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THE MORAL FOUNDATIONS OF CAPITALISM
An Investigation of Adam Smith Pessimism

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Roberto Censolo

December 2022

Abstract. Smith’s ideal vision of capitalism envisages a virtuous loop between social prudence and macroeconomic performance that outlines a “progressive state” of society. The trickle down of wealth strengthens the confidence in the future and a steady adherence to prudent behaviour. At the same time, this reinforcing character of prudence encourages liberal virtues needed for growth. However, a path of perpetual growth is not conceivable in Smith analysis, considering both a moral and an economic perspective. Indeed, Smith’s pessimism about the future of commercial society relates to the intrinsic inability of capitalism to sustain social prudence in the long run due to an internal contradiction in its development process. In the progress of division of labour, the industry of labourers is progressively substituted with the industry of machines. Therefore, the development process, which is initially sustained by “the industry of mankind”, endogenously expels those liberal virtues that grounds a progressive state of society, with crucial social and political implication.

1. INTRODUCTION

A recent body of literature recognizes an important theological dimension extending across the whole body of Smith's work (Kwangsue, 1997; Alvey, 2004; Oslington, 2011a; Oslington, 2011b; Long, 2022). In particular, Long (2022) claims that natural theology pervading TMS may identify an organizing principle able to frame Smith's work within a natural theology of society. From a holistic view, this perspective highlights that the primary goal of Smith's work, embracing history, jurisprudence, moral philosophy and economics, was to envisage an ideal "social nature" in which individuals might pursue virtue and happiness. Indeed, the basic question of why God created man on earth builds a bridge between Smith's analysis of human nature developed in TMS and his ideal vision of commercial society in WN. Moreover, as we will see in the last section, the very same question also explains Smith's pessimistic vein about the future of commercial society.

No one knows the ultimate purpose of God and, of course, neither did Smith know. However, by assuming a benevolent Deity¹, Smith clearly states that the final cause of God's creation is a desire to produce a society of good and happy individuals. This is clearly stated as he says "The happiness of mankind, ... , seems to have been the original purpose intended by the Author of nature" (TMS III.5.7:166). The "Great Author" reveals his supreme rationality in the perfection of nature. Therefore, human nature must be a perfect machine for the pursuing of happiness. A general idea of "real happiness" cannot be separated from the concept of virtue, which requires a clear distinction between good and evil. However, a perfect (rational) knowledge of good and evil is prerogative of God and not of man. Moral perception lies outside the sphere of rationality. Just like sight perceives beauty through a pleasant sensation, without reason being able to discern conclusively the beauty from the ugliness, in the same manner "moral sense" can perceive the right and the wrong through graceful and ungraceful sentiments, without reason being unable to distinguish objectively and conclusively between the two². At this point, Smith must cope with a crucial question. If human nature is the efficient cause for the purpose intended by the "Author of nature", why did He endow man with limited reason and such a complex and apparently contradictory moral system, able to incite both benevolent and malevolent passions? Moreover, since man "can subsist only in society"³, the pursuit of happiness can be accomplished only within the normative framework of a specific "social nature". It is through the interplay between the principles supervising human nature and the principles, or laws, governing society that individuals may take the road of virtue and succeed in the search for happiness. Therefore, finding an answer to the question concerning the compatibility of virtue and human nature, provides Smith with the micro foundation from which an ideal social nature can be envisaged. This latter consideration not only justifies a holistic approach to the work of Smith and gets rid of any alleged "Adam Smith's Problem" (Kwangsue, 1997) but it also implies two intertwined observations. Firstly, since human rationality cannot access the perfect knowledge of good and evil, Smith's investigation highlights that human nature appears consistent with a weak or compromising concept of

¹ This supposition is not obvious at all. From God's creation as an act of arbitrary will and power takes origin all the 19th- and early 20th-century philosophical irrationalism. For the implication for social science see for example the romantic vision of capitalism by Joseph Schumpeter.

² See TMS III. 5. 5: 185-186 for the simile between moral faculties and the five sense. In this paragraph Smith concludes "The very words, right, wrong, fit, improper, graceful, unbecoming, mean only what pleases or displeases those(moral) faculties."

³ TMS II. ii. 3. 1: 86.

virtue⁴. Secondly, to devise a rational social order is out of reach of human reason. Since human nature appears designed to produce intermediate virtues, it is impossible to conceive a perfect system of laws upon which an ideal society may promote real virtue and real happiness. The political and economic discourse of Smith must settle for a lower normative ideal, a reasonable not a rational social order that conforms to those virtues that the average individual can actually produce. Far from any visionary temptation, the pragmatic approach of Smith aims at recognizing a virtuous circle between macroeconomic performance and social virtues able to safeguard social cohesion and political stability of “commercial society” within a “system of perfect liberty”. However, as it will be shown in last section, it is because of this pragmatism that Smith casts a shadow of gloomy pessimism on the fortunes of capitalism.

In the first section we show that the “industry of mankind” arises from a complex and partially unconscious process involving even those aspects of human nature apparently in contrast with an abstract concept of virtue. The desirable social effects of this practical virtue are shown through the metaphor of the “invisible hand, suggesting that it is the complementarity between external environment and collective industry that ultimately results in virtuous social order. In second section we analyse Smith’s concept of prudence. We show that a credible environment supporting the hope for the future encourages the exertion of self-command and prudence, ultimately determining the moral character of society. Third section explores how human nature interacts with external environment, showing that social prudence is the endogenous outcome of a growing commercial society. In the final section we argue that Smith’s pessimism about the future of commercial society relates to the intrinsic inability of capitalism to sustain social prudence in the long run due to an internal contradiction in its development process.

2. THE ORIGIN OF THE “INDUSTRY OF MANKIND” AND THE MORAL CONSEQUENCES OF THE “INVISIBLE HAND”

The primary object of Smith's moral philosophy is to reconcile the contradictory system of human passions and the "slow and uncertain determinants of reason" within the frame of virtue. We find a preliminary answer in the following quotation

The Great Judge of the world, has, for the wisest reasons, thought proper to interpose, between the weak eye of human reason, and the throne of his eternal justice, a degree of obscurity and darkness. ... If those infinite rewards and punishments which the Almighty has prepared for those who obey or transgress his will, were perceived as distinctly as we foresee the frivolous and temporary retaliations which we may expect from one another, the weakness of human nature, astonished at the immensity of objects so little fitted to its comprehension, could no longer attend to the little affairs of this world; and it is absolutely impossible that the business of society could have been carried on, if, in this respect, there had been a fuller revelation of the intentions of Providence than that which has already been made. (TMS III.2.31:128)

Human reason does not have any direct access to the perfect knowledge of right and wrong, good and evil. However, as argued by Cremaschi (2018) this innate limit to moral knowledge does not hinder the progress of humanity. On the contrary, it appears a

⁴ Upon reflection, this is easily understood. Human nature does not rule out perfect virtue but, in the perspective of God’s final judgement, must leave it to the free will and choice of every man.

necessary condition so that man can accomplish natural ends. An elegant textual interpretation by Creamschi (2010) points out that if man could see himself through God's eye, he should be forced to recognize that negative passions are as necessary to fulfil natural end as wisdom and virtue, thus abolishing morality. The above passage was added to the second edition and substituted in the sixth, to draw reader's attention on the fact that it is the "weak eye of human reason" that makes man a conscious and morally active subject committing him to be arbiter of his own conduct. To the purpose of our analysis, we underline that the "weakness" of human reason appears instrumental to "the little affairs of this world" and the "business of society"⁵. This is clearly asserted in another passage.

To man is allotted a much humbler department, but one much more suitable to the weakness of his powers, and to the narrowness of his comprehension; the care of his own happiness, of that of his family, his friends, his country" (TMS VI.ii.3.6:237)

and it is significantly reaffirmed as Smith argues that sentiments of merit and demerit arise from actual consequences of actions and not from the intentions and affections that inspired them. Explaining the purpose which God seems to have intended by this "irregularity of sentiments" he says⁶

Man was made for action, and to promote by the exertion of his faculties such changes in the external circumstances both of himself and others, as may seem most favourable to the happiness of all. (TMS II.iii.3.3.106)

The above quotations highlight that the primary function of reason is to guide human action in real world. In harmony with natural ends, action must promote the happiness of the individual being, at the same time, consistent with the interests of society. The specific character of this virtuous action is clarified in a famous passage, where Smith explains how from the fascination of wealth arises "the industry of mankind" (TMS IV. i. 9: 183). This passage is significantly preceded by a lengthy discussion on the deceptive promise of happiness which derives from the admiration for wealthy people. With striking emphasis Smith describes how ambition, the eager desire for wealth and power, involves the sacrifice of a whole life spent in "toil an anxiety" leaving man "always as much, and sometimes more exposed than before, to anxiety, to fear, and to sorrow; to diseases, to danger, and to death". At this point Smith informs the reader that this fascination is "the secret motive of the most serious and important pursuits of both private and public life". The actual moral foundation that prompts the admiration of wealth is ambition, a term which Smith often connotes negatively and often appears in conjunction with "avarice", "avidity" and "vanity"⁷. If man recognized by careful consideration the moral ground of the admiration incited by wealth, he would be forced to admit that wealth "appears in the highest degree contemptible and trifling". "But we rarely view it in this abstract and philosophical light" says Smith. Reason is primarily concerned with action, not with introspection, and deceptively tends to project outside the cause of a specific sentiment. The "real satisfaction" promised by wealth is naturally confounded with the beauty of the objects representing it, and that feeling of

⁵ Notice that "little affairs" emphasizes the distance of human business from the "immensity of objects so little fitted to its comprehension".

⁶ Since reason cannot supervise the complex and "irregular" dynamics of sentiments, also in this context the limits to rationality appear in the background of Smith's analysis.

⁷ TMS I.iii.2.1: 56; TMS I.iii.2.7-8: 57; TMS I.iii.2: 62; TMS III.3.32: 150; TMS III.6.8: 174.

admiration is attributed by reason to an external cause, “the harmonious movement of the system” which impressed our aesthetic sense. Simply said, we admire wealth not because of our ambition and vanity but because wealth is beautiful. A noticeable aspect of Smith's moral theory is the degree to which it relies on and appeals to aesthetic norms (Harrison, 1995; Fudge, 2009). Therefore, through an aesthetic pleasure wealth is perceived as virtuous⁸ and, since the road to happiness and the road to virtue are very the same, the pursuit of wealth “is well worth all the toil and anxiety which we are so apt to bestow upon it”. Smith concludes “it is well that nature imposes upon us in this manner. It is this deception which rouses and keeps in continual motion the industry of mankind.” This is the essential point that marks the shift from the strongly negative moral judgment concerning wealth to the awareness that those human passions seemingly distant from an abstract ideal of virtue are the inputs for the generation of a “minor virtue” which supports the “labour of mankind”.

“Man was made for action” says Smith and human nature proves to be a perfect machine for promoting human activity within the frame of virtue. It is labour, the ultimate foundation of value in WN, deceptively fed by the fascination of wealth, that turns raw nature into an agreeable human environment. The aesthetic congruity between the perceived beauty of wealth and the beauty of human work “that changed the whole face of the globe” is underlined with an allusion to a causal link between industry and improvement of the productivity of labour⁹. Immediately after, Smith describes, through the famous metaphor of the “invisible hand”, the trickle down of wealth rewarding the effort of those who exerted their industry. A primary goal of any social nature is to provide people with decent subsistence. However, this famous passage does not describe material welfare as the ultimate end of the “invisible hand”. This is proved by the colourful image that concludes the paragraph, where the beggar resting in the sun can be better off than a king. Indeed, that “peace of mind” cannot derive from the rapacity of a landlord unable to consume “the whole harvest that grows upon” labourers, but from the practice of virtue, which alone can instil a feeling of tranquillity and self-satisfaction. Material wellbeing of people clearly depends on sufficiently fair distributional mechanisms¹⁰, but at an earlier stage it is the consequence of the virtue of industry. Therefore, the passage suggests that it is the complementarity between social environment and virtue that ultimately results in that “ease of body and peace of mind”. In a similar way, the breath of Providence which inspires the “invisible hand” does not fully reveal herself in the “distribution of the necessaries of life”, but rather in the psychological effects of this distribution. The origin of industry is explained starting from the admiration for wealthy people, which clearly presumes a social environment characterized by a certain degree of economic inequality. A background of strong inequality is then employed to illustrate the metaphor of the “invisible hand”. The

⁸ This is underlined by Smith as he writes “The pleasures of wealth and greatness, when considered in this complex view, strike the imagination as something *grand and beautiful and noble*” (emphasis added; TMS IV.i.9: 183). In a different context, the deceitful feeling of approval and delight with regard to wealth is sadly remarked by Smith “That wealth and greatness are often regarded with the respect and admiration which are due only to wisdom and virtue. and that the contempt, of which vice and folly are the only proper objects, is often most unjustly bestowed upon poverty and weakness, has been the complaint of moralists in all ages.” (TMS I.iii.3.1: 61-62)

⁹ “The earth by these labours of mankind has been obliged *to redouble her natural fertility*, and to maintain a greater multitude of inhabitants.” (emphasis added; TMS IV.i.10 :184)

¹⁰ In the passage under consideration minimal fairness of distribution is assured by the “the eye larger than the belly” of the landlord. In a more realistic economic environment, the fairness of income distribution will be assured by the “progressive state” of society.

agriculture context of the metaphor is not accidental. The landlord enjoys the pleasure of wealth because of tradition and property rights, not because of industry, ingenuity, and application. This allows Smith to stress the moral distance between the “proud and unfeeling landlord” and those “who are employed in oeconomy of greatness”. At this point, in contrast with the unequal living conditions of people, the social and economic distance dividing the different orders of society vanishes once the effects of income distribution on moral and psychological wellbeing are considered. “In what constitutes the real happiness of human life, they are in no respect inferior to those who would seem so much above them” concludes Smith. This is the ultimate end of the “invisible hand”, colourfully represented by the beggar who possess that moral tranquillity and security which kings vainly strive to obtain from the exercise of their power.

3. LIBERAL VIRTUES AND PRUDENCE

In the parable of the “invisible hand” the distributional mechanisms allow the “labouring poor” to relief and enjoy the benefits of his working effort. In colloquial terms, we may say that this individual bustle about and accepts to be satisfied for what he obtains. However, industry explain the productive effort of this individual but does not explain why he should be contented with the little he gets. This latter aspect can be clarified by the following quotation where Smith clearly suggests industry and frugality as qualities of prudence.

In the steadiness of his industry and frugality, in his steadily sacrificing the ease and enjoyment of the present moment for the probable expectation of the still greater ease and enjoyment of a more distant but more lasting; period of time, the prudent man is always both supported and rewarded by the entire approbation of the impartial spectator (TMS VI.i. II: 215)

“The entire approbation of the impartial spectator” explains that “peace of mind” that actually rewards behaviour consistent with virtue. Prudence, “of all the virtues that which is most useful to the individual” (TMS IV.2.6: 186), does not require the annihilation of self-love but the exercise of an effective control over the natural system of passions and instincts through the discipline of self-command. Man can be violently affected by ambition, a passion that “once it has got entire possession of the breast, will admit neither a rival nor a successor” (TMS I.iii.2.7: 57), but at the same time he is endowed with those means able to smooth the roughness of this passion and to direct it towards a behaviour consistent with the approbation of the spectator¹¹. Indeed, the “industry of mankind” originates from a process involving all aspects of human nature. Even those apparently in contrast with an abstract concept of virtue enter the process and through a complex and partly unconscious mediation are transformed into a practical virtue¹². The supervisory power that may effectively restraint passions results from the interplay between the voice of the impartial

¹¹ Smith points out that the effective exercise of self-command may restraint selfish passions and move behaviour in the direction of prudence. “Those great objects of self-interest, of which the loss or acquisition quite changes the rank of the person, are the objects of the passion properly called ambition; a passion, which when it keeps within the bounds of prudence and justice, is always admired in the world” (TMS III.6.7: 173).

¹² The admiration that inspires the “industry of mankind” through a deceptive mechanism is a feeling between the two extremes of idolatry and envy. In this respect it is a sentiment consistent with prudence.

spectator and self-command. Self-command, “which astonishes by its amazing superiority over the most ungovernable passions of human nature” (TMS I.i.5.5: 25) operates within the sphere of conscious rationality and represents the principle by which individuals commit themselves to a certain course of action in line with the recommendation of the impartial spectator, forcing reason to implement decision in an intertemporal perspective. This latter aspect is clearly stated as Smith says that the qualities most useful to the pursuit of self-interest are “superior reason and understanding” and self-command “by which we are enabled to abstain from present pleasure or to endure present pain, in order to obtain a greater pleasure or to avoid a greater pain in some future time”, concluding that “In the union of those two qualities consists the virtue of prudence, of all the virtues that which is most useful to the individual” (TMS IV. 2.6. 186). This discipline over “the original and selfish feelings” represents both a virtue and a moral device by which man can fully exploit the potential of reason to conceive and implement intertemporal strategies aimed at improving personal wellbeing. The concrete exertion of self-command and thus of prudence through the implementation of intertemporal strategies requires reliable expectations about the future¹³. In moral terms, this implies that people must have a concrete hope of bettering their conditions in the future. However, self-command is itself a virtue¹⁴ that must be purposefully developed through practice and sacrifice (TMS III.3.22: 145). Like any other mental capacity, also the development of self-command is affected by external circumstances. Social and economic environment crucially influence people’s beliefs concerning the evolution of society and consequently their confidence into the future. A credible environment of effective social mobility supports the hope for the future and thus encourages the exertion of self-command and prudence, ultimately determining the moral character of society. On the other hand, the degree of collective prudence constitutes the moral basis that impacts on overall social stability, average political orientation and macroeconomic performance. We have seen that the crucial question underlying Smith’s moral discourse concerns the ideal social framework that may encourage virtue and thus happiness of individuals. The above reasoning highlights that the principles governing human nature can produce practical virtues that, differently from those representing moral perfection, can be encouraged and sustained through a fertile interplay with a specific social environment. Prudence is a practical virtue since Smith clearly states that it is principally directed to the bettering of social and economic status of individuals¹⁵. Moreover, the innermost purpose of virtue is the “real happiness” of man. What does “real happiness” mean in practice is not fully accessible by rationality¹⁶. However, human nature appears designed to produce a specific virtue, able to direct actual behaviour toward a golden balance between those natural ends focused on self-interest and the higher

¹³ “That self-command, in the same manner, by which we restrain our present appetites, in order to gratify them more fully upon another occasion, is approved of, as much under the aspect of propriety, as under that of utility”. Again, Smith underlines this mechanism of intertemporal substitution of utility as virtuous “When we act in this manner, the sentiments which influence our conduct seem exactly to coincide with those of the spectator. (TMS IV.2.8:189).

¹⁴ “Self-command is not only itself a great virtue, but from it all the other virtues seem to derive their principal lustre.” (TMS. VI. iii. ii: 241)

¹⁵ The care of the health, of the fortune, of the rank and reputation of the individual, the objects upon which his comfort and happiness in this life are supposed principally to depend, is considered as the proper business of that virtue which is commonly called Prudence (TMS VI. i. 5: 213)

¹⁶ “To man is allotted a much humbler department, but one much more suitable to the weakness of his powers, and to the narrowness of his comprehension; the care of his own happiness, of that of his family, his friends, his country” (TMS VI.ii.3.6: 237)

assignment of moral excellence. Smith underlines that prudence may not represent an ideal of moral excellence¹⁷ but, differently from higher virtues, prudence appears within the reach of the average individual. Eventually, individuals obtain the true reward for the practice of virtue, not a condition of perfect happiness but, consistently with the golden compromising character of prudence, a lower condition of psychological “tranquillity”¹⁸. What is worth noticing is that prudence combines the objective of material welfare with the approbation of the impartial spectator by means of two practical virtues that embody two moral pillars of commercial society, industry and frugality. This is a crucial argument since it may be considered the suture point between TMS and WN. Indeed, prudence is a general guidance to behaviour but, when directed to improve material well-being it specializes into industry and frugality¹⁹. At the social level these specific qualities of prudence are directly observable along a quantitative dimension. Social frugality and parsimony are observable through national saving, that part of net product which is not consumed but devoted to investment. Therefore, the specialization of prudence into frugality represents the moral quality that sustain the process of capital accumulation. On the other hand, collective industry, as stated by Smith, is directed “in such a manner as its produce may be of the greatest value” (WN IV. ii. 9: 456). Therefore, social industry is plainly revealed in the national net product. A striking continuity between TMS and WN emerges. The transition from moral philosophy to the economic discourse appears a passage from the qualitative to the quantitative. When applied to utility of individuals prudence specializes into those liberal virtues which at the social level are observable and thus measurable by specific macroeconomic aggregates. At this point the interplay between collective prudence and societal performance can be investigated not within the frame of moral philosophy but through the lens of political economy.

4. THE VIRTUOUS LOOP BETWEEN PRUDENCE AND MACRO-ECONOMIC PERFORMANCE

In chapter “Of the Selfish Passions” Smith introduces a basic principle of social behaviour, namely that “human happiness arises from the consciousness of being beloved (TMS I. ii. 5. 3: 41). A weaker version of this principle appears in chapter “Of the Origin of Ambition and of the Distinction of Ranks” as Smith says that “the great purpose of human life which we call bettering our condition” is “to be observed, to be attended to, to be taken notice of with sympathy, complacency, and approbation” (TMS I. iii. 2. 1: 50). Therefore, the ultimate end of improving material well-being is explained within a social setting. It is not “to supply the necessities of nature” that can be supplied by “the wages of the meanest

¹⁷ “Prudence, in short, when directed merely to the care of the health, of the fortune, and of the rank and reputation of the individual, though it is regarded as a most respectable and even, in some degree, as an amiable and agreeable quality, yet it never is considered as one, either of the most endearing, or of the most ennobling of the virtue” (TMS VI.i.14: 216).

¹⁸ “Tranquillity, the principle and foundation of all real and satisfactory enjoyment.” (TMS III. 3. 32: 150). Actually, Smith seems to suggest that a peaceful state of mind represents a favourable psychological condition from which the average individual might develop a “superior prudence”, thus undertaking the road of higher virtues (TMS VI. i. 15. 216).

¹⁹ Smith explicitly states frugality as a middling virtue between opposites; “Thus too the virtue of frugality lies in a middle between avarice and profusion, of which the one consists in an excess, the other in a defect of the proper attention to the objects of self-interest. (TMS VII.ii.I.12: 271)

labourer”²⁰, but to gain respect and approbation of that people with whom we maintain social relationships. At this point is essential to outline what sort of economic advancement may induce sympathetic sentiments avoiding envy and resentment. Smith is precise about this. “Sudden changes of fortune” that raises living conditions well above prior economic position hardly arouse sympathetic feelings. In fact, “a sentiment of envy commonly prevents” spectators “from heartily sympathizing with” such a sudden economic upgrade (TMS I. ii. 5. 1: 40-41). In contrast, Smith affirms that “He is happiest who advances more gradually to greatness”, since this progressive bettering “cannot reasonably create either any jealousy in those he overtakes, or any envy in those he leaves behind” (TMS I. ii. 5. 1: 41). “Security, ..., is the first and principal object of prudence” (TMS VI. i. 6. 213). This suggests that risk aversion guides behaviour aimed at improving economic conditions. Therefore, it is not by means of hazardous enterprises, excited by the lure of a quick leap in the social ladder that individuals gain impartial respect and consideration. It is the well-deserved reward of a gradual bettering obtained by perseverance, frugality, skills and ingenuity of labour that arouses social approval. In the end, it is prudence, not the ostentation of ambition and vanity, manifested through the liberal virtues that arouses a common feeling of respectful admiration and approbation. This ideal model of behaviour is eloquently portrayed in the following quotation.

The man who lives within his income, is naturally contented with his situation, which, by continual, though small accumulations, is growing better and better every day. He is enabled gradually to relax, both in the rigour of his parsimony and in the severity of his application; and he feels with double satisfaction this gradual increase of ease and enjoyment, from having felt before the hardship which attended the want of them. He has no anxiety to change so comfortable a situation, and does not go in quest of new enterprises and adventures, which might endanger, but could not well increase, the secure tranquillity which he actually enjoys. (TMS VI. i. 12: 215)

The conclusion of previous section suggests a convincing argument explaining how political economy takes origin from moral philosophy, thus confirming the overall coherence of Smith’s discourse. Additionally, it highlights that the analysis of human nature developed in TMS provides Smith with the necessary methodological background to envisage the ideal conditions under which a “system of perfect liberty” may promote virtue and happiness of people. Indeed, the investigation on how virtue may combine with self-interest goals, the “care of the health, of the fortune, and of the rank and reputation of the individual”, resulting in the golden compromising virtue of prudence, grounds the normative analysis of the “commercial society”. The above quote actually introduces the prudent individual which micro-founds and animates the scene of a flourishing commercial society²¹. This passage summarizes material and psychological consequences of prudence. The practice of liberal virtues shows the effective control of self-command. Recall that in a dynamic perspective self-command may increase overall utility encouraging “to abstain from present pleasure, to secure a greater pleasure to come” (TMS IV. 2 .8. 190). This intertemporal

²⁰ TMS I. iii. 2. 1: 50.

²¹ Several authors recognize the prudent man described in TMS as the representative individual operating within a market economy in WN (Rapahel and Macfie 1984, 9; Winch 1996, 105; Fleischacker 2004, 109; Heath 2013). Hanley (2009, p. 120) quoting the above passage says, "it is surely correct to say that Smith's prudent man is an embodiment of the ideal commercial man envisioned in WN".

substitution of utility is emphasized in the passage above. The past sacrifice due to “the rigour of parsimony” and “the severity of application” is currently rewarded by “the increase of ease and enjoyment”. The resulting “satisfaction” and the “secure tranquillity”²² reveals the approbation of the impartial spectator. This individual, “naturally contented with his situation” and “with no anxiety to change so a comfortable situation” represents a distinctive social identity combined with a specific political inclination. He is not rich, but neither is he poor. The material wellbeing he enjoys is fruit of his labour, not of positional rents or other economic privileges. The practice of liberal virtues, industry and frugality, is sufficient for upward social mobility and economic advance. What emerges is the representative subject of a flourishing and confident middle class. A liberal-conservative citizen, supportive of the status quo and faithful to the established order²³, who acknowledges his social identity within the frame of a social contract that protects and encourages his initiative by ensuring the necessary freedom of action²⁴.

At this point, our line of reasoning addresses a question that highlights Smith’s social perspective of human nature and morality as a theoretical frame for a true interdisciplinary investigation of the economic system. The average individual described in the quote above cannot be considered a social outlier or an abstract example of morality, nor he represents an *ad hoc* hypothesis such as that of *homo economicus* in neoclassical economics. Indeed, this representative individual is the endogenous outcome of the interplay between those principles of human nature governing actual behaviour and social environment. In the background, we can see a social nature that explicitly recognises the importance of wealth and where some degree of social mobility is possible. In this context, the fertile interaction between human nature and social environment sets in motion industry (“the severity of his application”) and frugality (“the rigour of his parsimony”) those liberal virtues that at the social level sustain the creation of wealth. To the purpose of our argument, it is essential to understand the macroeconomic performance that lays behind that quotation. The leading clue is the gradual bettering accomplished by “continual, though small accumulation”, combined with a “gradual increase of ease and enjoyment”. Recall that the prudent man described above is the average individual of the “labouring poor”, “the great body of the people” that in the WN constitutes the basic reference for Smith’s normative considerations. Writing about the condition of workmen Smith says

The liberal reward of labour, as it encourages the propagation, so it increases the industry of the common people. The wages of labour are the encouragement of industry, which, like every other human quality, improves in proportion to the encouragement it receives. A plentiful subsistence increases the bodily strength of the labourer, and the comfortable

²² Smith reaffirms on more than one occasion that security and tranquillity are the psychological outcome of prudence. “Security, therefore, is the first and the principal object of prudence.” (TMS VI. i. 6. 213) and a little further “In the bottom of his heart he would prefer the undisturbed enjoyment of secure tranquillity, not only to all the vain splendour of successful ambition, but to the real and solid glory of performing the greatest and most magnanimous actions.” (TMS VI. i. 13. 214)

²³ “Men in the inferior and middling stations of life, besides, can never be great enough to be above the law, which must generally overawe them into some sort of respect for, at least, the more important rules of justice. The good old proverb, therefore, That honesty is the best policy, holds, in such situations, almost always perfectly true”. (TMS I. iii. 3. 5. 63)

²⁴ Notice that several legal systems in liberal democracies consider an idealized prudent individual as a reference point to judge actual behaviour in court. The “reasonable man” in US law, the “man on the Clapham Omnibus” in English law, the “buon padre di famiglia” (good family man) in Italian civil law.

hope of bettering his condition, and of ending his days perhaps in ease and plenty, animates him to exert that strength to the utmost. (WN I. viii. 44: 99)

The assonance with the prudent man described in TMS enables to clarify the economic background in which the individual is “naturally contented with his situation”. A “liberal reward of labour” joined with a “comfortable hope of bettering his condition” suggests favourable labour market conditions. In particular, the concrete prospect of better living conditions indicates that the dynamics of the demand of labour drives real wages upward. Secondly, Smith points out a clear relationship between industry and wage level. Industry is encouraged by a “liberal reward of labour” and fostered at most by the hope of gradually increasing wages. This is an essential point. Since collective industry quantitatively translates into aggregate net production, a double causation pattern emerges. The distribution of national income through market mechanisms rewards the industry of people, thus reinforcing the belief that liberal virtues are the proper mean to pursue better material conditions. At the macro level, this common belief stimulates economic activity and the production of aggregate wealth. This virtuous loop between social prudence and macroeconomic performance actually outlines a “progressive state” of society²⁵. This appears to be supported by the following quotation²⁶

It deserves to be remarked, perhaps, that it is in the progressive state, while the society is advancing to the further acquisition, rather than when it has acquired its full complement of riches, that the condition of the labouring poor, of the great body of the people, seems to be the happiest and the most comfortable. It is hard in the stationary, and miserable in the declining state. The progressive state is in reality the cheerful and the hearty state to all the different orders of the society. The stationary is dull; the declining, melancholy. (WN I. viii. 43: 99)

The sharp contrast between a progressive and a stationary state of the economy is emphasized by counterposing material and psychological conditions of people. In a growing economy the condition of people “seems the most comfortable”. The trickle down of wealth strengthens the confidence in the future and a steady adherence to prudent behaviour. At the same time, this reinforcing character of prudence encourages industry and frugality, providing the economic system with that quality of the labour effort and those resources for investment needed for growth. Alongside this economic bettering, the “cheerful and hearty” character of a progressive society underlines the psychological condition of the “great body of the people” as the “happiest”. The connection with the prudent man who “feels with double satisfaction this gradual increase of ease and enjoyment” is manifest. The “liberal reward of labour” is just the external outcome of the virtuous circle between liberal virtues and growth. The true compensation for having “felt before the hardship” of the discipline of self-command is that tranquillity and peace of mind that bring the individual closer to an ideal of “real happiness”.

²⁵ "The theme of WN was that a good moral climate would encourage good economic performance, and conversely that good economic performance could improve the moral climate" (Fitzgibbons 1995, 153)

²⁶ See also “The liberal reward of labour, therefore, as it is the necessary effect, so it is the natural symptom of increasing national wealth. The scanty maintenance of the labouring poor, on the other hand, is the natural symptom that things are at a stand, and their starving condition that they are going fast backwards.” (WN I. viii. 27: 91)

The stationary state is described as “hard” and “dull”. The adjective “hard” suggests not only flat wages but that workers face adverse contractual terms in the labour market. It is significant the use of the adjective “dull”. In late eighteenth century the first meaning of “dull” is “stupid”²⁷. The issues discussed so far offer a frame to interpret this dismal picture of the stationary state. We have shown that industry and frugality are expression of prudence, which requires “superior reason and understanding” to be put into practice. Clearly, with no growth new investment merely replace capital physically depreciated in the production process. Therefore, frugality is useless. Moreover, with no growth also wages are stationary and likely depressed to the subsistence level. Therefore, without any prospect of improving material welfare in the future also industry is useless. Again, a self-reinforcing loop between macroeconomic performance and collective morality emerges. Stagnant growth coupled with stationary wages deprive people of a time horizon on which nourish the hope for a better future. The lack of a dynamic perspective on which to devise intertemporal action plans discourages self-command. As a consequence, the overall corruption of prudence deprives the economic system of those liberal virtues able to prompt accumulation and growth, thus reinforcing the stationary conditions of the economy.

5. THE UNAVOIDABLE SWITCH TO PESSIMISM.

In the previous section it has been shown that a system of perfect liberty, which supports private enterprise and coordinates decision through market mechanisms, is able to accomplish natural ends and to encourage social virtue. However, the ideal commercial society envisaged by Smith is a living organism able to produce those moral energies that assure economic efficiency and social cohesion only in a progressive state. More interestingly, Smith outlines an organic vision of society, where the overall societal performance is the endogenous outcome of the interplay between economic system, social structure, and collective morality. In particular, economic growth relies upon the aggregate effort resulting from people who pursue the betterment of their social and economic conditions and affirm their own social identity through the practice of liberal virtues.

Starting from the principles governing human behaviour, what kind of social nature is best suited for advancing natural ends, promoting virtue and happiness of individuals? This is the basic question that appears to inspire Smith’s work. A growing commercial society founded on the prudence of “the great body of the people” appears a living social setting able to reconcile self-interested aspirations and social ends. Not a rational society, but a golden compromise based on prudence which is itself and intermediate virtue between selfish and beneficent passions. Indeed, the apparent optimistic view of commercial society forces Smith to cope with the same question that started his investigation on the relation between human nature and virtue. May commercial society be considered the final stage of social evolution? Should it be the social setting that fulfil the deepest reasons why man was conceived and put on earth? A social nature organized around the false myth that the pursuing of wealth is the road to happiness? It is evident that there is something fishy and that the claimed optimism of Smith is the starting point for gloomy considerations. Wealth and wealthy people are always described in strongly

²⁷ Dictionary of English Language by Samuel Johnson and John Walker (1828 edition).

negative terms. The celebrated “industry of mankind” originates from a deception, and although human nature appears capable of prudence it has not been designed for necessarily producing it. Indeed, moral climate can be modulated by external circumstances and persistent changes in economic environment may significantly affect morality of people. The golden compromise of a flourishing and cohesive commercial society actually appears an unstable equilibrium, able to self-sustain only for its effect on social prudence. On several occasions Smith stresses and condemns the depraved lifestyle of wealthy people. If social prudence is supported by economic growth, being at the same time the moral ground supporting a progressive state of society, how it is that prudence could persist as a collective moral character of people if people will gradually get richer and richer? It appears that the primary concern relating to the permanence of commercial society is not that a pattern of never-ending growth on a finite planet is difficult to believe, but that a never-ending growth does not seem compatible with social prudence and, since social prudence cannot be sustained in the long run, also growth sooner or later must slow down and eventually cease.

Alvey (2003) deeply investigates the issue of optimism and pessimism in Smith’s vision of capitalism and offers several contact points with the present analysis. On the one side, a free trade commercial society appears the economic and social organization that is consistent with nature’s design. On the other hand, Smith is aware that commercial society is neither inevitable not, if realized, it is necessarily permanent. Alvey (2003) recognises that the stationary state is not a marginal topic in Smith’s economic discourse. However, he fails to reconcile within a unifying frame the optimistic and pessimistic Smith’s view of capitalism and concludes that Smith was simply inconsistent. Following our line of reasoning, we would like to show that it is the development of capitalism that is vitiated by an internal contradiction which forces Smith to switch from a hopeful view to a sceptical view about the capacity of capitalism to fulfil natural ends. Before considering this question, we would like to underline that this change of perspective about commercial society is already implied in the theological premise inspiring Smith’s work. If it were possible to envisage a rational social order able to promote perfect virtue and “real happiness”, then the wisdom of God would be fully revealed to human rationality. However, since human rationality cannot comprehend God’s ultimate end, whatever social setting may be realized it cannot completely fulfil the (unknown) task entrusted by God to man. With regard to capitalistic society, this implies that the evolution of commercial society cannot reveal any long run equilibrium in which market frictions disappears and the whole system converges towards a perfectly rational general equilibrium. Does not exist in Smith a hypothesis of homo economicus that, combined with perfect competition, sustains this prediction. Indeed, the well-functioning of markets depends on prices that are themselves expression of collective prudence²⁸. As we have seen, social prudence is not an external assumption but the endogenous outcome of the interaction between human nature and specific macroeconomic conditions. In principle, there is no assurance that this moral character of people should be preserved as commercial society moves towards more mature stages of development. Thus, we argue that Smith’s pessimism about the future of commercial society relates to the intrinsic inability of capitalism to sustain social prudence in the long run.

²⁸ Actual exchange of goods takes place if the bargaining between parties is supervised by self-command and impartial spectator. The resulting “exchangeable values of goods” is reasonable, not a rational, price which “is sufficient for carrying on the business of common life” (WN I. v. 4: 49)

In WN Smith presents a theory of development in which the evolution of technical progress markedly affects the productive structure with crucial consequences at the social level. The evolution of the division of labour is described in chapter I of the first book of WN. In the first stage of development technical innovation arises from improvements made by workers as a consequence of their industry (WN I. i. 8: 20). As economic development advances and the extent of the market progressively widens, the production of machines becomes the business of peculiar trades. In this stage technical improvements arise not from workers but from the ingenuity of the makers of machines (WN I. i. 9: 21). Initially, technical innovation emerges inside the production process of final goods, while in a later stage arises mainly from capital goods sectors. This pattern of growing specialisation intensifies as the economy moves to a mature stage of development. Smith prophetically envisages that division of labour will apply to knowledge itself. Scientific and technical knowledge will specialise into different branches, and the invention of new or better machines will be the peculiar occupation of “tribes of philosophers” (WN. I. i. 9: 21)²⁹. This process of expanding division of labour suggests that the approach to a mature stage of development will be accompanied by a progressive concentration of knowledge in the hands of elites. The social, economic and moral implications of this growing knowledge inequality are not worked out by Smith in chapter 1. However, in Book V the issue is back on stage with an astonishing analysis. The passage deserves to be quoted at length.

In the progress of the division of labour, the employment of the far greater part of those who live by labour, that is, of the great body of the people, comes to be confined to a few very simple operations; frequently to one or two. But the understandings of the greater part of men are necessarily formed by their ordinary employments. The man whose whole life is spent in performing a few simple operations, of which the effects, too, are perhaps always the same, or very nearly the same, has no occasion to exert his understanding, or to exercise his invention, in finding out expedients for removing difficulties which never occur. He naturally loses, therefore, the habit of such exertion, and generally becomes as stupid and ignorant as it is possible for a human creature to become. The torpor of his mind renders him not only incapable of relishing or bearing a part in any rational conversation, but of conceiving any generous, noble, or tender sentiment, and consequently of forming any just judgment concerning many even of the ordinary duties of private life. Of the great and extensive interests of his country he is altogether incapable of judging; and unless very particular pains have been taken to render him otherwise, he is equally incapable of defending his country in war. The uniformity of his stationary life naturally corrupts the courage of his mind, and makes him regard, with abhorrence, the irregular, uncertain, and adventurous life of a soldier. It corrupts even the activity of his body, and renders him incapable of exerting his strength with vigour and perseverance in any other employment, than that to which he has been bred. His dexterity at his own particular trade seems, in this manner, to be acquired at the expense of his intellectual, social, and martial virtues. But in every improved and civilized society, this is the 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. f. 50.781-782)

The description of the consequences of advanced division of labour is introduced by the general statement that “the understandings of the greater part of men are necessarily formed by their ordinary employments”. Smith recognises that labour conditions deeply affect the

²⁹ In modern terms, technical change will be introduced by successful activity of specific R&D sectors.

psychological state of individuals and consequently affect their worldview. Industry and ingenuity of common workers are needed to prompt technical advance in early stages of development. However, in the progress of division of labour the industry of labourers is progressively substituted with the industry of machines. In Smith, technical change is not labour saving. Machines do not replace men, thus increasing structural unemployment. Industry of workers is replaced with the industry and the ingenuity incorporated into new machinery invented by “philosophers”. Therefore, the development process, which initially is sustained by “the industry of mankind”, endogenously expels the quality that makes human labour consistent with virtue. The consequences for worker are bluntly expressed by Smith when he says that the individual “generally becomes as stupid and ignorant as it is possible for a human creature to become”. It must be stressed that this alienating condition does not reflect a cognitive problem or a defective rationality, but the moral corruption of the individual. This is underlined a little further as Smith writes “The torpor of his mind renders him ... incapable ... of conceiving any generous, noble, or tender sentiment”. Indeed, industry, the “sever application” which describes the prudent man in TMS, requires the effective control of self-command. Self-command is itself a virtue that must be developed through steady exercise. Therefore, the alienating labour conditions corrode the basic virtue able to exercise an authoritative control over the “most ungovernable passions of human nature”.

This latter effect is even reinforced by interpreting the passage along an economic dimension. In the background we recognize that wages are constant at the subsistence level, echoing that stationary state described by Smith as “dull” and “hard”. Indeed, in chapter VIII “Of the Wages of Labour” Smith repeatedly affirms that only in a growing economy the expanding demand for labour supports the bargaining power of workers, resulting in increasing wages³⁰. Moreover, when Smith discusses the circumstances that influence wages³¹, he points out that “the easiness and cheapness or the difficulty and expence to learn them (employments)”, i.e. the stock of human capital required to perform a task, significantly affects wage level. The macroeconomic environment behind the alienation passage is fully clarified. As division of labour advances, the economic system moves towards a stationary state in which not only wages are stationary, but labour conditions require such a low level of human capital that wages can reasonably supposed at the subsistence level. Smith writes “The wages of labour are the encouragement of industry which, like every other human quality, improves in proportion to the encouragement it receives (WN I. viii. 44: 99). As a consequence, the industry of the “labouring poor” is useless in a stationary economic system. However, Smith does not stress the economic hardship of workers but rather the moral consequences of their stationary life. He significantly writes “The uniformity of his stationary life ... naturally corrupts his intellectual, social and martial virtues”. Smith’s investigation on human nature helps to clarify the psychological mechanism leading to moral decay. The stationary state actually deprives the individual of a hopeful time horizon. With no prospects of upward social mobility, stuck in low wages with no hope to better economic conditions, the exercise of self-command is, in facts, useless. The effective discipline of self-command is the basic principle that sustains prudence. Therefore, also reasoning along an economic dimension, we reach the

³⁰ “The liberal reward of labour, therefore, as it is the necessary effect, so it is symptom of increasing national wealth. The scanty maintenance of the labouring poor, on the other hand, is the natural symptom that things are at a stand” (WN I. viii. 27: 91). See also WN I. viii. 22: 87, 89.

³¹ WN I. x. b, “Inequalities Arising from the Nature of Employments Themselves”.

conclusion that a mature stage of development combines with a progressive collapse of prudence.

Indeed, what really emerges from the alienation passage is an internal contradiction in the development process of capitalism. Differently from Marx, where the evolution of technical progress expels labour from productive system and thus expels the origin of profit, in Smith the advanced division of labour expels liberal virtues from people by corrupting prudence. Social liberal virtues not only sustain potential growth but ground social cohesion and the consensus to the social contract on which the system of perfect liberty is based. Therefore, not only moral decay of people supports the stationary state, reversing that virtuous loop between collective prudence and macroeconomic outcome characterising a growing economy, it entails a radical change in common feelings and understandings that may pose a significant threat to the overall stability of commercial society. This is lucidly recognised by Smith as he writes “of the great and extensive interests of his country he is altogether incapable of judging”. Referring to the prudent man, who enjoys the benefits of a flourishing society, Smith points out that “He is sensible too that his own interest is connected with the prosperity of society, and that the happiness, perhaps the preservation of his existence, depends upon its preservation”³². Social prudence joined in a virtuous loop with a satisfactory macroeconomic performance builds a fundamental tie between citizens and institutions, supporting the stability of civil society. Therefore, the corruption of prudence implies that individuals are unable to comprehend the value of the “system of liberty” as functional to pursue private interest. A break between citizens and institutions that may pose a significant threat to the permanence of commercial society.

The alienation passage reopens the question from which Smith started his investigation on human nature. The task entrusted to man, to create a social nature in which pursue virtue and happiness, remains an open question. Smith pessimism is definitely expressed in the last statement as he concludes that “in every improved and civilized society, this is the 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.” (emphasis added). Smith cannot see beyond commercial society and faithful to his pragmatism invokes state intervention, with particular reference to public investment in education.

WN was published in 1776, in the midst of Industrial Revolution, a period of spectacular economic expansion and social change driven by the dynamism of a rising bourgeois class, struggling to claim its voice in the political arena and to remove those restrictions and monopolistic privileges that characterised feudal system. Non only it is astonishing that within this historical frame Smith offers such gloomy considerations about the future of commercial society, it is especially relevant today. The persistent low growth in advanced economies since the 2008 crisis, for which several economists have resumed the term “secular stagnation”, the adverse effects of globalisation and digital revolution on internal labour markets, depict a situation that bears a likeness to the dismal vision of stationary state envisaged by Smith. The burden of this prolonged stagnation struck more heavily on low and middle classes and brought about an alteration of common feelings and beliefs that are dramatically changing the basis of social consensus. The effects are displayed on a global scale, advanced democracies suffer from the pressure of growing political movements inspired by populism, nationalism and sovereignism. Smith’s analysis provides an explanation for the political unrest affecting liberal democracies. That prudent man,

³² TMS II. li. 3. 7: 88.

representative of a successful market economy appears replaced by the novel social prototype described in the alienation passage. The collapse of prudence is challenging those liberal values grounding the social identity of the traditional middle class. As a result, a growing support to illiberal political movements has emerged, considered, by the average citizen, as repositories of new values fitted to rebuild a renewed social identity.

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