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## Value Creation as the Foundation of Economics

### 1. The Two Faces of Adam Smith

The argument of this paper, written by an ethicist and a philosopher, is that self-interest economics is fundamentally flawed and needs to be replaced by a spiritual economics or a value based economics<sup>1</sup>. Its argument contains two interwoven threads. One thread is an attempt to show why the fundamental philosophical notions of Adam Smith, taken as an illustration of self-interest economics, cannot lead to an equitable society.<sup>2</sup> Smith's *Wealth of Nations*, according to Jacob Viner, '...became a significant factor in determining the course of national policy not only in Britain but in other countries as well. This is much more than any other economic work has ever achieved; and Smith probably has had much more influence than any other economist.'<sup>3</sup> One wonders if it is Smith that Keynes had in mind when he famously quipped that all of us are slaves of some defunct economist. This despite Schumpeter's trumpeted dictum that 'the *Wealth of Nations* does not contain a single *analytic* idea, principle or method that was entirely new in 1776.'<sup>4</sup>

Whether single ideas or principles were new or not, the entirety of ideas that make up *The Wealth of Nations* was certainly new. And much turns on the meaning of the adjective ‘analytic’. Was the ‘invisible hand’ an analytic idea? Was the notion that private interest adds up to public virtue (that self-interest on the part of the individual added up to the good of the whole) an analytic idea? If one takes Viner’s definition of an analytic idea to be an idea that is rigorous, possesses internal consistency and bears a close analogy to abstract mathematical operations, then neither the invisible hand nor the private interest public virtue idea qualify as analytic ideas. Nevertheless they are extremely influential ideas. In this respect Schumpeter’s dictum would appear to be of only minor importance.<sup>5</sup>

In his book, *Adam Smith’s Moral Philosophy*, published with Cambridge University Press in 2005, Jerry Evensky gives an historical account of what he refers to the “Adam Smith problem” and categorizes Smithian interpreters into two main types. Amusingly, he refers to one as the Kirkaldian Smith (after his birthplace) and the other as the Chicago Smith (after the Chicago economists).

The Smithian version presented herein possesses more in common with the interpretation of such figures as the Nobel laureates’ George Stigler and Jacob Viner. But it is not that they are Nobels that makes their interpretations compelling to me. Rather it is that the arguments that they co-advance, that without the emphasis on self-interest on the one hand and the invisible hand on the other of Smith’s theory, that Smith’s entire economic theory would collapse. For if self-interest as Stigler argues is the granite of the *Wealth of Nations*, then the invisible hand, as Viner implies, is the mortar. One recalls Stigler’s famous sentence that begins his article, ‘Smith’s Travels of the Ship of State,’ “The *Wealth of Nations* is a stupendous palace erected upon the granite of self-interest.”<sup>6</sup>

Evensky classifies the portrait of Smith that I present herein as the Chicago Smith, a portrait which he would say is painted by Frank Knight, Theodore Schultz, George Stigler, Milton Friedman, and Gary Becker. Strangely, Evensky does not mention Viner, whose stature among economists is monumental and whose interpretation of Smith is groundbreaking. In her introduction to her richly argued *Adam Smith and His*