Journal of Contextual Economics, Published Online First
https://doi.org/10.3790/schm.2024.383297

"The Greatest and Noblest of all Characters": Knowledge, Improvements, and Smith's "Science of the Legislator"*

By Richard Sturn**

Abstract

Adam Smith's science of the legislator and the "virtues of the statesman" are understood as a kind of higher order-liberalism, coming close to what Colander and Freedman call "the liberal methodology" pertinent to the role of economics in policy-making. Evolving socio-economic heterogeneities, the dynamism of specialisation and politics require a kind of dynamic, open, and contextual second-best approach, based on acknowledging the limits of system and historical contingencies – incompatible with technocratic scientism, utopian perfectionism, and reckless experimentation. I discuss reasons why the science of the legislator "died" (D. Winch), and did not become part of the modern mainstream, even though it has been re-invented time and again.

JEL Codes: B1, B3, B4

Keywords: Adam Smith, System of Natural Liberty, Mercantile System, Man of System, Science of the Legislator, Second-Best Liberalism

> … he may assume the greatest and noblest of all characters, that of the reformer and legislator of a great state; and, by the wisdom of his institutions, secure the internal tranquility and happiness of his fellow-citizens for many succeeding generations (Adam Smith, TMS VI.ii.2).

1. Against Technocratic Hubris, Reckless Experimentation, Mercantilist Rent-Seeking: Smith's Higher Order Liberalism

"Years of miracles": Under this heading, Joel Mokyr (1990, 81) discussed science-based technological advances and socioeconomic developments in the decades after 1750, culminating in what to-day is known as the Industrial Revolution. Those miracles include waves of economic innovation with far-reaching transformative impacts on societies. Related to that, the role of science-based analysis informing societal re-

* The article has benefitted from comments by anonymous referees and participants of the NOUS conference on Adam Smith 300 in Edinburgh, 19 – 21 June, 2023.

** Graz Schumpeter Centre, University of Graz, Universitaetsstrasse 15/4E, 8010 Graz, Austria. The author can be reached at richard.sturn@uni-graz.at.

form is emerging both at the level of regulative ideas and as a potential historical force, sometimes accompanied by exalted scientism and rationalist enthusiasm greeting a new era for humankind, occasionally provoking political countermovements indicated by the recurring popularity of intellectuals vividly postulating the fatal futility of any rational reform, such as Joseph de Maistre.

In this setting, the development of *a specifically reflective approach regarding the role of science in politic*s is perhaps the most remarkable of all miracles in those decades. David Colander and Craig Freedman (2019) call the pertinent current "classical liberalism" and its economic policy approach "liberal methodology," which does not refer to specific methodological principles relevant for economics as a science (such as Occam's razor, methodological individualism, or instrumentalism), but rather to the inherent incompleteness of knowledge made available by scientific economics. Such incompleteness is crucially relevant for the "liberal methodology" concerning the role of economics in policy-making.[1] In this setting, Adam Smith's *science of the legislator* can be considered a seminal concept, providing a circumspect account of *both the power and the inherent incompleteness of social science,* calling for complementary knowledge in policy making. It aims at *making political sense* of such incompleteness under historically given circumstances, envisaging science-based socio-economic improvements in the spirit of enlightenment while steering clear of the shallows and dead ends of scientism, technocracy, and top-down modernization.

Higher-order liberalism (or "liberal methodology") can be considered a problem-minded way of dealing with challenges of transformation of economic thought into a scientific discipline: illiberal tendencies are likely to ensue when its principles are violated – principles mediating the increasing role of science as a basis of technologies, deliberate reforms of institutions, and macroeconomic control. As highlighted by Colander and Freedman, pertinent principles informed the evolution of an art-and-craft approach to economic policy in the "classical" period. The steady improvement of methods and tools along with expanding scope of analysis promises to provide ever better support for scientific implementation of policies. Thus, progress in economics could be conducive to the crowding-out of the art-and-craft approach of economic policy by allegedly more scientific approaches – even though the latter were less well equipped to cope with the incompleteness of scientific economics knowledge.

[1] A referee suggested to consider dropping the term "liberal methodology", since it may cause misunderstandings. Indeed, the understanding of "*classical liberalism*" and of "*methodology*" suggested by Colander and Freedman is somewhat unusual. Since "liberal methodology" does reflect the power and limits of science and is in that sense deeply "Smithian," it will occasionally be used as shorthand term in this piece. Morover, while in a common understanding classical liberalism is a politico-economic doctrine including laissez-faire economics, civil liberties under the rule of law emphasizing individual rights, limited government, economic freedom based on private property and the principle of free contract, and a complementary mix of freedoms pertinent to other spheres of modern social life, notably the political, Colander and Freedman focus on what I refer to as the meta-level of "higher order liberalism" (neither implying some specific combination of liberal tenets nor palaeoliberal concepts of laissez-faire as natural order). The terms are justified insofar as they remind us of the pitfalls of an overly technocratic and and centralistic implementation of first-order liberal principles (at odds with Smith's "virtues of the statesman").

DOI https://doi.org/10.3790/schm.2024.383297 | Generated on 2024-12-22 17:52:48

Smith anticipated the near-inevitability as well as the drawbacks of such developments. The science-based rationalism of "the man of system" operating under fictions of unrealistic homogeneity is sharply criticized by Smith at the practical level of reform policy, most explicitly in sections added to the final 6th edition of *The Theory of Moral Sentiments* (TMS) published in 1790, specifically in TMS VI. As we can infer from Smith's criticism in TMS VI and his multi-faceted discussion of the mercantile system in *Wealth of Nations* (WN) IV, he considers pertinent fictions either politically naïve, or else implying abuse of reason intertwined with the arrogance of power, or functioning as a disguise for rent-seeking. Moreover, the narrow epistemic basis of that kind of policies may provoke counter-movements such that "the game will go on miserably" (TMS VI.ii.2.17). Smith's liberal methodology, thus, includes a powerful critique of approaches to scientism in politics which are at best naïve and at worst promotes conglomerates of disguised rent-seeking, eventually associated with authoritarian or totalitarian tendencies (see Polanyi 1966) – problems requiring remedies beyond the disciplinary standards of science which co-evolved in view of disciplinary requirements, not of challenges emerging in science-politics interfaces.

In this article, I illustrate why Smith's work is unsurpassed in clarifying the analytical foundations and challenges of higher order liberalism/"liberal methodology." Remarkably, Smith did not envisage combining the desired impartiality of the "science of the legislator" with spurious universalism, or fictions of social homogeneity, or the kind of "false" individualism which ignores the fragmentation of knowledge, or distributive agnosticism which often amounts to questionable politics along with analytically flawed economics. While separating economic analysis from the entanglement with distributive conflicts may be an attractive analytical strategy, carving out distribution (by way of the allocation-distribution dichotomy) is admissible under relatively stringent conditions, applying to largely counterfactual worlds suitable for analysis of a restricted set of problems only.[2]

The "invisible hand" does require help, which in complex societies cannot be effectively provided without substantial approximation to an impartial *science of the legislator* – invoking a broader range of knowledge than can be supplied by any single scientific model.[3] As exemplified by the mercantile system, impartiality is not a natural property of systems of political economy. Approximative impartiality is a regulative idea for realizing the beneficial societal potentials of social science, including issues of institutional implementation, state capacity, class agency[4], historical context, and strategies of dealing with unavoidable problems of carving out model worlds for partial analysis.

The remainder of this article is organized as follows: Section 2 provides a cursory characterization of key aspects of Smith's "science of the legislator," including his critique of "the man of system" as well as "the virtues of the statesman." I contend that it

2 *Cf.* Sturn (1990; 2001; 2009); Witztum and Young (2006).

3 *Cf.* Brubaker 2006. Smith's stoical roots did not induce him to opt for apathic quietism (*cf.* Sturn 1991).

4 Landlords, capitalists, and workers differ in their systemic position affecting their ability to promote group interests, as well as the latter's congruence with the public interest, as Smith explains in WN I.xi.

is a highly sophisticated version of higher order liberalism/"liberal methodology." The subsequent five sections scrutinize *five claims*, each of which plausibly invokes the power of scientific economics, yet at the same time promoting problematic tendencies contributing to what Colander and Freedman refer to as the "abandonment" of liberal methodology.

(1) *Science is the basis of the progress of improvement.* Smith's reasoning explains the progressive societal potentials of science, but also its inherent limits.

(2) *Modern politics demands science-based technical solutions at societal levels.* From Smith we can learn that such demand is part of ambivalent modernization processes commencing with the mercantile system, including a kind of demand-supply interaction and specific potentials for distortion.

(3) *A defining feature of modern economics (expressed by Lionel Robbins's emphasis on scarcity) amounts to carving out a sphere of pure economics which can be neatly separated from contested political or ethical issues.* Modern economics deviates from Smith by rigorously carving out a sphere where issues of power, distribution, and human sociality do not matter. They are eliminated from the core of its architecture, as epitomized by the allocation-distribution dichotomy. In some contexts, this may be analytically convenient and ideologically attractive. However, it implies an *architectonic fault-line* in a wider politico-economic perspective, inter alia by ignoring the role of human sociality and political agency for institutional reform.

(4) *Modern science is part of a powerful machinery of linear and cumulative progress characterizing modernity. Accordingly, progress in economics becomes a substitute for the "virtues of the statesman."* Smith's view of the ambivalences and complexities of progress in such societies and its implications for scientific economics belong to the most prescient part of his oeuvre, anticipating strong tendencies in science and society exaggerating conceptions of linear and cumulative progress, as well as the crowding out of frameworks conducive to understanding the vicissitudes of progress conditioned by the co-evolutionary development of differentiated, increasingly complex societies. In a Smithian view, progress in economics lacks the tendency to become a substitute for "virtues of the statesman."

(5) *The working of the ever more perfect machinery of economic expertise is supplemented by normative guidance making explicit the conditions of the social optimum respecting individualist values.* By contrast, Smith's "science of the legislator" combines political realism and *second-best liberalism* for doing better than both Hobbesian pessimistic individualism as well as technocratic enlightenment rationalism. Smith develops a more dynamic, developmental, bottom-up, and open paradigm of change in modern societies, acknowledging the role of extra-economic spheres along with the multifarious potentials of common-sensical situated knowledge. While elements of second-best-thinking can be detected in any successful reform process and are reflected by the varieties of liberalism, first best-thinking is part of a mental model entrenched in welfare economics as well as at certain levels of modern popular opinion.

Smithian considerations in view of those five claims are sketched in sections 3 – 7. Section 8 concludes. It is argued that Smith provides ample resources for addressing those claims, anticipating the problem that the five above-mentioned claims are not simply mistaken: they make sense in appropriately limited settings. The partial plausibility of such claims is instrumental in crowding out the "liberal methodology," since subtle reflections of the science of the legislator are not so readily accessible. Consequently, hegemony of paradigms cheering those claims in a de-contextualized manner is followed more by counter-movements (such as "science wars" and "climate denialism") than by a well-targeted critique *à la* Smith.

2. Classical Beyond Noble Simplicity: High-Flying "Men of System," Vicissitudes of "Liberal Methodology"

Smith's work is of enduring importance as it anticipates *potentials, limits and ambivalences* of science-based modernization: in the coevolution of science and the other sectors of society, politics aiming at improvement or harm prevention becomes ever more dependent on science, accompanied by concomitant problems of the "man of system." His program of promoting the unbiased understanding of socio-economic processes and combining them with other relevant knowledge reflecting the specificities of the situation, aiming at improvements under the historically contingent state of economy, legal frameworks, and politics, are a seminal articulation of "liberal methodology." It is in this sense that Smith's approach to policy-making supported by the "science of the legislator" deserves to be called "*classical.*"

Unfortunately, unlike "the obvious and simple system of natural liberty," the way in which Smith deals with the intricacies of science-based policy-making does not come with "*noble simplicity and quiet greatness*" – and thus clearly fails to make the grade regarding the definition of "classical" suggested by the archaeologist Johann Winckelmann (1717 – 1768). Indeed, "liberal methodology" can never be classical in Winckelmann's sense, given the complex developmental nature of underlying problems. Even readers who did not overlook pertinent complexities and intricacies often considered them as a footnote in Smith's oeuvre, introducing diffuse and indeterminate considerations obscuring the shining light of classical theory, or too much potential for disagreement on economic policy (see Poovey's (1998) account of developments after Smith).

"Classical liberalism" is closely associated with Adam Smith as the first main protagonist. While a thorough comparison with John Stuart Mill (whose magnificent contributions to *classical liberal methodology* are duly praised by Colander and Freedman (2019)) is beyond the scope of this piece, Smith's approach invites us to think about aspects of the complex of problems at hand less visible in Mill (1844; 1848). Mill's account of tendency principles derived from economic models combined with empirical knowledge necessary for political implementation offers a clearly spelt-out alternative to technocratic scientism (be it naïve or coupled with authoritarian tendencies), not least due to its embedding in a sophisticated version of utilitarianism allowing for a reasonable degree of experimental plurality conditioned by a fragmentation of knowledge. In the end it underpins a conception of rational reform

DOI https://doi.org/10.3790/schm.2024.383297 | Generated on 2024-12-22 17:52:48

at its best, reflecting the strengths of enlightenment ideas of rational reform as well as some of their limits, and touching upon their aporias in sometimes subtle ways, including (*e. g.*, in passages discussing Coleridge's thought) a nuanced critique of naïve Enlightenment approaches to institutions and social order.

However, the combination of aspects discussed in sections 3 – 7 is genuinely Smithian and unsurpassed as a multi-level introduction into the liberal methodology. While the way in which successive generations of protagonists of "liberal methodology" bring their argument off the ground changes with historical circumstances and epochs in the development of economics, Smith's contribution can be considered a classical core: it helps to understand why "liberal methodologies" are, and have to be, re-invented for different contexts by successive generations by economists with reflective bent and insights into the logic of the political, as exemplified by Colander and Freedman's (2019, ch. 9) "role models" in the current generation of economists – and why they failed to become mainstream, let alone the dominant approach within the institutions organizing economic policy advice. Smith understood that promoting the potentials of impartiality, science, and enlightenment for practical improvements is hindered rather than enhanced by abstracting from fragmentation of knowledge, interest groups, social classes, and path-dependencies imposing factual constraints in the current state of socio-economic affairs, and from power and conflict as dimensions of politico-economic agency.

Over and above that, Smith not only brings problems of mono-logic scientism to the fore, but provides guidance for the kind of moderation necessary for a constructive and beneficial role of the "science of the legislator": the "virtues of the statesman" may be considered a proxy for the intricate mediation requirements in the science-politics interface to achieve such moderation; requirements which unfortunately *cannot be met by enforcing a set of rules implementing some mechanism.*[5] In contrast, the "man of system" is a proxy for reformers ignoring pertinent complex science-politics interface-problems. Notice that Smith's critique of "the man of system" avoids explicitly invoking concrete historical examples (which he might have had in mind, as they were readily available in the late 1780s – the years preceding the publication of the 6th edition of TMS including pertinent passages in Book VI): neither princely enlightened absolutism nor attempts at revolutionary re-design are referred to in a historically specific manner. This abstractness indicates caution in view of contested political events, but also anticipation of multifarious contingent forms in which the hubris of "the man of system" might express an endogenous tendency of science-based civilization, accompanied by counter-movements eventually amounting to modern obscurantism.

Thus, anachronism is not the main mistake entailed in the view that the "man of system" criticized by Smith is *identical* with the protagonist of the 20th century command economy. To be sure: Smithian critiques clearly apply to the latter. However, they apply to a variety of context-dependent modernization approaches as well, including cer-

[5] Instead of "virtues" Colander and Freedman invoke something similar (the "classical liberal attitude") since the liberal methodology "cannot be defined by a set of rules" (2019, 143). This is in keeping with Smith's approach who refers to "virtues" (of the statesman, to be complemented by parallel virtues of the economic advisor), thereby contributing to discussions elaborating the role of virtues in modern societies and the conditions required for their formation.

tain versions of economic liberalism, as implied by Donald Winch's observation regarding the withering away of Smith's science of the legislator in the liberal 19th century: "much of Smith's science of the legislator died with him, and any account of the branch of it that constitutes political economy must take account of that fact" (1983, 520).[6] Of course, it will not come as surprise that politico-economic currents aiming at collectivist planning or at abandoning markets altogether had little use for "liberal methodology," even though theorists such as Mannheim or Neurath were seriously struggling with democratic planning beyond technocracy (see, *e.g.*, Linsbichler and da Cunha 2023).

However, abandoning liberal methodology became mainstream before and beyond currents of collectivist planning. The history of "abandoning" liberal methodology (reconstructed by Colander and Freedman (2019)) can be read as confirmation of that finding, related to views and practices emerging in the co-evolution of science, economy, and society since 1750. Seeing this together with Donald Winch's remark, one could contrast a steady (if heterogenous) modern stream of approaches abandoning the "liberal methodology" of the science of the legislator, with the much less steady trickle of eminent theorists from Adam Smith and John Stuart Mill onwards (including the contemporary role models discussed by Colander and Freedman 2019, ch. 9) grasping the perennial challenge of the science-politics interface and suggesting ways of dealing with it.

Interim conclusions:

(1) Smith's "liberal methodology" is best understood as higher order-liberalism: violation of its principles leads to policies which are excessively top-down, technocratic, and tend to marginalize liberal pluralism, even when aiming at the implementation of liberal principles. While the "obvious and simple system of natural liberty" will not emerge spontaneously (given the power of privilege-minded pressure groups), it neither can be implemented by technocratic fiat. It is not a blueprint for technocratic reform, or top-down modernization, or authoritarian liberalism. Pertinent problems of the "science of the legislator" are of crucial importance for Smith. Elaboration of the contrast between the contextualization of his own system and other systems discussed in his work (most notably the mercantile system) is not just a rhetorical strategy supporting exposition of the system of natural liberty. As shown in Sturn (2024), his critique of mercantilist economics as faulty and biased from the viewpoint of a superior theory is by no means the whole story, as pertinent discussion in WN IV is not confined to critique of theory: he employs a quite heterogeneous range of models, theories, and other knowledge, which need to be taken on board for understanding mercantilism and developing realistic reforms effectively which change the path of development for the better. His discussions of the mercantile system thus include aspects connoting foundational characteristics of the "science of the legislator" and "liberal method-

[6] The vicissitudes of the science of the legislator cannot be attributed to their opaque presentation. If Smith indulged in the art of what Leo Strauss categorized as esoteric writing – as Burke's complaint that he was "rather a little too diffuse," or Rothschild's (2002, 66) observation that he "went to considerable lengths to obscure his opinion" might suggest, the messages and the analyses regarding the science of the legislator are spelt out clearly.

ology": they provide realistic ingredients of a socially beneficial function of economics, clarifying the scope/heterogeneity of knowledge required for reasonable policies,[7] and the role of second-best reasoning.

(2) Smith's "liberal methodology" is classical for its enduring relevance. This does not imply the association with the shining light of a historical epoch where some principles allegedly prevailed in an ideal way. Quite to the contrary, its classical status is linked to perennial questions and problems remaining relevant throughout the different epochs and varieties of "modernity." Pertinent approaches remain important not as achievements but as challenges: changing circumstances and dilemmas trigger the need for the re-discovery or re-invention of guiding principles summarized by "the virtues of the statesman," which time and again are in short supply.[8] This kind of *classical liberalism* is incompatible with steering clear of endogenous tensions and crises of modernity – and thus it is incompatible with naïve conceptions of linear modernization. What has been called the "unfinishedness" of great liberal thinkers such as Adam Smith, Carl Menger, and Joseph Schumpeter (and sometimes is mistaken for their incoherence) is related to it.

3. Power of Science, Limits of Systems

Smith's remarks on the *usability of theory* as a basis for politics include a few salient conditions, implying the relevance of a broad range of knowledge: "…political disquisitions, if just, and reasonable, and practicable, are of all the works of speculation the most useful" (TMS IV.1.11). Problems of unreasonable, or unjust, or impractical theorizing, eventually amounting to the "abuse of reason" and questionable forms of scientism is not a problem confined to the social sciences including economics: think of eugenics or anthropological racism as examples of destructive excesses of pseudo-rationalist scientism. Such strands were long perceived as resting on solid scientific foundations. Scientific knowledge not without reason is referred to as "tooled knowledge." The scientists dealing with the measurement of "race" no doubt used tools and methods. Extra-disciplinary knowledge, context, and scientific standards and rules are complementary in assessing external validity and practical/political relevance of tooled knowledge.

Economics and the social sciences are affected by such problems in specific ways. There is considerable evidence that Smith was acutely aware of the sharp differences

[7] See also Poovey 1998 and Brown 1994.

[8] Colander and Freedman summarize the principles regarding the use of social science-based knowledge in public affairs by the metaphor of a "firewall," separating economic theory from policy. The firewall-metaphor was famously introduced by Smith (WN II.ii.94: "party walls in order to prevent the communication of fire") in the context of banking crises. It may be left open whether the kind of systemic risk triggered by the naive practical application of economic models is akin to the systemic risk in banking crises (to be mitigated by a "firewall"). In view of Smith's approach regarding the above-summarized five claims, it is debatable whether he would have found that metaphor all that helpful for addressing problems theory-policy interfaces: the problems are sufficiently delicate to call for the "virtues of the statesman"; a firewall may neither suffice nor provide the right kind of heuristic for developing such virtues.

between the specific virtues of the scientific modeler and the multifarious virtues of the statesman, including balancing and coping strategies in dealing with inevitable exaggerations of models/system in view of a more encompassing range of relevant knowledge (*cf.* Rodrik 2015). Here are two sources of pertinent evidence.

(1) In his biographical sketch of Adam Smith, Dugald Stewart reports that in conversations in circles of friends,

> he generally contented himself with a bold and masterly sketch of the object, from the first point of view in which his temper, or his fancy, presented it. …The picture was always lively and expressive; and commonly bore a strong and amusing resemblance to the original, when viewed under one particular aspect; but seldom, perhaps, conveyed a just and complete conception of it in all of its dimensions and proportions. In a word, it was the fault of his premeditated judgements, to be too systematical, and too much in the extremes (ALW V.15, *Essays on Philosophical Subjects* (EPS) 331).

By contrast, in WN (notably in passages pertinent to policy) Smith puzzles his readers less by some singular bold hypothesis than by a plurality of sometimes seemingly competing or incongruous hypotheses – followed by "carefully qualified conclusions," as Stewart also points out in the context of the above-quoted passage. His long and multi-faceted treatment of the mercantile system in WN IV seems to include contradictory passages, unless we invoke more than one "system" and more than one perspective in order to understand the pertinent complex of problems (see Sturn 2024; Weingast 2017). However, the playful engagement with cartoons, sketches, models, and systems (his "too systematical" conversations) reported by Dugald Stewart highlight Smith's awareness of the role of the "man of system" in conversation or scientific debate, functioning as a kind of attractor for complementary knowledge brought to the fore by critics in a discursive situation. Theoretical systems are associated with bold abstractions. Some dimensions of the external validity of their conclusions can be assessed in a scientific manner, but the greater "trans-disciplinary" conversation of human society will play a role as well.

(2) Smith strongly emphasizes the power of parsimony, including reference to psychological motives favoring systems explaining "all appearances from as few principles as possible."[9] According to Smith, "systems in many respects resemble machines" (EPS, HA IV.19), progressing by the substitution of *complex machines by simpler machines:* the process of simplification makes machines more and more perfect. Parsimony of models or theories is thus established as a disciplinary principle. Parsimonious systems establishing a unified machinery of explanation are also "more engaging": Newton's scientific methodology "is vastly more ingenious and for that reason more engaging" than Aristotle's way of theorizing (*Lectures on Rhetoric and Belles Letters* (LRBL) ii.134). Tendencies towards simplifying models characterizes scientific progress and plays a role in persuasion, as they appeal to the human "love of system." It is a factor which must be taken into account in various contexts, including the impact of economics on pol-

[9] According to Smith, the human mind tends to be embarrassed by irregular appearances. This irregularity is a source of discomfort, giving rise to the desire for unified explanations of these appearances: "It is evident that the mind takes pleasure in observing the resemblances that are discoverable betwixt different objects" (EPS, HA II.1).

DOI https://doi.org/10.3790/schm.2024.383297 | Generated on 2024-12-22 17:52:48

> itics: "You will be more likely to persuade, if you describe the great system of public police…, if you explain the connexions and dependencies of its several parts, their mutual subordination to one another, and their general subservience to the happiness of society", writes Smith in TMS (IV.i.11).

However, we cannot safely assume that they always work as an "engine of truth," as Robert Lucas (1987, 108) summarized the role of *homo economicus* in economics. "We need not be surprised," says Smith (LRBL ii.134), that the Cartesian system (as the first departure from the Aristotelian approach in early modernity) has been "universally received by all the Learned in Europe at that time, tho it does not perhaps contain a word of truth." For Smith, parsimony, beauty, and internal coherence of a system are not enough. In particular, social scientists need various other epistemic resources in order to check the external validity and problem-specific relevance of principles: procedures ascertaining internal validity/truth are no substitute for that. "Philosophical history" was such a resource for him (*cf.* Poovey 1998).

"Higher order liberalism" making sense of the power and limits of science thus wrestles with an inherent problem of modernity, providing guidance against undesirable and sometimes catastrophically illiberal tendencies, including technocratic scientism and large-scale social experimentation amounting to reckless experimentalism. While scholars such as Schumpeter (1926; 1949; 1954) have drawn our attention to serious challenges in the co-evolution of economics as a science which became visible only with the further development of modern economics, Adam Smith is unsurpassed in analysing the combination of near-inevitabilities conditioning the role of political economy in the stormy seas of modern socio-economic evolution,[10] rendering navigation a difficult tour between Scylla and Charybdis, where cants of different breeds of sirens attract the ship to vortexes either of technocratic scientism or of counter-movements.

Smithian science of the legislator also makes visible the problems of counter-movements against modernization, nihilist escapism, or the exaggerations of postmodernities and other approaches throwing out the baby with the bathwater, reducing the power of "social science" to weaponry in political power play insolubly wedded to special interests – thereby elevating the politico-economic logic of Smith's critical showcase of a pathogenic theory-politics nexus (the mercantile system) to an immutable social fact. Envisaging Smithian endogenous dynamism of the division of labour and knowledge, the risks of counter-movements and anti-enlightenment reactionary obscurantism (conducive to cures to the modern ills worse than the disease), and of conservative policies freezing the status-quo, are as readily visible as those of reckless innovation and technocratic reform by "men of system."

Smith anticipates the dilemma: as economics develops into a science, it must rely on models providing partial analyses of socioeconomic reality (focusing some subset of

[10] Smith's approach is related to his developmental perspective. Hegel (1820) observes that Minerva's owl begins its flight only with the coming of the dusk, alluding to a process-related problem: in co-evolutionary development, perfect theoretical accounts may be possible only after things have evolved sufficiently far to see which path actually is being taken, since several paths are possible ex ante: ex ante-predictions of complex developmental processes may be impossible, while sound ex post-explanations may be available.

socio-economic interdependences and fading out others) while becoming increasingly tool-based. Modern societies and economies cannot afford to ignore such science. They are increasingly dependent on science-based technology and diagnoses – think of financial crises and climate change. However, partial analysis may become an intellectual prison and a source of systematic biases, unless supplemented by contextual considerations of the science of the legislator and the virtues of the statesman.

Thus, higher order-liberalism is closely associated with making explicit some salient characteristics of how our societies developed over the past few centuries:

(1) "Science" is the knowledge-generating sector of modern societies guided by its own logic, virtues and norms. Social science/political economy/economics is a part of that sector, facing specific challenges in its endeavours to produce "tooled knowledge," due to the endogeneities, heterogeneity and change/dynamism characterizing their object of research.

(2) Political problem-solving systematically relies, and must rely, on scientific guidance.

(3) The interfaces between the science sector, state/politics, and civil society pose serious challenges for beneficial science-based reforms. The use of scientific knowledge for political problem-solving poses intricate problems entailed in processes of combining scientific "tooled" knowledge with other kinds of knowledge; problems for which no algorithmic or institutional mechanisms are readily available, inducing the need for a complex of mediation capacities epitomized by the "virtues of the statesman."[11]

While it will not come as a surprise that some aspects related to the foundational question: *How do the principles for bringing "light" differ from those for delivering "fruit"?* (*cf.* Pigou 1920) are subject to debate, and while the firewall metaphor may not provide enough guidance for "what economists should do" (see, *e.g.*, Marianne Johnson 2020), there can be no doubt that clarifying the differences of pertinent principles refers to a long-standing problem which is at the core of Smith oeuvre. However, Smith's "classical liberalism" offers even more: firstly, it includes insights regarding the above-mentioned basic characteristics of our societies, preparing the ground

[11] The science of the legislator also answers the question in which way Bacon's motto of *commanding nature by obeying it* could apply to economics. Various roles are suggested (mostly steering clear of the political dimension of the practical side of economics), including the economist as an engineer providing solutions for problems well-defined in advance, or as a plumber tackling problems of limited scope. While some (*e.g.*, the Viennese students of civilization studied by Erwin Dekker) stressed the role of economics in informing political concepts relevant for the secular path our societies are to take and were sceptical of the role of economics in the micro- and macro-management of socio-economic problems, others were silent regarding such high-level questions and believed in the role of scientific economics regarding such management. Some (including Frank Knight, Joseph Schumpeter, and Keynes) highlighted the analogies with the medical doctor or dentist, thereby invoking the complexity of the body politick. But while this analogy may shed doubt on engineering solutions and on what Hayek (1973) called "constructivism," it is in itself inconclusive, as the principles guiding approaches to therapy include (among many others) therapeutic nihilism advanced by a Vienna School of Medicine (self-identifying as markedly scientific, contrasting older rule-of-thumb approaches of medical practitioners).

DOI https://doi.org/10.3790/schm.2024.383297 | Generated on 2024-12-22 17:52:48

for discussing problems of intersectoral interfaces and related spillovers/crises. Secondly, it offers prototypical (if not fully elaborated) frameworks for discussing settings with a mix of conflicting and common interests (including zero-sum-games and positive-sum games, along with the Hobbesian shadow of non-cooperation as possibly relevant scenarios), and of heterogenous perceptions and motivations, with profound implications for the way in which political influence activities are analyzed and explained (see WN IV and Sturn 2024): Smith not only emphasized inherent limits of systems/models, but combined this with an analysis of pertinent implications of intra-societal conflict, heterogeneity, and related fault-lines.

4. Demand Side: Making Sense of the Limits of Systems Is a Rare Virtue

Here is Smith's famous characterization of the role of systems in politics: "some general, and even systematical idea of the perfection of policy and law, may be no doubt necessary for directing the views of the statesman" (TMS VI.ii.2.18); moreover, systems may contribute to enhancing the "public spirit," as he states in TMS (IV.i.11). As elaborated by Phillipson (2011), Smithian societal "improvements" require understanding, including the science of the legislator. However, pertinent statements are complemented by often-quoted passages[12] in which Smith argues that technocratic policies implemented by "the man of system" are bound to end in a nightmare when the multifarious beliefs, forces, and constraints prevalent in society (whose nature and patterns of influence never can be captured by any single system) are ignored.

Critical accounts of the politico-economic distortions occasioned by the abandoning of "liberal methodology" (including Colander and Freedman, 2019) are often supply-centered, *i. e.*, originating from internal developments of economics as a scientific discipline driven by its Do's and Don'ts. However, distortions may be triggered by the "demand side", *i. e.*, by politicians for various reasons preferring "one-handed economists," promising socio-economic fine-tuning, and explaining why there is no alternative. Nonetheless, "virtues of the statesman" are alive, but not well: "statesmen" intuitively understanding the risks of a "man of system"-approach while resisting temptations inducing them to become an "insidious and crafty animal" (WN IV.ii) do exist and play a role in any successful reform process, but they are a rare species. The virtues of the statesman can be understood as a proxy for mediation requirements applying to the "demand side" in the complex interface of theory and politics, devel-

[12] "The man of system … is apt to be very wise in his own conceit; and he is often so enamoured with the supposed beauty of his own ideal plan of government, that he cannot suffer the smallest deviation from it….. He seems to imagine that he can arrange the different members of a great society with as much ease as the hand arranges the different pieces upon a chessboard. He does not consider that the pieces upon the chessboard have no other principle of motion besides that which the hand impresses upon them; but that, in the great chessboard of human society, every single piece has a principle of motion of its own, altogether different from that which the legislature might choose to impress upon it … Some general, and even systematical, idea of perfection of policy and law, may no doubt be necessary for directing the views of the statesman. But to insist upon establishing, and upon establishing all at once, and in spite of all opposition, every thing which that idea seems to require, must often be the highest degree of arrogance" (TMS VI.ii.17/18).

oping qualified demand for useful economic expertise (parallel virtues guiding the experts on the "supply side" are an obvious complement).

Adam Smith considers the interaction of supply and demand – by "statesmen," politicians, legislators or other social strata interested either in expertise technically relevant for governance, or else in stories ("auxiliary reasons") useful for legitimating certain policies, making use of psychological tendencies such as "love of system." In this context, it is hardly surprising that increasing dependence on science-based knowledge may be accompanied by biases, amounting to problematic modernization and technocracy at different levels.

In a Smith-inspired view, demand and supply are in themselves part of a story which should be viewed as a kind of potentially problematic co-evolution of economics and the state/political sector. In his long passages (230 pages of the Glasgow edition of WN IV) on the mercantile system, Smith comes close to presenting a case study of supply-demand interaction for an era including important steps in the prehistory of modern economics and modern states. The mercantile system/mercantilism was *not* dismissed as an outright failure, but a showcase for the linkages between partial achievements of "power and glory," their costs imposed on someone else, and biased theory (see Sturn 2024). Demand-side problems of "men of system" (TMS VI.ii.2. 17/18) are inherent in modernity and may exacerbate the problems in that it enhances demand for scientific research programs promising do deliver unique solutions while abandoning the principles of "liberal methodology."

Smith moreover diagnoses inevitable tendencies of interest groups, related to the propagation of mental models – shaping the priorities of public agency, *i. e.*, making non-agenda (according to the catalogue specified in WN V) to state agenda, sometimes going along with distorting/neglecting genuine agenda. Thus, considering Smith's science of the legislator, we may conclude that problematic aspects of progressing economics may be understood in terms of the peculiarities of supply-demand interactions. Unless higher-order principles of "liberal methodology" are taken on board, the science of the legislator is likely to degenerate. In this complex setting, the "liberal methodology" provides the basis of regulative ideas for coping with ills representing the other side of the coin of genuine progress in science and society.

5. Architectonic Fault-Lines: Carving-Out Allocation as the Core of Scientific Economics

While in some philosophical sense socio-economic reality is a seamless whole of interdependent parts, the quest for a unified *scientific* super model of human society integrating all relevant factors and interdependencies is spurious. As is widely acknowledged and anticipated by Smith, scientific economics relies, and ought to rely, on analyses carving out some part of the totality of socio-economic analyses: *e. g.*, Walras analyses a system of many interdependent markets, taking as given private ownership patterns and exogenous enforcement of contracts mediating exchange. Ideally, carving out some part of the totality of socio-economic interdependences for analytical purposes should be guided by a clear understanding of the research questions and

DOI https://doi.org/10.3790/schm.2024.383297 | Generated on 2024-12-22 17:52:48

problems determining the suitability of specific carving-out strategies. However, mental maps guiding choices regarding the boundaries of territories carved out for analytical purposes are often informed by (not purely problem-oriented) architectonic principles, distinctions, dichotomies, or what Schumpeter (1949) calls "ideologies."

Carving-out thus hardly ever will be unbiased, even though the distortive quality of biases may differ (a reason for requiring a broader knowledge basis for the applied science of the legislator). Some critical biases of neoclassical economics are absent from Smith's economics. Pertinent architectonic principles are themselves reflecting modern trends in that they are carving out (and research-strategically expanding) spheres of socio-economic interdependences which are deemed amenable to rigorous value-free scientific analysis (notably "allocation," mediated by Pareto-improving exchange), separating them from muddy waters of distributive conflict, politics, including spheres where the mediation of interdependences is affected by the intricate contingencies of human sociality.

Some deep and far-reaching implications come to the fore in a perceptive passage from Abba Lerner's AEA presidential address. According to Lerner, the domain of economics is related to the solution of political problems: "… the solution is essentially the transformation of the *conflict* from a political *problem* to an economic *transaction.* An economic transaction is a solved political problem. Economics has gained the title of queen of the social sciences by choosing *solved* political problems as its domain" (1972, 259, emphasis in orginal).

In a nutshell, this summarizes a powerful vision of a rigorously depoliticized, aseptic kind of pure economics. Unfortunately, this model may function as prison, rather than as a good first approximation to be followed by successive approximations taking enriching the model in the sense of problem-oriented realism, not least when it becomes part of mental models where the "liberal methodology" no longer plays a role.

The architectonic features of Smith's theory (which *mutatis mutandis* are also relevant for the subsequent classical tradition) determine the way in which key aspects such as the role of distribution are located within the theoretical framework. A framework as the one sketched by Lerner may prepare the ground for abstracting from distribution-related effects, creating a situation in which they have to be brought back in "from the cold," as Anthony Atkinson (1997) put it. Smith was not a naïve protagonist of social theory considering society as a seamless whole. In his theoretical outlook dynamic specialization and differentiation looms large, extending societal division of labor even to institutional and normative spheres, as illustrated by the contrast between justice and beneficence and related contextualizations in TMS (Sturn 2001). However, he was aware of the problems of carving-out strategies, affecting the way in which architectonic dichotomies are dealt with: thus, distributive issues, along with behavioral traits reflecting sociality remain part of his frameworks used for explaining economic phenomena. The political is considered as societal sector/system with a logic and a dynamism of its own, affected by a set of circumstances and functional expectations different from those of the market economy.[13]

[13] In contrast, modern public choice analyzes politics as if it were exchange.

Regarding allocation-distribution interrelations, Smith discusses various micro- and macro-mechanisms the interdependence between growth and wages. For instance, higher wages enhance effort and diligence of the workforce (see Sturn 1990) and are positively related to the accumulation of human capital. The forward-looking dynamism of the progressive state of society goes along with high wages and a development of the productivity-enhancing human faculties of the people performing productive labour. The condition of the "labouring poor" is "hard in the stationary, and miserable in the declining state" (WN I.viii.43).

In a Smithian perspective, two other contrasts (individual vs. social and economy vs. politics) shed light on the foundational premises and wider implications of the allocation-distribution dichotomy. The individual-social contrast defines the setting for the two other dichotomies: a setting where sociality is ignored tends to be a setting in which allocative analysis can be neatly separated from distribution, and where the political sphere can be "economized." Neoclassical economics is marked by tendencies to assume such a setting, aiming at rigorously individualist accounts of social interactions. A paradigmatic example is Walrasian market theory, where in a great market society with countless interactions and interdependences individuals are confronted with *"society" represented by a parametric price system implying patterns of constraints for their choices* (whose social origin is concealed and assimilated to constraints imposed by nature):[14] there is no place for Smith's "sympathetic liberalism" (Darwall 1999) and its emphasis on human sociality, context-dependent behavioral traits, norms and power as factors influencing contractual mediation and perspectives of improvements in governance.

Notice however an important qualification: while modern economics is specifically susceptible to related biases, it does not imply them. Pioneering protagonists of neoclassical dichotomies (including Walras, Marshall, and Pigou) were concerned with finding ways to cope with their problems; their vision of extra-economic spheres (*e. g.*, Walras's *économie sociale*) was shaped by their perceptions of social problems, political creeds and ethical values. However, given their architectonic choices, they did not and could not develop sustainable strategies preventing biases of pertinent "carving out" strategies. The Second Theorem of Welfare Economics is prototypical for such carving out. While making explicit the non-trivial technical assumptions elucidating its limits is an analytical merit, models guided by pertinent dichotomies are typically also associated with abstracting from human sociality. Behavioural traits of sociality are however relevant for aspects of economic interactions unsuitable for mediation by perfect markets, mechanisms, and complete contracts. Thus, given a world where contract incompleteness is pervasive, such carving out is a thought experiment which needs careful handling in view of its counterfactual basis.

Theorizing in the neoclassical tradition is not in general committed to disregarding all that. It may develop specific models, not least for accommodating contextually relevant properties of labor and capital markets (anticipated by Smith) which are not captured in the canonic scarcity-theoretic framework, including politico-economic perspectives of market processes referring to the role of norms, power and institutional embedment, or the transmission of power across sectors, as demonstrated by Zinga-

[14] Think of how demand curves are derived from budget sets and indifference curves.

DOI https://doi.org/10.3790/schm.2024.383297 | Generated on 2024-12-22 17:52:48

les's (2017) political theory of the firm. However, this always requires extra effort, complications, or at least second thoughts compared to what seems obvious in simple standard diagrams. Thus, we may expect an understandable tendency to treat the canonic case as a theoretical (and sometimes practical) ideal or benchmark. *Inter alia*, this encouraged modelling strategies where distributive ("wealth") effects get out of sight and efficiency is working as a positive principle.[15] Operating in a world of solved political problems is conducive to mental models where the conflictual nature of the political plays no role in design and implementation of reform strategies. Thus, irrespective of whether the posture of distributive agnosticism is politically naïve or serves some hidden agenda, it entails risks which the science of the legislator should anticipate.

6. Is Progress in Economics a Substitute for the "Virtues of the Statesman"?

Problems of the science of the legislator after Smith's time are closely associated with notions of linear, cumulative progress in economics, implying that what was known yesterday is always a subset of what is known today. Accordingly, the "virtues of the statesmen" and complementary virtues of expert economists might be superseded by ever more perfect tools at the levels of models, methods, theory, empirics, and implementation. Modesty seems inappropriate in view of the ever-improving econometric/experimental toolboxes progressively eliminating the drawbacks of ill-conceived technocratic policy interventions. Thus, most modern economists do not feel obliged to engage in scrupulous discussions such as those accompanying Smith's case for the science of the legislator, explaining why it does not and cannot provide unambiguous recipes guaranteeing success on the great chessboard of human society (see, *e.g.*, TMS VI.ii.2.16 – 18).

Taking on board Smith's view of "models" and "systems" sketched above, the notion of linear, cumulative progress seems plausible for economics at the level of methods and models, or families of models. However, it does not straightforwardly apply to the development of socio-economic theory in a more encompassing sense, especially when considered under the aspect of the science of the legislator and the combination of different kinds of knowledge required for guiding improvements. Linear progress is unlikely when related combinatorial dimensions of knowledge are considered.

Here is a summary of the combinatorial nature of the science of the legislator in view of the nature of progress: While theoretical systems are "machines," their merits hinge upon choices of simplifying abstractions carving out selected aspects, accompanied by biases. The relevance of "systems" for understanding the social world (and for designing reforms) depends on contextual circumstances determining the quality and the weight of the distortive implications of those biases. This implies specific challenges regarding the science of the legislator: while dealing with the problem of such distortive biases requires reflective knowledge of historical contexts and related contingencies, knowledge relevant at the level of implementation is often local, fragmented and

[15] *E. g.*, think of wealth effects, the role of quasi-linear preferences in getting rid of them, and the Coase theorem.

entangled in various ways. Changing configurations of second-best-constellations require the combination of systems of political economy with other kinds of models (exemplified by his multi-faceted discussions of mercantilism; see Sturn 2024; Hont 2005; Weingast 2017; Palen 2014; Collins 2022), common sense, empirics, and conjectural history. While this pluralist constellation suffices to make linear progress of the science of the legislator unlikely, Schumpeter (1926; 1954) explains underlying dynamics by enlightening accounts of the development of economics as co-evolution of different strands of theoretical, empirical, and historical economic knowledge, comparing it with the (occasionally "irrational") development of a tropical forest where beautiful and interesting plants may be overgrown and obscured.

While the tools of science and science-based technologies become ever more powerful (hence the temptations towards the pretence of knowledge), attempts of capturing relevant socio-economic interdependences by a unified theory (which then might progress in a cumulative way) become increasingly difficult under conditions of modern dynamism and pluralism. Thus, development of a unique rational foundation for an optimal policy mix are not likely to become a substitute for the "liberal methodology" and Smithian virtues. Apart from promoting those virtues, the best we can aim at is "less partial" analysis, *i. e.*, a step-by-step endogenization of one or the other factor hitherto taken as given, when the pertinent ceteris paribus clause is found to compromise the explanatory power.

Interim conclusion: In a Smithian view, three aspects of modern developments readily come to the fore which are overlooked by protagonists of linear progress: (1) Strategies of carving out (and isolating) certain aspects of a problem to support a more rigorous treatment may be accompanied by biases, to be dealt with by complementary historical/contextual knowledge. (2) We may expect cumulative progress within strands of scientific modelling and empirics, but under a broader perspective such progress is embedded in a nonlinear development, as qualitative changes of interdependences within and between the subsystems may shift the agenda and concomitantly the prevalent combination of tools/methods, eventually triggering new developments and their diffusion. (3) Progress in economics enhances the potential of science as a foundation for policies. However, we are not approaching techno-perfectionism, since the development of modern societies is accompanied by increasing complexity: science is becoming more powerful, but cumulative socio-economic specialization/division of labour/differentiation induce an increasingly complex setting including interdependencies and interfaces between social sub-systems. The latter can be better understood with the help of adequate scientific tools, but not in the sense of an ever more perfect unified super model with a unique centre of gravitation – leaving not only a non-shrinking room, but giving new leverage for an art-and-craft approach to economic policy combining a variety of models, theories, and other kinds of knowledge, implying a conception of "the political" not reducible to technocratic implementation.

In the context of enlightened governance and the progress of improvement, even the best available scientific knowledge requires mediating institutions and practices (the virtues of the statesman) for transforming and combining this knowledge in its application to practical purposes. Smith's reasoning is thus closely related to its remarkable

and prescient efforts in dealing with a problem remaining important as a background condition of socio-economic-institutional evolution: how, to which extent and at which level are modern civilizations capable of benefitting from modern (scientific) knowledge, while steering clear of recurrent temptations and strong tendencies to the abuse of "science" by what Smith called "men of system" – indulging in the "pretence of knowledge," either as an enlightenment technocracy or by using science as a tool of rent-seeking.

Regarding the problems of modern governance, classical liberalism remarkably anticipated the systemic risks entailed in scientism, including both technocracy and rent-seeking. "Liberal methodology" is about striking a delicate balance between technocratic scientism relying on the progress of science and scepticism – implied by approaches mistaking the entangled character of socio-economic knowledge for a sufficient foundation of the claim that such "knowledge" always must be a pure instrument of the power of a particular class/group, thereby ruling out the possibility that this knowledge may inform us about impossibilities and contingent possibilities, even though it fails to support blueprints for a uniquely optimal path – a rejection which practically may culminate either in reckless social experimentalism or reactionary obscurantism.

7. Second-Best Liberalism and Hobbesian Shadows

Liberalism without the liberal methodology does not seldom coexist with ideas of Big-Bang implementation, connoted by first-best liberalism. It holds that one well-meant intervention (deviation from unregulated prices in one market) will destroy the proper functioning of the price system in all other markets, eventually leading to a breakdown of economic coordination, as vividly expressed by Ludwig von Mises's (1929) critique of interventionism.

Developments of seemingly contradictory combinations (such as national liberalism) may indicate the implausibility of pure first-best liberalism. Smith understood why it is untenable in general. His systematic reasoning capturing the multi-level dynamism of socio-economic life supports a kind of dynamic and open *second-best liberalism, based on acknowledging the* "*limits of system.*" Since "to expect that freedom of trade should ever be entirely restored in Great Britain, is as absurd to expect that an Oceana or Utopia should ever be established in it" (WN IV.ii.43), sustainable reforms must be guided by some robust, second-best liberalism. Mercantilist regulations will not be abolished overnight. Gradual reforms must take into account the strength of the politico-economic forces *and rationales* supporting those regulations, diagnosed on the basis of a realistic analysis of imperial and colonial policies and their logic (see Sturn 2024).

Important aspects of our socio-economic environments are at odds with the idea of a uniquely optimal path of progress, even when we disregard problems of normative individualism with preference endogeneity. Even in environments characterized as economic systems, uniquely optimal equilibria (or centres of gravitation) exist in carefully confined "neoclassical" model worlds only, while multiple equilibria and out-of-

DOI https://doi.org/10.3790/schm.2024.383297 | Generated on 2024-12-22 17:52:48

equilibrium dynamics must be taken into consideration in worlds where public goods, entrepreneurial change, or market processes beyond the Walrasian auctioneer, etc. matter, with different implications for Pareto efficiency, distributive outcomes, and other normatively relevant aspects. While pertinent complications of economic systems became clearer in the 20th century, Smith anticipated an even more fundamental range of complexities related to the character of modern societies as composed of interconnected subsystems, implying the necessity of employing more than one kind of models/theories/knowledge when aiming at comprehensive understanding and knowledge-based societal improvement. Such societies are lacking a unique center of gravitation, or a stable hierarchy of spheres. In such worlds progress of improvement can only be achieved according to the logic of second-best: for instance, constraints related to the working of the political governance system, or internalized socio-cultural norms, may be sticky or changeable only under prohibitive costs, inviting questions of suitable second-best-reforms in the economic system as well as their *endogenous* plasticity. More generally, various spheres of society cannot be expected to instantaneously adjust to conditions required for a first-best optimum of the market system: adjusting optimality conditions to "constraints" generated by non-economic spheres may be wiser for the time being than to assume that the enlightened reformer removes them by political fiat.

There is a second reason supporting the logic of Second best, related to Smith's political realism (see Sagar 2022; Larmore 2020). Like many writers in the liberal tradition, Smith had taken on board the Hobbesian lesson of the shadow of non-cooperation in the "state of nature" (not to be considered as a historical fiction, but as state of war to which societies may fall back at any time), implying that we should not invoke unrealistically demanding standards for the functioning of the political sphere. However, the classical liberal tradition always looked for ways allowing human societies to do better than the peace-preserving minimalism envisaged by Hobbes. For Smith, this required exploiting the benefits of non-zero-sum aspects of the human condition, including the division of labour and exchange along with recognition of the polycentric character of modern societies – motivating a normative and institutional framework accommodating the potentials and frailties of human agency in the relevant historical contexts.

Here is a sketchy theoretical reconstruction of Smith's second-best liberalism. In socio-economic life we find various mechanisms at work. Specialization and division of labor encompasses processes at various levels and in various spheres. These spheres are driven by principles and laws of motion not reducible to a purely economic logic. Nonetheless, processes determined by the logic of one sphere may *either undermine or support* stability or progress in a different sphere. A rather broad range of conceivable types of relations have to be considered in this context: tendencies of mutual support as well as symmetric dilemmas or parasitic relations. Moreover, deliberate human action guided by goal-achievement in one sphere may have effects on other spheres. But it cannot be designed in a fashion which would enable us to control outcomes in those other spheres in a mechanistic, engineering-like manner: room must be given to the relatively autonomous logic governing each sphere (which sometimes will imply adjustment to second-best conditions).

DOI https://doi.org/10.3790/schm.2024.383297 | Generated on 2024-12-22 17:52:48

The shortcomings of the "man of system" highlight the complex character of politically organized reforms in hugely diverse modern market societies: this dynamism and diversity cannot be accommodated by the principles of any single system that, for good reasons, tends to parsimony. While Smith is a pioneer theorizing the autonomous logic of market mechanisms and applied economic reasoning to economic aspects of various domains, his views are thus incompatible with economics imperialism. Smith ingenuously plays with the logic of incentives, including situations where risk and uncertainty, asymmetric information, moral hazard, adverse selection and behavioural biases play a role, but understood the comprehensive process of social life as including various motivational settings and the interaction of several spheres governed by different principles. Systems are "machines," but society at large is not a machine which could easily be regulated by means of a static framework to be established once-and-for-all. History, even if basically conceived of as progress of improvement, is not driven by a frictionless mechanism where all good things (or the "optima" of all relevant spheres) go together.

The plurality of social spheres limits the role of any specific theoretical system, leading to the necessarily combinatorial "art and craft" of economic policy using heterogenous kinds of knowledge. All this has far-reaching politico-economic implications: (i) Smith's vision is deeply at odds with traditional static views of an ethically/politically controlled economy. (ii) Technocratic rationalism is unreasonable, as far as it relies on a single system and is unresponsive to historical path dependencies and the autonomous microdynamics unfolding in society. (iii) The same problem applies to unresponsive, "too systematic" conceptions of laissez faire, *e. g.*, providentialist or aprioristic variants. Viner's (1927) catalogue of Smithian arguments regarding market failure (which are empirical rather than systematic) provides evidence for Smith's rejection of dogmatic and unresponsive laissez faire.

8. Concluding Remarks

Classical liberalism developed a clear sense of the foundational difference between economics and economic policy. Maintaining this difference has "liberal" connotations, as it counteracts illiberal trends: technocratic and rent-seeking scientism as well as reckless experimentation and reactionary obscurantism. As a "philosophy" of reform-minded varieties of liberalism, it sets the agenda for developing specific standards and mechanisms enhancing the usefulness of scientific knowledge informing reform priorities and their implementation. Some aspects of those standards were present in approaches to economic policy as "art and craft." More generally, liberal methodology is a *balancing and coping strategy* – dealing with systemic risks eventually becoming virulent in the interfaces between the co-evolving spheres of economy, politics and science.

However, it was not absorbed by the mainstream. Some tenets of the Smithian doctrine indeed did not move above the heads of 19th century readers, whether dull[16] or

[16] Schumpeter's claim that Smith "never moved above the heads of even the dullest readers" (1954, 180) is a nasty exaggeration: episodes of popularization enhanced by Smith's didactic

narrow-minded for other reasons: their popularization shows that many were able to digest them in their own limited – apologetic or contrarian – ways. However, this unfortunately does not apply to the science of the legislator – which according to Donald Winch died with him. This correlates with lack of understanding of the Smithian "system of natural liberty," which neither postulates spontaneous emergence of economic liberalism, nor implementation of laissez faire. Considering Smith's writings on the mercantile system, there can be little doubt that he saw the system of natural liberty as an enduringly challenging political project in a second-best world of rent-seekers. The liberal methodology put forward in TMS VI refers to the role of economics (emerging as a scientific subject) *qua* science of the legislator within this project.

Liberal methodology reflects the potentials, limits, risks and pitfalls of "science-based politics." As the noble value of freedom enhances the propensity to question any form of domination including technocracy, classical liberals such as Smith and Mill tackled these problems in a way which most clearly addresses underlying tensions and possibilities. However, the relation between economic liberalism and higher-order liberalism is no straightforward symbiosis: from early on, some enthusiasts of free trade and markets did not bother about the problems coming to the fore in the just-sketched discussions related to "higher-order liberalism." Top-down, authoritarian, or providentialist versions of economic liberalism may be a partial success – but fail to bring about conditions for the more encompassing progress of improvement envisaged by Smith.

While along the lines spelt out by Mokyr (2017), enlightenment, the growth of the "republic of letters", economic development, as well as the emergence of modern liberty and justice as pivotal part of a value system promoting openness and innovation can be understood an interconnected development process, Adam Smith as a key author of "classical liberalism" saw that this does not imply a smooth process of modernization and growth, without frictions and tensions. While aware of the forces promoting growth and progress, and of the irrevocable dynamism of enlightenment (see Schneewind 1998; Griswold 1999; Phillipson 2011), some of the underlying factors may also be responsible for tensions, crises, and the limits of economics. Dynamism and uncertainties of modernity comes with inherent tensions and vulnerabilities and eventually bring about a kind of dialectic of progress. For some limited problem we may be in possession of science-based solutions; systemic problems and crises however cannot be remedied by any kind of ready-made recipes at offer.

By way of conclusion, Colander and Freedman (2019) offer some thoughts suggesting that/how the development of modern economics can go together with liberal methodology. We may leave it open how much can be said about how to organize or institutionalize the systemic interfaces and linkages between science and politics – to some extent we will have to rely on Smithian "virtues," or least as abandonment of the "liberal methodology" is not just an accidental mistake but has systemic reasons: *i. e.*, one must take into account that the "mistake" is bound to re-appear in ever new guises. Thus, the importance of a reflective stance in view of five inherent challenges was emphasized: the temptations the power of science, the nature of demand for economic

virtues contrast with misunderstandings regarding subtler aspects and the fate of the "science of the legislator" in general.

expert advice, architectonic fault-lines, linear progress and thinking in terms of first-best optima.

In view of updating pertinent Smithian reasoning, three kinds of studies could contribute to improving the foundation of practical coping strategies and eventually of a constitution of science: (1) Comparative studies considering different approaches studying science-politics-economics interfaces in changing worlds of progress and countermovements. Authors outside classical liberalism (including conservatives and socialists, such as Karl Polanyi) contributed to discussions of progress and counter-movements in sometimes stimulating ways. (2) Comparing different practices and institutional strategies for dealing with interface-problems. (3) Discussions of the interrelated themes of progress in economics and socio-economic progress in the process of modern development. While Whig views of cumulative progress in economics are associated with abandoning liberal methodology and illusions of tension-free modernization, the Smithian science of the legislator remains on the agenda in an epoch of major transformations.

References

Atkinson, A. B. 1997. "Bringing Income Distribution in From the Cold." *The Economic Journal 107* (441): 297–321.

Brown, V. 1994. *Adam Smith's discourse.* London: Routledge.

Brubaker, L. 2006. "Does the 'wisdom of nature' need help?" In *New Voices on Adam Smith,* edited by L. Montes and E. Schliesser, 168–92. London: Routledge.

Colander, D. and C. Freedman. 2019. *Where economics went wrong.* Princeton: Princeton University Press.

Collins, G. M. 2022. "Adam Smith on the Navigation Acts and Anglo-American Imperial Relations." *History of Political Thought* 43 (2): 273–304.

Darwall, S. 1999. "Sympathetic Liberalism: Recent Work on Adam Smith." *Philosophy and Public Affairs* 38 (2): 139–64.

Griswold Jr., C. L. 1999. *Adam Smith and the Virtues of Enlightenment.* Cambridge: Cambridge University Press.

Hayek, F. A. 1973. *Law, Legislation, and Liberty, Vol. 1.* London: Routledge.

Hegel, G. W. F. 1820. *Grundlinien der Philosophie des Rechts.* Berlin: Nicolai.

Hont, I. 2005. *Jealousy of Trade.* Cambridge, MA: Harvard University Press.

Johnson, M. 2020. "Where Economics Went Wrong: A Review Essay." *Journal of Economic Literature* 58 (3): 749–76.

Larmore, C. 2020. *What is political philosophy?* Princeton: Princeton University Press.

Lerner, A. P. 1972. "The Economics and Politics of Consumer Sovereignty." *The American Economic Revie*w 62 (1/2): 258–66.

Linsbichler, A. and I. F. da Cunha 2023. "Otto Neurath's Scientific Utopianism Revisited-A Refined Model for Utopias in Thought Experiments." *Journal for General Philosophy of Science* 54: 233–58.

Lucas, R. 1987. *Models of Business Cycles.* Oxford: Basil Blackwell.

Mill, J. S. 1844. *Essays on some Unsettled Questions of Political Economy.* London: Parker.

Mill, J. S. 1848. *Principles of Political Economy with some of their Applications to Social Philosophy.* London: Longmans, Green & Co.

Mises, L. 1929. *Kritik des Interventionismus.* Jena: Gustav Fischer.

Mokyr, J. 1990. *The Lever of Riches.* Oxford: Oxford University Press.

Mokyr, J. 2017. *A Culture of Growth.* Princeton: Princeton University Press.

Pigou, A. C. (1920) 1938. *Economics of Welfare.* London: Macmillan.

Poovey, M. 1998. *A History of Modern Fact: Problems of Knowledge in the Sciences of Wealth and Society.* Chicago: University of Chicago Press.

Palen, W. 2014. "Adam Smith as Advocate of Empire, c. 1870 – 1932." *The Historical Journal* 57 (1): 179 – 98.

Phillipson, N. 2011. *An Enlightened Life.* Harmondsworth: Penguin.

Polanyi, M. 1966. *The Tacit Dimension.* New York: Doubleday.

Rodrik, D. 2015. *Economics Rules.* New York: Norton.

Rothschild, E. 2002. *Economic Sentiments: Adam Smith, Condorcet, and the Enlightenment.* Cambridge, MA: Harvard University Press.

Sagar, P. 2022. *Adam Smith Reconsidered.* Princeton: Princeton University Press.

Schneewind, J. B. 1998. *The Invention of Autonomy.* Cambridge: Cambridge University Press.

Schumpeter, J. 1926. "Gustav v. Schmoller und die Probleme von heute." *Schmollers Jahrbuch für Gesetzgebung, Verwaltung und Volkswirtschaft im Deutschen Reiche* 50 (III): 337 – 88.

Schumpeter, J. 1949. "Science and Ideology." *The American Economic Review* 39 (2): 346 – 59.

Schumpeter, J. A. 1954. *History of Economic Analysis.* London: Allen & Unwin.

Smith, A. (1759) 1982. *The Theory of Moral Sentiments* (TMS), Glasgow Edition. Indianapolis: Liberty Fund.

Smith, A. (1776) 1981. *An Inquiry into the Nature and Causes of the Wealth of Nations* (WN), 2 vols., Glasgow Edition. Indianapolis: Liberty Fund.

Smith, A. 1987. *Correspondence of Adam Smith* (CAS), Glasgow Edition. Indianapolis: Liberty Fund.

Smith, A. (1766) 1982. *Lectures on Jurisprudence* (LJ), Glasgow Edition. Indianapolis: Liberty Fund.

Smith, A. 1982. *Essays on Philosophical Subjects* (EPS), Glasgow Edition. Indianapolis: Liberty Fund.

Smith, A. 1983. *Lectures on Rhetoric and Belles Letters* (LRBL), Glasgow Edition. Indianapolis: Liberty Fund.

Sturn, R. 1990. "Natürliche Freiheit und soziale Kontingenz – Individualismus und Kollektivismus der Smithschen Handlungstheorie." In *Adam Smith (1723 – 1790) – Ein Werk und seine Wirkungsgeschichte,* edited by H.D. Kurz, 91–115. Marburg: Metropolis Verlag.

Sturn, R. 1991. "Soziales Handeln und ökonomischer Tausch – die stoischen Wurzeln Adam Smiths." In: *Der andere Adam Smith. Beiträge zur Neubestimmung von Ökonomie als Poli-*

tischer Ökonomie, edited by A. Meyer–Faje and P. Ulrich, 99–122. Bern, Stuttgart: Verlag Paul Haupt.

Sturn, R. 2001. "Gerechtigkeit in dynamischen Marktgesellschaften." In *Gerechtigkeit im politischen Diskurs der Gegenwart* Reihe Sozialethik der ÖFG, Vol. 4, edited by P. Koller, 165–99. Vienna: Passagen Verlag.

Sturn, R. 2009. "Volenti Non Fit Iniuria? Contract Freedom and Labor Market Institutions." *Analyse & Kritik* 31: 81–99.

Sturn, R. 2024. "Adam Smith's Pluralism and the Limits of Science." *Homo Oeconomicus* 39: forthcoming.

Viner, J. 1927. "Adam Smith and Laissez Faire." *Journal of Political Economy* 35: 198–232.

Weingast, B. 2017. "War, Trade, and Mercantilism: Reconciling Adam Smith's Three Theories of the British Empire." Accessed August 12, 2024. https://papers.ssrn.com/Sol3/Delivery.cfm/SSRN_ID3245428_code15647.pdf?abstractid=2915959&mirid=1.

Witztum, A. and Young, J. T. 2006. "The Neglected Agent: Justice, Power, and Distribution in Adam Smith." *History of Political Economy* 38: 437–71.

Winch, D. 1983. "Science and the Legislator: Adam Smith and After." *The Economic Journal* 93 (371): 501–20.

Zingales, L. 2017. "Towards a Political Theory of the Firm." *Journal of Economic Perspectives* 31 (3): 113–30.