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THE ETHICS OF ADAM SMITH AND FOR ECONOMIC SYSTEMS

Adam Smith (1723–1790), the initial founder among the great founders of economics, lived and wrote toward the end of the Scientific Revolution and near the beginnings of the English Industrial Revolution. He was a teacher of moral philosophy (broadly speaking, what is today called *ethics*) and not the first person ever to search for a coherent pattern in the apparent chaos of the natural and social world. He is famous because of his success in finding order and harmony in the turbulent business of buying and selling goods. He provided both a moral defense and a scientific blueprint for the market exchange system sufficiently memorable to continue to remain a way of describing the economic organization of the industrial market economies such as the United States, Japan, and the Federal Republic of Germany.

Still, we will postpone a discussion of Adam Smith's economic doctrines. Our gradual move toward the seminal ideas of Smith is intentional. Much had to transpire before Smith's ideas could be relevant. First, he needed the shoulders of Isaac Newton to stand on, for Newton was to provide the finest design of the natural order. Second, Smith's ideas awaited the slow evolution of the market economy that Smith would celebrate. Finally, Adam Smith, like so many scholars before and since, needed to engage an enemy of free markets. Without a large target, his arguments would have been made without the passion that attracted followers. More than two centuries later, the air of London, New York, Washington D.C., and Moscow reverberate with the same rhetoric, though less refined and less thoughtful.

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It is not premature to generalize about an important idea. The great economists were not only influenced by economic organizations of their age, but also by *social and intellectual* currents that both shaped their thinking and were shaped by them. A frequent charge leveled against today's economics is that it lacks relevance. If true, it may be because some economists are out of touch with their intellectual forebears. They sometimes describe economic principles as if they were immutable laws of nature, operating on physical phenomena. There are intellectual reasons why this has happened, but there are social reasons to be concerned about it. As father of the field of economics, Adam Smith made economics relevant for his age and, ironically, established the initial conditions that enabled some economists to make economics irrelevant to contemporary conditions. In Smith's day, markets were flourishing but capitalism had yet to fully emerge. In fact, the name, "capitalism," did not exist.

We first discuss the ethics defining Adam Smith's view of not only markets but of life broadly. His ethics of individual rights were more complex than modern economists appear to allow. We go on to show how values and the authorities expressing them help to shape and defend various real-world as well as "idealized" economic systems. In this regard a world view appears to be very important. Among these systems is Smith's favorite, the market exchange system that evolved out of feudalism. Finally, we define and discuss the general ways that economic activity can be organized and the specific forms that such organization has taken.

VALUES AND AUTHORITY: ADAM SMITH KEPT TWO SETS OF BOOKS

The market exchange system is only one way in which modern economies can be organized. Still, organization is important to the success of a society. Mary Wollstonecraft (1759–1797), an early feminist and wife of political philosopher William Godwin (1756–1836), once wrote: "The same energy of character which renders a man a daring villain would have rendered him useful to society, had that society been well organized."[1] Organization may not be destiny, but it is truly important. Individuals, nonetheless, have played roles in getting society organized, even as society has helped in scripting these roles. First, a society must continue to produce goods and services or it will die; today's Russians are painfully aware of that. Second, a society must also find a way to distribute the benefits of production, or production will cease; all societies are aware of this quest. This second objective is closely allied with moral principles, because production can be either coerced or voluntary, depending on what the society's members are conditioned to tolerate or demand. It follows that we cannot fully understand the economic organization of a society unless we consider the values and ethics of its members.

Adam Smith did not teach economics since the academic field of economics did not exist. Rather, he taught what we call today *ethics.* In philosophy, *ethics* is the study and evaluation of human conduct in the light of moral principles. In turn, *moral principles* may be viewed either as the standard of conduct that individuals have constructed for themselves or as the body of obligations and duties that a particular society expects of its members. During the twentieth century the philosophical issue has divided between the person and the society as the origin of an individual's morals. The "either-or" morals distinction is useful as far as it goes, but it is helpful to dig slightly deeper without being shallow. A *value judgment* is a personal judgment made on the basis of an individual's own feelings about what are "right" thoughts and behavior. For example, a sixteenth-century bishop might believe that profit making is morally wrong and charity is morally right, whereas a shopkeeper of the same town might see no harm in profit making

[1] Mary Wollstonecraft, in *Letters Written During a Short Residence in Sweden, Norway, and Denmark* (Wilmington, Del: J. Wilson & J. Johnson, booksellers, 1796), Letter 19.

and no point in charity. *Ethical judgments* are collective value judgments, principles of "right" action "binding" society's members or subgroups that serve as guides for "acceptable" behavior. The bishop's judgment becomes an ethical judgment rather than a value judgment if a large segment of society shares his views. This does not mean that the bishop and society are *absolutely* right about proper conduct; it only means that a rather general judgmental agreement has been reached and is subject to change as the society evolves into something else.

Despite the precarious nature of societal ethics, not only does an economic system require a set of rules to operate, but also individuals must be personally motivated to follow the rules or the system eventually will collapse. Rules, moral or otherwise, and personal values must intersect. An economic system is also based, to some extent, on faith, on a belief in its implicit values. Even a planned socialist economy is based on the belief, not the certainty, that it will achieve the political and social goals of the secular state. Often, within a society, diverse interests will aggressively push their own value judgments based solely on their personal beliefs. A set of beliefs aggressively pursued with a suspect factual or even logical base is best described as an *ideology*. As anyone who has studied special interests in the United States can attest, ideology can become an important source of authority.

Like the proverbial query about the chicken or the egg, we cannot be sure which comes first, the moral principles and those leaders and authorities reinforcing them, or the events and circumstances that make the principles attractive. One thing about ethical judgments is certain, however: they can become so deeply rooted in the life of a society that they are followed and believed in long after they are of any real use. That is, what once were moral principles becomes an ideology. What, we might ask, is the source of moral principles that affect the selection of a particular way of organizing an economy?

The Bible as Authority

Over many centuries, organized religion has been important in the preservation and transmission of a moral tradition that society can use as a guide to conduct. *Ideally*, religion helps people to know "what is right" and encourages them to do right, thereby helping to promote the harmony of society. For example, much of the early medieval ethic denouncing personal gain and embracing charity is found in the New Testament. When the masses had no food, Jesus Christ proved to be at the same time more efficiently productive and more equitable than modern-day capitalism. "I have compassion on the multitude," he told his disciples, "because they have now been with me three days, and have nothing to eat…" (Mark 8:2). Seven loaves of bread and "a few small fishes" were used to feed four thousand people! Jesus also drove the moneylenders, who charged interest, out of the Temple. According to this parable, Jesus ran a hyper-productive economy.

The Bible, however, has also been used in support of an exchange economy and the value of accumulation (personal gain). Parts of the Old Testament can be interpreted as a defense of private initiative, freedom in accumulating capital, and an *exchange economy* in which goods are given up not for charity but only in exchange for money or other goods and services. According to Genesis 47:15, "money failed" in Egypt and Canaan. All the Egyptians came to Joseph and said, "Give us bread, for why should we die in thy presence?" Joseph replied, "Give your cattle; and I will give you *bread* for your cattle, if money fail. And they brought their cattle to Joseph: and Joseph gave them bread *in exchange* for horses, and for the flocks, and for the cattle of the herds…." The dominant Old Testament morality is not only an eye for an eye but also a cow for bread, the two-way exchange that is a major feature of a market exchange system.

It seems, then, that even an authority with the immense prestige of the Bible in the Western world offers no absolutely clear justification for preferring one kind of economic system to another.

Rather, it poses a choice in extreme terms: between charity and exchange or between altruism and selfishness. The terms of the choice are basic in the history of economic thought. All of which brings us full circle to Adam Smith and his view of ethics.

Adam Smith and the Ethic of Individual Rights

Western economic thought is dominated by defenses of some version of free markets, which have been traditionally linked to the ethic of individual rights. As early as Adam Smith, the market exchange system was presumed to depend on the free expression of individual rights—the freedom to buy whatever one wishes, to hire whomever one wants, to work in whatever occupation one desires, to work for whatever employer one chooses, to decide freely to keep whatever share of one's earnings—that is, a complete freedom to exchange and accumulate.

There are, however, significant differences between Adam Smith and contemporary defenders of free markets. Smith's work—like the Bible—encompasses two major books. The first, *The Theory of Moral Sentiments,* emphasizes the empathetic or compassionate side of human nature; the second, *An Inquiry into the Nature and Causes of the Wealth of Nations,* emphasizes self-interest as leading to right actions. To Smith, both qualities lead to the harmony of individual and national interests. He defines moral philosophy as the concern for human happiness and well-being, "the happiness and perfections of man … not only as an individual but as a member of a family, of a state, and of a great society of mankind…."[2] That is, the happy individual plays more than a purely economic role in Smith's inclusive vision of the orderly society.

In *Wealth of Nations*, however, Smith focuses on the way an economy is organized. There, maximum individual liberty enables

[2] Adam Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations*, ed. Edwin Cannan (New York: Random House, 1937), p. 726.

the most single-mindedly ambitious person, acting according to self-interest, to accumulate private property. Moreover, such a system is in accord with natural instincts and therefore correct. This rampant individualism is for a person's "own good" but also leads to a collective harmony. If *everyone* has the same rights and pursues them, the government's intervention in markets is not necessary. [Although Smith did not want public authority meddling in private business, he did see a government role in national defense, justice (especially in matters endangering private property), and public works that were advantageous to society but could not be profitably supplied by an individual or a small group.] He believed that this kind of behavior found its best expression under a free market system.

Still, we would be remiss not to note that the free market ethic leans toward the extreme of selfishness (fierce individualism) rather than toward empathy or altruism. There is little room for collective decision making in an ethic arguing that every individual should go his or her own way. Contrary to the implication of a recent business book on Jesus' "managerial style," Christ is not the source of the free market ethic. As we will discover, the idea that the free market protects individual rights would have been rejected during the early Middle Ages. "Individual rights" were predestined by the structure of feudalism, governed by the pull of tradition and the push of authority. Economics was based upon mutual needs and obligations. Smith's ethics places a heavy burden on the free market system to provide collective harmony.

Smith's view that markets and freedom are linked nonetheless has proved to be enduring, although it is not the only ethic around. A leading modern exponent of free markets is Nobel Prize winner Milton Friedman. In Friedman's view, the free market nurtures individual freedoms, the same liberties that Smith deemed essential for the development of free markets. Thus, Friedman completes the circle between individual liberties and free markets by turning Smith's argument upon its head and closing the system with another judgment. Friedman concludes that free markets (and modern capitalism) are necessary for freedom. In his aptly-titled *Capitalism and Freedom,* Friedman writes: "The kind of economic organization that provides freedom directly, namely, competitive capitalism, also promotes political freedom because it separates economic power from political power and in this way enables the one to offset the other."[3]

Not all free marketeers have been as sociable as Adam Smith. Friedman, for example, considers any intentional flagging in the race for maximum profits by business to be "subversive." According to Friedman, "Few trends could so thoroughly undermine the very foundations of our free society as the acceptance by corporate officials of a responsibility other than to make as much money for their stockholders as possible. This [social responsibility] is a fundamentally subversive doctrine."[4] But Smith observes that, no matter how selfish a person may be, "There are evidently some principles in his nature which interest him in the fortune of others and render their happiness necessary to him though he derives nothing from it except the pleasure of seeing it."[5]

Adam Smith not only wrote two books about ethics but also was of two minds. He sees ultimate happiness coming from complete freedom to pursue self-interest, enlightened by an altruistic conscience. A person's empathy with others will deter undesirable social behavior. In *Moral Sentiments,* the pursuit of wealth is only one aspect of a person's desire for self-betterment; nevertheless, individual self-interest is desirable in the economic sphere *only* because such selfishness results in societal harmony.

Economists nonetheless have focused narrowly on Smith's idea that individualism as economic behavior culminates in the

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[3] Milton Friedman, *Capitalism and Freedom* (Chicago: Phoenix Books, 1963), p. 9.
[4] Friedman, *Capitalism and Freedom*, p. 133.
[5] Adam Smith, *The Theory of Moral Sentiments*, ed. Ernest Rhys (London: Everyman's Library, 1910), p. 162.

collective good. Smithian economic morality can accept the Old Testament virtues of exchange and accumulation without necessarily damaging the social goals expressed elsewhere in the Bible. Yet social life would surely be impossible unless self-interest were tempered by respect and compassion for others. Society is not always organized so that self-interest works to everyone's benefit. For example, the mentally and physically handicapped would suffer greatly in a purely competitive society, but they can live with dignity and make valuable economic contributions in a compassionate society. The consequences are not always harmonious or morally just. Philosopher Thomas Nagel has held that, in moral decision-making, reason trumps desire, so that it becomes rational to choose altruism over a narrowly defined self-interest. The question is simply: Does my self-interest clash with yours and have important adverse consequences for one of us?

Despite all this talk of the self-interest ethic and Smith's own qualifications in his *Sentiments*, economics slowly developed the claim of being value free. A *value-free* social science of economics claims to be unencumbered by the economist's personal judgment about what is right behavior or by collective societal judgments of what is proper action. Given even our brief historical survey, this notion appears shaky. Adam Smith himself would not have agreed that social sciences are value free because he was a moral philosopher. Nonetheless, economists developed the notion that economics is value free in the same sense that natural science is. Oddly, as we will see, Adam Smith contributed mightily to both points of view.

THE WORLD VIEW

After considerable thought, we can find no universal principle that unambiguously justifies one way of looking at the world as "best." Besides, even if we made such a claim, a society differently organized would reject it. Ambiguity, however, does not prevent us from generalizing about what communities value. As suggested, even Adam Smith displayed two nearly opposite perspectives. In truth, the justification for a particular way of organizing a society or an economy often depends on more than moral principles, as important as they might be. A broader approach is to consider the particular society's world view, what it believes to be truly important, but in three dimensions. A *world view* is a widely shared set of beliefs about the individual's relationship to the natural world, to his fellows, and to the Divine. More than anything, a world view is a vision. Obviously, not every individual or group will assent to the dominant world view, and not all elements of the world view will be equally shared. But if a particular world view is *generally shared*, it provides a broad framework that can accommodate the predominant moral principles of the society while more accurately accounting for common patterns of behavior. In Western Europe, religion dominated the world view for many centuries and defined the individual's relationship to the natural world, to his fellows, and, of course, to the Divine.

During the European Middle Ages, the world view was bounded by the idea of the Cosmos, an all-encompassing harmony, a unified whole in which God's presence and spirit were embodied in all living things. Moreover, all parts of the Cosmos had their own immutable order in which God had ranked his creatures from the most inferior ascending upward. As we will come to know, the medieval world view fit very neatly with feudalism, a highly structured economic system in which everyone had a specific place. Is the order of the Cosmos a mirror of feudalism, or was feudalism somehow patterned after the medieval conception of the Cosmos? The question probably is unanswerable. What is important for our understanding of the relationship between moral principles and economic thought is that in this world view there is no conflict between faith and "rational knowledge."

The *Summa Theologica* of St. Thomas Aquinas (1225–1274) contains a complete and authoritative statement of medieval economic thought. Consistent with the Cosmos, the proper life required that each class perform its obligations according to the laws of God and nature. In fact, the main test for the propriety of any exchange of goods and services was whether or not the exchange threatened the class hierarchy. Aquinas thought a *just price* was a price that suitably supported the seller in his social rank. St. Thomas's economic views are complexly intertwined with his religious faith. A science claiming to separate itself from religion was not born until the Renaissance. With this change would come a new world view, which was to serve as a framework for Adam Smith's beliefs.

The initial shift from the Renaissance and the Scientific Revolution was toward a world view built around a natural order. The *natural order* comes more from human imagination than from human experience. Whereas the great English scientist and mathematician Isaac Newton made people aware of the natural order, the dalliance of economics with it and physical science began with Adam Smith who was under the same influence. Newton's universe operated with the precision of a giant clock; Smith hoped to show the social order as part of the gearing. In time this seventeenth century *imagery* and use of calculus to describe planetary motion captivated many a scientific thinker.

Still, it is difficult to understand how a social science can be liberated from the tether of moral principles since societies have human-made rules. Indeed, *social rules* and laws are important as means of reconciling the private passions and interests of individuals to the interests of the whole group or nation. A broader vision of society necessarily includes those social rules required for social order. When we speak of law and justice, for example, we are usually referring to a human social order, such as the one we live in. While Adam Smith believed that economic laws resided in nature and were discoverable by human reason, social rules and laws also were important as a means of reconciling the private passions and interests of individuals to the interests of the whole group or nation. Thus, while Smith laid bare the natural laws that keep the market economy together, he warned that in the absence of certain social values each person would be hanged separately—by his neighbors. In truth, Adam Smith was a radical in his own time; though he subscribed to the natural order in one great book, he gave the nod to social order in another. Economists of either persuasion can submit to Smith as the father of *their* economics.

The world view—even when enunciated by economists—helps to justify a particular social organization, and there are general ways that economic activity can be organized and specific forms that such organization has taken. The market exchange system characterizes Western economies now aspired to around the world, not only in East Asia but also in the former communist states of Eastern Europe and the Soviet Union. Still, other systems have existed and still do exist, and not all market systems are alike.

ORGANIZING ECONOMIC ACTIVITY

At the risk of making it look simpler than it really is, let us say that any economic organization has a need to provide answers to three basic questions: (1) *What* goods and services will be produced? (2) *How* will the available resources be organized for production? (3) *For whom* will the goods and services be produced? These questions have been answered by a great variety of ways, all of which can be summarized by a quartet: by custom (or tradition), by command, by competition, and through cooperation.

In a *customary* economy each economic function is prescribed by tradition. People do what they do because that is what they and their ancestors have always done. In ancient Egypt, for example, every man was required by the principles of the Egyptian religion to follow the occupation of his father. No one attempted to deal with an economic emergency, such as a crop failure, in a new way because there was already a traditional, known way of meeting such an emergency. In Western society until the fifteenth or sixteenth century, the allocation of tasks was very often hereditary, and a person's economic role was decided at birth. Even today, among some ethnic groups such as the Amish, individuals will almost always choose their parents' occupation.

In a *command* economy, those who produce goods and services are told what to do, like an army that takes orders from a commanding officer. The area of command may be only economic and may coexist with political democracy; people who enjoy abundant civil liberties may demand few economic freedoms. However, slave labor is also a kind of command economy. Though the city of Athens in ancient Greece is celebrated as the birthplace of democracy, even at its most "democratic," at least one-third of its population were slaves. The Roman Empire, too, relied on slave labor.

While custom and command can overlap, pure competition can stand alone, but only if it *is* pure. Uniquely, in a *competitive market* economy, the system itself, not tradition or authority, decides what is produced and to whom the outputs are passed. Always in theory and often enough in practice, the market for goods and services is all-powerful. People select occupations according to their own initiative and skills. Families select from marketplaces whatever goods and services they want or need, and producers produce what consumers demand at competitive prices. Because there are opportunities for choice built into it, Adam Smith called the competitive market a "system of liberty." Again, all power is given to the market.

The economy of the United States is often pointed to as an example of a competitive market system, but Americans know that this is a fuzzy characterization. There are few ingredients of a customary economy in the United States today, but a large part of the economy is "public," which means there is a considerable amount of centralized command from the federal, state, and even local governments. Moreover, certain large sectors of the economy have only a few producers of a product and are involved in entanglements with labor unions in such a way that prices do not always materialize from an atmosphere of unfettered competition.

Cooperation can lead to a compromise version of the competitive market economy. In the *cooperative economy*, a compromise version of the competitive market economy, specific quantities of products and prices are determined by a free market system; however, a democratic government regulates the distribution of incomes. In other words, the free market system is valued for its efficiency in production, but social judgment is preferred in deciding the distribution of incomes. The *cooperative economy* requires consensus politics and goal sharing as an integral part of an interaction between the producers in the private sector and government planning agents in the public sector. These efforts may be coordinated through study commissions and administrative boards that involve the joint participation of workers, management, financiers, and government representatives. Social goals are based upon an extensive dialogue and debate among business leaders, government officials, and the news media. The role of the media evokes a kind of town hall version of *Larry King Live*. The cooperative economy requires widespread ideological flexibility and an appreciation of social cohesiveness.

The Scandinavian economies come closest to fitting the cooperative criteria with the Swedish system being the closest prototype. Although more than 90 percent of the Swedish industry is privately owned, the central government is given the authority to modify market forces to encourage conformity with social objectives. Sweden is often cited as an example of the "welfare state," in which the system relies on very high tax revenues (about twice the GDP share of the United States, over half of which is redistributed in the form of welfare benefits. Moreover, the Swedish national income tax is highly progressive (the percentage of taxes being higher on higher incomes), yielding a marginal tax rate on worker earnings about twice that in the United States. One consequence is a much less unequal income distribution in Sweden compared with the United States. Most individuals belong to several of the widespread Swedish pressure groups that promote common interests and perform most of the coordinating function with the government.

CARICATURE SYSTEMS

The term *organization* often intimates a sense of neatness, but these four general, abstract types of economic organization seldom exist in a pure form. Not surprisingly, then, many variations of a customary, command, competitive market, or cooperative economy are possible, and when we turn to the particular kinds of economic systems in the modern world, we find that these systems, too, exist only in untidy mixtures. We often find elements of all four types of economic organization in socialist, communist, and even capitalist countries. Nazi Germany, for example, was able to blend National Socialism and state capitalism with slave labor.

In the pursuit of special interests through ideology, we sometimes draw caricatures of socialism, communism and free market capitalism. The editorial cartoonist exaggerates in this way, sketching a swollen shadow of reality. Exaggeration is the friend of ideologues because caricatures obscure reality even as they seem perfectly clear. Socialism, it is said, is characterized by ownership of all the means of production by the state. In reality, *Socialism* need not require public or common ownership of *all* the means of production, only those branches of the economy decisive for its functioning. The biblical Garden of Eden, it has been said, was Communism at its peak because goods were so abundant that they had zero prices. Adam and Eve could consume according to their needs. Real world *Communism*, however, cannot supply an endless amount of goods and services as free as air, consumed by everyone according to individual need. Dissatisfaction and temptation prevailed even in biblical Eden and east of it.

Capitalism is an economy based on private property and a two-way exchange system in which one good is traded for another or for equal value in money. In reality this system has many permutations and has never depended on absolutely free competitive markets and the complete dedication of each person to economic self-interest. In a *cooperative economy* the distribution of income and wealth is not decided entirely by a democratic political process. On the other hand, political democracy is virtually impossible to sustain in a society—even one otherwise organized around free enterprise capitalism—with giant, embarrassing gaps between the rich and the poor. In short, human judgments are involved, and an evolving world view is present.

Because of a world view agreed to by enough individuals to matter, economic organization is in great part a matter of human choice. Contrary to notions of natural law, the adoption of socialism or capitalism or some mixed system is not decided as if from heaven and then handed down. Whether the mode of economic organization is mostly two-way exchanges or one-way transfers depends greatly on the balance between the spirit of individualism and the sense of community, and the scale has tipped one way or another over historical time.

A LOOK AHEAD AT THE MANY CAPITALISMS

We will not be giving away a "Hollywood ending" to our brief history by admitting that contemporary economists have written mostly about capitalism. Since that is so, understanding capitalism's essential characteristics is important. Initially, I defer to the legendary Robert Heilbroner, a longtime student of the system. As we might expect, modern capitalism evolved as a creature quite different from Adam Smith's vision despite Smith's continued domination of the subject of free markets.

Heilbroner gives capitalism three identifying elements, the first of which is the presence of a thing or a process called capital.[6] The word *capital* has, according to Heilbroner, two distinctive meanings. Physical capital, something we can reach out and touch,

[6] I am following the discussion in Robert Heilbroner, "Economics in the Twenty-first Century," in Charles J. Whalen, editor, *Political Economy for the 21st Century* (Armonk, New York, London, England: M.E. Sharpe, 1996), pp. 266–269. A still more extended discussion of the species appears in Robert Heilbroner, *Nature and Logic of Capitalism* (New York: W. W. Norton, 1985). Any book by Heilbroner is worth the read; his style is uniquely nice and easy.

is found in machines, factories, and infrastructure such as highways. To Karl Marx, however, capital is *a process*, a compounding link in a chain of transactions. Money is made into commodities and, then, commodities are made into money, the purpose of which is to end with more money than we began with. From this process comes the drive to accumulate capital.

The second identifying element of capitalism is the market mechanism, colorfully portrayed by Adam Smith, established and protected by law and custom, so that capital accumulation, amplified by Marx, in fact, can take place. Therefore, the economics of capitalism is the economics of markets (and pricing) and capital accumulation. No other system uses the market mechanism as a network.

The third element of capitalism, according to Heilbroner, is "political." As a social system, capitalism requires an architecture of horizontal and vertical order. The horizontal maintains stable relations *within* social classes; the vertical maintains widely accepted distinctions among classes. Unlike any other system, class distinctions are made by the possession or non-possession of capital (dividing society between capitalists and non-capitalists) and by political power.

Other systems too have a hierarchy of classes, most notably, feudalism. Unlike feudalism, however, capitalism enjoys two realms of power—private and public. The institutions of the public realm often, but not always, further the interests of the capitalist class. Power in the private realm stems from capital accumulation. Power flows from capital ownership because of, according to Heilbroner, "the right accorded to *withhold* their property from the use of society if they wish."[7] This power is not absolute only because the social order often deploys customs and laws to bridle it.

Heilbroner's stylized rendition of the capitalist system is a valuable framework. By expanding his definition of capitalism, we

[7] Robert Heilbroner, *Behind the Veil of Economics* (New York: W. W. Norton, 1988), p. 38.

can go on to identify many different "capitalisms." For example, in various eras of American history—the Gilded Age, the Jazz Age, and the 1980s and 1990s spring to mind—people have focused on making money with money, skipping altogether the difficult stage of producing commodities. For the recent era, I have used the term "Wall Street capitalism," an era in which many social rules have been broken.[8] Heilbroner is suggesting that economics as a scientific field needs to be a study of political economy, a view shared by the founders of economics.

Individualism, closely connected to the ideals of capitalism, is certainly an appealing philosophy. It is almost irresistible if it can be shown to result in the collective good. Yet, as noted, social life would surely be impossible unless self-interested individualism were tempered with respect and compassion for others. CEOs who lie to shareholders can lead to heavy losses for those whose funds have been put into stock pension or other equity funds. After all, these are ideals and visions created by humans; and, minds can be changed.

Which visions and ideas capture the truth? It is not easy to know. My message is less ambiguous than any quick and ready answers: economics is not frozen in time but in continual evolution. Those attracted to the fixity of natural science metaphors will likely feel uneasy with the ebb and flow of history and the shifting tides of doctrine. But there are compensations. In striving for a progressive science of economics, the unease of the economist with the way things are can provoke the imagination, as it so often did for the great economists. "The world owes its onward impulses," suggested Nathaniel Hawthorne, "to men ill at ease."

We begin with the custom and command of feudalism because of the clarity of its world view and because for many centuries it stood in the way of the evolution of Adam Smith's beloved free markets and of economic science. The classical economists still had to contend with some of its last remnants.

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[8] See E. Ray Canterbery, *Wall Street Capitalism: The Theory of the Bondholding Class* (River Edge, N. J./London/Singapore: World Scientific, 2000).