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# Will the Real Adam Smith Please Stand Up?: Teaching Social Economics in the Principles Course

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## WILL THE REAL ADAM SMITH PLEASE STAND UP? TEACHING SOCIAL ECONOMICS IN THE PRINCIPLES COURSE

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Part of the difficulty of introducing social economics into the principles course is the perception that social economics is anathema to mainstream economics.<sup>1</sup> As noted by Warren Samuels, however, “neoclassical economics is already a form of social economics” despite its “pretensions of methodological individualism and value-neutrality” [Samuels, p. 2]. Heilbroner also makes the case that the “...the preponderance of great economists were aware of economics as explanation systems of particular socio-economic formations” [Heilbroner 1996, p. 45].<sup>2</sup> Like it or not, economists err in omitting from their models what McCloskey calls “S” variables--variables representing the “social embeddedness” of values which direct human choices [McCloskey 1997, p. 113].

This essay discusses a technique for teaching social economics in Principles of Economics using readings from a great economist, Adam Smith. But who is the *real* Adam Smith? Max Lerner says Smith, “gave a new dignity to greed,” and “sanctified predatory impulses” in society, all of which sounds ominous from a social economic point of view [Lerner, p. ix]. As social economists are well aware, however, there is a much-neglected side to Adam Smith, whose sentiments provide

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<sup>1</sup> The flyer to the 1998 World Congress of Social Economics advertises that, “Social economists think about economic affairs in ways substantially different than mainstream economists. Social economists recognize *two* organizing principles, competition and cooperation, as activating economic affairs” (emphasis added). The Constitution of the Association for Social Economics identifies social economics as “... the reciprocal relationship between economic science and broader questions of human dignity, ethical values, and social philosophy” [Elliott, p. 15].

<sup>2</sup> Examples of great economists one might wish to cite include Adam Smith, John Stuart Mill, Alfred Marshall, Vilfredo Pareto, Joseph Schumpeter, and others.

a moral foundation for commerce [Samuels; Waters; Heilbroner 1982]. It is this Adam Smith that principles students might wish to understand.

Before proceeding to a discussion of *how* to introduce social economics into the principles course, it is helpful to examine *why* one might wish to do so. The next section addresses two related questions: What are the goals of the principles of economics course? How does social economics advance these stated goals better than alternatives?

### **Objectives and Methods in Principles of Economics**

The heterogeneity of most principles students creates a multitude of possibly overlapping and conflicting course objectives. (a) Liberal arts students need to learn to think critically [VanSickle; Petr 1990], to write informed essays [Crowe and Youga; Davidson and Gumnior], to become better citizens via knowledge of public policy decision-making and current debates [Barber, p. 101; Hansen 1986], and to learn economic theory as embedded in history and institutions [Bateman]; (b) business students need all this plus technical tools [Siegfried and Bidani]; and (c) economics majors must master all of the above plus sufficient theory to go on to advanced courses and possibly to graduate school [Barber, p. 101].

Social economists are not the only ones demanding more class time in principles. Critics insist that international [Boskin], evolutionary, institutional [Yeager; Dillard], gender, poverty, and environmental issues should all receive greater attention. Electronic technology skills are also needed [Wight; Agarwal and Day]. In short, the principles course cannot possibly achieve all its imaginable objectives. Having established that opportunity costs are high for introducing any new elements into an already overburdened course, it must be shown that the returns to social economics are high, and/or the costs of instructing it are low, in order to justify making such changes.

Differences in the makeup of students in a course have been found to affect course requirements [Siegfried and Bidani]. By corollary, net returns to teaching

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social economics probably differ depending on the makeup of students in a course. Regrettably and paradoxically, the net returns to learning social economics may be higher for business and general liberal arts majors than for economics majors. This is because the exposure of non-majors is often limited to the principles sequence. Siegfried et al. [p. 207] report, however, that the typical economics course pays little attention to integrating economics into a broader liberal arts perspective. National content standards in economics are similarly bereft of the wider context in which economic activity takes place [Conrad p. 168]. But as noted by Robert Solow, “the part of economics that is independent of history and social context is not only small but dull” [Solow, p. 56]. Teaching principles of economics from a social economic perspective therefore allows non-majors to more easily assimilate and integrate economic analysis within their own majors, whether they be in history, political science, psychology, or marketing.

The case for teaching social economics to economics majors is more complicated. Getting a leg-up on formal model-building, mathematical treatments, and other technical aspects of neoclassical theory provides an advantage for principles students going on to required intermediate level courses [Barber, pp. 92-93]. The opportunity cost for economics majors to learn social economics is higher, and the *short-term* benefits of learning it lower, since much of what majors may learn of social economics in principles is not used in intermediate courses. Moreover, if one imparts to principles students a social economic viewpoint, and these students major in economics expecting intermediate courses to be similar, one runs-into the issue of false advertising. This is a lament heard occasionally from majors who loved principles but hated the narrowness and seeming isolation of advanced theory courses from real world issues.<sup>3</sup> Along this same line, the AEA’s Commission on Graduate

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<sup>3</sup>Becker notes: “Although students may be able to handle the mathematics of economics, it may be that they do not see its relevance. The liberal arts education is to be a broadening experience but the incorporation of mathematics into economics tends to be a narrowing experience that focuses on the technical skills of the theorist” [Becker, p. 1358].

Education warned that graduate programs were producing “too many *idiot savants*, skilled in technique but innocent of real economic issues” [cited in Barber, p. 98].

The *long-run* benefits of learning social economics for economics majors are decidedly higher than the short-run benefits. Only a minuscule percentage of economics majors advance to graduate work where formal theoretical models will be put to use. As a consequence, Lee Hansen’s list of proficiencies for non-graduate school bound majors are “quite neutral with respect to the *content* of the economics major” [Hansen 1986, p. 151; emphasis added]. That being the case, the issue is, what is most valuable for non-graduate school bound students to learn? More than 70 percent of economics majors enter the workforce directly after graduation, with almost half of these finding jobs in general management, sales, and marketing [Siegfried and Raymond 1984, p. 24]. These are business fields in which a more encompassing economic paradigm (addressing social, historical, institutional, and moral concerns) potentially offers career advantages over technically-focused economics [Etzioni, p. 237].

My principles of economics course is taken mostly by pre-business students; the remaining students (including economics majors) are all liberal arts students. The course is organized around public policy issues as a vehicle for introducing economic concepts and theories in a broader context [see Petr 1971]. Indeed, political economy is itself the focus of Adam Smith’s *The Wealth of Nations* (henceforth WN). The social economic approach is not only useful in such a public-policy oriented principles course--it is a necessity if students are to learn critical thinking. Manoucher Parvin notes, however, that:

Neoclassical economics, as normally taught in the United States, not only effectively argues away most economically relevant human choice, with the exception of the market, but it actually helps to produce or to solidify economic man by reducing virtually all types of human relations to that of market exchange alone ... [Parvin, p. 76]

Parvin goes on to charge that, "Neoclassical economics has an ideological impact on students. It enhances political conservatism, individualism, and materialism"[Parvin, p. 76], a charge supported by Frank [1996] and Frank et al.

While many principles instructors ostensibly prefer to focus on "positive" economics, leaving "normative" issues aside [Siegfried and Meszaros, p. 142], this approach is somewhat disingenuous. It should be obvious that teaching "the economic way of thinking," as many teachers and textbooks ascribe to do, requires a *normative* assessment that this way of thinking is preferable to alternatives. Faculty who spend the majority of class time assessing "efficient" market outcomes may pass on to students a not-so-subtle bias that messy details of "fairness" and other values are not worth considering. Moreover, active learning requires student involvement. To engage in active learning, analysis of economic issues must culminate in decision-making.

The importance of this final step is demonstrated in a critical thinking exercise I give my students regarding scarcity and trade-offs. Students play the role of gatekeeper at a non-profit HMO, needing to decide whether to grant a \$500,000 operation to a terminally-ill child. The child stands a small chance of survival *with* the highly experimental procedure, and zero chance of survival *without* it (a real-life story). Students are asked to evaluate the impact that approving, or not approving, the operation would have on the possibly conflicting values of economic efficiency, fairness, freedom, sanctity of life, and other values. I remind students of Hume's dictum that, "Reason is, and ought to be, the slave of the passions," and impress upon them that only by thoughtfully considering and weighing their *own* values can they arrive at the "best" policy options for *themselves*. Students are told that their grade on this assignment depends upon their analysis of trade-offs, not on their final decision.

Despite all my efforts, students implicitly assume that since this is a course in economics, they "ought" to value economic efficiency most highly--a reflection, perhaps, of the overriding but unconscious weight given to economic terminology

[Hausman and McPherson, p. 675; Viner, p. 119]<sup>4</sup> and assumptions [Piderit, p. xx]. More than one student submitted a decision as HMO gatekeeper to *deny* the operation. But in highly emotional asides to me, they related that “personally” they did not agree with this decision: if they could have answered as a “person,” rather than as HMO administrator, they would have *granted* the operation! The notion that institutions are comprised of real people, and that only real people, not imaginary bureaucracies, can make decisions, seems to be lost.

This is the dualism that students develop: they hold up the caricature of “economic man” as a model for making “right” economic and business decisions--at the same time distancing themselves personally from the decisions made by this caricature, a caricature which does not reflect their inner world. Psychologist Paul Goodman wrote a wonderful book *Growing Up Absurd* about what it is like for young people to grow up in a commercial system and feel utterly alienated and disassociated from their true values and feelings. Indeed, the loss of meaning in economics has been decried [Benton]. Such a state of affairs is hardly conducive to good business. Warren Bennis, a scholar of leadership in business, makes the distinction: “Leaders are the people who do the *right* thing; managers are people who do *things* right” [Bennis, p. 76; emphasis added].

As witnessed in this example, the image of “economic man” which students may unconsciously hold creates potential difficulties for their decision-making. While *homo economicus* is a 19<sup>th</sup> century caricature, it represents the extreme version of what is decidedly anti-social about current economics. Charles Kindleberger notes, “The myth of *Homo sapiens* as economic man, continuously maximizing wealth or income or some other economic variable like utility, subject to constraint, retains a strong hold on the economics profession,” despite the fact that “few take the

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<sup>4</sup> Viner says, “it is hard to fully execute this separation [between positive and normative] because many of the standard terms used in economic analysis carry with them an almost automatic normative or evaluative implication: for example, “productive,” “utility,” “value,” “equilibrium” [Viner, p. 119].

notion of economic man literally either as description or as prescription” [Kindleberger, p. 86].<sup>5</sup>

Exploring this concept may prove useful for students in integrating their intellectual lives with lives of meaning. And it may also prove useful in allowing them to understand a range of economic outcomes not readily explained by traditional assumptions [Hausman and McPherson; Frank 1987]. Teaching social economics to principles students can modestly address, if not solve, these problems.

### **Teaching Social Economics Using Adam Smith**

One of the ways to increase the net benefits of teaching social economics in principles is to allow “great” economists to make the essential arguments. This paper discusses the use of Adam Smith in such a role. The benefits of this approach are fivefold. First, the recognized authenticity, relevance, and stature of Adam Smith immediately lowers the resistance students might have to studying the material.<sup>6</sup> Second, Smith’s writing is colorful, humorous, and at times biting; primary source readings provide students with a rich pedagogical experience [Boulding; Hansen 1988]. Kenneth Boulding, who regularly assigned WN, notes that the

student gets a certain feeling for a peak achievement of the human mind ... A student whose only acquaintance is with mediocre books and with mediocre minds has lost something of the sense of potentiality of the human organism ... [Boulding, p. 235].

Third, the use of an historical figure like Smith requires placing him in the context of his time. It contributes depth to students’ understanding when they discover that markets did not appear in a vacuum, but in opposition to mercantilism. Fourth, most of the reading and analysis can be done outside of class, lowering presentation costs. And fifth, the richly informative “Glasgow Editions” of Smith’s

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<sup>5</sup> For a discussion of the historical origins of “economic man” see Lutz and Lux.

<sup>6</sup> Being a household name confers automatic acceptability, not just by students, but also by colleagues and deans. Reducing the “social frictions” of teaching social economics in a neoclassical world may be an issue for untenured faculty.

works are accessible now in inexpensive quality paperbacks, making it easier for students to go beyond required readings to explore Adam Smith on their own. A drawback to using an historical figure like Smith is that students do not acquire familiarity with contemporary writers in this field. This can be ameliorated by providing an annotated list of recent scholarship.

Adam Smith and *Homo Economicus*. Adam Smith's social economic views were the subject of a 1976 special issue of the *Review of Social Economy*. Despite this and numerous other careful attentions, Adam Smith's complex vision probably still surprises many neoclassical economists, who continue to view him with "naïve simplicity" [Waters, p. 242]. That makes Smith's use as a foil for "economic man" somewhat ironical and paradoxical. Smith synthesized philosophy, history, economics, politics, sociology, and psychology under a grand umbrella. His methodology was a mixture of induction and deduction, and provides the rich substrate upon which neoclassical economics is built [Samuelson; Stigler 1977]. But Smith would presumably recoil at the lifeless behavioral assumptions that form the foundation of much neoclassical economics. Like Francis Bacon, Smith would have wanted economists to be more like the bees: "go to nature for your raw material." "Nature," in this case, is the motivation for action, Smith's *sentiments* that form the foundation of moral conscience. This is a relevant issue for a course in public policy analysis, and Smith has much to say.

Given the depth and complexity of Smith's writings, and the desire to have students quickly assimilate them outside of class, the method envisioned for presenting Smith's ideas on economic man is through annotated handouts. Below, I provide examples of how Smith's writings can be used to stimulate a richer, social economic view of human nature. Homework questions can be assigned to stimulate deeper comprehension.

The assumption behind economic man is that capitalism owes its vitality and utility to the presumed immutability of human nature, a nature dominated by *greed*, *materialism*, *individuality*, and *rationality*. It is not too difficult to demonstrate that

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Adam Smith would share none of these assumptions, at least not in the simplistic, dogmatic way they are often presented. Greed and materialism are discussed at length later, so our attention falls first to examining Smith's view of individualism and rationality.

Individualism. Like his Enlightenment colleagues Rousseau and Voltaire, Smith celebrated individuality. But this individuality is quite different from the modern-day conception of the term. For Smith, individuality is moderated and controlled within the confines of a social setting--which is the central theme of *The Theory of Moral Sentiments* (henceforth TMS). Society is a powerful balm, creating conditions for happiness: "Society and conversation ... are the most powerful remedies for restoring the mind to its tranquillity" [TMS, I.i.4.10, p. 23]. In fact, humans cannot live apart from society:

It is thus that man, *who can subsist only in society*, was fitted by nature to that situation for which he was made. All the members of human society stand in need of each other's assistance ... Where the necessary assistance is reciprocally afforded from love, from gratitude, from friendship, and esteem, the society flourishes and is happy [TMS, II.ii.3.1, p. 85; emphasis added].

Rather than rugged individualism, which is a 19<sup>th</sup> century invention, it is quite clearly *cooperation* within the famous pin factory which permits Smith's division of labor to succeed:

One man draws out the wire, another straightens it, a third cuts it, a fourth points it, a fifth grinds it ... Those ten persons, therefore, could make *among them* upwards of forty-eight thousand pins in a day ... But if they had all wrought separately and *independently*... they could not each of them have made twenty, perhaps not one pin in a day [WN, I.1.3, pp. 14-15, emphasis added].

Competition occurs not between individuals, who form small cooperative groups, but competition occurs between cooperative groups, often separated geographically.

Accordingly, the marketplace exists not in a vacuum of autonomous individuals, but within an interdependent social fabric. In Lionel Robbins' seminal study of classical economics, he notes that,

The invisible hand which guides men to promote ends which were no part of their intentions, is not the hand of some god or some natural agency *independent of human effort*; it is the hand ... which *withdraws* from the sphere of the pursuit of self-interest those possibilities which do not harmonize with the public good ... [cited in Samuels, p. 6; emphasis added].

The social and legal framework

provided a set of rules which so limited and guided individual initiative, that the residue of free action undirected from the centre could be conceived to harmonize with the general objects of public interest [cited in Samuels, p. 5].

The moral is that we depend on others for our wants, both material and emotional. We temper our raw emotions to win society's approbation, and further, to be worthy of that approbation. Smith says man's "greatest desire" is to "humble the arrogance of his self-love, and bring it down to something which other men can go along with" [TMS II.ii.2.1, pp. 82-83]. This is hardly a world of rugged individualism.

Rationality. Smith was a member of the Scottish Enlightenment, following in the footsteps of Shaftsbury, Hutcheson, and Hume. "Sentimentalists" believed that emotion (or sympathy) was the basis of morality. As such, Smith rejected "rationalism"--the belief that rules of morality could be deduced from beginning assumptions like geometry--in favor of the view that what is right and wrong is first known through "sense and feeling" [TMS VII.iii.2.7, p. 320]. Smith says our conscience (the "impartial spectator") uses the intellect to help improve empathy with others, thus providing a *feedback loop* from reason to sentiment. MacFie notes that,

Without sympathy, reason may be inhuman and powerless. But without ... reasoning judgement, sympathy is dumb [ MacFie, p. 91].

While reason is exceedingly useful to Smith's moral system, in practical terms Smith felt that humans confuse means with ends [TMS, IV.I.11, p. 185] and man's reason fails him often:

[S]elf-deceit, this fatal weakness of mankind, is the source of half the disorders of human life [TMS III.4.6, p. 158].

Coase sums up this point by saying,

Adam Smith put little confidence in human reason ... Adam Smith would not have thought it sensible to treat man as a rational utility-maximiser. He thinks of man as he actually is ... able to reason but not necessarily in such a way as to reach the right conclusion, seeing the outcomes of his actions but through a veil of self-delusion [Coase, p. 560].

Smith put greater faith in man's intuitive instincts and emotions than he did in his reason. Reason was "slow" and "uncertain," while instincts were "original and immediate." Smith's views on emotion as the foundation for action are explored further in the concluding section of this paper.

Selfishness and Greed. The neoclassical view is that self-interest, harnessed within the confine of a competitive market structure, leads to an optimal outcome for society. Adam Smith is usually credited with this idea, citing his famous passages:

[M]an has almost constant occasion for the help of his brethren, and it is in vain for him to expect it from their benevolence only ... It is not from the benevolence of the butcher, the brewer, or the baker, that we expect our dinner, but from their regard to their own interest. We address ourselves, not to their humanity but to their self-love, and never talk to them of our own necessities but of their advantage [WN I.ii.2, pp. 26-27].

And:

[Every individual] generally, indeed, neither intends to promote the publick interest, nor knows how much he is promoting it ... he intends only his own gain, and he is in this, as in many other cases, led by an invisible hand to promote an end which was no part of his intention [WN, IV.ii.9, p. 456].

George Stigler summarizes this point by noting, "The *Wealth of Nations* is a stupendous palace erected upon the granite of self-interest" [Stigler 1975, p. 265].

But what is meant by “self-interest”? Behind this phrase lies the heart of Smith’s analysis, and his vision for a commercial world operating under the direction of an “invisible hand.” To less careful modern readers, self-interest is assumed to be synonymous with selfishness or greed, and indeed, some authors like Lerner (quoted earlier) construe it in that manner. The textbook by McConnell is cited by Lux [p. 208] for this error. “Self-interest” to Smith meant something quite different, of course, and he went to great lengths to clarify that he did not mean selfishness.

If Smith does not mean selfish, then what does he mean by “self-interest”? Self-interest means prudently *considering* your own advantage and security when making decisions:

Every man ... is first and principally recommended to his own care; and every man is certainly, in every respect, fitter and abler to take care of himself than of any other person [TMS VI.ii.I.1, p. 219].

This type of self-interest works for the betterment of society by promoting thrift, industry, and self-improvement, which is the context for the “invisible hand.” Self-interest becomes twisted into selfishness when one maintains an egoistic attachment to ones own needs even when they conflict with the legitimate rights of others. Selfishness leads to a deplorable self-centeredness, according to Smith:

[H]e always appears, in some measure, mean and despicable, who is sunk in sorrow and dejection upon account of any calamity of his own. We cannot bring ourselves to feel for him what he feels for himself ... we, therefore, despise him [TMS, I.iii.I.15, p. 49].

Selfishness rules if the butcher, the brewer, and the baker operate outside of a moral system which *disciplines* their self-love, a moral system which originates in a natural sympathy with others. To live morally we must honor the “fellow-feeling” that bonds us to others. And human reactions are not immutable, but subject to improvement through diligent effort and discipline. Smith says:

And hence it is, that to feel much for others and little for ourselves, that to restrain our selfish, and to indulge our benevolent affections, constitutes the perfection of human nature ... [TMS, I.i.5.5, p. 25].

When the happiness or misery of others depends in any respect upon our conduct, we dare not, as self-love might suggest to us, prefer the interest of one to that of many [TMS, III.3.4-5, pp. 137-38].

It is clear from these passages that Smith is both describing how he thinks humans *actually* behave (selfish passions held in check by moral restraints) as well as advancing how they *ought* to behave (greater attention to virtue). The division between positive and normative statements is not always clear [Viner, p. 119]. Smith believed that human nature was rife with selfishness, stupidity, and prejudice [Ross, p. 399]. But Smith does not regard selfishness as necessary or desirable for the working of the invisible hand. Selfishness is used in a pejorative sense to mean self-love which harms or neglects others [Rafael and Macfie, p. 22]. “Selfishness” is equated to “rapacious” [TMS, IV.I.10, p. 184], and “selfish” to “sordid” [TMS, III.3.5, p. 137]; in another instance Smith refers to “the violence and injustice of our selfish passions ...” [TMS, III.4.2, p. 157].

The interpretation that “greed is good” actually comes from Bernard de Mandeville’s famous poem, *The Fable of the Bees* (1714), from whence comes the line--private *vice* creates public *virtue*.<sup>7</sup> This thesis was roundly denounced by Smith as “fallacy” [TMS, VII.ii.4.12-14, pp. 312-313]. Smith says Mandeville’s “rustic eloquence” created a false air of truth likely to fool the “unskilful” [TMS, VII.ii.4.6, p. 308]. Smith’s rejection of Mandeville’s tenet comes through loud and clear:

There is, however, another system which seems to take away altogether the distinction between vice and virtue, and of which the tendency is, upon that account, wholly pernicious: I mean the system of Dr. Mandeville ... [T]he notions of this author are in almost every respect erroneous ... [TMS, VII.ii.4.6, p. 308].

Smith’s moral system is founded upon sympathy, and Smith unequivocally states, “Sympathy, however, cannot, in any sense, be regarded as a selfish principle” [TMS, VII.iii.1.4, p. 317]. Any implication that *selfish* behavior is morally useful to

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<sup>7</sup> In Mandeville’s poem a beehive is kept busy and happily employed tending to lust and vanity, and “vice” thus leads to “paradise” [Lux, p. 117].

Smith's system must arise from a simplistic interpretation of self-interest. Smith observes:

That whole account of human nature, however, which deduces all sentiments and affections from self-love, which has made so much noise in the world ... seems to me to have arisen from some confused misapprehension of the system of sympathy [TMS, VII.iii.1.4, p. 317].

It does not suffice to assert, as some scholars have in the past, that Smith's moral sentiments reflect his early views, which later fall into disrepute with his more mature views in *The Wealth of Nations*. A recent literature review notes,

The consensus now is that the Adam Smith problem is a false problem based on faulty exegesis and that there is no contradiction, for example, between the analysis of self-interest in the two books [Brown, p. 297].<sup>8</sup>

Both TMS and WN form part of a unified philosophical position [Raphael and Macfie, p. 24]. Smith's richer view of human nature, compared to *homo economicus*, may turn out to have ramifications for economic outcomes and for the skills needed by students in the workplace. It is therefore important in the study of economics (see final comments below).

Materialism. Even if people restrain their selfish natures through self-control, as advocated by Smith, might not materialism persist as the *raison d'être* for everything else, the highest aspiration of entrepreneurs and consumers alike? In *The Wealth of Nations* Smith wrote about the innate urge people have to truck and barter and to better themselves in a material way [WN I.ii.1, p. 25]. But Smith had no illusions that greater happiness would follow from greater material wealth. Smith calls this belief a "deception," saying, "It is this deception which rouses and keeps in continual motion the industry of mankind" [TMS, IV.I.9, p. 183]. Pride, vanity,

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<sup>8</sup> For recent analyses of Smith's views on selfishness, see Werhane [1989 and 1991]. Lux provides an interesting treatment, but in my opinion skewers Smith for the misinterpretations of others.

and power are often cited by Smith as reasons for acquisition, more than the utility of what goods themselves afford:

It is the vanity, not the ease, or the pleasure, which interests us ... The rich man glories in his riches, because he feels that they naturally draw upon him the attention of the world ... [TMS, I.iii.2.I, pp. 50-51].

In contrast to this deception, Smith says that following one's moral conscience is the road to happiness:

[B]y acting according to the dictates of our moral faculties, we necessarily pursue the most effectual means for promoting the happiness of mankind, and may therefore be said, in some sense, to co-operate with the Deity, and to advance as far as in our power the plan of Providence [TMS III.5.7].

Smith's arguments against materialism provide a vivid commentary. I have organized his points around four propositions.

*Proposition I: There are rapidly diminishing returns to material wealth:*

What can be added to the happiness of the man who is in health, who is out of debt, and has a clear conscience? To one in this situation, all accessions of fortune may properly be said to be superfluous [TMS, I.iii.I.7, p. 45].

....

For to what purpose is all the toil and bustle of this world? What is the end of avarice and ambition, of the pursuit of wealth, of power, and preeminence? Is it to supply the necessities of nature? The wages of the meanest labourer can supply them ... Do they imagine that their stomach is better, or their sleep sounder in a palace than in a cottage? The contrary has been so often observed, and, indeed, is so very obvious ... [TMS, I.iii.2.1, p. 50].

*Proposition II: Material wealth provides only a temporary surge in good feeling:*

[B]etween one permanent situation and another, there was, with regard to real happiness, no essential difference ... [I]n every permanent situation, where there is no expectation of change, the mind of every man, in a longer or shorter time, returns to its natural and usual state ... In prosperity, after a certain time, it falls back to that state; in adversity, after a certain time, it rises up to it [TMS, III.3.30, p. 149].

*Proposition III: In the normal state of affairs there is little difference between the happiness of the poor and the rich:*

The great source of both the misery and disorders of human life, seems to arise from over-rating the difference between one permanent situation and another. Avarice over-rates the difference between poverty and riches: ambition, that between a private and a public station; vain-glory, that between obscurity and extensive reputation ... The slightest observation, however, might satisfy him, that, in all the ordinary situations of human life, a well-disposed mind may be equally calm, equally cheerful, and equally contented [TMS, III.3.30, p. 149].

....

When providence divided the earth among a few lordly masters, it neither forgot nor abandoned those who seemed to have been left out in the partition ... In what constitutes the real happiness of human life, they are in no respect inferior to those who would seem so much above them. In ease of body and peace of mind, all the different ranks of life are nearly upon a level, and the beggar, who suns himself by the side of the highway, possesses that security which kings are fighting for [TMS, IV.I.11, p. 185].

*Proposition IV: The idolatry of materialism leads to moral decay:*

This disposition to admire, and almost to worship, the rich and the powerful ... [is] the great and most universal cause of the corruption of our moral sentiments [TMS, I.iii.3.1, p. 61].

...

Two different roads are presented to us, equally leading to the attainment of [respect and admiration]; the one, by the study of wisdom and the practice of virtue; the other, by the acquisition of wealth and greatness ... [T]he candidates for fortune too frequently abandon the paths of virtue; for unhappily, the road which leads to the one, and that which leads to the other, lie sometimes in very opposite directions ... [TMS, I.iii.3.8, p. 62 and 64].

One of the most poignant stories from *The Theory of Moral Sentiments* is the parable of the "poor man's son" [TMS IV.i.8, 181-83]. It tells the story of an ambitious young man who longs for the material conveniences of the rich, and leads

the life of a workaholic and sycophant to achieve them. At the end of his ruinous life he discovers with great bitterness that,

[W]ealth and greatness are mere trinkets of frivolous utility ... more troublesome to the person who carries them about with him than all the advantages they afford him ... [Power and riches] are immense fabrics, which it requires the labour of a life to raise, which threaten every moment to overwhelm the person that dwells in them ... [TMS IV.i.8, pp. 181 and 183].

I distributed this parable to students at the beginning of a lecture without providing any attribution. After discussing it I quizzed students as to who they thought was the author. Was it Marx? Veblen? Lenin? Not a single student came close to guessing Smith! And thus the parable is a useful place to begin, allowing the hero of modern economics to tell a story. As McCloskey suggests, telling stories is really what we do [McCloskey 1994, p. 374].

### **Final Comments: Practical Implications**

Lee Hansen asks the question, "What knowledge is worth knowing--for economics majors?" [Hansen, p. 149]. His answer rests not so much in teaching economic *content* as in addressing *proficiencies*. Proficiencies acknowledge the issues that are relevant to majors, the vast majority of whom who do not continue on to graduate school in economics. These proficiencies are: 1) gaining access to knowledge; 2) displaying command of existing knowledge; 3) displaying ability to draw out existing knowledge; 4) utilizing existing knowledge to explore issues; and 5) creating new knowledge. He concludes that focusing on proficiencies will probably subtract from pure economic content. The same could be said about teaching social economics, and we would agree with Hansen that, "students will be taught less, but learn more" [Hansen, p. 152].

The practical implications of acquiring proficiency in social economics are numerous. Students gain insight into values clarification--without which education itself becomes a form of brainwashing. Values clarification is the *sine qua non* for

decision-making about trade-offs, which is at the heart of economic discourse. Social economics also addresses the roots and significance of economic cooperation in some settings. All of these proficiencies are important for students pursuing careers in business, government, and a host of other areas.

Students desiring meaningful preparation for the “real” world can be reassured that social economics is *relevant*. That the “real” world is fraught with competition and a race for economic survival are notions well-developed by the neoclassical model. That the “real” world is *also* a place in which people feel genuinely for one another, cooperate with one another, and restrain egoistic impulses to strive for non-pecuniary moral goals, ought not to surprise students when they leave their first economics class. Adam Smith, the “founder” of economics, can teach the relevance of social economics--once again.

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