

## Chapter 1

# What is political economy?

The discipline we know today as “economics” began as “political economy” in the eighteenth century. The early political economists, including Adam Smith and David Hume, wanted to adapt a Newtonian scientific methodology to the study of human behavior and human society, for two principal and connected purposes: first, to discover, from history and empirical observation, regular patterns of behavior that could be systematized and therefore explained and understood; and second, to use those discovered patterns as empirical bases from which to make recommendations about institutional reform. They reasoned that if we could understand how human social institutions work, then perhaps we can understand what the moral, political, economic, and cultural institutions are that conduce to human prosperity—and, of course, which do not.

After the eighteenth century, these purposes of political economy developed into two relatively distinct and separate fields of inquiry. One is *moral philosophy*, an attempt to understand not only the goals that we should, morally, pursue, but also what the grounds are of that normative “should”—that is, not only what it is right to do, but also what makes the right thing to do right. A subset of moral philosophy is *political philosophy*, which seeks to apply the conclusions of moral philosophy to specifically public behavior and institutions. The second major field into which political economy divided was *economics*, a positive and technical (and, in the twentieth and twenty-first centuries, an increasingly quantitative) analysis of the ways human beings behave under varied circumstances, along with the development of mathematical models to account for past, and to predict future, human behavior. Today, moral philosophers and economists often proceed with little knowledge of, or even regard for, the work of practitioners in the other field.

One main reason for the divide is the distinction between *descriptive* inquiry and *normative* inquiry—that is, the distinction between investigations

that aim to describe, empirically or factually, what is the case in the world, and those that aim to make recommendations about how we should or ought to behave. These two kinds of investigation are logically distinct. One might be able to describe all of the likely outcomes of, for example, raising the mandatory minimum wage, without thereby committing oneself to a claim that it would be good (or bad) to do so. Similarly, if a student asks me whether she should go to law school, I can tell her things like the average scores and GPAs required to get into various law schools, the average starting salaries of graduates of various law schools, what kinds of things lawyers trained in different specialties go on to do, and so on. Yet none of this would answer the question of whether she should go to law school. To answer that question would require not only an assessment of her particular circumstances and opportunities, but also, crucially, her values. What does she want to do? What are her goals, aims, and ambitions in life? What does she believe would be a valuable use of her limited time, talent, and treasure? Without knowledge of these things, we could not know whether she should go to law school. That “should” depends, then, on her values—including her moral values—and would generate a normative claim distinct from the descriptive claims about law school.

This division of political economy into separate fields of descriptive inquiry (economics) and normative inquiry (philosophy) was absent in the other early political economists, although perhaps ironically it was Smith’s friend David Hume who first clearly brought our attention to the distinction:

*In every system of morality, which I have hitherto met with, I have always remark’d, that the author proceeds for some time in the ordinary way of reasoning, and establishes the being of a God, or makes observations concerning human affairs; when of a sudden I am surpriz’d to find, that instead of the usual copulations of propositions, is, and is not, I meet with no proposition that is not connected with an ought, or an ought not. This change is imperceptible; but is, however, of the last consequence. For as this ought, or ought not, expresses some new relation or affirmation, ’tis necessary that it shou’d be observ’d and explain’d; and at the same time that a reason shou’d be given, for what seems altogether inconceivable, how this new relation can be a deduction from others, which are entirely different from it.*

(Hume, 2000 [1740]: 302; emphasis in the original)

Over the course of the nineteenth and twentieth centuries, thinkers became increasingly impressed with this distinction, and the realm of “is”-statements became increasingly relegated to economics while the realm of “ought”-statements became increasingly segregated into philosophy. Economists came to see their work as like physics, or perhaps engineering: if you tell me what your goals are, I can tell you how best to achieve them; or, I can tell you what the likely consequences are of policies you are contemplating, but I leave it to you or others to decide whether those consequences are good or bad. And philosophers, for their part, saw their primary contribution to the discussion being an exploration of what the moral values are that ought to be championed or sought, with little regard for how that might be achieved in practice. Today, economists often see philosophers as unconnected with the real world, while philosophers see economists as focusing on the wrong questions. Little wonder, then, that they often do not read each other’s work.

For Adam Smith, however, these two strands of inquiry, the descriptive and the normative, were integrated into a single inquiry: political economy. What Smith wanted to do was understand human nature, including human psychology and human motivations; the human condition, including the state of the world and its resources; and human social institutions, including how they come into existence, how they are maintained or grow, and how they decay. But Smith also believed that such investigations would ultimately be empty and pointless unless they were connected to recommendations that would enable people to lead better lives. So Smith thought the political economist needed to know, first, what the human and other material was with which he had to work,<sup>1</sup> and what the possibilities and limitations of that material were; but, second, the political economist should then use what he learns to recommend behaviors and policies that could enable creatures constructed as we are in conditions like those we face to lead lives worth living. For Smith, this meant he should study human nature the way an empirical moral psychologist today might, but then would draw conclusions about public policy based on his findings. Smith believed that human happiness was a great good, indeed the *summum bonum*, and it required both empirical inquiry and moral philosophy to understand what genuine happiness for human beings is. But Smith also assumed that attempting to achieve it, as well as helping others to achieve it, was a moral imperative.

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<sup>1</sup> Smith uses only the masculine pronouns throughout his work. Because of this, and to avoid begging any interpretive questions, I adopt the same convention.

The ultimate goal, then, of political economy, as Smith conceived it, was to figure out what social and public institutions would enable a prospering society in which people stand a chance of leading truly happy lives. To do this, he would first have to understand human nature and human psychology, and what constitutes genuine human happiness: that was the primary goal of his first book, *The Theory of Moral Sentiments*. And then the political economist would have to understand the human condition and the material and other constraints human beings face: that was the primary goal of his second book, *The Wealth of Nations*. Only then could he make positive recommendations about what policies would enable creatures like us, in the conditions in which we find ourselves, to prosper and flourish. The political-economic recommendations Smith comes to make in *WN* can then be understood as the result of this two-step investigatory process.

At the outset of *WN*, Smith presents us with a vivid picture of what he believes is at stake. Part of his inspiration for writing *WN* was Smith's observation that some people were much wealthier than others. What was life like in the poor countries in the mid-eighteenth-century? Smith writes, "Such nations, however, are so miserably poor, that, from mere want, they are frequently reduced, or, at least, think themselves reduced, to the necessity sometimes of directly destroying, and sometimes of abandoning their infants, their old people, and those afflicted with lingering diseases, to perish with hunger, or to be devoured by wild beasts" (*WN*: 10). It may be hard for many of us today, amidst the unprecedented levels of wealth that we enjoy in the twenty-first century, to appreciate the difficulties that faced people living in such desperate and abject conditions. And yet that was the common and virtually uncontradicted fate of most human beings throughout almost all human history until the eighteenth century. But Smith saw that in his day some people, and some countries, were beginning to rise out of these miserable conditions. He wanted to know how they were able to do so—not as a matter of mere academic or historical curiosity, but because he understood, and had seen with his own eyes, that people's lives often hung in the balance depending on the public policies and institutions their countries adopted. If the institutions that enabled people to rise out of such poverty could be understood, then perhaps they could be recommended and spread to others, thereby raising the estate of ever more people. Perhaps one could dare to hope that many lives, even millions of lives, could thus be improved.

The main questions of Smith's political economy, then, were: What is genuine human happiness, and how can it be achieved? What constitutes real wealth, and what is the connection between happiness and wealth? Why are some places wealthier than others, and how can poorer places become wealthier? What public institutions can we recommend that would fulfill our moral aspirations by enabling people to achieve happiness? And finally: How can we help all citizens, and especially our poor, to lead lives of not only prosperity but also purpose and meaning? These were Smith's goals, and they were the goals of the field of political economy that he practiced. What more beneficial, and more moral, project could there be?