THE ADAM SMITH PROBLEM REVISITED:

A METHODOLOGICAL RESOLUTION

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Such exclusive [colonial monopoly] companies, therefore, are nuisances in every respect; always more or less inconvenient to the countries in which they are established, and destructive to those which have the misfortune to fall under their government.


The message of Adam Smith requires reiteration with each generation. Modern economics must stand condemned in its failure to accomplish this simple task, the performance of which is, at base, the discipline’s primary reason for public support.

James M. Buchanan (1975), The Limits of Liberty: Between Anarchy and Leviathan. pp. 91–2.

1. Introduction

The Adam Smith problem has intrigued philosophers of human nature and social scientists for some time. It refers to the apparent inconsistency between Smith’s Theory of Moral Sentiments (TMS) and the Wealth of Nations (WN). In the TMS, Smith developed a philosophical debate about the moral human being. In the WN, Smith pioneered the economic approach, which is likely to stand out as the first social science to be ‘invented.’ Both works seemingly cherish, at least at first glance, a fundamentally different image of human nature – the virtuous, morally conscious,
sympathetic, emphatic, benevolent being in the TMS and the self-interested maximizer of own gain (economic man, ‘homo economicus’) in the WN. Previous research addressed this apparent dichotomy in Smith’s writings. Exemplary are the attempts of philosophers of human nature and behaviourally oriented social scientists, including behavioural economists, who argue that the WN also adopted a complete, holistic image of human nature, and hence that an Adam Smith problem did not exist. Typical is Coase (1994, p. 111): ‘I can find no essential difference between the views on human nature expressed in the *Theory of Moral Sentiments* and those expressed in the *Wealth of Nations.*’ I suggest that such arguments are myopic. The present paper explores methodological issues of the problem-dependent and heuristic nature of scientific research in order to comment on fundamental differences between Smith’s portrayal of human nature in the TMS and the WN. Differences are reconciled not by trying to equate the images of human nature of the TMS and the WN but by showing that both studies were tailored to solve fundamentally different research problems, and related hereto, that the portrayal of human nature in these two books played a different methodological role. If carefully read, one can find many explicit and implicit references in the TMS and the WN that Smith understood a model of human nature in these two books rather differently and that Smith in considerable degrees even methodologically projected such differences to the different purposes of the TMS and the WN. The paper develops in this respect a critical perspective on Adam Smith scholarship and the previous analysis of the Adam Smith problem. It will become apparent that much of Buchanan’s (1975, pp. 91–92) critical comments on Adam Smith scholarship, which he made shortly before the bicentenary of the publication of the WN, are still valid today.
The paper proceeds as follows: In the first section, I briefly review the historical roots of the Adam Smith problem up to its contemporary debate. In the second section, I develop a methodological critique regarding the purpose and nature of the model of economic man in economic research. I connect to the works of Hayek, Machlup, Friedman, Becker, Buchanan, and Homann who spelled out that the model of economic man should not be read as the economist’s empirical, behavioural depiction of human nature. I conceptually deepen their methodological suggestions by drawing on the philosophies of science of Popper and Lakatos and their suggestions on the problem-dependent and heuristic nature of scientific research. On this basis, I clarify the Adam Smith problem. In the third section, I offer conclusions.

2. The Adam Smith Problem in Empirical, Behavioural Perspective:

Now and Then

Ever since the publication of the WN, Smith has been viewed as the ‘founder of the materialistic Manchester School that preached the gospel of self-interest.’ (Montes 2003, p. 68) Smith’s model of economic man was critiqued on empirical, behavioural grounds as an undesirable and incomplete image of human nature, especially so in comparison to his model of human nature in the TMS. The Adam Smith problem then rests on the view that there is a deep inconsistency across the TMS and the WN. Apparently, if taken as a whole, as Wilson and Dixon (2006, p. 252) note, Smith’s work seems to suppose that ‘… human behaviour is governed by two quite different (and contradictory) principles.’ Tribe (1999, pp. 613, 622) argues similarly.
During the 19th century, this apparent inconsistency between the TMS and the WN was analysed in the German-speaking world as ‘Das Adam Smith Problem.’ A prominent figure in this debate was Hildebrand who criticized Smith as the ‘anti-hero’ of political economics, taking issue with a claimed one-sided, self-interested depiction of human behaviour in the WN, the ‘deification of private interest’, and the claimed goal of the WN to ‘... transform political economy into a mere natural history of egoism’ (Hildebrand 1848, p. 275; see also Gide and Rist 1915, p. 394; Wilson and Dixon 2006, p. 253). Teichgraeber (1981, pp. 106–107) and Montes (2003, pp. 68–73) have a good overview of this ‘anti-Smith’ debate in Germany.

As much as this ‘inconsistency school’ on the Adam Smith problem acknowledged – in my view correctly – irreconcilable differences between the TMS and the WN, from the mid-19th century, increasingly the thesis emerged that both works could somehow be reconciled as forming part of a larger system of moral philosophy. A school of thought developed which can be called the ‘unity school’ or ‘consistency school.’ Oncken (1897) was an early advocate. Morrow (1927) argued similarly that the idea of self-interest could be subsumed as an ‘inferior virtue’ (p. 330) under a superior or ultimate virtue such as prudence (See also Heilbroner 1982; Pack 1997, pp. 127–128; Otteson 2000, p. 67). Or, Evensky (2005, pp. 23–25) suggests to read metaphysical, deity connotations into the WN in order to resolve inconsistency. Many modern interpreters of the Adam Smith problem connect to this school; for instance, Macfie (1959), Campbell (1971), Hutchinson (1976), Skinner (1976), Sobel (1979), Teichgraeber (1981), Heilbroner (1982), Winch (1986), Dupuy (1993, 1990), Nitsch (1991, 1990), Werhane (1991), Evensky (1993, 2005), Pack (1997), Witztum (1998), Haakonsen (2002), or Montes (2003). They aim to unify the image of human nature of the TMS and the WN, attempting to show that there are
considerable allusions to moral principles of virtue and sympathy in the WN and hence that the Adam Smith problem is exaggerated. According to the unity school, the Adam Smith problem seemed to be greatly diminished. Recktenwald (1978, p. 66) even claimed that the ‘Adam Smith problem … is passé.’

However, dissenting voices continued to argue for the ‘inconsistency school.’ Viner (1927) challenged the ‘unity view’ early on. He argued that even Smith’s revisions of the TMS after the publication of the WN in 1776 did not reduce ‘… in any particular the points of conflict between the two books.’ (217; also 201) Key differences, for example, are the deistic, metaphysical language and concepts used to set out a moral philosophy in the TMS. This shares little similarity with the WN, which classifies as a non-metaphysical study in the tradition of the Enlightenment (See also Minowitz 1993, p. 8, 138; Montes 2003, p. 76). Modern hermeneutical scholars, in degrees, have supported the inconsistency school by discussing different narratives of the TMS and the WN, arguing that they address different audiences (Evensky 1987; Griswold 1999; see also Montes 2003; Tribe 1999).

In distinction to both the inconsistency school and the unity school, I follow, in the next section, a methodologically based approach to review the Adam Smith problem and suggest a solution to it. This approach agrees and disagrees in certain respects both with the inconsistency school and with the unity school. I show then that the TMS and the WN address fundamentally different research problems, one aiming at the study of human, moral motivation whereas the other dealt with the organisation of economic activity in the tradition of a political economy, which Smith so substantially pioneered through the WN. This insight, so I argue, has fundamental implications regarding how we can resolve the Adam Smith problem – on

1 Otteson (2000) aims to unify the other way round, claiming that self-interest already played a major role in the TMS.
methodological grounds, specifically in relation to the problem-dependent and heuristic nature of research.

3. A Methodological Reconstruction of the Adam Smith Problem

In order to unravel the Adam Smith problem from a methodological perspective, I fundamentally question a key assumption of the supposed problem. Writers of both the unity school and the inconsistency school postulate that there is some inconsistency between the TMS and the WN regarding the depiction of human motivation and that this represents a problem (which the inconsistency school acknowledges and which the unity school aims to explain ‘away’). However, why should inconsistency between the two books constitute a problem in the first place? Why should it be inconceivable that Smith subscribed to different views of human nature in the TMS and the WN? Can claims of ‘contradiction’ be resolved in another way than resorting to the approaches of the unity school or the inconsistency school?

I argue along these lines in the following by setting out methodologically what the idea of self-interest amounts to in the economic approach. I do so by reviewing not only the arguments of economists on this issue but also of philosophers of science, such as Popper and Lakatos. In this way, I critique the inconsistency school and the unity school from a methodological position. As a result, a third school of thought on the Adam Smith problem emerges which we can call the ‘difference school.’ I support my arguments with references from the TMS and the WN, illustrating that Smith himself, in very considerable degrees, understood ‘views on human nature’ methodologically different in the TMS as compared with the WN.

However, is this empirical and moral, behavioural criticism of economic man justified? A number of economists voiced caution. Hayek (1949), Friedman (1953), Machlup (1967), (1978), Becker (1976, 1993), Buchanan (1976, 1987a, 1987b, 1991), Homann (1990, 1994, 1997) or Wagner-Tsukamoto (2003, 2009a) can be quoted as examples. They essentially argued that economic man is the wrong target for empirical and moral, behavioural criticism. Why is this so? In mainstream economics, leaving a behavioural economics, economic psychology, or economic sociology aside, the model of economic man is understood, as Becker (1993, p. 385) exemplarily
outlines, as a ‘… method of analysis, not an [empirical, behavioural] assumption about particular motivations.’ The purpose of this ‘method of analysis’ is to instrumentally organise economic theory building and practical intervention – theory and practical results being then, of course, open to empirical testing and moral scrutiny. Specifically, ‘… the model of economic man organizes the situational analysis of decision-making. It focuses research attention on the individual’s rational reaction to incentive structures and the gains and losses they signal.’ (Wagner-Tsukamoto 2003, p. 41) Economics, classically and conventionally understood, only empirically and morally scrutinizes incentive structures and capital utilization, the latter being organized by incentive structures of one kind or another.

For the purpose of this analysis, economics ‘merely’ applies the model of economic man ‘… as a powerful tool to derive [empirical and moral] implications at the group or macro level …’ (Becker 1993, p. 402) – namely with regard to incentive structures (‘constraints’) and capital utilization, and the social, moral results both contribute to, such as mutual gains. This not only applies to neoclassical economics but much wider, to mainstream economics in general, including sub-fields as varied as institutional economics, constitutional economics, sociological economics, etc. Becker (1976, 1993), Buchanan (1987b, pp. 54–55), Suchanek (1993, pp. 3, 10), Homann (1994, p. 5), Abell (1995, p. 5), Vromen (1995, pp. 199–200) or Wagner-Tsukamoto (2003, pp. 39–43) explained this in detail.

Economic man understood in this way heuristically abstracts from human nature in any behavioural sense: ‘A theoretical scheme on such a high level of abstraction … makes people disappear from view and with them not only the motives and behaviour of individuals but also the structure of social relations and differentiated collectives in society.’ (Blau 1976, p. 5) Possibly surprisingly for some
social scientists, Blau argued along this line not for economics but for a macro-
sociology. A similar position is taken by Coleman (1990) or Suchanek (1992, pp. 40–43).

The important insight which here emerges is that the application of the model of economic man in mainstream economics is the wrong target for empirical and moral, behavioural criticism. Economics, conventionally understood, does not entertain a model of human nature that is open to empirical and moral criticism. Only for the purposes of behavioural sciences, such as behavioural economics, economic psychology, an economically oriented (micro)-sociology, a socio-economics, or a philosophy of the human mind, the model of economic man, understood as an empirical research tool, could be dismissed. However, this had to happen on methodological grounds but not by pitching economic man against the empirically testable models of human nature of behaviourally oriented social sciences.

Behavioural sciences conceptualize human nature in one way or another both in empirical-theoretical and in instrumental, methodical, ‘heuristic’ perspective. In the following, I want to deepen this insight by connecting to the philosophies of science of Popper and Lakatos and their ideas on problem-dependence and research heuristics.

3.1. Popper’s Philosophy of Science and the Adam Smith Problem

Popper (1978, p. 129) argues that scientists cannot understand reality as such. If attempted, they would be quickly lost because of complexity problems. Popper’s (1977, pp. 142–143; 1978, p. 350) references to ‘Occam’s razor’ and the ‘law of parsimony’ are illustrative. He suggested that complexity reduction happened in
scientific research as a matter of problem-dependence, namely that ‘… every rational
theory, no matter whether scientific or philosophical, is rational in so far as it tries to
solve a certain problem.’ (1978, p. 199, emphasis as in original) Similarly argue
159), Hands (1993, p. 70), or Machlup (1978, pp. 224–225). According to this
understanding, empirical phenomena as such are rather insignificant when it comes to
the organisation of scientific research.

With specific regard to economic research, Popper (1995, p. 355) argued in a
conventional, classical economic tradition ‘… that it is sound methodological policy
to decide not to make the rationality principle [the model of economic man], but the
rest of the theory – that is the [situational] model – [theoretically, practically,
empirically and morally] accountable.’ (See also Popper 1992, pp. 79–80; 1972, pp.
and the other economists I quoted above. In economics, empirical and moral research
is thus directed only at the situation and constraints (at ‘incentive structures’ in one
way or another) that frame human interactions over capital exchange.

Frequently, scientists touch upon this issue of problem-dependence. Machlup
(1967) does so in the conclusion of his paper on the ‘correctness’ of motivational
assumptions in economic theory (30–31): ‘I conclude that the choice of the theory
depends on the problem.’ Or, with specific regard to the Adam Smith problem, Coase
(1994, p. 113) notes that the TMS is a ‘study in human psychology’ whereas the WN
is a ‘study of the organisation of economic life.’ Similarly hint Campbell and Skinner
(1982, p. 172) when stating that the WN was not about ‘man’s psychology’ but that
‘sself-regarding propensities,’ as found in the WN, were important for discussing the
‘economic sphere.’ Evensky (2003, pp. 20–1) speaks of different ‘motivating centers’ for the TMS and the WN. Werhane (1991, p. 9) argues that ‘… differences in subject matter … should account in part for alleged inconsistencies …’ between the TMS and the WN. Similarly argues Pack (1997, pp. 136–138), Nieli (1986, p. 624), or Brown (1994), who suggest that differences in subject matter could explain apparent inconsistencies between the TMS and the WN. Others touched on problem-dependence when arguing that the WN is intentionally detached from the TMS as far as their respective views on human nature are concerned (Cropsey 1957), and that the TMS and the WN pursued entirely different explanations, one directly focused on human nature the other one not (Cummings 1969, chaps. 13 and 14).

However, as much as these authors briefly referred to differences in subject matter between the TMS and the WN, they did not spell out what kind of conceptual, methodological implications this has regarding the portrayal of human nature. It has to be clarified that in the understanding of Adam Smith, economics empirically focuses research attention on incentive structures and capital utilization and that consequently for the purpose of such analysis the model of economic man is only applied as a ‘method’ or ‘tool’, as Buchanan or Becker put it (See above). This is a fundamental insight since it implies that the model of economic man, as found in the WN, cannot be pitched against an empirical or moral, behavioural model of human nature in the TMS (or the empirically testable models of human nature of psychology, a micro-sociology, behavioural economics, socio-economics, etc.). Buchanan gets close to the point I make:

If one wishes to examine the extent to which a particular institutional order transforms private interest into public interest, it becomes entirely appropriate
to focus on a model of man in which private interest dominates. To model man as publicly motivated in making such a comparison would be to assume away the problem that institutional design involves – the problem that was central to Smith’s purpose [in the WN]. (Buchanan 1987b, p. 62)

Buchanan quite explicitly raises methodological issues of problem-dependence – even with respect to the WN. From here it is only a small step to fundamentally reassess the Adam Smith problem.

Many references can be found in the WN and in the TMS which suggest that Smith linked an exploration of human nature to different research problems in these two studies, indeed, that the WN was not interested in an exploration of human nature as such, whereas the TMS was. Already revealing in this connection is that Smith did not refer a single time to the TMS in the WN (Berry 2003, p. 185). Furthermore, radically different research questions mark out the TMS and the WN. For the first four Books of the WN, Smith summarized as research question: How can the revenue be explained that provided the annual consumption (‘wealth’) for a people in different ages and nations? (Smith 1776/1976, p. 11) As an analysis of Smith’s contemporary society, the WN constituted a fundamental, institutional and constitutional critique of the then prevailing political system of the mercantilist society, which was heavily regulated by import-export restrictions, duties of all sorts, grants of monopoly powers to selected, few producers, etc. (See, for instance, Skinner 1979, chap. 9, especially 216–21). In difference, the key research question of the TMS is already stated in its subtitle: What are the principles by which humans naturally judge conduct and character of neighbours and themselves? (Smith 1759/1966, p. iii) Whereas the WN is an analysis of economic governance of a society, the TMS is a moral philosophical
study of personal, virtuous character and how the human mind stirs such a character
(See also Skinner 1979, pp. 13, 16). The research goal of the TMS is, as its title
reminds us, to arrive at a *theory of moral sentiments*, which Smith accomplishes in the
final part (VII) of the TMS. Smith (1759/1966, pp. 391–2) then explicitly re-stated the
nature and purpose of the TMS by further specifying his research questions, and thus
his research problem:

First, wherein does virtue consist – or what is the tone of temper, and tenor of
conduct, which constitutes the excellent and praiseworthy character, the
character which is the natural object of esteem, honour, and approbation? And
secondly, by what power or faculty in the mind is it that this character,
whatever it be, is recommended to us? … [H]ow [does the mind] …
denominate the one right and the other wrong? … [Is] virtuous character …
recommended to us by self-love … that … promotes our own private interest
best?

I later return to the final question in the above quotation since it is important for
comparing both substantive and heuristic aspects of methodology of the TMS and the
WN.

In addition to deducing Smith’s stance on problem dependence from his
research questions in the TMS and the WN, he methodologically touches on research
problems in his *Essays on Philosophical Subjects* (EPS) and in the *Lectures on
Rhetoric and Belles Lettres* (LRBL). In the EPS, for instance, he talks about
‘wonders’ (Smith 1869, pp. 331–4) which stir on a philosopher or scientist: ‘If we can
recollect many such objects which exactly resemble this new appearance [the
wonder], and which present themselves to the imagination naturally, and as it were of their own accord, our Wonder is entirely at an end.’ (Smith 1869, p. 331, spelling as in original) In Popper’s terms, ‘wonders’ can be reconstructed as ‘research problems.’ I return to this issue of how Smith solved scientific problems, accounting for ‘wonders’, once I have set out Lakatos’s position on the heuristically organised nature of scientific problem solving. I then also show how Smith in a seemingly pre-empirical, heuristic manner related ‘imagination’ to a certain method of scientific thinking – he explicitly preferred the Newtonian method – and how he explained ‘wonders’ in this way.

3.2. Lakatos’s Philosophy of Science and the Adam Smith Problem

As much as Popper made some very insightful contributions on the problem-dependent nature of research, he did not say much on how problem-dependence was operationally linked to complexity reduction. The works of Lakatos, especially his proposals on research heuristics, fill such a void. Lakatos (1978, p. 148) argues that a research heuristic is a problem-formulation and problem-solving apparatus that grounds, drives and undergirds a scientific research program methodologically. He states that the ‘… heuristic … defines problems, foresees anomalies and turns them victoriously into examples according to a preconceived plan. … It is primarily the … heuristic which dictates the [researcher’s] choice of his problems.’ (See also Lakatos 1970, pp. 16–17, 93, 173) Backhouse (1994a, pp. 7–10; 1994b, pp. 173–174) and Blaug (1974, pp. 155–157; 1994, pp. 110–111, 114–115) deepen this insight.

Importantly, research heuristics reside ‘outside’ a theory; they are of a sub-theoretical,
pre-empirical and quasi-tautological nature (See Wagner-Tsukamoto 2003, pp. 5–8 and the literature quoted there). Hence, they are beyond empirical and moral scrutiny – but not so, of course, the theoretical and practical results that are generated with research heuristics.

As Becker exemplarily noted, the model of economic man has to be understood as a mere research method or research tool of economics (Further literature was quoted above). This insight can be analytically deepened by interpreting the model of economic man as a research heuristic. With this heuristic, economics focuses research problems theoretically and empirically on the situational analysis of incentive structures and how they efficiently and effectively govern mutually advantageous capital exchange. Understood as a research heuristic, economic man as such is beyond empirical and moral, behavioural scrutiny. This implies that the model of economic man, as we find it in the WN, cannot be the target for making comparisons about an image of human nature with an empirical and moral, behavioural model of human nature of the TMS.

As noted, any scientific research program draws on research heuristics in order to organize, in a problem-dependent way, theory building and empirical research. This implies for behavioural sciences, e.g. psychology, (micro-)sociology or behavioural economics, that they entertain both a heuristic model of human nature and a model of human nature that can be subjected to theory building and empirical testing. The former is, as in economic research, of a pre-empirical, sub-theoretical and quasi-tautological nature and methodologically organizes both theory building and practical intervention of behavioural research (Wagner-Tsukamoto 2003, chap. 3). The heuristic models of human nature which we can make out in this respect, for example, for psychology is the one of ‘pathological, neurotic man,’ (Herzberg 1966, p. 170), or
for moral philosophy, we find the model of the ‘immoral’ human being, even a model of the evil and sinful human being, as moral philosophy and theology have slightly differently put it (Wagner-Tsukamoto 2009a, 2009b, 2010). Or, for sociology, we find the heuristic model of sociological man, which Dahrendorf (1973) characterizes, in a heuristic manner, as a ‘deliberately unrealistic fiction.’ (7, 50, 58, 78) This duality of models of human nature in behavioural research may have given rise to many misunderstandings between behavioural scientists and economists. In particular, the claim has to be discounted that economics, conventionally understood as already set out by Smith in the WN, subscribed to an empirically incorrect or even immoral image of human nature. The debate on the Adam Smith problem deeply reflects this misunderstanding, too, especially if we followed the approach of the unity school.

Smith’s approach follows in considerable degrees what modern economics would call institutional or constitutional analysis and intervention. Most explicit are Books Three and Four of the WN. They explain economic progress in relation to certain types of institutional change and institutional innovation; Smith then links lacking economic progress to the institutions of the mercantilist society, which he is so critical of. At times, he even uses the notion of institutions and institutional reform (Smith 1776/1976, p. 511). Self-interest is the underlying, heuristic principle of this analysis. Or, as Buchanan (1975, p. 36) summed up:

Markets will emerge more or less spontaneously out of the self-interested behavior of individuals, and the results will be beneficial to all members of the community. … The genius of the eighteenth-century philosophers (notably

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2 Miller (1993: 24), for example, here complains that much Old Testament theology has been dismayed by the greedy and unfair character of Jacob – who so closely resembles economic man, I would like to add. Such aspects of Jacob’s character may have to be read in heuristic perspective in the first place (Wagner-Tsukamoto 2009a, 2010).
Mandeville, Hume, and Smith) lay in their discovery and application of this simple principle, which has been variously elaborated in modern economic theory, the principle which, directly or indirectly, served as the basis for organizing institutions responsible for post-Enlightenment economic progress in the Western world. (See also Buchanan 1975, pp. 170–171, 1976, 271–277)

Smith may not have been as explicit as Mill, who characterized economic man as an abstraction (Mill 1831/1967, p. 321; see also Heyne 2008, pp. 50–4), but Smith clearly sensed the abstract, pre-empirical, heuristic nature of the model of economic man in the WN. This is apparent in various ways. First, at the level of theory building and practical intervention, for instance on political economic systems, he conceptualized only governance systems (‘incentive structures’) and how they impact wealth creation in a society and among societies. Second, human nature and in particular the idea of self-interest as such is not an analytical or explanatory research goal of the WN. Smith takes ‘self-interest’ as an empirically unquestioned – heuristic – principle to develop economic theory. Indeed, as far as Smith analyzes even extreme versions of self-interest, such as ‘bad morals’, or what Buchanan or Williamsonson might call predation and opportunism, he does so only by projecting it to his theoretical, empirical approach on situational governance analysis and wealth creation. For example, Smith (1776/1976, p. 641) explicitly states that opportunistic, ‘private interest’ behaviour of administrators of large, monopolistic colony companies results from the governance situation but not from poor character or self-interested, even selfish ‘human nature’:
I mean not … by any thing which I have here said to throw any odious
imputation upon the general character of the servants of the East India
company, and much less upon that of any particular persons. It is the system of
government, the situation in which they are placed, that I mean to censure, not
the character of those who have acted in it. They acted as their situation
naturally directed, and they who have clamoured the loudest against them
would, probably, not have acted better themselves. … Such exclusive
[monopoly] companies … are destructive to those which have the misfortune
to fall under their government. (See also Smith 1776/1976, pp. 638–9, 819)

Similarly explicit is another statement of Smith (1776/1976, p. 752):

As from irresistible moral causes, the greater part of proprietors
[administrators, managers] of such a [large, or monopoly] company are, and
necessarily must be …, from the nature of things [being put to lead such a
company], so perfectly indifferent about the happiness or misery of their
subjects … [and] the glory or disgrace of their administration.

These are not exceptional statements in the WN. Smith repeats this type of criticism
(a) when discussing other large British and foreign monopoly companies (Smith
1776/1976, pp. 570, 635–41, 741, 744–55), (b) when analyzing ‘vested interests’ and
the ‘interested falsehood’ of mercantilist traders and manufacturers (Smith 1776/1976,
pp. 496, 499, 506, 517, 523), (c) when examining problems of agricultural
management systems that rest on misaligned (self-)interests of land owners and
‘freemen’ who work for land owners (Smith 1776/1976, p. 391), (d) when talking
about the bad effect that large company size has on morals (Smith 1776/1976, p. 101; see also Smith 1776/1976, p. 795), and (e) when criticizing the system of university education and church organization for encouraging opportunistic behaviour of their members (Smith 1776/1976, pp. 760, 763, 788–90). The problem of managerialism, as Berle and Means (1932) referred to this issue much later, clearly surfaces in the WN both in managerial and in political respects (see also Smith 1776/1976, p. 741). I find Smith in these respects anything than ‘cautious’ and ‘elusive’, as claimed by Rothschild (2001, pp. 66–7), regarding stating his opinion on the current political situation of mercantilist Britain.³ Albeit Smith’s purpose in the WN is clearly not to behaviourally ‘censure’ or behaviourally reform the self-interested, even selfish character of economic agents for itself, he critiques the prevailing political, economic system in a very outspoken and direct manner. The ruin of morals is empirically and morally analyzed and explained as a matter of circumstance (‘government situation’) – but not selfish character or self-interested ‘human nature’ as such. In order to conduct this political and managerial ‘governance’ analysis, Smith needs the idea of self-interest as an undergirding, heuristic principle. Smith does not even give up this principle of analysis, despite his explicit acknowledgement that negative forms of self-interest may be empirically very rare (Smith 1776/1976, p. 709). This stresses that Smith, at least in degrees, was aware of the empirical irrelevance of heuristic ideas.

Equally, ‘good morals’ – Smith (1776/1976, pp. 101, 687) speaks, for example, of ‘industrious’ behaviour – are traced by Smith to ‘everyone’ managing for own profit and self-interest. This is Smith’s consistent analytical, heuristic way of conceptualizing in the WN. In a subsequent step, the WN projects industrious

³ At other times, Rothschild (2001: 2) states that Smith was interested in restoring freedom to economic policy, and that he linked the invisible hand to institutional reform (Rothschild 2001:148-9).
behaviour to larger societal goals, specifically the idea of *mutual gains*. This happens not only for those directly involved in an exchange but for society in general. Smith outlines that the ‘wealth of nations’ is at stake and not just the happiness of one, selected nation or a few individuals (e.g. Smith 1776/1976, pp. 566–7, 572–7, 612, 630).

The moral stature of the WN has to be deduced from this vantage point – with respect to Smith’s normative goal of institutional analysis and reform, and its objective of mutual gains, the wealth of nations. Many, even informed interpreters of Smith overlook this moral stance of the WN, e.g. Skinner (1979, p. 237) when he concludes on moral aspirations of the WN. In general, moral critique of economics should not be targeted at its underlying, heuristic model of human nature – the model of self-interest, even extreme kinds of opportunism. This model is only instrumentally, heuristically useful and necessary in the Smithonian approach to economics. As Smith so vehemently stressed, the ‘beauty’ of this approach to

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4 As noted, economics, in the classical understanding of Smith, is normatively geared towards the *wealth of nations*. It is not about wealth creation for an individual nation and even less so for a small group of people or even a single individual. Mandeville spoke of ‘public good’; Buchanan or Williamson referred to this normative issue as ‘mutual gains.’ From here, economics’ image of human nature and moral status as a social science has to be deduced (Buchanan 1975: 36, 170–171, 1976, 271–277). Clearly, economics has a distinctive, ethical understanding of ‘mutuality,’ albeit a conceptually different one as compared to other traditions, such as communitarianism (e.g. Etzioni 1988; or similarly Riha 1990: 58–59). It is a clear misstatement to argue that economics in the tradition of Smith lacked a concept of mutuality or reciprocity or sociability, as Etzioni or Riha and others suggested. Some even diagnosed a ‘paradoxical simultaneity of ... conflict and community [mutuality, social reciprocity] in individual interests’ for the WN (Werhane 1980: 167; see also Gramm 1980: 128). In economics, conventionally and classically understood, the normative vision of mutual gains steers self-interested agents to handle and resolve a claimed ‘paradoxical simultaneity of ... conflict and community’ and this is channelled and organized through economic institutions and economic constitutions, as Smith was already aware of and as it was so fundamentally clarified by Buchanan and Williamson. Social, moral-behavioural constraints on self-interests as such are not needed to achieve this goal, as wrongly proposed by Gramm (1980: 129) and many other behavioural economists and socio-economists. In addition, many further ethical ideals that can be attributed to economics. They can be derived by looking at the particular features that set out market interactions in a market economy, such as ‘invisible’, non-interfering democratic rulers over capital exchange, self-organizing social exchange, the motivational and cognitive autonomy of the individual, tolerance of value pluralism, and the growth of knowledge and enlightenment (See chap. 8 of Wagner-Tsukamoto 2003; also Wagner-Tsukamoto 2009a, 2010). Behavioural critics frequently overlook such ethical features, as they were already clearly reckoned by Smith in the WN.
institutional analysis and reform is that gains to society, even the international society, result unintentionally: ‘A revolution of the greatest importance to the public happiness, was in this manner brought about by two different orders of people, who had not the least intention to serve the public.’ (Smith 1776/1976, p. 418) Smith’s famous ‘invisible hand’ quotations can be referred to at this point, too (Smith 1776/1976, pp. 456, 687). These statements on situational governance, mutual gains as normative goal of governance, and self-interest as underlying, heuristic principle of analysis mark out Smith’s approach.

Smith’s methodology as such remains comparatively implicit in the WN. In considerable degrees, it has to be deduced from the way he states and repeats ideas at a theoretical and normative level of analysis of the WN and the way he speaks about self-interest. He does not entertain in the WN an explicit methodology debate as, for example, modern economists like Friedman, Buchanan or Becker did in their research. Still, as demonstrated above, from the way Smith states his theoretical ideas and the way he integrates self-interest as a ‘non-empirical’ but conceptual, heuristic principle of analysis into the WN, it is clear that the WN is not intended to be an empirical, behavioural character study of human nature. At times, however, Smith enters, in degrees, even in the WN a methodology debate. Smith (1776/1976, pp. 26–7) famously declared that it is the self-interest of the butcher, brewer or baker which should them make exchange goods with customers. At a later point of the WN, he explicitly transfers this very statement of analysis to the discussion of free trade and goods exchange between manufacturing countries and wine producing countries (Smith 1776/1976, pp. 491–2). He then argues that exchange and trade among nations follows the same principle: self-interest, so Smith states, is the driving force for organising exchange not only among ‘workmen’ (the butcher, brewer, and baker and
their customers) but also among nations. This explicit transfer of principles of analysis from a micro-level to a macro-level is at least of a quasi-methodological nature. In this way, Smith examines any ‘industrious behaviour’, organized either through the market or through non-market exchange, by heuristically grounding analysis in the idea of self-interest.

We find another quasi-methodological statement in the WN when Smith (1776/1976, pp. 493–4) brandishes mercantilist interests of some traders and manufacturers:

In every country it always is and must be the interest of the great body of the people to buy whatever they want of those who sell it cheapest. The proposition is so very manifest, that it seems ridiculous to take any pains to prove it; nor could it ever have been called in question, had not the interested sophistry of merchants and manufacturers confounded the common sense of mankind. Their interest is, in this respect, directly opposite to that of the great body of the people.

Smith’s reference to ‘sophistry’ – a flawed method of argumentation, a fallacy, casuistry – again classifies at least as a quasi-methodological statement. Had he put forward this idea in response to philosophical or other scientific supporters of the mercantilist system (rather than in response to ‘practical’ supporters of this system, such as certain merchants and manufacturers), an explicit methodology debate would have been entered. Nevertheless, Smith’s argument against sophistry has at least quasi-methodological connotations. Also, Smith again argues, in the above quotation, that self-interest as motivating force for exchange does not need any – empirical –
proving. This emphasises again the pre-empirical, heuristic nature of this principle of analysis in the WN.

Although Smith may not have conducted an explicit methodology debate in the WN, his thinking in the WN clearly reveals that self-interest is not an explanatory variable which needed to be empirically and morally scrutinized as such. For some of his other studies, most notably the EPS and the LRBL, a methodology debate on research heuristics can be more explicitly reconstructed – and this can be projected back to his heuristic treatment of the idea of self-interest in the WN. I turn to this now.

When I discussed Popper and research problems, I noted that Smith (1869, pp. 333, 336, 344, 352) spoke in the EPS of ‘wonders.’ Smith argued that philosophy and science need to account for wonders – through ‘imagination’ and an ‘imaginary machine’: A simple but not ‘intricate or complex’ ‘imaginary machine’ is to explain ‘two seemingly disjointed appearances’ (Smith 1869, pp. 352–3). His two key heroes of methodology are here Copernicus and Newton; he discusses them, in the EPS, when analyzing the history of scientific progress in astronomy (Smith 1869, pp. 358, 378–82).

Smith was in this respect clearly aware of the nature and structure of ‘scientific revolutions’ (Schliesser 2005, pp. 704–5; Skinner 1979, p. 35). He discussed in the EPS various principles how ‘imagination’ and ‘method’ drove a process of accounting for ‘wonders’ and how this process improved over time (generating simpler explanations; explaining all features/previous discrepancies of a wonder; etc.). His language and terms can be translated into concepts of research problems (wonders; see above) and a heuristic problem solving apparatus (imagination, methods). In this connection, Smith was aware of specification
tendencies of emerging sciences, for instance, of astronomy, which in Smith’s understanding began to separate itself from common sense and ‘other’ philosophical inquiries. In the LRBL, Smith further argued that this increasing specification process was largely caused by the growing heuristic grounding of emerging sciences and by a turn away from the empiricist Aristotelian (Greek) method, which ‘… go[es] over different branches [of phenomena] in the order they happen to be cast up to us, giving a [different] principle, commonly a new one, for every phenomenon.’ (Smith 1762–3/1963, pp. 139–140) In difference, he interpreted the Newtonian method as follows:

[I]n the manner of Sir Isaac Newton, we may lay down certain principles, primary [uncertain] or proved, in the beginning, from whence we account for the several phenomena, connecting all together by the same chain. This latter, which we may call the Newtonian method, is undoubtedly the most philosophical, and in every science, whether of Morals or Natural Philosophy, etc., is vastly more ingenious, and for that reason more engaging, than the other. It gives us a pleasure to see the phenomena which we reckoned the most unaccountable, all deduced from some principle (commonly, a well-known one) and all united in one chain, far superior to what we feel from the unconnected [Aristotelian] method, where everything is accounted for by itself, without any reference to the others. (Smith 1762–3/1963, p. 140)

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5 In the History of Astronomy (EPS), he touched on this issue. Smith’s philosophy of science could have made more explicit at this point that ‘different’ sciences began to use very different – heuristic – principles to account for ‘rules and phenomena.’
This discounts the purely empirical approach of the Aristotelian method, suggesting a very strong scepticism of Smith regarding the Greek method, in my view a much stronger one than attested to by Schliesser (2005, p. 727). Importantly, with regard to the Newtonian method, Smith stressed its pre-empirical, heuristic nature – an ‘uncertain or proved’ principle, ‘commonly, a well-known one’ providing the starting point for theory building and empirical research. This links well to Popper’s understanding of the insignificance of empirical phenomena in starting up scientific research as it does link well to Lakatos’s philosophy of science regarding the role of heuristics in scientific problem-solving. Smith’s reference in the LRBL to a ‘commonly, well-known principle’, whose empirical validity did not matter (‘primary [uncertain] or proved’), can be projected to the way he applied the idea of self-interest in the WN. He then followed the Newtonian method, rather than the Greek method, applying a ‘well-known’ principle – the idea of self-interested behaviour – in order to account for very many activities concerning the organization of a society, and he used, so my argument, the idea of self-interest in a rather consistent, heuristic manner only. This qualifies, at least in degrees, Schliesser’s (2005, p. 720) comment that the EPS used predominantly a ‘language of truth and reality.’ The insight also questions Rothschild (2001, pp. 237–8) who argues that the WN were methodologically unsystematic. She develops this criticism by connecting to Turgot who upholds the empiricist Aristotelian method for scientific analysis, critiquing Smith in this respect. Only from the point of view of the empiricist Aristotelian method, Smith may appear as unsystematic, but not so from the perspective of the Newtonian method.

The approach of applying the principle of self-interest to social analysis was not ‘invented’ by Smith. Mandeville had popularized it in his book the *Fable of the Bees*, which Smith (1759/1966, pp. 451–6) initially, in the TMS, was highly critical of
(but then in the context of a moral philosophy of virtuous behaviour). In the WN, however, he seems to have been inspired by many of Mandeville’s insights, as for instance, noted by Goldsmith (1988, pp. 604–5; see also the Buchanan quote above). Smith even knew that such a ‘transfer’ of ideas often drove scientific revolutions. He commented in the EPS on the process and causes for paradigms shifts, that a revolutionary idea, despite having been discovered a long time ago, only many generations of researchers later grew into a full theory. For instance, in his discussion of the history of astronomy, he referred to Plutarch who had anticipated many of Copernicus’s ideas. When pioneering the WN, he drew in a similar manner on Mandeville, however, without explicitly acknowledging this. Still, it can be speculated that his knowledge of the nature of paradigm shifts, which he gained through his reflections on the history of astronomy, helped him to transfer knowledge from Mandeville’s studies to his own work on economics.

In stark contrast to the WN, the TMS does entertain at a theoretical level a behaviourally and empirically testable model of human nature, which is not a ‘principle’ or ‘method’ in the sense explained by Smith for the Newtonian method. In the TMS, human nature is not only empirically examined but also morally scrutinized, specifically in relation to concepts of virtue, passion, empathy, sympathy or benevolence. Smith was clearly aware of such an ‘empiricist’ model of human nature in the TMS, which both in substance and method followed the Greek tradition. I discussed the research questions of the TMS above, especially the ones of part VII, when Smith sets out his theory of moral sentiments. He then also explicitly asked whether self-interest could account for virtuous behaviour: ‘[Is] the virtuous character

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6 Smith’s criticism of Mandeville in the TMS may have been invited for a good reason: Mandeville phrased many of his arguments on self-interest, and selfish, vane behaviour in rather empiricist, behavioural, non-heuristic terms. Mandeville, in this respect, provoked a behavioural, empiricist moral philosophy, as followed by Smith in the TMS. Only in the WN, Smith began to methodologically ‘see through’ this issue.
recommended to us by self-love … that … promotes our own private interest?’ (Smith 1776/1976, p. 392) Smith’s answer to this question is dismissive: He discounts self-interest as motivating force of virtuous conduct, affirming for the TMS that a fuller consideration of human nature – ‘some principle in human nature, such as a modification of sympathy’ – accounts for virtuous conduct (Smith 1759/1966, p. 391). His theory of moral sentiments, as outlined in the TMS in the final sections of part VII (especially 472–80), then discusses such virtuous workings of human nature.

The TMS is in this respect a rather typical theory in the tradition of a moral philosophy or a – moral – ‘study in human psychology,’ as Coase (1994, p. 113) correctly put it (Similarly Skinner 1979, pp. 16, 18). Human nature as such is empirically, theoretically and morally analyzed and explained. However, the WN is no such study of virtuous character and human nature, as I outlined in detail. Economics, conventionally and classically understood in the tradition of Smith’s WN, does not entertain an empirical, behavioural model of human nature for itself as far as theory building and practical intervention are concerned. The above discussion and quotations from the WN, EPS and LRBL forcefully underlined this point. The image of human nature and the moral status of the WN needs to be deduced differently – from the theoretical and practical results the research program of economics yields regarding concepts such as incentive structures (‘systemic governance’), capital utilization, and mutual gains as normative interaction outcome.
4. Conclusions

Smith today largely stands out not because he wrote the TMS, being a moral philosopher of human nature that followed in the footsteps of Hutcheson. Rather, Smith left his mark in history because he was the pioneer and founding father of the economic approach, as reflected by the WN. Smith knew that the WN was not ‘portraying’ human nature when he invoked that idea of self-interest. Still, Smith was comparatively implicit on methodology in the WN (but less so in the EPS and the LRBL, especially when he commented on the Newtonian method). We have to be forgiving in this respect, especially since a methodology of economics was at best emerging in his days. We may be less forgiving to modern, heterodox or behavioural economists, socio-economists, social scientists, and philosophers of human nature who criticize the model of economic man simplistically on empirical, behavioural grounds as an actual motivating force of human behaviour. Simon, Coase, Sen, Williamson or Etzioni can be exemplarily mentioned. They largely critique the idea of self-interest in the economic approach as an incomplete and empirically, behaviourally flawed image of human nature. This critique ignores fundamental methodological and heuristic differences regarding the modelling of human nature in competing social science research programmes.

Only a change in methodology – from the empiricist, behavioural Greek method, as largely followed by Smith in the TMS, to the heuristically inspired Newtonian method in the WN – enabled Smith to pioneer a new approach to political economy, what we know today as ‘the economic approach’ (conventionally understood). Smith understood that the WN reflected a deep break with previous,
behaviourally oriented, philosophical research on human nature (as he had conducted himself in the TMS) and he clearly sensed the methodological implications of this break. The paper projected this change in methodology to the Adam Smith problem, arguing that the Adam Smith problem can be resolved on methodological grounds by connecting to the philosophies of science of Popper and Lakatos. The key thesis emerged that concepts of human nature are methodologically rather differently handled in the WN as compared with the TMS. The paper stressed that the model of economic man in the WN is primarily a heuristic tool but not an empirical, behavioural statement about human nature and even less a moral expectation regarding how human beings should behave.

This insight has manifold implications for a methodological reconstruction and methodological resolution of the Adam Smith problem. On grounds of problem-dependence, I acknowledge methodological differences in the modelling of human nature between the TMS and the WN. In particular, I dispute that both Smith’s behavioural ethics, as set out in the TMS, and Smith’s economic research, which he pioneered in such a ground-breaking way in the WN, cherished the same, empirically ‘correct’ and morally agreeable, behavioural image of human nature.

Purely empirical and moral, behavioural evaluation strategies of Smith’s economic work, as of the economic approach in general, reflect a methodologically unsophisticated and comparatively naïve form of holism and empiricism that overlook issues of problem-dependence and the heuristic nature of scientific research programs. Popper (1957) may even speak in this connection of ‘pre-scientific’ criticism (70, 87), especially so when an empiricist, behavioural critique of the TMS, which explores human nature for itself, is projected onto the essentially non-behavioural research program Smith set out in the WN. Regarding the idea of pre-scientific criticism, the
works of Buchanan (1991, p. 18) or Meyer (1995, pp. 12–14, 303–305) could be also connected to.

At times, behaviourally oriented scientists and philosophers touch upon the issue of problem dependence and research heuristics. For instance, Coase (1994, p. 113) famously noted that the TMS reflects a moral ‘study in human psychology’ whereas the WN is a ‘study of the organisation of economic life.’ I mentioned further examples above. However, such fundamental insights are not followed up regarding methodological implications on the problem-dependent and heuristic nature of certain concepts of scientific research, such as the model of human nature.

Moral philosophy or, similarly, behavioural economics, economic psychology or an economically oriented (micro-)sociology apply, in addition to a heuristic model of human nature, also a model of human nature in theory building and practical intervention, which is empirically testable (See Wagner-Tsukamoto 2003). For the works of Adam Smith, this is the case for the TMS, too. We find in such studies a duality of heuristic and theoretical/empirical models of human nature. In contrast, in economic research, classically and conventionally understood, a model of human nature only plays a pre-empirical, methodological, heuristic role for undergirding and instructing situational theory building and practical intervention of economics (regarding capital utilization that is governed by incentive structures).

On grounds of the methodological reconstruction of the Adam Smith problem put forward in this paper, I agree and disagree in certain respects, with both the inconsistency school and the unity (or consistency) school on the Adam Smith problem. I agree with the inconsistency school that this school is right to suggest that there is a fundamental difference between the TMS and the WN. The paper illuminated this difference by suggesting that the moral image of human nature of the
TMS is ‘part of’ the actual theoretical and empirically testable approach of this treatise whereas the self-interested model of economic man of the WN reflects the pre-empirical, heuristic problem-solving apparatus of economics. However, I fundamentally disagree with the inconsistency school regarding its suggestion that the portrayal of human nature in the TMS and the WN could be conducted at the same methodological level, namely the level of actual theoretical concepts and their empirical testing. Only for the TMS this is the case but not for the WN.

I also agree in certain respects with the unity school on the Adam Smith problem, namely regarding its final diagnosis that there was no inconsistency problem between the TMS and the WN. The present paper developed this proposal by differentiating the heuristic nature of the model of economic man in the WN from the empirically testable role a model of human nature plays in theory building and practical intervention in the TMS. However, in contrast to the unity school, my analysis of the Adam Smith problem still allows for considerable differences between the image of human nature of the TMS and the WN – namely at an empirical and a moral, behavioural level of portraying human nature. The paper very clearly rejected attempts of the unity school to read the same virtuous, passionate, benevolent and sympathetic image of human nature into the WN as it dominates the TMS.

It is remarkable that neither Adam Smith scholarship nor researchers on economic methodology previously linked issues of problem-dependence and research heuristics to the Adam Smith problem. This is the more surprising in view of the many references we find in the WN and in the TMS that support this argument. Interpreted in this way, the Adam Smith problem greatly dissolves. ‘Inconsistencies’ between the TMS and the WN are acknowledged as a matter of both works developing rather different research programs. Because of this, they apply different
research heuristics, as reflected by their different heuristic models of human nature (in addition to different concepts at the level of theory building and practical intervention). A new school on the Adam Smith problem emerges which we can call the ‘difference school.’ This school contests on methodological grounds both inconsistency school and unity school. The difference school stresses the lacking problematic nature of the Adam Smith problem. Following this approach to the Adam Smith problem, we neither diagnose ‘inconsistency’ nor subscribe to attempts at ‘unity’ but accept methodologically necessitated difference between the TMS and the WN. In this way, the Adam Smith problem greatly diminishes.
References


