

## ADAM SMITH: ABOUT CAPITALISM AND THE ETHICS THAT MAKES IT POSSIBLE

LUNGU MARIUS ROBERT<sup>1</sup>, BRAD IOAN<sup>1</sup>, URLICA ALINA\*<sup>1</sup>, MILIN IOANA ANDA<sup>1</sup>  
<sup>1</sup>*Banat's University of Agricultural Sciences and Veterinary Medicine "King Michael I of  
Romania" from Timisoara, Romania*

\*Corresponding author's e-mail: alina.urlica@usab-tm.ro

***Abstract:** Great Britain has left the European Union, but Europe owes a great deal to the British nation. Among the numerous aspects of this rich legacy, we have inherited a conceptual framework for capitalism and liberalism, the offshoots of the industrial revolution, as well as an extraordinary cultural heritage. In this article we will trace and discuss the conceptual system of the Scottish philosopher Adam Smith, author of *The Wealth of Nations*, considered by most specialists in the field as the best book on political economy ever written and the "Bible" of capitalism. Furthermore, in the framework established in his work *The Theory of Moral Sentiments*, capitalism is seen as a moral economic doctrine. Although he is considered the father of modern capitalism, other concepts of his thinking are also very rich and worthy of study. The original thinking envisaged in Adam's work depicted a system devoid of mercantilism and savage capitalism, as a result of the foundation of his moral philosophy: compassion.*

***Key words:** political philosophy, capitalism, moral philosophy, European cultural history*

### INTRODUCTION

Today, it has become slightly uncomfortable to talk about capitalism, even if this economic system has been responsible for the current welfare of Western states. Despite this obvious state of facts, neither the intellectual elites nor the media welcome capitalism anymore. We might also mention the great success of far-left groups in the United States, movements such as Black Lives Matter and Antifa, which see capitalism as a racist economic system created by white people to exploit other marginalized groups.

In Romania, the word "capitalism" has been so compromised by communist propaganda that even now, thirty years after the fall of communism, it seems impossible to rehabilitate. Decades of anti-capitalist propaganda have left deep traces in the Romanian collective mentality, that makes poverty, unemployment and corruption to be attributed with an air of plausibility to capitalism, not to reminiscences of communism [1].

The negative image of capitalism has lasted for over one hundred and fifty years, with the rise of socialism and communism in Europe. The discussion is based on the examples set forth by an economic historian and a contemporary philosopher. Historian Guido de Rugierro describes capitalism at the beginning of the 19<sup>th</sup> century as follows: "the period of the most intense industrial development coincided with the moment when the working condition worsened. Working hours have multiplied excessively, the employment of women and children has led to lower wages" [6]. The contemporary philosopher Bertrand Russell reflects similarly on capitalism: "The industrial revolution has caused indescribable suffering in both England and America. I do not think that any researcher of economic history can doubt that, on average, the satisfaction in England at the beginning of the nineteenth century was less than it had been a century before. And this was almost entirely due to scientific technique" [6].

Was this the actual situation established by the capitalist paradigm of social organization? The economic reports of the time speak of a different reality: "Many of the shortcomings were the result of laws, customs, mentalities and forms of organization that belonged to previous periods and were rapidly aging. The worst working conditions were

not found in large enterprises using steam power, but in attic and cellar workshops.” [6] Moreover, T. H. Ashton, a professor of economic history at the University of London, sees the reality of capitalism in many shades, not just in black and white like socialist and Marxist historians. According to him, the rapid growth of population at the beginning of the 19<sup>th</sup> century was not so much a result of increasing birth rates, but it was due to a significant decrease in mortality, which was based on the “improvement in the quality of life” [6].

### MATERIALS AND METHODS

The theoretical approach of this study is interdisciplinary: philosophical and historical analysis has been applied to the notions under scrutiny. The materials are the two main works of Adam Smith: *The Wealth of Nations* and *The Theory of Moral Sentiments*.

### RESEARCH RESULTS

Capitalism is also called economic liberalism or market economy. Economic and political liberalism do not work well without each other, as we explained in another study on the issue. [7] Adam Smith (1723-1790) is rightly considered the father of modern capitalism. *The wealth of nations* – short title of his major work *An Inquiry into the Nature and Causes of the Wealth of Nations* (1776) – is considered by many economists the best book on political economy ever written [4]. Smith had socio-political affinities with the physiocrats, as well as the philosophers d’Alembert and Helvetius. Physiocrats were members of a liberal economic school who considered that state intervention in the life of private individuals must be minimal. They also believed that natural economic laws are able to bring prosperity to a large number of people in as much as they are allowed to act freely, without or at best with minimal intervention [3].

Despite these political aspects, a very important role in Smith’s moral theory is given to sympathy between people; the more appropriate term today would be compassion. According to Smith, in the Christian tradition, the divine father is also the author of the moral law and the one who endows human beings with moral feelings such as love and compassion [9].

Furthermore, according to Smith, there are two sets of virtues. The first set includes economic virtues, which are basically centered on oneself, such as prudence, fidelity, justice, industriousness, pursuing one’s own interest. The second set includes the primary or noble virtues, among which are goodwill, generosity, gratitude, compassion, kindness, mercy, friendship, love. From an economic point of view, self-interest enables people to act with a minimum of virtue and yet they can reap the greatest social benefits. Nevertheless, a harmony must be maintained between the two sets of virtues [8].

The most important of these virtues is prudence. Every individual ought to be cautious not to break the laws of justice; besides these, anyone is absolutely free to pursue their own interest as they see fit [11]. This way of thinking clearly indicates the moral dimension of A. Smith’s economy. It also reveals how capital accumulation plays a central role in economic growth, and its success is ensured through saving, based on virtues such as prudence or caution.

In the very beginning of the *Theory of moral sentiments*, Adam’s optimistic outlook and belief in basic human goodness are apparent: “No matter how selfish one might assume to be man, in his nature there are some principles that cause him to care about the fate of others. The fact that our sadness often stems from the sadness of others is too obvious to ask for another example to prove it” [8].

According to Smith, human behavior is determined by the struggle between passions and the "impartial spectator". The passions include drives such as hunger and sex, emotions such as fear and anger, and motivational feeling states such as pain. "Smith viewed behavior as under the direct control of the passions, but believed that people could override passion-driven behavior by viewing their own behavior from the perspective of an outside, the impartial spectator" [10].

When Adam Smith wrote *The Wealth of Nations*, political economy, as a branch of moral philosophy, was generally concerned with the way governments collect and spend money. Thus, political economy was based on the grounding assumption that the state was necessarily the force or mediator which managed the general wealth or the sources of this wealth. Smith had the brilliant glimpse to go beyond this assumption and to ground his conceptual system in moral aspects which pertain to the universal nature of human beings. He thereby showed that the private economy and the diligence of individuals created the wealth of nations, rather than the state, which was part of the problem more than it was the solution [8].

It must be said that the Smithian system is not equivalent to an anarcho-capitalist vision, nor to that of pure laissez-faire. This system depends on an adequate framework of rules ("justice" in Smith's terminology) that the state is tasked with establishing, constantly adapting, and enforcing. Smith urges the state to be strong in arbitrating the game of the market economy and to provide what we today call "public goods", including education for the large masses. This line of thinking has influenced many writers, some of whom were able to discriminate between the two fundamentally different aspects of the great thinker [13].

Smith's main achievement in this regard was to understand that because everyone benefits from it, free trade increases our prosperity as surely as agriculture or manufacturing does. Therefore, "a nation's wealth does not lie in the quantity of gold in its treasury, but in the volume of its production and trade – that is, what we call today the gross national product" [11].

Adam Smith agrees that what drives an entrepreneur in the development of his business is his own interest. "We do not expect to receive dinner dishes through the goodwill of the butcher, brewer, or baker, but because they pursue their own interests. We do not address their humanity, but their self-love - and we never talk to them about our needs, but about their benefits" [12]. Most people earn a salary based on the fact that they have to go to work and perform certain tasks in a certain number of hours. However, each of us could become an entrepreneur, through savings or a bank loan, gradually coming to live on the profit of a business, the money obtained from renting a property or the interest related to money invested in funds instead of earning the daily wage.

On the other hand, Marxist criticism considers that capitalism is unjust. To scrutinize this conception more profoundly, we must look into the stages of establishing a business. An entrepreneur needs capital, which is represented by a sum of money, in order to start a business. This capital can come from its savings, from the sale of a property or from a bank loan. For instance, in order to start a tailoring business, you need a certain amount of money to buy sewing machines, as well as the materials from which the clothes will be made. Also, the salaries of the employees will be paid from the same capital at least in the first month, until the clothes which are to be produced would be sold. Earnings at the beginning will probably only cover salaries. It will take time to make a profit.

This is where Marxist critique comes in, which introduces the concept of surplus value [14]. Supposing the cost for the production of a product is 10 euros, but it is sold for

15 euros. This difference between the production price and the selling price is called "surplus value". In Marxist theory, it is considered that this difference should be earned by the employees and not by the employer. But what if the one who has set up the business wants to grow it and reinvest profits in buying more sewing machines, larger stocks of materials and hire more employees? Not to speak of the obligation to pay off the bank loan as soon as possible, if the business was based on such a loan.

On the other hand, the selling price of a product depends on several factors: market demand, the price of other competitors. If the market supply with that product is too high, then its value will decrease. If the producer does not lower the price, there is a constant risk of being left with unsold goods. There is a constant price adjustment between supply and demand in the market economy.

Thus, reading Smith's work demonstrates that the ethical specificity of capitalism depends on the existence of a deeply imprinted code of morality at the level of individual actors, and "the resemblance between this approach and that of Max Weber explains the organization of modern rational capitalism" [5].

Max Weber points out that Protestant ethics is one of the phenomena that led to the rise of rationalism in various aspects of social life. Rationalism has fully manifested itself in Western civilization and is correlated with the development of capitalism, also called rational economy [15].

Contrary to many criticisms, the market economy (market system, free enterprise system, competition, laissez-faire, capitalism, etc.) is moral. This moral dimension comes from the fact that productive and commercial activities take place in this economic system respect individual rights and freedoms, which are considered sacred by Western civilization [2].

## CONCLUSIONS

Liberalism applied in economics means capitalism. The welfare of the West is due to the capitalist economy. One of Adam Smith's main ideas is that the role of a state, in addition to overseeing the loyalty of capitalist competition, is to tax the wealth produced by the market economy and then redistribute it to society by providing free public services such as education.

In addition to the title of father of modern capitalism, we can also attribute to Adam Smith the title of first economist by founding the discipline of political economy, with the publication of his book *The Wealth of Nations*. According to Smith, capitalism means: private property, economic freedom, competition, the free market and prices formed on the basis of supply and demand. He also speaks of three social categories in the capitalist economy: workers, capitalists, and agricultural owners. The state ought to intervene at a minimum in the market economy, which operates according to the law of supply and demand. Whoever produces a quality product at a competitive price stays on the market. Otherwise it disappears. It is true that this economic law is harsh and similar to the law of natural selection, applicable to the animal kingdom. Just as nature works on the basis of natural laws, economy has its laws, according to the conceptual framework we discussed above. The intervention of ideology in the economy is seriously damaging and the failure of communist economies where prices are established by state authority are the proof.

For these reasons, the question whether there is a need for ethical behavior in capitalism is answered by Smith in the affirmative. People's behavior in their economic activities is part of their ethical behavior in general. Moral virtues, such as caution, prudence and self-control are the main qualities required for this area of human activity. A

true capitalist does not buy comforts from the first profit achieved, but postpones gratification, reinvests the profit and delays the enjoyment of the fruit of his labor later. The most successful Romanian capitalist, Daniel Dines, may be a model inspiring new generation to achieve the same goal. Confirming the standpoint we discussed based on Adam Smith's moral philosophy, he confessed his success was due to his moral traits of humility and perseverance.

#### REFERENCES

- [1]. CERNA S., 2019, Mentalitatea anticapitalistă: o mare problemă a României, <https://www.contributors.ro/>
- [2]. CERNA S., 2018, Dimensiunea morală a economiei de piață, <https://www.contributors.ro/>
- [3]. COPLESTON F., 2008, Istoria filosofiei. Filosofia britanică, Editura All, București
- [4]. CRĂIUȚU A., 1998, Elogiul libertății, Editura Polirom, Iași
- [5]. DĂIANU D., VRÂNCEANU R., 2006, Frontiere etice ale capitalismului, Iași, Editura Polirom
- [6]. HAYEK F.A., 1998, Capitalismul și istoricii, Editura Humanitas, București
- [7]. LUNGU M.R., URLICA A., 2021, The founding ideas of English liberalism according to Thomas Hobbes and John Locke, *Lucrări științifice. Management Agricol*
- [8]. MAFTEI M., Prevalența naturii umane în economia lui Adam Smith, in *Economie teoretică și aplicată*,
- [9]. MORROW G.R., 1923, The Significance of the Doctrine of Sympathy in Hume and Adam Smith, *Philosophical Review*, vol. XXXII, pp. 60–78.
- [10]. NAVA A., CAMERER C., LOEWENSTEIN G., 2005. Adam Smith, Behavioral Economist. *The Journal of Economic Perspectives*, 19 (3), 131-145
- [11]. SMITH A., 2011, *Avuția națiunilor*, Editura Publica, București
- [12]. SMITH A., 2017, *Teoria sentimentelor morale*, Editura Publica, București
- [13]. SMITH V. L., 1998, The Two Faces of Adam Smith, *Southern Economic Journal*, 65(1), pp. 1–19.
- [14]. VERGEZ A., HUISMAN D., 1995, *Curs de filosofie*, Editura Humanitas, București
- [15]. WEBER M., 2003, *Etica protestanta și spiritul capitalismului*, Editura Humanitas, București