of the statesman” (TMS VI.ii.2.17), but it is not sufficient for giving advice to statesmen for reforms under prevailing conditions. We should aim at a comprehensive understanding of existing socio-economic arrangements including concomitant regulations, *as they developed in non-ideal worlds under specific historical circumstances, in an irreversible historical process with its path-dependences shaping the range of future possibilities*. In absence of adequate understanding, reforms are doomed to fail: *Understanding* is the basis of reasonable policies conducive to improvement, steering clear of technocratic arrogance and reckless experimentation. This has to be kept in mind when considering the somehow pluralistic range of the theoretical apparatus which Smith deemed necessary in order to grasp the mechanisms of the mercantile system, and to meaningfully attack it in a horizon of improvement.

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sate the transitory inconveniency of paying dearer during a short time for some sorts of goods. To judge whether such retaliations are likely to produce such an effect, does not, perhaps, belong so much to the science of a legislator, whose deliberations ought to be governed by general principles which are always the same, as to the skill of that *insidious and crafty animal, vulgarly called a statesman or politician, whose councils are directed by the momentary fluctuations of affairs*. When there is no probability that any such repeal can be procured, it seems a bad method of compensating the injury done to certain classes of our people, to do another injury ourselves, not only to those classes, but to almost all the other classes of them.” (WN IV.ii). Still worse, mercantilistic influences may have the effect that “The sneaking arts of underling tradesmen are thus erected into political maxims for the conduct of a great empire” (WN IV.iii.2) However, Smith’s magnum opus developed a science of the legislator aiming at improving the conditions for realizing the potential of a brighter outlook: “The leader of the successful party, however, if he has authority enough to prevail upon his own friends to act with proper temper and moderation (which he frequently has not), may sometimes render to his country a service much more essential and important than the greatest victories and the most extensive conquests. He may re-establish and improve the constitution, and from the very doubtful and ambiguous character of the leader of a party, he may assume *the greatest and noblest of all characters, that of the reformer and legislator of a great state*; and, by the wisdom of his institutions, secure the internal tranquility and happiness of his fellow-citizens for many succeeding generations.” (TMS VI.ii.2; italics added).

### 3. EMPIRICS OF MULTIPLE AGENCY PRINCIPLES: THEORY OF MORAL SENTIMENTS

The principles of Smith's discussion of mercantilism are related to three more general Smithian agenda:

- a) his discussion of multiple "moral sentiments" and their social (situation specific), cognitive, and systemic foundation;
- b) his view of the potentials and limitations of scientific models in general and especially in policy advice;
- c) his (economic) political agenda of *reform liberalism* in a complex, *imperfect, but improvable world*.

This becomes clear when we try to make sense of TMS as a theory of multiple agency principles, scientifically analyzed on the conceptual basis of "sympathy" and the "impartial spectator". Thus, not only Smith's scientific program (explaining all mechanisms relevant for the functioning of human societies, including all manifestations of morality and ethical principles) can be reconstructed, and this theoretical agenda is contextualized in the light of what he understood as challenges of the modern world (What role does morality play in a modern world, with its economic, societal, and normative "division of labour" and the disenchantment brought about by Science and Enlightenment?). More closely related to the above discussion, not only is human behavior explored as raw material for social science—but a certain kind of context-dependency and co-evolution of behavioral repertoires, norms, and polycentric and multi-layered institutions is anticipated as part of the theoretical setting. Such context-dependency of actual and of morally proper behavior is at odds with the idea of a unified theory capturing all relevant interdependencies and integrating all relevant agency principles.

Here is a brief sketch of Smith's pertinent research program<sup>8</sup>. Inspired by David Hume's (1739/40) grandiose project of an experimental moral science, he wishes to explain morality as a natural phenomenon of social

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<sup>8</sup> For more detailed accounts of specific aspects, including philosophical background and pertinent references see Sturn (2001, 2025).

life on a scientific basis. In other words, as a phenomenon that develops along with the diverse structures of social interaction and cooperation relationships and the economic transactions of people and plays an important role in the success of these relationships. The cornerstone of this explanation is the human ability to *sympathize*, to feel compassion and to share in the joy of others. This ability is not the same as altruism and is not in itself morally preferable. According to Smith, people tend to have a one-sided sympathy with the powerful and the rich, which Smith describes as *the corruption* of moral feelings. Dramatists have been using the specific leverage triggered by such corruption since ancient times by showing us the tragic dilemmas of princes and queens. In the larger social context, according to Smith, this corruption tends to stabilize power.

Sympathy is, however, the basic prerequisite for overcoming a purely ego-focused perspective of human agency and, thus, for human sociability. On this basis, Smith develops a concept of moral learning. It is a process of development and formation of moral feelings in which the power of judgement with regard to moral appropriateness is practiced and sharpened. Smith summarizes this idea in the subtitle of TMS, advertised as an *attempt at the analysis of the principles by which men naturally judge, first of all, the conduct and character of their neighbours, and then of their own conduct and character*.

Smith's pertinent heuristic principle is related to the question: What moral motives and actions would an impartial observer sympathize with? Smith's answer can be summarised as follows: It depends on the type of action situation! In one type of action situation (think of parents caring for their children) the impartial observer sympathises with actions guided by benevolence. In another situation (think of professional life) he sympathises with wise and far-sighted consideration of self-preservation and self-interest. In a third situation he demands justice irrespective of all traits of personal identity of those involved. And so on. In this way we can explain a number of agency principles and virtues that have been discussed in the history of philosophy. However, taken individually they are all one-sided if they are considered as the master principle of all moral philosophy. For Smith there is no such master principle, not even Stoic self-control. Moral learning consists precisely in developing the appropriate moral feelings in the right dosage in the face of a variety of



action situations. This naturally requires a lengthy learning and education process, because there are no simple algorithms for this. Not only Stoicism, which was so important in Smith's own educational path, and Bernard Mandeville, who was important as a rubbing tree, are criticized as one-sided, but also his revered teacher Francis Hutcheson, who puts *benevolence* on the highest moral pedestal. And he indirectly criticizes his friend David Hume for mistaken emphasis of utility.

Above all, however, Smith's TMS *is a response* to a practical challenge that preoccupied many in the century of the Enlightenment. This challenge can be summed up in the following question: Why is morality still relevant in a world that has been disenchanted by science, in which neither religion nor tradition do provide fixed points of reference that are binding for everyone? What about the functioning of morality in a world in which the inherent logic of the market economy is becoming increasingly important and everyone is becoming "to some extent a trader," as Smith writes? As discussed by Smith at some length (esp. TMS VII), there were already answers to these questions at that time: There is not much room for virtue in large and prosperous contemporary states, as Mandeville had proclaimed in his infamous Fable of the Bees in 1705. The alternative to the emerging prosperous but moral-free market society was to return to a virtuous, simple life without much trade, he declared.

One central conclusion from Mandeville's treatise was obviously tricky: There is not much difference in terms of morality between common crooks and the agents of economic progress, the honorable merchants and the enlightened elite. In a dynamic mercantile society, according to Mandeville, morality can only be feigned, not lived. Ultimately, it must always be about self-interest, whatever moral motives are put forward.

It is clear that this did not please those elites who saw themselves as the bearers of commercial progress. Moreover, it is actually questionable what the practical application of Mandeville's theses would be if we assumed they were correct. Is it really conceivable to align political and economic action today with the ideal of a return to the simple life? And if not? Wouldn't that throw us back into a kind of moral cynicism? And wouldn't the spread of this cynicism mean that over time socially advantageous behavioral maxims would no longer have any binding force at all unless they were enforced with sanctions? *Last but not least*: Would the resulting erosion of trust really be beneficial to the development of

the market economy? Mandeville is certainly right: Installing additional locks to protect household goods and valuables against thieves and robbers creates additional jobs in the locksmith trade. The spread of deceit and trickery in business transactions creates jobs for lawyers, as Mandeville also argued. But all of this also increases transaction costs in business transactions. This in turn can mean the end of many a promising project, the success of which depends on complex cooperation that cannot be fully regulated by contract or can only be regulated at great expense. Such considerations illustrate the multiple reasons why Smith found Mandeville (his astute insights notwithstanding) an unsuitable starting point for a policy of improvement — apart from the negative reaction of some parts of the establishment.

Hume and Hutcheson (both held in high esteem by Smith) also had set out to refute Mandeville. However, Smith finds Hutcheson's refutation of Mandeville problematic: While Mandeville sees villainy, deceit and hypocrisy at work everywhere, Hutcheson's rosier counter-proposal is distorted by the one-sided emphasis on *benevolence*. Smith finds this turn of phrase unrealistic. The role of self-interest cannot be denied. For Smith, however, the wise protection of self-interest in no way contradicts the requirements of morality in the commercial sphere. Even more importantly, drawing appropriate conclusions from observed corruptions of moral sentiments cannot be achieved by a system based on benevolence alone: Simply stating "a lack of benevolence" is question-begging from an explanatory perspective. (Likewise, factual corruptive tendencies of power politics in the mercantile system cannot be satisfactorily analyzed by pure theory of free trade and ensuing ideals.)

And what about Hume? Smith believes that his theory is the only modern scientific approach to a moral theory, but this also has a weakness. It does not answer the question: What happens when everyone has learned that morality is a scientifically explainable social institution like any other? Do moral norms still work at all? More precisely, what motivational power still comes from norms whose function and functioning we have understood? In short: Will morality survive its scientific disenchantment in the long term?

Such questions, raised by the works of Mandeville and Hume, preoccupy Smith. What could hold together a modern, enlightened society in which traditional binding forces are weakening or disappearing entirely?

Smith puts these questions into concrete terms in a direction that actually allows a practical perspective: How (by means of which mechanisms) and where (in which social relationships) can morality have an effect? His answer shows that context-dependency does not imply moral relativism: The place of a traditional virtue ethics is the close social sphere of family and friends. It is primarily in these areas of *social proximity* that virtues such as *benevolence* are practiced. “Practiced” is to be understood in a double sense: It also means that we have to “practice” the appropriate dosage of virtues in a demanding learning process. Good moral philosophical reading can help us (especially adolescents) with this. But we must not expect to get recipes for every relevant situation from this reading. This false expectation has indeed led to a sterile casuistry. Pseudoscientific casuistry characterizes the worst of all moral philosophical works. By contrast, *justice* can be precisely determined. In principle, it can therefore be enforced legally. And that is a good thing, because justice is absolutely essential for the stability of modern societies. Justice is the virtue whose place is the large market society with its *social distance*, its anonymous relationships and transactions. It is part of the regulatory framework and the institutions of the market society. In a market society, we owe our meals to the self-interest of the baker and the butcher, and not to their humanity, Smith writes in WN. Many therefore thought that the image of man in his main economic work was the cool, calculating egoist. In contrast, TMS talks a lot about sympathy, a sense of duty, a sense of justice, altruistic benevolence and impartiality. As we have already seen, the impartial observer *approves* of different courses of action and motives depending on the situation. It is obvious that in everyday economic life, concentrating on the intelligent pursuit of business interests has and must have an indispensable function. No one would be served if bakers did not decide on the number of rolls to bake in the light of realistic sales expectations, but if they tried to draw up their production plans on the basis of altruism and goodwill. Nothing against these virtues. Probably they have a function in some kinds of incomplete contracts, such as employment relationships. However, they would probably not provide useful guidance for such everyday economic decisions invoked by Smith. Thus, he takes on board a Mandevillian lesson regarding adverse effects of misplaced moralization of economic and political agency. When Smith presents business people

as exerting political influence to consolidate monopoly positions and other privileges, he alludes to a peculiar mix of selfish strategies and moralistic pretension to enhance the common good.

However, the actors in WN are not all rational egoists promoting the common good through the miraculous power of the invisible hand. Functioning markets are not morally free zones, but regulated by “justice”. For Smith, an egoism that ruthlessly exploits every opportunity is not the measure of all things in business life either. The rich repertoire of behavioral hypotheses offered by TMS is complemented rather than contradicted by WN. Reputation, trust, and fairness are too important for him as lubricants for economic transactions.

Furthermore, in some economic decision-making situations, Smith’s actors are typically egoists, but not fully rational. For example, they often overestimate the probability of success when making risky investments. When competing for positions, they often ignore the fact that only one can be the winner and that the objective probability of success is quite low. The relevance of this phenomenon, now known as *overconfidence*, has now been documented by experimentalists. Smith’s actors are also mistaken about the satisfaction that expensive status or luxury goods provide. The fact that Smith’s consumption decisions are also subject to custom, fashion and other cultural influences beyond individualistic rationality fits into his multifaceted image of the economic person.

Another important anticipation of behavioral economic findings in TMS concerns the distortion of economic calculation through actual ownership. People are “attached” to possessions. The loss of what they already own hurts them more than the failure to realize an expected gain of the same amount. Such “loss aversion” due to the so-called *endowment* effect is irrational according to microeconomic optimization calculation. It is associated with a *status quo bias*. Overcoming the sole dominance of the passions of the immediate present is closely linked to the development of self-command and the standpoint of the impartial observer, *i.e.*, the ability to consider things from a neutral, detached perspective.

A final pillar of Smith’s constructive perspective on morality in a disenchanted world is the mentioned virtues of the *statesman*. His “political morality” consists of the mix of leitmotifs already outlined above. Keywords are: Common good, scientifically enlightened principles and the reflection of what results from the current imperfection of human affairs.

## 4. CONCLUDING REMARKS

Reasonable understanding requires the integration of theory-based knowledge and other knowledge supported by the virtues of the statesman. In Smith's era of enlightenment, the idea that scientific systems are, or ought to be, the basis of "rational" re-engineering of societies —gained ground. It has not vanished ever since, even though it underwent significant mutations and provoked various sorts of counter-movements, including recent "science wars". One of the most important features of Smith's thought is the degree to which he was able to make sense of enlightenment and its progressive potentials of science-based reforms —by way of a theoretical architecture capable of analyzing and understanding its very limits and drawbacks. In a dynamic market society, change and enlightened reform are always on the agenda. The wealth of such societies is based on innovative improvements, which in turn are based on science and technology. Why should anyone in such a society believe that socio-economic conditions are God-given and unchangeable? Rather, economic and social dynamics constantly bring new challenges and problems that are diagnosed by science (think of climate change) and taken up by political movements. Given this situation, naive, technocratic ideas are likely to develop, reducing the role of the economist to that of an engineer applying a model complemented by pertinent data.

Smith astutely points out that the use of scientific economics for practical policy is far more complex than, say, the use of scientific knowledge by engineers. An enlightened political reformer must take into account a multitude of possible reactions, associated second and third round effects, and a variety of complex inter-systemic feedback mechanisms which become visible only when considering more than one (sub-)system. These feedback mechanisms can then lead to unintended consequences that cause the reform to fail and create the "disorder and confusion" that Smith (TMS VI.ii.2) speaks of.

Smith developed political economy as the *science of the legislator* as an answer to this dilemma. His reform liberalism of second-best solutions in an imperfect but gradually improvable world is an answer that is being updated now and then, e.g., by Dani Rodrik (2015) who put forward the concept of *second-best institutions* in order to better understand the

developmental success stories of countries whose institutions do not exactly correspond to the ideal of a liberal market economy.

In order to breathe life into this program, Smith needed the Political Economy of WN, while the formulation of overarching problems of the human condition under the dynamism of the market society is one of the highlights of TMS, as sketched in Book VI and the general conclusions for the architecture of social sciences on the very last pages of TMS. Core practical conclusions consist of a canon of modern political virtues that Smith develops for the statesman. His reform liberalism of second-best solutions is not confined to a specific historical constellation of the mercantile system, and it is a politically ambitious program that cannot be implemented using a simple mechanism. It requires a political elite that has the balance of character described in TMS VI: Wisdom, prudence, a focus on the common good, and appropriate scientific advice. These are potentials that people have developed in the process of civilization and that must come to fruition if civilization is to continue to develop. On the other hand, political elites are often characterized by arrogance and party spirit. There are always tendencies in this direction. As stressed by way of conclusion of TMS, it is important to attune the educational process and public institutions for making political virtues effective.

Smith thus formulates a middle position between conservatism and the progressive will to shape things in an enlightened way. Indeed, Smith formulates a middle position which is not an uninspired compromise. That is, he not only tries to balance opposing viewpoints, but to show why, under what conditions and to what extent they are each right (and wrong) to some extent. Such qualified conclusions reflect ability to deal with a plurality of “systems” and knowledge to be gained from combining theories and history. Moreover, at crucial junctures of his oeuvre, he draws on *common sense* and observations of human behavior, in keeping with the Scottish tradition. While he is aware that interesting arguments can be built on the basis of one-sided, “unrealistic” premises, and here and there practices this kind of theorizing and reasoning, common sense is looming large when it comes to more general perspectives of socio-economic development and to supplying the qualified conclusions of the science of the legislator.

Common sense also is at odds with one-sided conservative, Panglossian reasonings of Smith: It tells that the active effort to improve conditions is

a constant feature of human life and aspiration. Sitting back and doing nothing is contrary to human nature. It is not compatible with the natural environmental conditions to which humans are always exposed as imperfect beings; as imperfect beings who are often dependent on the services of others for their survival. They must be active in order to satisfy their wants and needs. Consequently, one can expect that people will become active also regarding the improvement of social institutions, once enlightenment science is revealing their functionings. Improvement is Smith's watchword. The organization and coordination of productive processes changes over the course of history, and with that, institutions, including public institutions of the state and law, also change. Science is useful for the design of sensible reforms and indispensable for the sober assessment of reform opportunities and priorities. Exuberance of scientific progress is, however, problematic. No one should presume to implement a theoretically developed blueprint of the ideal society. Workable blueprints do not and cannot exist. Modern society is far too complex and unintended consequences are too pervasive for that. Thus, technocratic reforms based on the reckless implementation of blueprints will ultimately only bring disorder. ◀

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