


# Moral theory, agrarianism and sustainable free market economics in the work of Adam Smith

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The purpose of this article is to argue that Adam Smith's assessment of agrarian economics is based on the transdisciplinary engagement between moral theory and economics in *An inquiry into nature and causes of the wealth of nations* (first published in 1776). This assessment draws on recent scholarship that underscores that Smith's earlier work *The Theory of Moral Sentiments* (first published in 1759) is not in conflict with Smith's economic theory; it rather presents the moral point of departure of his economics. This transdisciplinary interaction details the divergent perspectives of contemporary scholars that either view Smith as an agrarian economist or an antagonist of industrialisation. The reason for this view of Smith's economics is due to the failure to emphasise the engagement between agrarian economic and Smith's moral theory that championed liberty. Secondly, this engagement between economics and moral theory highlights Smith's contribution to sustainable economics that can play an influential role in contemporary society.

**Transdisciplinarity Contribution:** The article highlights the transdisciplinary interaction between Adam Smith's free market economic theory and his moral theory as a function of liberty with special reference to agrarianism.

**Keywords:** Adam Smith; agriculture; free market; liberty; moral philosophy.

## Introduction

The purpose of this article is to demonstrate that an analysis of *An inquiry into nature and causes of the wealth of nations*<sup>1</sup> (WN) provides evidence that the importance of liberty in Adam Smith's moral theory and economics supported his ideas concerning free market economics and sustainability that is a foil of agrarian economics that was championed by the French physiocrats of his time, as proposed by some contemporary scholars. Conversely, it will be argued that Smith's free market economics has the features of what is today known as transdisciplinary engagement between Smith's moral theory and economics that gave priority to liberty (as extension of his political philosophy) for sustainable economics and a flourishing society. Smith's moral theory supported his free market economic theory and therefore debunks divergent scholarly arguments that view Smith as an agrarian economist or an antagonist of industrialisation. Smith's moral theory rather underscores that agriculture cannot be the singular basis of economic growth, it should rather be part of a multi-sectoral, sustainable free market economics.

## Research methods and design

The article follows a hermeneutic analysis of the relationship between Smith's moral theory and economics in respect of agrarianism. This analysis will be structured as follows, firstly, Smith's moral theory and the role of liberty in *The Theory of Moral Sentiments*<sup>2</sup> (TMS) are discussed because it accentuates Smith's unique view of morality in which freedom is a determining factor. Liberty connects his view of morality and economics as will become clear in the discussion of agrarian economics in WN. Secondly, the scholarly controversy concerning Smith's agrarian economic is introduced by the supposed pro-agrarian Smithian perspective that is advocated by John Dwyer.<sup>3</sup> This will be followed by Hiram Caton's<sup>4</sup> criticism of Smith's supposed resistance to industrialisation because of his favour of agrarian economics. Finally, Paul B. Thompson<sup>5</sup> highlights the importance of environmental factors in moral development. He investigates the transformation in Smith's economics and moral theory that started with agriculture and later was followed by commercial and industrial economics. This underscores that Smith's analysis of human behaviour, as free agents and interaction (also in the economy), is the basis of his moral theory and economics, which emphasises traces of the transdisciplinary nature of his thinking, although not known as a field of study in the 18th century. Conversely, based on the role of liberty in Smith's moral theory, it will

become clear that it was also an important factor in his economics. His writing clearly contradicts the assumption that he supported agrarian economics as the most effective source for the wealth of nations and freedom. This contradiction will be highlighted in the second part of the article where an analysis of Smith's agrarian hermeneutics in WN will underscore the influence of Smith's moral theory and the importance of liberty in his economics that contrasts between Smith's free market economics and pro-agro-Smithian scholarly perspectives. Conversely, Smith's free market economics supports sustainable economics as a function of liberty that was not part of agrarian economics of the French physiocrats due to the proposed policy interventions that they introduced in the 18th century French economy.

### Adam Smith and moral theory

Smith's moral theory took a clear departure from traditional normative ethics because of the importance of liberty that is associated with his political economy and his empirical epistemology. This is endorsed by Fleischacker<sup>6</sup> who states that Smith's view of morality is not '... unconnected with his political interest in guaranteeing to ordinary individuals the "natural liberty" to act in accordance with their own judgments' (p. 1). Harpham<sup>6</sup> states that in the '... idea of self-command we see the kind of moral personality that is needed if one is to attain freedom and happiness in a commercial society' (p. 235). For Smith, the natural liberty of people, as one of the main tenets of the Scottish Enlightenment, was a priority and therefore normative moral principles and government regulations impede upon the freedom of people, although Smith does make room for certain government duties as will be discussed in section 'The Wealth of Nations, moral theory and agrarianism' of the article. Instead of normative principles, Smith gave priority to human passions and sentiments as expressions to human freedom. However, liberty is viewed by Smith as the freedom of choice and fairness. In Smith's (WN) discussion of banking regulations, the primacy of liberty is clear and its link with liberty, justice and law:

To restrain private people, it may be said, from receiving in payment the promissory notes of a banker, for any sum whether great or small, when they themselves are willing to receive them, or to restrain a banker from issuing such notes, when all his neighbours are willing to accept of them, is a manifest violation of that natural liberty which it is the proper business of law not to infringe, but to support. Such regulations may, no doubt, be considered as in some respects a violation of natural liberty. (II. ii.94)<sup>1</sup>

In this discussion regarding banking regulations, Smith underscores that regulatory interference is tantamount to the violation of the natural liberty of people and a legal infringement. A clear distinction can be made between natural liberty and moral liberty in Smith's work. Moral liberty refers to the freedom of a person to do the right thing as prescribed by institutions such as the state or church and is mainly based on normative principles. Conversely, natural liberty is the freedom of a person to do good or evil. Natural liberty is unrestrained freedom to do whatever a person wants to do.

This may seem morally questionable as Smith's critic Jean Jacques Rousseau<sup>7</sup> points out in his proposal that society is bound by a social contract and civil liberty (e.g. right of life, property and liberty). Although Rousseau followed the route of civil liberty to deal with the moral ramifications of natural liberty, Smith follows the route of morality as self-command and guidance for a person to be happy in a free market society. Although liberty is not a key topic in TMS the way Smith develops his view of morality with reference to the natural instincts of self-interest and sympathy, it is clear that freedom was highly revered as an important motivation for the effective functioning of society. Smith states:

The habits of economy, industry, discretion, attention, and application of thought, are generally supposed to be cultivated from self-interested motives, and at the same time are apprehended to be very praise-worthy qualities, which deserve the esteem and approbation of everybody. (VII.iii.3.6)<sup>2</sup>

Smith's moral theory followed an empirical epistemology and therefore morality was more a cognitive science in which he attempted to understand the mental process involved in moral development. This empirical perspective accentuated the role that moral sentiments play in decision-making and behaviour. Smith observed that two motivations inform this process, namely, self-interest and sympathy. Self-interest for Smith as natural motivation for our behaviour provides the space to function in the wider context of the enhancement of natural liberty or the freedom to do what makes a person happy. In other words, when faced with a situation that requires moral contemplation, a person will naturally or instinctively ask what is good for my self-preservation and/or success and natural liberty provides the space to do what is good for an individual. Smith writes that without self-interest a person will:

[...]ot take proper care of his health, his life, or his fortune, to which self-preservation alone ought to be sufficient to prompt him it would undoubtedly be a failing... which render a person rather the object of pity... (VII.iii.3.16)<sup>1</sup>

For Smith, this was a natural right that must be protected by the state and respected by others for their own benefit. The relationship between self-interest and liberty is understood in the context of fairness or justice to apprehend what Smith meant by liberty in WN. For example, a slave in the Hellenistic period is not free but can also act in her self-interest and is free to do what will be in her advantage, but she is not free and does not have liberty. Liberty is therefore understood as a freedom that at the same time advances self-expression and social harmony. Fairness and the advancement of others are important for Smith; therefore, later in WN, liberty is presented as an important principle of his economics (I.ii.2).<sup>1</sup> This explains why Smith was very aware of the limitations of self-interest because it could infringe on the rights of others due to excessive behaviour that may cause harm to others, which will ironically also cause harm to the antagonist.

Smith therefore notes that people also have the natural ability of sympathy. Simplistically, this means that people empathise

with others – we are socially located and care about others and they bring us happiness or sorrow. However, for Smith sympathy was far more complex. The cognitive process involved in sympathy was, for Smith, of crucial importance because it influenced moral sentiments (Li.1.6).<sup>2</sup> The reason for this is that sympathy involved a network of mental constructions and evaluations that was important for moral reflection and decision-making. Smith notes that people use a mechanism that he refers to as the impartial spectator (VII. iii.1.4).<sup>2</sup> The impartial spectator is the ability to objectively reflect on a situation as a spectator by constructing a situation and possible responses to determine which response will arise the sympathy of others for the person (Li.4.8).<sup>2</sup> Conversely, morality cannot be reduced to a set of rule or principles. Morality is more dynamic and context-specific. It is also intimately connected to other people and the way people function in society.

The implication of sympathy is that natural liberty also has natural limitations. There is a natural tension between what we want to do and what we eventually do because there is a natural tension between the instincts of self-interest and sympathy. However, this tension can also be viewed as a necessary tension for natural liberty and self-interest to maintain its independence because the disapprobation or rejection of other may also not be in the self-interest of a person. A further implication is that Smith's moral theory is rooted in particular contexts and that human behaviour and interaction, which includes the economy, influences moral development. The implication is that WN can be viewed as a moral analysis of the economy in the realm of human freedom. In the next two sections, the focus shifts to Smith's agrarian economics with an emphasis on the role of liberty as an extension of his view of morality. In section 'Adam Smith and agrarianism', the diverse views and controversy surrounding Smith's view of agrarianism are introduced from where an analysis of his discussion of agrarianism in WN follows.

## Adam Smith and agrarianism

The pro-agrarian Smithian perspective of Dwyer follows a technical analysis of the role of morality and the impartial spectator of Smith's agrarian hermeneutics. The foil of the pro-agrarian Smithian perspective is represented by Caton, who is critical of Smith's supposed agrarianism, by accentuating the role of technology, or rather the hypothetical failure of Smith to take note of the industrialisation in the creation of value and development. Finally, Thompson's perspective of Smith focusses on the role of environmental aspect in moral development that supported Smith's moral theory and the role of liberty in his economics. These affirmative and critical perspectives regarding agrarianism in Smith's economics will be analysed from a transdisciplinary perspective in terms of the interaction of his moral theory and economics.

## John Dwyer

Dwyer follows a social analysis of Smith's view of the self-interest, sympathy and the impartial spectator. Dwyer<sup>3</sup> notes

that Smith's 'economics was subservient to his ethics' and that his ethics was 'saturated by a sociability that could never be reduced to self-interest' (p. 662). Both economics and ethics 'needed to be grounded on the mechanics of sociability' (p. 662).<sup>3</sup> These mechanics accentuated the critical role of the impartial spectators (role of average suggested by Dwyer) as a function of 'prudential self-interest' that was embedded in social engagement (p. 663).<sup>3</sup> Dwyer<sup>3</sup> observes that morals or:

[... H]igher order norms, were determined by the particulars of social interaction and the precise point of propriety (emotional agreement) between agents and spectators. Ethics, in other words, could never be captured within universal standards, codes, or categorical imperatives but, rather, represented the social averaging confirmed by an 'impartial spectator'. (p. 665)

Accordingly, Smith was a critic of commercial and proto-industrial bourgeoisie because they may undermine the moral economy of agrarianism and assumed that social engagement with the gentry (e.g. country gentlemen) as a model of prudential self-interest in society will promote the public interest (the greatest good) and moral development (p. 663).<sup>3</sup>

The socio-agrarian analysis by Dwyer does not necessarily reject the importance of liberty in the functioning of the self-interest, but it does follow a line of argument that distorts Smith's view of individual freedom by making it subservient to agrarian social relations. It therefore seems that morality for Smith, according to Dwyer, was about copying the behaviour of country gentlemen. 'Smith's ideal type of country gentleman was the owner of a compact and enclosed farm who practiced progressive agriculture or improvement' (p. 669).<sup>3</sup> Dwyer<sup>3</sup> (p. 67) claims that Smith's agenda in WN was to support agrarian capitalism and the moral norms of the gentry because it provides a solution to the tension between wealth and virtue by focusing on the investments of the gentry whom Smith regarded as the 'economic engine of society' and their 'ethical status as independent moral guardians of society' (pp. 670–671) and champions of 'agrarian capitalist economy' (p. 669).<sup>3</sup> For Smith, the gentry were industrious, prudent and respectable, according to Dwyer (pp. 671–672).<sup>3</sup>

Dwyer<sup>3</sup> notes that Smith proposed that commercial capitalists were the 'enemies of the public because they constituted antisocial factions ... they undermined social stability by encouraging negligence and profusion' (p. 674). This was exacerbated by the monopolistic and exploitative activities of mercantile companies like the East India Company (an example of British mercantilism). As an alternative:

Smith's economic theory was designated to consolidate the hegemony of prudent proprietors of land. This strategy can be seen most clearly in Smith's doctrine of agricultural rent. Smith did not merely argue that an increase in rent was synonymous with the natural progress of society, but also that agricultural real estate provided added value above any mere market commodity. (pp. 676–677)<sup>3</sup>

This differed from manufacturing, where prices were determined by the cost of labour and the need to make profit.

Besides his moral argument, Smith, according to Dwyer,<sup>3</sup> identifies four benefits of agricultural capitalism: (1) agriculture is a stable source of revenue, (2) the value of land includes rent and it higher than other assets, (3) agriculture is naturally productive and produces more than the labour required to produce, and (4) rent on land is more hedged against competition because it does not include profit and wages (p. 677). On the other hand, government interventions like the Corn Laws that regulated imports and exports limited the natural growth of the agricultural economy. This focus on agrarianism as opposed to manufacture, according to Dwyer<sup>3</sup>, was challenged by the rise of industrialisation that created a new class of manufacturers that resulted in changes regarding Smith's view of the impartial spectator based on the gentry (p. 680).

In the first edition of TMS, the spectator was embedded in society with the idea that the approbation of others is an important part of moral development. However, this positive role of society for moral development in *WN* changed in the 1790 edition. This change was subtly introduced in the 1761 edition when he referred to the spectator as a metaphor for conscience and the internalisation of norms – 'Like the demigod of poets' (p. 680).<sup>3</sup> The reference to the conscience was a minor change in the 1761 edition and reflected Smith's uncomfortable acceptance of a moral conscience that is distinct from public opinion. Dwyer<sup>3</sup> emphasises that this reflects Smith's hope that his agrarian perspective on the economy would prevail and would result in a flourishing and moral society (p. 680). Dwyer<sup>3</sup> notes that a clear separation took place between, on the one hand, the spectator as an external point of reference, with the gentry as the preferred spectators and their values as a natural social norm; and on the other hand, the spectator as an internal 'voice' (p. 681).<sup>3</sup>

The shift to an internal voice also leans more towards a Stoic understanding of virtue with detachment, prudence and propriety as key values that led to a separation between the moral self and society. 'The operations of internal and external spectators have now become two "different and distinct" principles, with only the internal spectator having ethical validity', according to Dwyer (p. 681).<sup>3</sup> The reason for this is that Smith's view of society and economics was undermined by the growing manufacturing and industrialisation, which he did not regard as a natural order for economic prosperity and development. Alternatively, Dwyer points out that Smith preferred agrarian economics and the productive possibility of agriculture as the basis for economic growth and prosperity. Manufacturing and capitalism resulted in consumerism, greed and vanity of the capitalist and working classes. This is supportive of Smith's supposed agrarianism and the role of the gentry as moral custodians of society and the economy and model for the impartial spectator as argued by Dwyer.

Dwyer's moral arguments based on the changing role of the impartial spectator because of industrialisation and new models to follow are problematic in terms of Smith's description of the impartial spectator in TMS that is not a form of social modelling. The assumption that the impartial

spectator to a more Stoic principle due to industrialisation seems forced because it was never based on the behaviour of others to be copied. In terms of the freedom to be guided by self-interest, it seems problematic that Smith would concede that people should be limited to agriculture and not be free to explore other means of economic activity and use their ingenuity to develop other sectors of the economy. This will also not lead to the sympathy of others because new developments and the constraint of innovation will be constraining to the personal freedom of people and limit the possible benefit it may have for society. As shown earlier, this limitation would rather be frowned upon and is not in the self-interest of the person or society. From this moral perspective, it does not seem plausible that Smith proposed singular agrarian economics. Although he did value agriculture, his moral theory does not support the view that one sector could contribute to the wealth of nations.

### Hiram Caton

According to Caton,<sup>4</sup> Smith promulgated a physiocratic view of the economy (p. 833). These views can be traced to the Greek idea of the role of nature in agriculture, which was an important aspect of 18th-century French Enlightenment thinkers who valued agriculture and the development of land as a sole basis for wealth. Nature differs from manufacture because 'the labor of agriculturists is assisted at every turn by nature. Sun and soil convert seed to corn; livestock convert vegetation to milk and meat' (p. 835).<sup>4</sup> In other words, people do all in manufacturing but much less in agriculture, due to the natural processes involved in the growth of crops and so forth. To support his argument, Caton quotes Smith from *WN* ( II.v.12):<sup>1</sup>

The land constitutes by far the greatest, the most important, and the most durable part of the wealth of every extensive country. The capital employed in agriculture, therefore, not only puts into motion a greater quantity of productive labour than any equal capital employed in manufactures, but in proportion too to the quantity of productive labour, which it employs, it adds a much greater value to the annual produce of the land and labour of the country, to the real wealth and revenue of its inhabitants, according to Caton.<sup>4</sup> Of all the ways in which a capital can be employed, it is by far the most advantageous to the society.

The point that Caton makes is that the role of nature in the economics of Smith (although flawed argued by Caton) was important because it is the foundation of the various aspects of his economics. One of the most influential aspects was that there is an order of capital accumulation that started with agriculture and progresses from there with capital investment in manufacturing, domestic and later international trade. The problem for Smith was the progressive diminishing of returns that deplete capital value. Consequently, Caton notes that Smith viewed investment and profit in mercantilism as eroding the accumulation of wealth that should start with agriculture (p. 836).<sup>4</sup>

Caton<sup>4</sup> relates Smith's focus on agriculture to his 'laissez-faire doctrine' that 'contains distinctive value postulates intended to promulgate an egalitarian agrarian capitalism in the spirit of physiocracy' (p. 833). In other words, according to Caton, Smith's free market and non-interventionist view of the economy does support self-interest and liberty, but the assessment that this is the most advantageous economic activity is disputed. The reason for this incorrect assessment according to Caton is because Smith disregarded the importance of industrialisation (p. 833).<sup>4</sup> The problem noted by Caton is that Smith's assessment of technological advancement in the economy was informed by his understanding of the division of labour as a function of market dynamics and not technology (p. 834).<sup>4</sup> In other words, the division of labour is the result of increased demand and not developments in science, innovation and invention. Caton<sup>4</sup> concludes that these preindustrial aspects in Smith's economics were rooted in agrarian capital accumulation:

Smith's assessment of productivity, his understanding of economic growth, his advocacy of free trade and small government, and his liberal plan of equality and justice are all related to this thesis'. (p. 834)

Furthermore, Caton<sup>4</sup> argued that Smith reduced all technical prowess to a single type, namely the division of labour (p. 840). The implication is that technological advancement takes place in the realm of the division of labour that leads to economic growth and prosperity. As mentioned earlier, the division of labour was influenced by demand and not innovation. Therefore, economic growth is not the effect of rationality, but democratic freedom of people driven by the impulse of self-interest. The division of labour is an instrument of production and a specialised skill. Caton<sup>4</sup> proposes that '[t]he incentive to increase productivity is the reward it brings in the market' (p. 842).

Although Caton may have a point that Smith's views of the division of labour is based on market processes, it does not seem plausible from the perspective of Smith's moral theory and the importance that Smith placed on ingenuity and technological advancement because it gave expression to self-interest and the sympathy that it might generate from others. The analysis of Caton provides an insightful perspective on the prominence of technological innovation and science in the economy. Other people will benefit from technological innovation, and it will lead to their sympathy. Smith would also have been aware that the economies of his time are far more complex to depend on a single sector or the linear stadial logic of development.<sup>8</sup>

Both Caton and Dwyer assume that Smith supports agrarian economics, with the difference that Dwyer is sympathetic of Smith's agrarianism and Caton is critical of the assumed benefit of agrarianism and insinuates that Smith was unaware of the advances in industrialisation (p. 533).<sup>4</sup> Dwyer favours agriculture as the basis for the accumulation of wealth but also the farmer and specifically the gentry (social class of

landowners who received rental income) as the model for the impartial spectator (p. 533).<sup>4</sup> Although there is a level of truth to this claim, it is presented in a one-sided way because others fail to reach the same conclusion (Thompson 2008). However, from the perspective of Smith's moral theory, it does not seem correct that he would support the idea that multiple-sector development and innovation are not important because this goes against his views of self-interest and liberty in TMS.

### Paul B. Thompson

In the above two sections, the work of Dwyer and Caton was discussed from the perspective of Smith's moral theory and it became clear that both authors aligned Smith with an agrarian point of departure for economic growth. Whereas Dwyer emphasised the role of the gentry as an ideal spectator and moral consciousness for society, Caton underscores the importance of technological innovation and science as a driver of growth (and not only demand) with agrarian dynamics as the basis of the economy. Caton's critical approach to Smith's agrarianism introduces advancement in manufacture and industrial ingenuity as an emergent factor of the late 18th century. It is this aspect that Thompson picks up in his assessment of Smith's work, although with a clear emphasis on Smith's departure from agrarianism as foundational for economic growth and development.

Thompson<sup>5</sup> notes that for Smith, material production went hand in hand with social conventions and values systems:

On this model, hunter-gatherer societies develop moralities around group needs for sharing of provisions and protection. With pastoral societies, it becomes necessary to develop institutions of chattel property and trade for exchange of livestock. With settled agriculture, these institutions become associated with land holdings and crops, but there are also reciprocities that become established among well-defined social roles (butcher, miller, and baker). (p. 531)

The need for survival of earlier economic stages was influential in the development of traditions, values and morals that supported survival. This instinct – the moral codes and ethics of a society, as suggested by Thompson<sup>5</sup> – was not evolutionary but rather more associated with the ecological changes (p. 531). Thompson<sup>5</sup> explains that due to environmental factors, people are:

expected to conform to norms characteristic of their given station, but reciprocities continue to exist between specific individuals who will know and interact with one another not only throughout their lifetimes, but over generations. (p. 531)

From the perspective of Smith's moral theory, reciprocity aligns with the importance of self-interest and sympathy because the reciprocity between people highlights their shared interest for survival and mutual dependence between community members to accomplish this goal. The social connected functioning of the impartial spectator therefore assists with how people function as a collective and with their moral development. In other words, the context of a particular

situation is important, and it must be constructed with possible behaviour to determine what the best action will be to obtain the approbation of others. Appropriate behaviour is context specific and relates to the unique requirements of the situation. In this regard, the transition to manufacture, according to Thompson's thesis, should alter the value system.

Thompson is of the opinion that the WN represents an attempt to investigate the moral basis of a transformation in economics influenced by the changing context brought about by the shift from agrarianism to a techno-industrial society. He notes that the WN does not only reflect on:

[T]heoretical innovations that blossomed into contemporary notions of the market, economic equilibrium and capitalism, but the book was also intended to investigate how the emerging commercial and industrial environment might work on moral sentiments to produce habits and institutions quite unlike those of the agrarian societies that had been the primary focus of Scottish Enlightenment moral theory. (p. 531)<sup>5</sup>

This observation of Thompson places Smith's work firmly on a new economic platform far removed from classic agro-economics or physiocracy as the singular sector for wealth of nations and the freedom to participate in new innovative technological development and commercial opportunities. This underscores the importance of liberty at the core of his moral theory. Although Smith was well informed of agrarianism, he was not convinced that physiocracy would be 'functional in the newly emergent capitalistic world' in which manufacture and ingenuity contributed to the creation of wealth, as stated by Thompson (p. 531).<sup>5</sup>

From this perspective, Dwyer's suggestion that there was a subtle change in the way Smith viewed the impartial spectator could have some merit. In other words if a person, as impartial spectator of possible scenario, is informed by the behaviour of the gentry or industrialists, a preference for industrialists might be preferred because they are the new upcoming, popular and wealth class of people. However, returning to the premise that freedom in society as a space for self-interest and sympathy to thrive, it does not seem plausible that Smith would dictate a particular model for moral development. This would be in contradiction of the independence of the impartial spectator and the individual as an agent to determine her own course of action in a free society. Thompson<sup>5</sup> concludes that Smith believed that not only moral development, but society in general, was structured accordingly with:

formal social institutions (e.g. laws and public policies) that channel self-interested behavior into mutually beneficial practices that eventually influence habits and norms, making industrial trading states as functional (and considerably more prosperous) than the agrarian societies they replaced. (pp. 531–532)

For Thompson, it is not Smith's moral theory that informed his economics, rather the opposite, Smith's analysis of human behaviour and interactions in a free society that informed his moral theory.

## ***The Wealth of Nations, moral theory and agrarianism***

In this section, an analysis of Smith's assessment of agrarianism in WN is provided. It will be argued that WN and specifically Smith's view of agrarianism is influenced by the transdisciplinary engagement between Smith's moral theory and economics as a function of liberty. Three aspects that are related to Smith's discussion of agriculture will be underscored in this section, namely, division of labour, policy interventions, and the hierarchy of value.

### **Division of labour**

In book one, Chapter 1 of the WN, Smith opens his magisterial work on economics with an assessment of the limitations of agriculture as the basis for the accumulation of wealth. For Smith, the division of labour was based on the market as Caton observes. Exchange is linked to supply and demand: therefore, the supply of goods increases with increased demand that necessitates the division of labour to increase the supply of goods that are required to fulfil the needs of people. Division of labour results in the increase of productivity and specialisation, with the positive effect, that the quantity and the quality of products increase and thereby probably leads to economic growth. Exchange makes it possible that the goods and services that become available with the increased specialisation will probably result in the increase of economic activity and accumulation of wealth. The market is, for Smith, an economic mechanism that enhances the liberty of people to express their self-interest and sympathy. Producers profit by supplying the goods that people need and consumers benefit by obtaining what they desire. In this process, the impartial spectator facilitates the process by assessing what people need and assists to determine what the most beneficial course of action will be to supply quality goods in the most efficient manner to obtain the sympathy of people. Therefore, the market, and the forces of supply and demand, are embedded in Smith's moral theory because it influences the most appropriate course of action. However, this inclination towards specialisation is not as prevalent in agriculture, as Smith<sup>1</sup> states:

The nature of agriculture, indeed, does not admit of so many subdivisions of labour, nor of so complete a separation of one business from another, as manufactures. It is impossible to separate so entirely the business of the grazier from that of the corn farmer as the trade of the carpenter is commonly separated from that of the smith. The spinner is almost always a distinct person from the weaver; but the ploughman, the harrower, the sower of the seed, and the reaper of the corn, are often the same. (I.i.4)

The impossibility of making a complete separation between the different activities involved in agriculture is, for Smith, one of the most salient reasons why improvement of production in agriculture cannot keep up with manufacture, supporting Thompson's assessment of the alignment of Smith's moral theory and economics. For this reason, wealthy nations may have superior production in agriculture to

poorer nations, but it will not be higher than manufacture. Therefore, the price difference between agricultural goods of wealthy and poorer nations will not differ substantially. This basic economic fact highlighted by Smith is that agriculture is not the singular basis for wealth as commonly believed by physiocrats. Hence, Caton's assumption that Smith was against specialisation and innovation is incorrect because Smith clearly notes that agriculture is not as conducive to the division of labour and therefore the wealth of nations as is the case with manufacture. From the perspective of Smith's moral theory, the freedom of nation to give expression to their self-interest and sympathy would naturally support other forms of economic activity specifically if it is beneficial for society. The importance of Smith's moral theory for his economics is underscored by the fact that although the division of labour is market related, the role of self-interest and sympathy directs supply and demand through the intervention of the impartial spectator. This does not exclude technological innovation (as Caton suggests) because both supply and demand rest on the interests of people that participate in the economy. The impression that Smith supported a singular focus on agriculture can be regarded as unsustainable because it clearly does not have the benefit of the division of labour as other sectors. Consequently, any policies that intervene in the economic would damage the sustainability of the economy and infringe on the liberty of people (e.g. interventions in banking referenced earlier).

## Policy interventions

A major reason why Smith did not support agrarianism as the sole basis for wealth was based on the failure of French physiocrats that promoted an agricultural economy by introducing policy interventions. Furthermore, these interventions are in contradiction of his moral theory that supports the freedom of people to participate in any sector of the economy and limits the forces of supply and demand embedded in self-interest and sympathy as discussed in the previous section. Smith notes that the policy intervention of French physiocrats must be seen as a response to similar interventions by Colbert (minister of Louis XIV) that attempted to promote industrialisation. Smith notes that '[Colbert] bestowed upon certain branches of industry extraordinary privileges, while he laid others under as extraordinary restraints' (IV.iv.3).<sup>1</sup> This was done by keeping:

[P]rovisions cheap to the inhabitants of the towns, and thereby to encourage manufactures and foreign commerce, he prohibited altogether the exportation of corn, and thus excluded the inhabitants of the country from every foreign market for by far the most important part of the produce of their industry. (IV.iv.3)<sup>1</sup>

Smith suggested that this situation was exacerbated due to:

[R]estrains imposed by the ancient provincial laws of France upon the transportation of corn from one province to another, and to the arbitrary and degrading taxes which are levied upon the cultivators in almost all the provinces, discouraged and kept down the agriculture of that country very much below the state to which it would naturally have risen in so very fertile a soil and so very happy a climate. (IV.iv.3)<sup>1</sup>

Smith's assumption is that any form of interference in the market disrupts economic activity at the detriment of the provision of goods and services and the accumulation of wealth. Consequently, there later developed resistance in France to Colbert's policies of industrialisation by physiocrats who supported agrarian economics and who used equally radical policies of the French agrarian philosopher Francois Quesnay and others, with equally disastrous results as the policies of Colbert.

The point that Smith makes is that liberty should increase trade and decrease duties and taxes that may limit all sectors of the economy because these interventionist devices only deplete the sector that they are attempting to protect, as is the case with agriculture: 'Such duties could serve only to discourage the increase of that surplus produce, and consequently the improvement and cultivation of their own land' (IV.iv.20).<sup>1</sup> The implication is that the:

[... C]ontinual increase of the surplus produce of their land would, in due time, create a greater capital than what could be employed with the ordinary rate of profit in the improvement and cultivation of land; and the surplus part of it would naturally turn itself to the employment of artificers and manufacturers at home. (IV.iv.22)<sup>1</sup>

It is crucial to note that for Smith, agriculture is important for the accumulation of wealth, but not exclusively so or to the expense of other sectors of the economy because agriculture cannot create wealth without manufacture.

Smith underscores that the:

[C]ontinual increase both of the rude and manufactured produce of those landed nations would in due time create a greater capital than could, with the ordinary rate of profit, be employed either in agriculture or in manufactures. (WN IV.iv.23)

In other words, agriculture and manufacturing are means to resist the mercantile system that limits freedom and competition:

According to this liberal and generous system, therefore, the most advantageous method in which a landed nation can raise up artificers, manufacturers, and merchants of its own is to grant the most perfect freedom of trade to the artificers, manufacturers, and merchants of all other nations. (IV.iv.24)<sup>1</sup>

Furthermore, trade with foreign nations is suppressed by duties and other means because it will negatively impact the economy of that specific country by eroding the real value of the surplus produced of the country. The implication is that it raises the cost of manufacturing and mercantile profit in relation to agriculture. The difference in profit is because duties on foreign trade and taxes erode the real value of profit (IV.iv.25):

This policy, therefore, discourages agriculture in two different ways; first, by sinking the real value of its produce, and thereby lowering the rate of its profit; and, secondly by raising the rate of profit in all other employments. Agriculture is rendered less advantageous, and trade and manufactures more advantageous than they otherwise would be; and every man is tempted by his

own interest to turn, as much as he can, both his capital and his industry from the former to the latter employments.<sup>1</sup>

Smith's discussion of the restrictive nature of policy intervention whether to advance agriculture in the case of French physiocrats, taxes or any form of obstacle that may limit the liberty of people to express their self-interest and sympathy can be regarded as immoral and corrupt. This is specifically the case in his criticism of mercantilism and collusion with the state. A further criticism of physiocrats was their hierarchy of value.

Smith was also aware of the dangers of the singular focus on agriculture (e.g. interventionist policies to limit imports or exports and so forth) at the expense of manufacture and other forms of trade. However, it is imperative to note that there are traces of agrarianism in his economics that favour an open and participatory economy across the various sectors of the economy (e.g. agriculture, manufacture, trade, etc.). Many scholars view Smith as supportive of stadial development, with industrialisation and commerce as the evolutionary pinnacle of development.<sup>9,10,11</sup> From this perspective, agriculture is understood as a minor developmental stage with a minimal impact on the accumulation of wealth. This perspective of Smith's work is refuted by Paganelli,<sup>8</sup> who argues that the reference to the stadial approach is only used as a heuristic tool for the classification of different types of economies. Paganelli's perspective is supported by Smith's free market economics and multi-sectoral interdependence, as will become clear in the analysis of Smith's discussion of agrarianism in WN in the second part of this article. In this regard, agriculture has an important place in the economy of a country without restriction or privilege in a free market and unrestrictive economy built on the bedrock of liberty.

## Hierarchy of value

Linked to the policy interventions of physiocrats is their hierarchical model of value, which concludes that manufacture is the least advantageous sector for the accumulation of wealth. Smith<sup>1</sup> criticises French agrarians who saw agriculture as the foundation of economic growth from where a model of crude social stratification was constructed:

The first is the class of the proprietors of land. The second is the class of the cultivators, of farmers and country labourers, whom they honour with the peculiar appellation of the productive class. The third is the class of artificers, manufacturers, and merchants, whom they endeavour to degrade by the humiliating appellation of the barren or unproductive class. (IV.iv.5)

This distinction represents a social hierarchy of value, with the proprietors of land at the helm – the class that should least be burdened with taxes because they must be encouraged to invest to improve the land and income that can be made for the state. At the low end of the hierarchy are the manufacturers and merchants, who are viewed as unproductive labour by the agrarians because they do not

increase wealth located in the land, according to Quesnay. The profit from manufacture and other activities is merely at the service of the needs and greed of the unproductive class (IV.iv.15).<sup>1</sup> Smith explains the logic of the creation of wealth in the work of Quesnay as follows:

The profits of manufacturing stock therefore are not, like the rent of land, a net produce which remains after completely repaying the whole expense which must be laid out in order to obtain them. The stock of the farmer yields him a profit as well as that of the master manufacturer; and it yields a rent likewise to another person, which that of the master manufacturer does not. (IV.iv.10)<sup>1</sup>

The implication is that the expenses of manufacturers are barren, with no real value being added, while those of farmers are productive, with added value. Smith is critical of Quesnay's delineation of classes by agrarians that reduces manufacture to the category of 'unproductive'. Smith notes:

[The] unproductive class, however, is not only useful, but greatly useful to the other two classes. By means of the industry of merchants, artificers, and manufacturers, the proprietors and cultivators can purchase both the foreign goods and the manufactured produce of their own country which they have occasion for with the produce of a much smaller quantity of their own labour than what they would be obliged to employ if they were to attempt, in an awkward and unskilful manner, either to import the one or to make the other for their own use. (IV.iv.15)<sup>1</sup>

In contrast to Quesnay, Smith underscores the importance of a multi-sectoral economy with unconstrained exchange as the basis for the supply of goods and services. Inclusivity was paramount for Smith and therefore he supported the stance that the various 'classes' or people involved in different sectors of the economy interact with each other because of the mutual benefit. This is supported by his moral theory in which the freedom of people to create shared value is an expression of their self-interest but also sympathy in an inclusive and multi-sectoral economy. In this regard, the impartial spectator is important in the assessment of the difference between a single-sector or multi-sector economy and to determine the most effectiveness approach for the benefit of each individual and society within a particular context. The mutual dependence can be seen in the fact that production of manufacture can also be made available to improve the cultivation of the land. In other words, the hierarchical structure of value that Quesnay supports is misleading because it does not provide a clear understanding of the dynamics of the broader economy. More importantly, it may negatively influence policy that protects agriculture and hampers other sectors. Consequently, this is to the detriment of agriculture and the economy. Smith concludes:

It can never be the interest of the proprietors and cultivators to restrain or to discourage in any respect the industry of merchants, artificers, and manufacturers. The greater the liberty which this unproductive class enjoys, the greater will be the competition in all the different trades which compose it, and the cheaper will the other two classes be supplied, both



with foreign goods and with the manufactured produce of their own country. (IV.iv.15)<sup>1</sup>

For Smith, any restraints on the economy interfere with the liberty and cost-effective functioning of people. Therefore, Smith subsequently emphasises that the physiocratic classification of the different sectors of the economy is problematic because it places a limitation on economic growth, as the hierarchical system of value will influence interventionist policy and conflicts with his moral theory: 'The capital error of this system, however, seems to lie in its representing the class of artificers, manufacturers, and merchants as altogether barren and unproductive' (IV.iv.29).<sup>1</sup> The reason for this is that Smith supports a more balanced approach to the different sectors of the economy that are mutually dependent on each other and increase the values that each contributes to the economy. This supports his theory of labour, the role of the market and free exchange, which can be seen in how the increase in produce takes place in manufacture:

The improvement in the productive powers of useful labour depend, first, upon the improvement in the ability of the workman; and, secondly, upon that of the machinery with which he works. But the labour of artificers and manufacturers, as it is capable of being more subdivided, and the labour of each workman reduced to a greater simplicity of operation than that of farmers and country labourers, so it is likewise capable of both these sorts of improvements in a much higher degree. In this respect, therefore, the class of cultivators can have no sort of advantage over that of artificers and manufacturers. (IV.iv.35)<sup>1</sup>

The more sophisticated specialisation and technological advances in manufacturing increase the required labour and capital required, with more saving than in the case of agriculture. This leads to economic growth in society because of higher rates of employment due to the division of labour that is in the interest of society and underscores Smith's moral theory because it is an extension of self-interest and sympathy. Smith notes:

The increase in the quantity of useful labour actually employed within any society must depend altogether upon the increase of the capital which employs it; and the increase of that capital again must be exactly equal to the amount of the savings from the revenue, either of the particular persons who manage and direct the employment of that capital, or of some other persons who lend it to them. If merchants, artificers, and manufacturers are, as this system seems to suppose, naturally more inclined to parsimony and saving than proprietors and cultivators, they are, so far, more likely to augment the quantity of useful labour employed within their society, and consequently to increase its real revenue, the annual produce of its land and labour. (IV.iv.36)<sup>1</sup>

The employment of more people is supportive of their ability to be free and create wealth for themselves. People also learn from the interaction with others that is supportive of moral development and the functioning of the impartial spectator. The wealth of a nation can directly be linked to manufacture because it increases the ability to purchase more 'rude produce' than an agricultural economy, as Smith explains:

A small quantity of manufactured produce purchases a great quantity of rude produce. A trading and manufacturing country, therefore, naturally purchases with a small part of its manufactured produce a great part of the rude produce of other countries; while, on the contrary, a country without trade and manufactures is generally obliged to purchase, at the expense of a great part of its rude produce, a very small part of the manufactured produce of other countries. (IV.iv.37)<sup>1</sup>

Smith, therefore, concludes that a balanced economy with free trade and equality is superior to an agrarian economy. Any form of policy intervention in agriculture or manufacture will be to the detriment of the economy because of the dynamics of interaction between the different sectors of the economy:

Those systems, therefore, which, preferring agriculture to all other employments, in order to promote it, impose restraints upon manufactures and foreign trade, act contrary to the very end which they propose, and indirectly discourage that very species of industry which they mean to promote. They are so far, perhaps, more inconsistent than even the mercantile system. That system, by encouraging manufactures and foreign trade more than agriculture, turns a certain portion of the capital of the society from supporting a more advantageous, to support a less advantageous species of industry. But still it really and in the end encourages that species of industry which it means to promote. Those agricultural systems, on the contrary, really and in the end discourage their own favourite species of industry. (IV.iv.49)<sup>1</sup>

The core of Smith's critique of a hierarchical model that privileges agriculture as the source of wealth is his support of free market economics and values such as liberty and equality. Associated with these values is the importance of justice that ensures the fair distribution of justice:

The establishment of perfect justice, of perfect liberty, and of perfect equality is the very simple secret which most effectually secures the highest degree of prosperity to all the three classes. (IV.iv.17)<sup>1</sup>

Hence, for Smith, the only unproductive form of labour is that which focuses on maintenance of any sort, like cleanliness and even health (e.g. physicians).

## Results

### Sustainable free market economics

The foundation of Smith's sustainable free market economics is a function of the natural freedom. As Smith suggests, the self-interest of a person is an expression of liberty, which is directly linked to the economy and is the basis for the creation of wealth:

All systems either of preference or of restraint, therefore, being thus completely taken away, the obvious and simple system of natural liberty establishes itself of its own accord. Every man (sic), if he does not violate the laws of justice, is left perfectly free to pursue his own interest his own way, and to bring both his industry and capital into competition with those of any other man, or order of men. (IV.iv.51)<sup>1</sup>

The importance of liberty, which underpins Smith's economics, resonates well with Thompson's evolutionary

perspective on moral development.<sup>12</sup> However, as mentioned earlier in the discussion of Thompson's position, the divergence in their views relates to the role of the impartial spectator. For Smith, the moral values that support his economics are not only influenced by context (as Thompson suggests). It is also a function of cognition, in which the subject uses analogical imagination to determine the most appropriate action that will receive the sympathy and approbation of others. The implication of this for economics is that economic activities and trade are foremost social engagements that invoke our moral sentiments to guide our social relationships and their contribution to the happiness and stability in society. In other words, the moral view of Smith in TMS is an extension of the way economics as a prominent form of social engagement function. Commerce is a form of social interaction and therefore embedded in socio-morality that influences the way we interact and this also advances sustainable economics. Sustainability is achieved through moral behaviour that supports social harmony and trust<sup>13</sup> which does not require external governmental or institutional interventions. External interventions that place limitations on the moral freedom (e.g. moral sentiments and sympathetic passions) and certain sectors of the economy are therefore detrimental to the economy because people cannot express their natural liberty (as Smith argued). Furthermore, it is also to the detriment of the moral fabric of society and economic sustainability because morality is then enforced and not a function of personal moral development. Alternatively, the government does have the duty to support the advancement of the socio-morality and the stability of the political economy. Smith identifies three duties of the state:

According to the system of natural liberty, the sovereign has only three duties to attend to; three duties of great importance, indeed, but plain and intelligible to common understandings: first, the duty of protecting the society from violence and invasion of other independent societies; secondly, the duty of protecting, as far as possible, every member of the society from the injustice or oppression of every other member of it, or the duty of establishing an exact administration of justice; and, thirdly, the duty of erecting and maintaining certain public works and certain public institutions which it can never be for the interest of any individual, or small number of individuals, to erect and maintain; because the profit could never repay the expense to any individual or small number of individuals, though it may frequently do much more than repay it to a great society. (IV.iv.51)<sup>1</sup>

To conclude, Smith's economic theory cannot be reduced to an agrarian system. For Smith, the economy is dynamic and inter-dependent. The implication is that all sectors of the economy must function in an unconstrained environment for economic growth and prosperity. The values of freedom and equality must therefore be protected and administered by the state in a responsible manner for citizens to flourish. Economically this means that the division of labour and innovation as a function of exchange must be encouraged to increase employment and economic growth. The references that Smith makes about agriculture, the work of physiocrats and several other comments, must be read in the context of Smith's support of free market economics as the basis for sustainable economic growth and development.

## Discussion and conclusion

In this article, it was argued that there are traces of transdisciplinary interaction between Smith's moral theory and free market economic theory based on the importance of liberty as the space for the expression of self-interest and sympathy as developed in WN as it relates to agrarianism. From this perspective, scholars that argue that Smith supported agrarian economics disregard the importance of natural liberty in his moral and economic theory. The argument of Dwyer and Caton who view Smith as an agrarian economist underestimates the role of liberty in Smith's moral theory as foundation of his economics. This became even more evident from the analysis of Smith's discussion of agrarianism in WN where it became clear that there is a close relationship between Smith's moral and economic theory as a function of liberty. Thompson's analysis of Smith underscores the relationship between his moral theory and economics by arguing that Smith's moral theory was influenced by the new economic situation brought about by industrialisation of the 18th century. Therefore, freedom of expression in economic terms that gave rise to his descriptive moral theory that championed self-interest and sympathy as a function of liberty.

The above-mentioned positions were assessed in the third section of the article that followed an analysis of the agrarian hermeneutics present in the WN. The analysis focussed on three aspects of the economy that are closely related to Smith's criticism of agrarianism and the promotion of his belief in free market economy, namely, division of labour, policy intervention, and hierarchy of value. From this analysis, it became clear that Smith was appreciative of certain aspects of agriculture, but that he did not regard agriculture as the only basis for sustainable economics and development. Smith followed an open approach to the uninhibited functioning of the market, with the division of labour adding to the quantity and quality of goods for exchange. He thus rejected any form of policy interventions and hierarchical structures of values to categorise sectors of the economy. For Smith, free market economics is an expression and perpetuation of the values of liberty and equality. This analysis supports the view that Smith's moral theory can be viewed as a foundation of his free market economics that are supported by the motivations of self-interest and sympathy as expression of liberty. These motivations are part of Smith's moral theory and are guided by the moral analysis of the impartial spectator that limits economic excess and creates social harmony and sustainable economics. Therefore, WN can be viewed as an interaction between Smith's moral and economic theory as a function of liberty.

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## Author's contributions

M.R. is the sole author of this article.

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## Disclaimer

The views and opinions expressed in this article are those of the author and do not necessarily reflect the official policy or position of any affiliated agency of the author.

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