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Amartya Sen's Economic Theory**

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The Smithian Account in Amartya Sen's Economic Theory

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Abstract

The purpose of the paper is to reconstruct Smith's view not only of human being but also of the economic system basing on his action, so as to show in what way Amartya Sen constructs his moral economic account on these presuppositions and how he conceptualizes some specific Smithian principles, reintegrating them in economic theorising.

Sen's model of behavior but also his holistic views on the economy and human development, which have accumulated in the well known capability approach, is inspired by the philosophical work of Adam Smith. In fact, there are more similarities between the two economists than one might think. Not only can Smith's principle of sympathy be found in Sen's work but also a modernised concept of the impartial spectator in form of commitment. Throughout Sen's work, elements of the moral philosophy of Smith are present. It is among others Sen himself, who brought Smith back into the economic discussion and who emphasised the complexity of his writings. Can Sen thus be called a Smithian? The first part of the paper outlines the main elements of Smith's descriptive moral philosophy, which roots in the tradition of moral sense elaborated by Hutcheson, Shaftesbury and Hume. The principle of sympathy, its reciprocity and the impartial spectator can be described as the main pillars of Smith's moral system. In a further step, the notion of self-interest, which is mainly outlined in the *Wealth of Nations*, is related to the moral system of Smith, described in his "The Theory of Moral Sentiments". Section III then analyses Sen's idea of man as a moral and selfish being and puts it in relation to the point of view of Smith. Also Sen's critique of the economic theory of behavior is taken into account. Sen suggests to enlarge the homo economicus model by adding the dimensions "sympathy" and "commitment" to the principle of self-interest maximization, characterized as rational behavior, and to broaden the notion of rationality in economics generally. In a further step, Sen's comprehension of markets and human development will be analysed and again contrasted against the work of Smith. Finally, it is discussed in how far Sen's work, and especially his concept of capabilities, fits into the Smithian tradition.

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1. Introduction

It is well known that human behavior in economic theory is interpreted mainly as self-interested. Defending the homo economicus and his presumptions economists often refer to Adam Smith and his *Wealth of Nations* (WN). Today it is common view that Smith's theory of behavior is much richer than the mechanistic rational model, which has had many advocates in economic history. It was, among others, Amartya Sen, who vehemently criticized the standard economic approach in interpreting human behavior as self-interest maximisation and justifying this view with reference to the classical economist. Sen's aim in referring throughout his work to Smith is twofold: On the one hand his objective is to criticize mainstream welfare economics and its narrow model of human behavior by contrasting it with the *real* Adam Smith and his rich analysis of the human nature in both *The Theory of Moral Sentiments* and *The Wealth of Nations*. Sen (1987, 1994, 2002a) comments many of Smith's principles, the importance of general rules of conduct and social institutions. On the other hand, however, Sen integrates Smithian elements in his own theoretical account. In this paper I argue that in doing so, Sen provides an alternative approach to economics and human behavior. With some theoretical notions, such as sympathy (Sen 1977) he explicitly refers to Adam Smith and tries to establish a relationship to his holistic account. Analysing Sen's work, many other references can be found: Commitment, agency, meta-preferences and capabilities all include Smithian ideas. Not only Sen's view of man, but also his holistic views on the economy and on human development, which have accumulated in the well known capability approach, is highly inspired by Adam Smith's philosophical and economic work. Smith's principle of sympathy but also a modernized concept of the impartial spectator and an account to the *general rules of conduct* can be found in Sen's work.

It is worth having a look on the role, self-interest really plays in Adam Smith's work, not only to gain insight in his idea of human nature but also to get a clear idea of Sen's aim in referring to these concepts. The most often cited passage of the WN, which caused Smith's reputation as a vehement advocate of self-interest as source of wealth, is the following:

"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 advantages." Smith (1986 [1776], I.2.2, p.17)

Sen essentially contributed with his comments on this motive in economics to the rediscovering of Smith as a moral philosopher and fought against a reduction of his writings to this very passage, in which he shows that under specific circumstances, as in exchange relations, the pursuit of self-love *could* be reasonable (Sen 1986, p.28). Many economists tend to take the butcher-baker example to explain the not-intended results of self-interest pursuit in a market economy. Sen comments on this that there is nothing mysterious in some unintended results, but that such an example doesn't explain too much: "The butcher *et al*", he puts it, "wanted to make money and so indeed they did. We intended to have dinner, as indeed we did. There is nothing startling or deeply illuminating in the recognition that not *all* the results were part of the design of *every* agent" (Sen 1984, p.93)

Smith's writings on economy and society, putting emphasize on the necessity of sympathy and the role of ethical considerations in human behavior, particularly the rules of conduct, have been vastly ignored in economics. Sen considers this narrow view of Smith's broad analysis of human behavior, as one of the biggest deficiency of contemporary economic theory (Sen 1987, p.28). The fact that Smith is not an advocate of a mere egoistic principle is common sense today. It is interesting, however, which content Smith actually attributes to that specific motive. Smith doesn't ascribe a dominant character to self-love. In fact, in the 7th book of the TMS he actually criticizes systems which define self-love as principle of approval¹. These who do so misunderstand sympathy systems, as sympathy can never be interpreted as egoistic principle:

“But though sympathy is very properly said to arise from an imaginary change of situations with the person principally concerned, yet this imaginary change is not supposed to happen to me in my own person and character, but in that of the person with whom I sympathise.” (Smith 2002 [1790], p.374)

This turns also against modern economic approaches, which interpret individual utility as the base of any action². It also discloses that seeming modern economists do not state anything else and especially nothing astonishing new in comparison to Thomas Hobbes, who wrote two hundred years ago. In accordance to Smith's interpreters, it can be basically said that under certain circumstances self-interest in his thinking may have positive social effects. That's what the brewer-baker passage is basically about. But what does self-interest consist of? First and foremost everyone is interested in improving his own economic lot. Smith judges this aspiration of an improvement of the personal situation positively. Through continuing effort, productive economic forces of a country can be developed properly. His system is one of balance between conflicting causes of human motivation. Beside aspiring wealth, however, man is very much dependent on social acknowledgment. The principle of sympathy and its reciprocity discipline his egoistic motivations. Smith, who doesn't overestimate the moral nature of man in praxis, opposes the human aspiration to achieving power and acknowledgment by several other controlling authorities such as the *general rules of conduct*. “Those general rules of conduct”, Smith argues, “when they have been fixed in our mind by habitual reflections, are of great use in correcting misrepresentations of self-love” (Smith 1790, [2002], p.186). Beside these rules, however, also a specific system of positive laws, which generally represent the justice in a society, is integrated. In the WN, there can also be found *economic competition* as fourth barrier of exaggerated self-love (Patzen 1991, p.45).

I would argue – and that's also the basis of Sen's view of man – that the concept of self-interest in Smith's work is on an equal footing with other motivations. Each human being is equally motivated by social and selfish interests.

¹ Smith refers in his critique to Hobbes, Mandeville and Pufendorf.

² e.g. Becker (1976)

Werhane (1991, pp.26f) argues that although one might have genuine interests in others, “these may not be entirely benevolent interests.” The point here is that self-interest is not “necessarily evil and benevolence is not the only virtue.” The crucial idea is Smith’s view “that we are as naturally a social being as a selfish one and that we cannot derive one set of passions from the other. Finally self-interest is of importance also, because it favours the personal progress and the personal care. Insofar, self-interest becomes important for our own protection (Smith 2002 [1790], pp.256f).

The key point, as Wilson and Dixon (2004, p.133) put it, is that Smith doesn’t deny the possibility of egoistic behavior. What he does deny is “that people can and do sometimes act according to ego alone because [...] acting according to pure ego is just not possible”. The authors show that for Smith selfhood has a more complex form “than conventional economic analysis has been able and/or willing to admit” (*ibid.*, p.121). My purpose is to reconstruct Smith’s view not only of human being but also of the economic system basing on his action so as to show in what way Amartya Sen constructs his moral economic account on these presuppositions and how he conceptualizes some specific Smithian principles, reintegrating them in economic theorising. It will be shown that throughout Sen’s economic conception Smith’s ideas are elaborated in his formulation of alternative approaches towards welfare economics.

2. Central Elements of Smith’s Moral Philosophy

In his introduction to the new edition of the TMS, Haakonsen notes that the *Theory* may cause confusion as the expectations of a modern reader may be formed by today’s ideas of moral philosophy. In fact, Smith’s view of this discipline has nothing to do with the search of universal normative doctrines or a theory of the good. In Smith’s view the function of moral philosophy is explaining such practices, which are commonly considered as moral ones. Therefore, he distinguishes between those elements of human reason and those forms of human interaction between different psyches, which cause moral practices in the human nature (Haakonsen 2002, p.viii). Adam Smith such as his friend David Hume (1711-1776) both of who stand in the tradition of *Moral Sense Theory*, which was founded by Francis Hutcheson (1694-1746) and the Earl of Shaftesbury³ (1671-1713), wants to prove that human nature is good and hence the reference to human interest would not result in a war of everyone against everyone as had been stated by Thomas Hobbes⁴ (*Leviathan* 1651) and Bernard Mandeville (*Fable of the Bees*, 1714). Smith and particularly Hume want to show that man has a *moral sense* or, in Smith’s writings, a psychological moral.

³ Antony Ashley-Cooper, 3rd Earl of Shaftesbury

⁴ Hobbes (1588-1679) preprends his conception of a natural state the appellative quotation „homo homini lupus“ from the Roman poet Plautus (ca. 250 BC. - ca. 184 BC.). In Hobbes’ natural state prevails war of all against all (bellum omnium contra omnes). According to Hobbes society is a population beneath an authority, to whom all individuals in that society covenant just enough of their natural right for the authority to be able to ensure internal peace and a common defense. This sovereign – whether monarchy, aristocracy or democracy – should be a Leviathan, an absolute authority. (*Leviathan* 1651)

This can be observed in human's care for other persons' well-being. What makes an action a moral one, thus? Smith and Hume answer that the motivation to act can't be derived from reason, but must be explained by sentiments.

Smith describes a kind of 'fellow-feeling' as the "original passion of human nature". It sets the direction of his moral philosophy. Obviously, principles can be found in human nature, which interest man in the fate of others. Smith names this principle *sympathy*. It should not, however, be identified with compassion. "Though its meaning was, perhaps originally the same", Smith argues, "may now, however, without much impropriety, be made use of to denote our fellow-feeling with any passion whatever" (Smith 2002 [1790], p.13) Smith turns against those who try to derive actions from self-love⁵ alone. Sympathy cannot be understood as a selfish principle, as it is not about to feel from one's own perspective, but from the position of others. It describes the ability to move into the position of others and constructs the social bounds of a society. Sympathy comprehends the sentiments of other people, "praiseworthy or reprehensible, appropriate or inappropriate". The approbation of an action, as Trapp (1987, p.66) puts it, is explicitly distinguished from the principle of sympathy, which does not possess any content and which is formal. Moral approbation from this point of view consists of the consciousness of accordance with the persons concerned. Judgments, however, about what is being adequate can't be derived from mere emotions; they have to be connected with rational considerations.

Our understanding of what is 'right' reflects Smith's emphasize of the 'adequate' as essential element of the good. The 'adequate', can only be characterized by reason and in relation to a situation (Macfie 1959, pp.214f). Sympathy, or the corresponding affection of the 'observer', can then be interpreted as the 'natural and original measure' of the adequate degree of all our affections. Macfie highlights that as the 'observer' judges, he contributes more than any other affection. Smith's notion of *impartial* particularly stresses this aspect. Macfie points out that sympathy makes reason humane and powerful. He adds, however, that without the 'impartial spectator', sympathy is a dumb concept. "It is therefore unfruitful", he continues. "[I]t alone could not search out the 'many inventions' of social institutions or of justice and economy. Alone it could merely feel." (Macfie 1959, p.214)

If the behavior can be approved of, depends on the adequateness or inadequateness of the affection in relation to its object. Some particularly emphasize the significance of imagination as being "crucial to understanding of Smith's notion of sympathy and indeed of his whole moral psychology" (Werhane 1991, p.33). Sympathy, therefore, is the source of moral and practical reason. These sentiments are between elementary instincts, which men and animals have in common, and the logical and calculating behavior of the reflecting human being and thus can be called 'subrational' (Recktenwald 1986, p.21). The observer can only reflect these sentiments, which cause our passions from a distance. Sympathy, therefore, is determined by the distance, which the imagination has to bridge.

⁵ Smith argues against Hobbes und Mandeville; In Book VII of the TMS he dedicates a chapter to philosophical systems, which derive the principle of approbation of an action from self-love (Smith 2002 [1790], 372).

Thus, it is the standard by which the adequateness or inadequateness of sentiments can be judged: “And as we assess others, so too, they assess us” (Evensky 2005, p.114).

The reciprocity of sympathy results of the human desire to be acknowledged as human being. Reciprocal compassion and empathy are an important confirmation of his existence. For human desire, however, it is also necessary to being approved of deservedly. This actually highlights the stemming effect of the principle of sympathy to an exaggerated self-interest: “The man who desires to do, or who actually does a praise-worthy action, may likewise desire the praise which is due to it, and sometimes, perhaps, more than is due to it” (Smith 2002 [1790], p.147f). It gives us the chance to understand ourselves as *good* people. As such we can integrate ourselves into the social structure, which is especially important for the foundation of our society. As Evensky (2005, p.) 115 puts it, “we desire the harmony of others’ sympathy with our own sentiments toward that measure that will enjoy their sympathy.”

The impartial spectator constitutes an unconditional supplement to the principle of sympathy. He is the fiction of the just judge, who decides on the moral approval of an action or a sentiment. As Ulrich puts it, Smith has illustrated the universal viewpoint of moral as the imaginary position of an *uninvolved* and *impartial observer*: We try to examine our behavior as any just and impartial observer would examine it (Ulrich 1997, p.63). Such as we judge through the principle of sympathy other’s behavior, the impartial spectator focuses on *us*. A change in perspective is brought about:

“There is no passion, of which the human mind is capable, concerning whose justness we ought to be so doubtful, concerning whose indulgence we ought so carefully to consult our natural sense of propriety, or so diligently to consider what will be the sentiments of the cool and impartial spectator.” (Smith (2002 [1790], p.47)

The impartial spectator judges an action in terms of its intention – an aspect, which the concept of sympathy implicitly contains. If I put myself into the position of someone else, I try to acquire knowledge of her sentiments, motives etc. and relate these to her action, which follows or precedes. The impartial spectator roots in the empirical reality and has the function of a social mirror. Thus, the adequateness of the own behavior is definitely related to society as it only is reflected through this society. Smith himself repeats several times throughout the TMS that this spectator has to be interpreted as the ability of imagination to change position and have a look on oneself through the eyes of idealized others, who share similar values and conventions (Smith 1790, [2002], p.145).

The impartial spectator is the one virtual character of whose position we try to judge, if our own sentiments and motivations can be approved of. The impartial spectator establishes social sanctions of morality, which as such are the source of conscience. Unlike normative principles that can be derived *a priori*, the impartial spectator is part of human nature and linked with human nature. He may be called an “anthropological condition” or “a mental reflection mechanism” (Patzen 1991, p.29).

His position in Smith's writing is the criterion for morality. Besides the question of the principle of approval – which is deduced from sympathy – it is the question of this very criterion as basis of moral, which ethics has to answer.⁶

3. From Smith to Sen

Amartya Sen is a normative economist or as Walsh puts it, “Sen works form (*sic!*) a massive monument to the successful and sustained entanglement of fact, convention and value” (Walsh 2003, 344). For Sen the purpose of economic science is not only to examine abstract mechanisms of market economies, but very much to propose alternative and better social and economic arrangements, which can best guarantee the actualisation of the social and personal self. Economic theory must therefore be keen in his opinion, to model this self such that it allows insights in the complex motivational human structure. Kallscheuer (2000, p.144) emphasized the role of the individual self-evaluation of the economic subjects and the ability to express, realize and change their needs in the social space in Sen's work. Sen advocates a complex concept of living standard, which contains individual and social capabilities of human beings. Sen's main argument in criticising neoclassical economics is that relevant questions of the relevant weight of economic needs can't be asked in its theoretical space (*ibid.*, p.147). It's the utilitarian *informational base* of Neoclassics, which Sen considers insufficient. In his construction of an also highly conceptualized alternative to this account, Sen then is much inspired by the classics and especially by Adam Smith, whom he finds very much abused in mainstream economics, which take him to underpin the one-dimensional homo economicus. Sen counters this attenuation by showing that for Smith human nature is much more complex. Smithian presuppositions in his economic account especially appear in the capability approach and Sen's general view of human behavior. Both self-interest *and* sympathy must be taken to better understand the “relation between economic success and moral sentiments is indeed a crucially important practical matter across the world.” (Sen 1994, 10)

Because of his effort to re-establish Smith as an important moral philosopher and to up-date many of his thoughts for contemporary economic theory, Jensen (2001, 1) called Sen a *Smithesquely Worldly Philosopher*, who “[i]n developing his worldly philosophy, moved himself further ahead on a path that had been cleared by Adam Smith”.

In the following section, Sen's concept of rationality will be introduced and its connection to Smith analysed.

⁶ In contrast to the common view of Smith as an opponent of Kant and a follower of the Anglo-Saxon empiricism, as defended in the German-speaking part by Horst Recktenwald (1974), Peter Ulrich speaks of a Kantian soul in the breast of Smith. In the impartial, uninvolved spectator, Ulrich finds a deontological concept of ethics He puts the ethic primacy on the moral attitude, whereas Utilitarians are mainly interested in the consequences of an action.

3.1 Sen's View of Rationality

“The object is to understand, explain and predict human behaviour in a way such that economic relationships can be fruitfully studied and used for description, prognosis and policy. The jettison of all motivations other than the extremely narrow one of self-interest is hard to justify on grounds of predictive usefulness, and it also seems to have rather dubious empirical support. To stick to that narrow path does not seem a very good way of going about our business.” (Sen 1987, 79)

Sen is an explicit opponent of the narrow view of human motivation in economics. His point is that “sticking entirely to the narrow and implausible assumption of purely self-interested behaviour seems to take us in an alleged ‘short-cut’ that ends up in a different place from where we wanted to go” (Sen 1987, p.79). The concept of rationality, as it appears in standard economics, in Sen’s opinion does not make much sense. Both notions Sen identifies⁷, viz., acting rationally means maximising one’s self-interest or acting consistently with reference to one’s choices, lack an empirical connection. Sen doubts that actual behavior can be properly explained or predicted by this concept of rational acting. As he points out, human beings commit errors in their actions, experiment, get confused. Therefore, besides the intelligent and systematic pursuit of given aims, we need a supplementary criterion for rationality, unless the sniper’s behavior of maximising the number of his arbitrarily chosen victims should be interpreted as perfectly rational. Sen refuses such a concept of rationality. He claims to scrutinize preferences and objectives accurately and to assess them critically. Also the values and priorities, which are not directly captured by the explicit objectives, should be examined. We can find such a view implicitly in Smith’s virtue of prudence⁸. Prudence is a complex concept. Its central element is the individual ego and its well-being in society. This ego, however, is not to be interpreted as separated from society in which it acts. Prudence goes beyond a mere self-interest maximisation. Smith actually argues that prudence is the union of “reason and understanding” on the one hand and “self-command” on the other. This difference, as Sen (1986, 31) puts it, is crucial to an analysis of Smith’s understanding of social behavior and the political implications which follow from it. As mentioned, Smith highlights the importance of general rules of conduct. These have a strong influence on human action and play a positive role in society. As we can see from this, rational actions in Smith’s understanding are reflected prudent actions, which might be linked to virtues, conventions or also to the principle of sympathy.

We may for example impose restrictions due to social requirements, which could change our objectives. Rationality thus requires not only an evaluation of our objectives but also of our values, which are not directly linked to these objectives, to withstand accurate examination and assessment.

⁷ Putnam (2002) identifies at least six concepts of economic rationality.

⁸ Sen comments on prudence in: *Adam Smith’s Prudence* (1986)

Then, also acting in accordance with the logic or the objectives of a group can be interpreted as rational and doesn't get isolated of its context. Also moral conviction may cause self-imposed restrictions (Sen 2002b, 42), which indicate a contradiction to instrumental rationality. Smith explicitly made this point as he considers moral sentiments and ethical considerations as important drivers of motivation. Choices of actions, according to Smith, are very much influenced by what we morally approve of and by how we are exposed to public opinion (Witzum 2005, 1027).

As was shown, Sen is a vehement critic of self-interest rationality. It would, however, be surprising if self-related consideration didn't play an important role in many decisions. Not only self-interest maximisation but also the concept of consistent choice inadequately describes human action, as both do not sufficiently and explicitly consider the role of reason. Reason requires more than mere consistency. On the other hand, there is not one convincing argument, in Sen's view, why the rationality of a person should exclusively consist of her own interests. For Sen (1985a, p.110) "[t]he internal consistency approach can bring in reasoning only indirectly – only to the extent (and in the form) that is allowed by the nature of the consistency conditions imposed". The approach of self-interest, on the other hand, "refuses to admit reasoned choice to pursuit of any goals other than self-interest" (ibid.). In Pressman's words, however, "[...] Sen does not want to be just critical. More constructively, he proposes a pragmatic view of rationality. Being rational has to do with reflecting about one's options and the consequences of one's actions, and having good reasons for one's choices. Having good reasons for one's decisions is the essence of rationality for Sen" (Pressman 2002, p.122).

Sen raises the awareness – and that's one of his great merits – that modern economics lost its connection to the real world and moved with its axiomatic language far away from the empirical reality. His critique of instrumental rationality must be understood as a frontal attack against the technical approach to economics, which had vastly rationalized away ethical components. The individual being is completely isolated in its privacy and knows self-centred welfare as its only goal. For Smith rationality, however is a fundamentally social concept and "in Smith the others are essential part of what constitutes rational, or prudent, behaviour" (Witzum 2005, 1030). As will be shown in the following section, Sen very much sticks to this view and introduces considering the other as central elements of our lives in order to open the narrow structure of instrumental decision making.

3.2 Sympathy, Commitment and Identity

Sen suggests two dimensions to widen the homo economicus framework: *sympathy* and *commitment*. In doing so, he tries to open the motivational structure of the individual and to enrich it with further motivational levels. The choice of the concepts refers to Adam Smith. Sympathy "corresponds to the case in which the concern for others directly affects one's welfare" (Sen 1977/1982, p.91). If you feel bad because of the knowledge that a friend of yours is tortured, we speak of sympathy. If you don't feel personally bad about that, but in your opinion it shouldn't be done "and you are ready to do something to stop it, it is a case of commitment" (ibid.)

Sympathy in Sen's interpretation has the notion of compassion in a narrow sense. Knowing about someone else suffering, provokes a sense of malaise. *Sympathy* is therefore a self-interested principle. However, Sen notes that there is a difference between being self-interested, which would contain sympathy, and being self-centred, which would not, as it only refers to the own consumption (Sen 2002a, p.31). Sympathy in Sen's use differs from Smith's notion of sympathy, which is the ability to imagine what one would feel in the other's position. Smith's sympathy has the function of judging behavior. Sen's concept, on the other hand, describes the psychological dependency of individual well-being on the well-being of others. Sympathy here connects the well-being of different people, whereas commitment links a choice to anticipated well-being levels. Why does Sen choose this term, then? He does so, from my point in view, in order to show as Smith did that self-interest need not to be just self-centred. He definitely establishes a Smithian connection to his theory on the other hand. Although Sen's concept of sympathy is not as broad and complex as Smith's notion, the point is that the motivational structure of man is, if not determined, strongly socially influenced. However, as noted, there are concerns, that are not "well-captured by such notions of sympathy" (Hausman and McPherson 1993, 687).

Commitment, however, has a stronger content. A way of defining it, "is in terms of a person choosing an act that he believes will yield a lower level of personal welfare to him than an alternative that is also available to him" (Sen 1982, p.92). How would such a notion point to Smith? Sen complements self-interest with an antipode by showing that an action on grounds of commitment may particularly point against personal well-being. Behavior motivated by commitment, is based on sentiments of justice or moral or even a convention. Hence, it can be actually said that the concept is related to the impartial spectator, which also represents a barrier to self-love and can be interpreted as a concept of duty. As Sen puts it, "the action is chosen out of a sense of duty rather than just to avoid the illfare resulting from the remorse that would occur if one were to act otherwise" (Sen 1982, p.92). Both the impartial spectator and commitment point to codes, people have acknowledged as binding on them. A reference is also made to the general rules of conduct, which provoke a feeling of duty and thus may influence behavior. Sen argues that "the acceptance of rules of conduct toward others, with whom one has some sense of identity is part of a more general behavioural phenomenon of acting according to fixed rules" (Sen 2002b, p.217). The most interesting element here is that in doing so, we don't act due to the logic of maximisation.

Sen develops both concepts with an eye on modern Rational Choice Theory, which he criticizes strongly throughout his work. Smith's theory of behavior and his TMS serve as a useful instrument to attack the behavioristic model of Rational Choice. Sen modernizes the Smithian approach in order to being able to integrate it into formalized modelling. Smith's point that our choices often reflect beliefs of some actions to be avoided (general rules) could be represented formally by considering "a different structure from choosing a maximal element, according to a comprehensive preference ranking (incorporating inter alia the importance of choice acts), from the given feasible set S (allowed by externally given constraints)" (Sen 2002a, p.189). The person could instead limit the alternatives available and take a tolerable subset $K(S)$, which represents the person's self-imposed constraints.

Then the maximal elements in this subset can be sought. Smith's argument "that many behavioral regularities can be explained better by understanding people's attitude to actions, rather than their valuation of final outcomes" (*ibid.*, p.190) can be formalized that way

Sen notes that "commitment does involve, in a very real sense, counter preferential choice, destroying the crucial assumption that a chosen alternative must be better than (or at least as good as) the others for the person choosing it, and this would certainly require that models be formulated in an essentially different way" (Sen 1987, p.93). At this point, Smith's notion of *general rules of conduct* comes in again, which represent more or less the conventional code of a society. In introducing motives such as sympathy and commitment, Sen intends to release the economic-rational agent of his *privacy* as the standard approach of individual rational behavior not only is empirically unrealistic, but also theoretically misleading. Distinct aspects of privacy have to be distinguished, which are differentiated imprecisely in standard economics.

What about identity in this context? The fact that social identities influence individual behavior is hardly to be refused. Social norms, cultural rules and conventions are shaping the individual structure. The community and the people a person is identifying with and which not only form her knowledge and understanding, but also her ethics and norms, play a crucial role in the life of the individual. Sen is interested in which authority this social identity has and how it arises. He refuses the idea of a group identity preceding reasonable reflection (Sen 1998, pp.17ff) and argues that our way of reasoning can clearly be influenced by "our knowledge, by our presumptions, and by our attitudinal inclinations regarding what constitutes a good or a bad argument" (*ibid.*, p.23). Sen is questioning that, as a consequence, we are only able to reason within a specific cultural decision, "with a specific identity" (*ibid.*). He sticks to his approach of rationality and does not cancel it by introducing a dominant concept of identity. Personal identity means self-awareness (Pauer-Studer 2006, p.365) and demands a reflective evaluation of our choices. Commitments and general rules might be a basis for this effort. Even if particular cultural attitudes influence reasonable reflections, Sen argues, this doesn't mean that they also determine them. Rational decisions and considerations are influenced multiply. Doubt remains an instrument of rationality or as Sen puts it, we are not deprived of the ability to doubt and to question (Sen 2007, p.49). An adult and competent person, in Sen's view, has this ability. Even if the environment may not always promote it, doubt stays the one factor, which makes us human beings. This view of identity, I would argue, is in its core Smithian as it roots in reflecting the propriety of action and is concerned with the manner in which we judge others and ourselves.

Finally the whole building of human motivation, as Amartya Sen is constructing it, turns out to be highly Smithian in thought. It can be criticized, however, that Sen sticks to the traditional instruments of welfare economics. Concepts as preference and choice are still central to Sen's model of behavior. Homo economicus itself as an adequate model is not questioned, only that it is too little structured.

3.3 Preferences

Human being – in Sen’s as in Smith’s thinking – is not a plain *rational fool* and her behavior cannot be interpreted as a sum of rational mechanistic maximising decisions. In putting man in the corset of analytical rational choice, he cannot differentiate between such clearly distinct questions as: What serves best my own interest? Which are my objectives? or What shall I do? The rational fool has to answer all these questions identically. “Commitment [...]” as Sen puts it, “drives a wedge between personal choice and personal welfare, and much of traditional economic theory relies on the identity of the two” (Sen 2002a, p.6) and therefore admits the inclusion of so called meta-preferences⁹ in the existing individual preference ordering. In economic utility theory it is supposed that each person has *one* preference ordering only, which represents her welfare and in general her opinion of ‘what should be done’ and which describes her actual choice behavior. “*Can one preference ordering do all these things?*” Sen asks rhetorically. Meta-preferences throw light in the black box of the preferential structure as used in mainstream economics. Preference is not identified anymore with choice and integrates various motivations into the analysis. The approach is also used to explain apparent anomalies of decision behavior. To give an example, consider a person who admits herself to a drug-rehab-clinic and so restricts her own freedom of movement (cf: Whitman 2004). Meta-preferences are preferences of one’s own preferences. They express the preference to have a different preference-ordering than the one I have.

The concept allows distinguishing between moral and actual rankings. This corresponds much more with human nature than the assumption of revealing preferences by choosing an action and the identification of preferences and maximizing well-being as put forward by Samuelson (1938). Sen doesn’t want to implement a simple dualism of ‘moral’ vs. ‘unmoral’, but favours staged preferences, which admit a structure of moral levels. In this manner a moral ordering of preference orderings becomes possible: “A particular morality can be viewed, not just in terms of ‘the most moral’ ranking of the set of alternative actions, but as moral ranking of the rankings of actions. (Sen 1982, pp.100f). The meta-ranking then includes the ‘most moral’ as well as different levels of preference rankings in terms of morality as actual behavior can also consist of compromises between claims of moral behavior and other goals a person might have. As a consequence we receive relative moral orderings, which are *not* the most moral ordering (Sen 1997, pp.99ff). Meta-ranking can be used as a method of different interpretations. Ideologies, political priorities and conventions etc. can be illustrated in this way. What is shown here is that behavior possibly bases on very different motivations and can still be expressed in terms of preferences. Meta-preferences, therefore, are a modern instrument to bring back into discussion Smith’s theory of (moral) behavior and sentiments. It is an instrument to show that human beings often find themselves in a dilemma between self-interest and a feeling of duty to general rules of conduct or moral conventions or as Smith puts it:

⁹ The first author, who developed the concept of preference of second order or meta-preferences, was H. G. Frankfurt (1971).

“Those general rules of conduct, when they have been fixed in our mind by habitual reflection, are of great use in correcting the misrepresentations of self-love concerning what is fit and proper to be done in our particular situation.” (Smith 2002 [1790], p.186)

Meta-rankings are therefore a possibility to integrate Smith’s system of virtues into a modern approach. They are a useful concept as they “formalized the ancient philosophical idea of a critical analysis and ranking of rival moral concepts. This shows how one might embed Smith’s hierarchy of virtues in a present-day choice theoretical model, of the sort that Sen has made his own” (Walsh 2000, pp.22).

Traditional economic theory bases on an identification of personal choice and personal well-being. If commitment is accepted as possible content of choice, the fundamental difference between choice behavior and welfare becomes evidently. The belief that individuals as free and rational agents are able to act on other motives than on the pursuit of self-interest was vehemently defended by Adam Smith¹⁰, and other classical and neoclassical authors.

3.4 Capabilities

Sen favours a holistic conception of an economic theory, anchored in the tradition of classical antecessors. He therefore tries to renew the old connection between ethics and economics and to integrate it into a modern approach. As Sen notes, ethics, in fact, is one of economics’ roots (Sen 1987, 2f). Yet, it is not only the historical relation, which justifies the reintegration of an emancipated science back into its old corset. In fact, all this is about the supplementation of one discipline by fruitful aspects of the other. Both have the same object of cognition, viz. man and his course of action. A separation of both disciplines would mean a separation of the individual being. Modern economics pretend to describe human motivation and to make predictions on these grounds. Ethics, however, dares to go beyond description and to propose how man *should act*. Furthermore, ethics bring up general questions about valuation of social achievements. When economists emphasize the significance of ethics, they do so as economics without ethics in their view represent an unbearable reductionism or a “false dualism” (see Sen 1987). Sen not only refers to Smith but also to Aristotle, who sets ethics where man can find himself as a complete being. Actually, it is not about specific actions but about life as such. Consequently, analysis, which only focus on *economic* behavior, turn out to be somehow dull. For Aristotle life is principally a contribution to the *polis*, which stands for a social ideal. When talking in the *Nicomachean Ethics* about man acting in the most complete way, for him, it is evident that these actions are naturally good. Thus, the question of commitment is not answered here.

¹⁰ e.g. John Stuart Mill, William Stanley Jevons and Alfred Marshall.

What should man himself bind to? Adam Smith doesn't answer this question directly, but draws, however, a picture of a moral nature of man. His pluralistic view of man with his various causes of motivation represents what Sen is exceedingly interested in

As Walsh (2000, 6) notes, Sen heralds the second phase of the revival of classical economic theory, which started with a reference to David Ricardo and has now turned to Adam Smith. Like Smith, Sen advocates differentiated normative analysis of human nature in order to gain further insights and to be able to value the achievements of society more efficiently. Sen does not accept neither positive economic analysis based on escapist assumptions about human behavior, nor does he favour a normative welfare-economic approach, which has got rid of ethical 'ballast'. Sen puts his economic analysis on a broad informational basis and in doing so, argues against the strong utilitarian influence in standard economic analysis, measuring social states on the basis of abstract utility units only.

In order to take account of the holistic understanding of man with his needs and possibilities, Sen introduces functionings and capabilities. The approach integrates Aristotelian and Marxian elements, which was discussed elsewhere¹¹. According to Martha Nussbaum, Sen "has argued, like Aristotle that we cannot properly estimate the worth of distributable goods until we have an account of the functionings towards which these goods are useful" (Nussbaum 1988, 11). In this context, however, I am particularly interested in Smith's influence on the notion of capability. In order to do so, we should glance at Smith's interpretation of poverty. Smith attributed a new feature to the view of poverty by adding to the material deprivation aspect, the notion of necessary. This idea very much inspired Sen in shaping the notion of capability. Necessaries in Smith's understanding are to be understood as core elements of a condign human life, although the commodities needed to satisfy them, may vary from society to society:

"By necessities I understand not only the commodities which are indispensably necessary for the support of life, but whatever the custom of the country renders it indecent for creditable people, even of the lowest order, to be without. (Smith 1986a [1776], V.2.148)

The differentiation of commodities and necessities indicates Smith's complex view of society and human nature. The general idea of poverty at the end of the 18th and beginning of the 19th century, however, differs from Smith's view and is well reflected in Jeremy Bentham's reform proposals of the *Poor Laws* (Bentham 2001 [1798]). As poor people get into their situation because of too much freedom, he argued that it would be the best solution to lock them up in so called *industry houses*, where they could be exploited in order to contribute to the national welfare.

¹¹ see Crocker (2007), Nussbaum (1988)

Bentham's proposals reflect the image of the poor as blameful beings without rights and dignity, whose work force should be used to achieve at least some positive social results, while society has not to bare anymore the unacceptable existence of poor people in the streets. Hence, Smith's idea appears as a modern view of poverty, as we understand it today. Poverty from his standpoint has to be interpreted as the inability to fulfil basic needs. The commodities we need in doing so may differ from society to society, whereas the necessities remain the same. We want to be able to appear in public without shame or more abstract to have the freedom to lead a valuable life. Yet, this idea reflects the content of the word capability as it includes freedom of choice and the possibility of agency. This is the central idea of capability:

“The capability he [Smith] was referring to was the one of avoiding shame from the inability to meet the demands of convention. [...] As we consider richer and richer commodities, the commodity requirement of the same capability – avoiding this type of shame – increases. [...] In the commodity space, therefore, escape from poverty in the form of avoiding shame requires a varying collection of commodities – and it is this collection and the resources needed for it that happen to be relative vis-à-vis the situation of others. But in the space of capabilities themselves – the direct constituent of the standard of living – escape from poverty has an absolute requirement, to wit, avoidance of this type of shame. Not so much having equal shame as others, but just not being ashamed, absolutely.” (Sen 1984, 335)

This passage makes clear Sen's view of poverty as an absolute concept. Poverty has ultimately been interpreted as relative to the society in which it occurs and above all, as a deprivation of resources and income. In Sen's opinion, not only poverty but human development in general has to be valued in reference to the capabilities a society is able to generate. The constituting element of living standard is not the commodity as such or its function, but the capability to realize various things with it. Poverty regarding capabilities is an absolute concept. Regarding commodities, however, it will turn to a relative form (Sen 1983, 1985c). Sen also argues against the view of poverty as a value judgment as the exercise of defining poverty itself is not a prescriptive one. Nevertheless, we have to take note of prescriptions prevailing in society. He argues that the action of describing a prevailing prescription, however, “is an act of description”. “For the person studying and measuring poverty”, he continues, “the conventions of society are a matter of fact (what *are* the contemporary standards?), and not issues of morality or of subjective search (what *should be* my values? how do I *feel* about all this?)” (Sen 1981, 17). This was put forward by Adam Smith's example. It is the human being, which stands in the centre of the social and economic conception. It must therefore be the aim of an economic system to provide the possibility to live the one life one has reason to choose:

“The capability perspective involves, to some extent, a return to an integrated approach to economic and social development championed particularly by Adam Smith (both in the Wealth of Nations and in The Theory of Moral Sentiments). In analyzing the determination of production possibilities, Smith emphasized the role of education as well as division of labor, learning by doing and skill formation. But the development of human capability in leading a worthwhile life (as well as being more productive) is quite central to Smith’s analysis of the ‘wealth of nations’.” (Sen 1999, 295f)

The integrated approach mentioned in this paragraph, shall be subject of the following section.

3.5 An integrated approach

Both Smith and Sen share the opinion that free competition can only have positive effects in a specific institutional and social arrangement. In such a system government has a particular significance as it is responsible for the economic progress being balanced with the social needs in a society. In this manner a competitive market is able to deploy a broad effect. The state has to enable its citizens and to secure their development opportunities. Markets, in Sen’s view, serve in generating freedom and their efficiency has to be valued in terms of this generating process. “Combining extensive use of markets with the development of social opportunities must be seen as a part of still broader comprehensive approach that also emphasizes freedoms of other kinds (democratic rights, security guarantees, opportunities of cooperation and so on)” (Sen 1999, 127). This can be read as a critique of welfare economics, which measures achievements of the markets in terms of the utility based Pareto criterion. Such an approach, in Sen’s view, is reductionist, because the challenges, which a market system has to cope with, have to be related to problems of justice in the distribution of substantial freedoms. A freedom related understanding of market efficiency – Sen has in mind a differentiated and complex concept of freedom –compared to a welfare economic perspective, has the crucial advantage that “the idea of freedom involves several distinct issues, including processes and procedures as well as actual opportunities that people have to live the way they would choose.” (Sen 1993a, 538) Sen notes that it is therefore “necessary to distinguish between the different aspects of freedom to have a better understanding of the distinct ways in which the promotion of freedom can be judged” (ibid).

Moreover, by a freedom related analysis of market efficiency, the assumption that individual preferences and acts of choice have always to be interpreted in terms of personal well-being, gets redundant. This premise of welfarist analysis emerges as essentially irrelevant “not only to the process aspect of freedom, but also for efficiency results in terms of opportunity-freedom” (ibid). The freedom related approach admits a perspective change from technical-economic analysis towards an integrated approach of specific ethical and political elements. What we can learn from Smith by doing so, Sen summarizes as follows:

“The lessons to draw from Smith’s analysis of the market mechanism is not any massive strategy of jumping to policy conclusions from some general ,pro’ or ,anti’ attitude to markets. After acknowledging the role of trade and exchange in human living, we still have to examine what the other consequences of market transactions actually are. We have to evaluate the actual possibilities critically, with adequate attention being paid to the contingent circumstances that may be relevant in assessing all the results of encouraging markets, or of restraining their operation.” (Sen 1999, 126)

In Sen’s view, the market mechanism is the crucial institution that is not only able to generate soonest development and freedom, but also to guarantee them. Despite all its deficiencies, market can refer to groundbreaking successes. The capitalist system also succeeds in his opinion to generate specific ethical behavior, which are finally important for its existence. General rules of conduct play a decisive role in this context and are inevitable for the institutional development of society, as institutions base on interpersonal arrangements (cf. Sen 1994). A shared comprehension of common behavior patterns, reciprocal confidence and relying on ethical principles build the crucial element of economic success. As example for a capitalist society, which runs on these *moral codes*, Sen cites Japan and the ‘Japanese ethos’. Selflessness, rule based behavior and last but not least Confucian ethics are responsible for the economic success of this nation.

Nonetheless, it is eventually impossible to understand in detail the far-reaching role of the phenomenon of common rules of behavior. “Sen’s general message is”, as Brennan puts it, “that moral codes represent an important piece of social capital – and that [...] the successful operations of an exchange economy depend (for example) on mutual trust and implicit norms’. Sen wants to argue against an utterly partial reading of Adam Smith” (Brennan 1995, 298).

4. Concluding Remarks

It turned out that Smith’s work is used twofold in Sen’s writing. First, Sen’s direct contributions to Smith’s work and his emphasize on the complex structure of Smith’s thoughts. Second and more important, we have to take account of the Smithian spirit, which can be found throughout Sen’s own economic theory. While Sen insists very much on a deeper understanding of both *The Wealth of Nations* and *The Theory of Moral Sentiments* in order to avoid a common misunderstanding of the author, he implements on the other hand, many Smithian ideas in his own economic account. Smith’s moral system as it was described in the first part of this paper is the benchmark for Sen’s description of man and his effort to extend the homo economicus with the concepts of sympathy, commitment and identity. In these concepts not only Smith’s impartial spectator, but also his general rules of conduct and the principle of sympathy can be found in a modernized form.

By introducing meta-preferences in the narrow preference structure used in mainstream economics, Sen tries to integrate a broader system of human nature. His particular aim is not only to show that self-interest maximisation cannot be the only driver for individual motivation, but also to emphasize that maximisation as such is a sometimes misleading assumption.

After criticising instrumental rationality, revealed preferences and in general the mechanistic approach to economic behavior by referring to the founding father of political economy, Sen consequently also builds his alternative approach of capabilities on Smithian fundamentals. As was shown, Smith's theory of necessities marks one starting point of the capability perspective. It also accents Smith as a modern and progressive thinker of his time, who contributed to a deeper understanding of the causes and nature of wealth, development and also poverty in society. Smith also shed light into the destructive power of capitalism and its driving principle, the division of labour. Sen sticks to this critical view of a market economy and urges, as shown, that economic progress must be balanced with social needs. The market's function in Sen's understanding is the creation and generation of capabilities, social progress and freedom. This is only to happen within a carefully designed institutional system, which has to take care of a fair and equal distribution of these capabilities and which has to take account of the lot of the weakest. This clearly shows, however, that Sen stands in the tradition of classical political economy, where a separation of ethics and economics was unthinkable.

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