



AN ANALYSIS OF THE MORAL PHILOSOPHY OF
ADAM SMITH: SELECTED LESSONS FOR ISLAMIC
ECONOMICS

BY

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A dissertation submitted in fulfilment of the requirement for
the degree of Master of Science in Economics

Kulliyyah of Economics and Management Sciences
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MAY 2016

ABSTRACT

The study is a philosophical and socio-historical analysis of the origins of modern economics as a discipline of study. By tracing out the reasons why certain intellectual events of 17th and 18th Century Europe, culminating in the works of Adam Smith, induced this specialized branch of knowledge; the researcher attempts to contextualize its roots for building a framework from an Islamic perspective. The focus is not on the framework for Islamic Economics, but rather on the texts and context of Adam Smith. The aim then, is to highlight its prospects for the foundational aspects of Islamic Economics. The study is a content and discourse analysis. It attempts to recreate the moral system that Smith espoused in his works. This system is contextualized in the 18th century philosophical discourse to better comprehend it. The study will then elaborate this system by classifying them into natural and historical dimensions. Once this system is expounded, the study will then investigate and explore the lessons and prospects that it can provide for Islamic Economics.

خلاصة البحث

هذه الدراسة تحليل فلسفي، واجتماعي- تاريخي، \ (وسيسو- تاريخي) لأصول علم الإقتصاد الحديث بوصفة مادة للدراسة، (فرعا من المعرفة) ومن خلال تتبع الأسباب لماذا بعض الأحداث الفكرية التي انتهى في أوربا القرنين السابع عشر والثامن عشر بلغت ذروتها في اعمال آدم سميث التي احدثها هذا الفرع المتخصص من المعرفة؛ يحاول الباحث لاقتزان جذوره بالسياق لبناء إطار من منظور اسلامي. وليس التركيز هنا على بناء اطار اقتصاد اسلامي، بل زيادة على ذلك على نصوص و سياق آدم سميث. والهدف حينئذ هو تسليط الضوء على امكاناتها للجوانب الأساسية الإقتصاد الإسلامي. والدراسة تحليل لمحتوى خطاب يحاول على إعادة النظام الأخلاقي الذي اعتنقها سميث في اعماله. واقتزن هذا النظام بالسياق الفلسفي لخطاب في القرن الثامن عشر. وتقوم الدراسة بتفصيل هذا النظام بتقسيمه الى أبعاد طبيعية و تاريخية. وعند تحقيق النظام و توضيحه، سوف تقوم الدراسة بالاستكشاف والاستجلاء للدروس والامكانات التي يمكن هذا النظام ان يوفرها (يقدمها) للإقتصاد الإسلامي.

APPROVAL PAGE

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DECLARATION

I hereby declare that this dissertation is the result of my own investigations, except where otherwise stated. I also declare that it has not been previously or concurrently submitted as a whole for any other degrees at IIUM or other institutions.

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ACKNOWLEDGEMENTS

“The chief part of human happiness lies in the consciousness of being loved”, said Adam Smith. As such, this work is dedicated to my parents, whose love taught me how to live.

I wish to express my appreciation and thanks to my colleagues and staff members in IIUM for granting me their time, effort and support for this project.

Lastly, the deepest gratitude to Professor Mohammed Aslam Haneef, for his intellectual and moral support for taking up this topic.

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LIST OF ABBREVIATIONS

<i>TMS:</i>	The Theory of Moral Sentiments
<i>WN:</i>	An Inquiry into the Nature and Causes of the Wealth of Nations
<i>LJ:</i>	Lectures on Jurisprudence
<i>LRBL:</i>	Lectures on Rhetoric and Belles Lettres

CHAPTER ONE

INTRODUCTION

1.1 INTRODUCTION

Adam Smith is well acclaimed as the “Father of Economics”. This is on the basis of his monumental work- “An Inquiry into the Nature and Causes of the Wealth of Nations”, more popularly known as the “Wealth of Nations”¹. He was not the first to discuss economic matters, nor was he the first to undertake a systematic study of the subject². In fact, he rarely used the term economy, or *oeconomy* as it was in Latin origin, in his works. Being a professor of logic and moral philosophy, his most original contribution to economics was in his ability to bring together various aspects of economics under a “unifying concept of a coordinated and mutually interdependent system of cause and effect relationships” through which economic systems can be elaborated (Viner, 1927). He thus laid down the foundations for a separate discipline of knowledge which was previously discussed under theology, politics or moral philosophy.

His first book, *The Theory of Moral Sentiments* (first published in 1759), dealt with human nature on a broad scale. It aimed at a theory of the origins of moral principles by invoking human ‘sentiments’, particularly sympathy, and the process of imagination. From it arises a system or order of nature that promotes the welfare of man through divine providence and individual liberty. His next work, *The Wealth of*

¹ The Wealth of Nations was first published in 1776 and went through five editions during Smith’s lifetime (1776, 1778, 1784, 1786, and 1789). Written during the initial stages of Industrial revolution in Europe, it dealt with aspects like public policy, division of labour and markets.

² Within the western tradition itself, the Scholastics, Cameralists and Physiocrats dealt extensively on matters which would now be termed economics. Furthermore, individuals like David Hume, Thomas Hobbes, Thomas More and Mandeville also discussed these issues.

Nations (hereafter as *WN*), was narrower in scope, focusing on economic order that is derived from the harmony found in nature. Through his analysis of the market, he came to the conclusion that interests of the agents dominated ‘economic’ relations due to the anonymity of ‘social’ relations between these agents. But provided that the rules of justice are enforced, these economic relations can generally lead to harmony of objectives in the market.

The *WN* became an immediate success and brought Smith much fame and acclaim. To quote Pribram:

“The *WN* stands like a signpost at the crossroads of the stream of economic reasoning. All developments in the field of economic thought which had occurred prior to 1776 appeared to be preparatory to that treatise; all subsequent development appeared to radiate from that work in various directions. Hardly any other book in the entire field of social sciences could claim a similar position” (Pribram, 1983 p.135).

1.1.1 Adam Smith Today

Contemporary views about Adam Smith are wide-ranging. For some, he is a champion of laissez-faire and a guru of self-interest. When economists like George Stigler make the claim that “self-interest dominates the majority of men”, they assert their position as being on “Smithian lines”. Others like him, including Milton Friedman with his motto of ‘Free to Choose’, have had an enormous influence on neo-classical economic thinking that dominates the discipline today.

On the other side of the spectrum, people like Amartya Sen have alluded to the strong ethical foundations in the writings of Smith that has been largely ignored by economists. For them, Smith’s outlook revealed sympathy as the dominant aspect of

human nature that keeps self-interest in check. If it was not referred to in the WN, it was because he believed that when it comes to the market, or in the process of exchange, self-interest trumped other considerations only due to the obscurity of social relations between the exchangers. The fact that the *TMS* went through six editions, two of which were after the publication of the WN, shows the importance that Smith attached to it. Thus it would be wrong to argue that Smith considered humans as inherently ‘self-interested’.

1.1.2 The Invisible Hand

A good illustration of how different interpretations can have differing implications on economic thinking and policy is the term ‘invisible hand’. No other phrase of Adam Smith has attracted more attention than this. Does this phrase, used only once in the WN, suffice to label him as a defender of laissez-faire as many liberals do today? Did he imply any supernatural power to the term? Opinions divide even among respected scholars. J.K Galbraith opines it would be a ‘great disservice’ to Smith if we apply any theological underpinning to it (Galbraith, 1983). Jacob Viner, on the other hand, insists that the term cannot be understood unless we account for Smith’s religious inclinations (Viner, 1927).

Peter Harrison, in his study on the invisible hand, makes it clear that the term was definitely not coined by Smith and was a common idiom used by writers to invoke divine providence. On whether Smith meant it to be so, the fact that Smith uses this term without any comment suggests his compliance to its contemporary meaning (Harrison, 2011). Emma Rothschild makes the argument that this term was clearly a rhetorical device with no hidden meaning. Rather, it betrays a particular understanding of theology and nature (Rothschild, 2013). But the past two centuries

have witnessed an increasing secularization of its interpretation. Now the term is commonly taken to mean ‘market forces’. This trend is not just confined to economics, but can be observed in all the modern sciences. Newton’s interpretation of gravity as an act of God today is simply a property of nature.

This author would like to claim that Adam Smith was principally a moral philosopher who was not oblivious to the ethical and moral concerns of economic behaviour. The chief inquiry of Smith was on how to reconcile individual interests with that of the progress of society. Theology and religious belief of a particular nature played an important role in this process of reconciliation and could explain his invoking of the invisible hand to overcome the difficulty of harmonizing liberty and ethics.

If this is so, to what extent did it influence his thinking? What significance does it have for Islamic Economics in its quest to ward off the threat of secularization of economics? This study intends to look at the philosophical aspects of Smith’s thinking by analysing the nature of man that he constructs. What characteristics does it have and what are its implications for a genuine human science? The emphasis is on the “human” element because, due to certain circumstances in western discourses that will be discussed later, the methodological aspects of natural sciences—particularly that of Newtonian physics, came to dictate the approach to the objects of inquiry in economics. This resulted in humans being heavily coloured as materials making choices with a disregard for their intellectual and spiritual aspects.

1.2 BACKGROUND OF THE STUDY

Amartya Sen identifies two aspects in modern economics. He classifies them as the ‘ethical’ and ‘engineering’ aspects (Sen, 1999). He traces the ethical tradition of

economics to Aristotle who related it to the ethical question of “how should one live?” While claiming that both these aspects have a cogency of their own, and finding a balance between the two approaches as the key, he argues that the ethical approach has been markedly neglected as economics evolved. The dominance of positivistic methodology, with its disregard for normative analysis, has resulted in a narrowed understanding of the range of ‘complex ethical considerations’ that humans make-considerations that are factual rather than pure normative judgments.

In a similar vein, Robert Heilbroner identifies two issues that puzzled scholars of Smithian studies (Heilbroner, 1982), which is interestingly reflected in some of the fundamental problems of modern economics. The first, labelled as the famous “Adam Smith Problem”, brings up the alleged irreconcilability of the two books. This supposed problem arises from the conflicting passions that each book identifies as dominant- sympathy in the *TMS* and self-love in the *WN*. While this problem has lost steam after some pioneering studies, the second problem still lurks heavily in the mind of scholars. This is the issue of creating a social virtue from a private vice, a paradox raised by Mandeville³. In other words, is it possible to create a moral society from an immoral or amoral self-interest?

This question or challenge still endures. A casual observation of the history of economic thought could give the possible reason why it still remains. Vivian Walsh makes the claim that while Ricardo was not oblivious to the ethical and moral core of Smith’s writings, he confined his attention “upon certain issues in the analytical core of Smith’s economics, leaving a great part of his work in darkness” (Walsh, 1998, p. 190). From Ricardo and ever since, majority of the classical writings on economics

³ Mandeville, B. (1806). *The Fable of the Bees; Or, Private Vices, Public Benefits*. Through poetic gestures, he made a forceful argument for selfishness as an ultimate good for the society.

focused on political economy- a fact that can be deduced from the title of their books⁴. The approach of Smith to connect economic matters with moral and philosophical concerns was not taken up by these subsequent writers, with the probable exception of Marx. Further along this history, the advent of positivism and its claim for the subjectivity of value has had a lasting impact on the state of economics today. What goes in the name of mainstream economics is a very watered down form of analysis of certain variables, usually referred to as neo-classical economics. Any attempt to bring in ethical, social, cultural or other categories immediately gets branded as heterodox and becomes relegated from mainstream discussions. While there is an increasing interest in areas like developmental economics, they still do not question the fundamental aspects- the ontological, methodological and epistemological basis for economics. Heterodox economics, on the other hand, does tackle these questions but they sadly do not feature in the syllabi of universities or schools and become confined to select journals and academic discussions. Islamic economics, being a part of the Islamization of knowledge project, rose in this context.

Adam Smith, on the other hand, has become almost a mythical figure in economic literature. Most economic ideas are traced back to Smith without analysing his works comprehensively. A chief argument of this study is that there is a general miscomprehension of Smith among contemporary economists. Therefore, a short summary of why this has come to be is in order at this stage of the study.

With the publication of *WN* in 1776, the subject of political economy thrived, particularly in England and France. The two pioneers of this were David Ricardo (1772- 1823 AD) and John Baptiste Say (1767- 1832 AD), who both independently

⁴ Almost all subsequent classical economists had “political economy” in their titles: Ricardo, Malthus, Mill, etc.

sought to systematize further the conception of political economy as laid down by Smith. Ricardo adopted Smith's labour theory of value and attempted to refine it through a deductive approach. Say, on the other hand, attempted an inductive approach by emphasizing the role of utility and scarcity in economic analysis.

With the advent of industrialization in the mid-19th century, a new trend emerged in economic analysis. This was the so called "Marginalist revolution" and the subsequent rise of neo-classical economics, whose influence spread across Europe and North America. Under this influence, less emphasis was given to the ethical and historical dimensions of economic inquiry. Rather, the markets as an independent sphere of human interaction became prominent, leading to conceptions of "market-economy".

Throughout these developments, the *WN* gradually became a text that was primarily of historical importance, while the *TMS* was largely disregarded among intellectuals. But with the bicentennial celebration of the publication of *WN* in 1976, there coincided the rise in interest in Smith's thoughts. The *TMS* saw a reprint in the same year, edited by Raphael and Macfie. This created a better understanding of Smith's project and context, by putting the ethical aspect back into focus. Along with this was the emergence of interest in the historical and institutional approaches of Smith. All these led to a revisionist reading of Smith that the author will be primarily drawing upon. Some of these revisionist works are reviewed below.

"*Adam Smith and the Virtues of Enlightenment*" by Charles L. Griswold (Griswold, 1999) provides an in depth examination of the relation between Smith's philosophy and the Enlightenment project. It employs a Platonic dialogic approach by adopting Smith's works on rhetoric and languages for this analysis, which then acts as a backdrop to understanding Smith's exercise of criticism and scepticism. Through

this, Griswold analyses Smith's ethics and politics but mainly in reference to ancient philosophy, particularly Platonic and Stoic philosophies. Griswold ultimately shows how Smith was very much part of the European Enlightenment movement and how he was at the threshold of modernity but not completely modern. "*The Science of a Legislator: the Natural Jurisprudence of David Hume and Adam Smith*" by Knud Haakonsen (Haakonsen, 1981) dedicates a considerable portion on illuminating a philosophical insight into the jurisprudential and legal aspects of Smith's thought, particularly on the concept of justice. He attempts to show the moral link between the *TMS* and *WN* by extensively using *LJ*, which reveals Smith's historical approach to the subject. Haakonsen convincingly shows how political economy was a subset of Smith's Natural Jurisprudence, which was then part of his wider moral philosophy.

"*The Adam Smith Problem*" by Dogan Gocmen (Göçmen, 2007) begins with the title-problem by attempting a historical approach to the two texts. Gocmen argues that there are in fact two different conceptions of human nature in those books, but the *TMS* was to be a broader conception of human nature which was to be used to criticize certain understanding of human nature found in commercial society as explicated in *WN*. Thus, he contends that *WN* was also intended as a remedy for the failings of commercial societies and not merely a descriptive work. "*Adam Smith in His Time and Ours*" by Jerry Z. Muller (Muller, 1995) argues for a humanistic approach to Smith's thoughts by bringing into context the Early Modern European and Christian intellectual discourse. He takes great effort to remove the caricature of Smith as a 'guru for self-interest' by showing the nuances and subtleties of Smith's civilizing project. He also attempts to show how Smith pioneered an institutional approach to understanding human and economic phenomenon. Athol Fitzgibbons, in his "*Adam Smith's System of Liberty, Wealth, and Virtue*" (Fitzgibbons, 1997), tries to show the

impact of Smith's philosophical thoughts on his economic and political stances. The work portrays Smith as trying to construct a philosophical system that could replace the Ancient Greek and Medieval Christian systems. For this, he is shown to be interpreting the Stoic doctrines in an effort to counteract the liberal philosophy espoused by his friend, David Hume.

"The Impartial Spectator: Adam Smith's Moral Philosophy" by D.D. Raphael looks at the ethical aspects of *TMS* and the origins and workings of the conscience. It tries to explain Smith's relation to Stoic and Christian ethics but also devotes a considerable part to changes in the different editions of *TMS*. Another book that gives a detailed exposition of Smith's ethics is Ryan Patrick Hanley's *"Adam Smith and the Character of Virtue"* (Hanley, 2009). This book starts from the diagnosis of the commercial society that Smith outlines. In doing so, it looks at the ethical dimensions of his writings, particularly at the conception of virtues. Hanley argues that Smith tried to synthesize classical and Christian morality with the commercial bourgeois morality of the Enlightenment. A third book worthy of mention is *"Self-interest before Adam Smith"* by Pierre Force (Force, 2003). This study attempts to trace out the origins of the idea of 'self-interest' prior to and within the writings of Smith. It attempts to present Smith as an interlocutor of Rousseau and shows the influences of the latter on Smith. Force concludes that it was self-love, rather than an egoistic self-interest, that was central to Smith's conception of human nature.

From a methodological perspective, Allen Oakley's *"Classical Economic Man"* (Oakley, 1994) attempts to show the Newtonian influence in Smith's writings. He argues how Smith was aware of the limitations of scientifically representing humans due to his exposure to moral philosophy. Smith is portrayed as arguing for the "situatedness" of man, only from which economic phenomenon can be grasped.

Oakley thus claims that there isn't "economic man" in Smith's writing, but does not show how it was linked to his moral philosophy. Evensky's "*Adam Smith's Moral Philosophy*" (Evensky, 2005) tries to expound the relationship between Smith's historical and economic analyses. But he does not deal with the ethical and philosophical aspects in a detailed manner. Jan Peil's "*Adam Smith And Economic Science: A Methodological Reinterpretation*" (Peil, 1999) tries to give a new interpretation of Smith's thoughts with reference mainly to Walrasian Economics. The book is more concerned about how Smith should be read or interpreted rather than expounding his philosophical system.

This study attempts to draw from these works and many more in order to construct a narrative for the formation of the science of economics in the writings of Adam Smith. This narrative will revolve around the moral philosophical project that Smith expounded. Once this narrative is illustrated, the study would then seek lessons for Islamic Economics, in its quest to reconstruct the science on an Islamic foundation.

1.3 OBJECTIVE OF THE STUDY

The objective of this study is twofold.

A. The first is to analyse the thoughts of Smith on Man, society and market by

a) Exploring the historical contexts that these thoughts originated in.

Although Smith was able to overcome his historical settings often, no human can totally escape history and its effects on their actions and thoughts. This section therefore would look at the intellectual environment and circumstances that Smith

operated in, which could give a better understanding of why he took up certain positions and opinions.

b) Examining the philosophical footings that he gives his subject of study. This would be an analysis of the systematizing that Smith undertakes and the role that its categories play in his system. Smith, being a philosopher with great sensibilities, was often able to transcend historical circumstances and come up with far reaching conclusions. Thus, this study assumes that Smith was aware of what he was implying and not restricting his thoughts solely as reactions to historical situations.

c) Analysing the epistemological outlook and approach of inquiry that he espouses. This is crucial from the perspective of Islamic economics as it is a science that is very much influenced by these epistemological underpinnings. The fact that Smith tried to integrate a particular scientific method into human sciences is a very critical aspect of his study.

B. The second part of this study would then proceed to evaluate certain lessons and prospects that the moral philosophy of Adam Smith has for Islamic Economics. As this study intends to contribute towards the foundational aspects of Islamic economics, this part would then explore lessons that Smith's views and ideas can have for Islamic Economics.

1.4 RESEARCH QUESTIONS

Based on the above objectives, the research shall attempt to answer the following fundamental questions, namely:

a) What is the role and effect of Smith's worldview in the construction of the discipline of Economics? [Part A {(a) and (c)}]

- Here, we are referring to “worldview” as the basis of one’s understanding in interpreting human life and the surrounding environment. It would have a direct impact on the assumptions and perceptions that one holds, including the components of the subject matter and relationship between these components. Economics, therefore, is taken to be as a system of thought that is developed based on worldviews. The objective here is to trace out the elements of Adam Smith’s worldview(s) that can be extrapolated from his writings.

b) What is the nature of Man, Society and Market according to Adam Smith? What are its implications? [Part A (b)]

- This question deals with the ‘system’ that can be gleaned from his writings, with particular reference to the philosophical aspects it portrays. To grasp this better, a classification of his thoughts based on ‘natural’ and ‘historical’ aspects is attempted.

c) What are the lessons and inputs of Adam Smith’s philosophy for Islamic Economics? [Part B]

- Here, the foundational aspects of Islamic economics would be the focus. Critically examining Smith’s ideas and the possible contributions it can have for Islamic economics would be explored, highlighting both its advantages and drawbacks.

1.5 SCOPE OF THE STUDY

This study involves a critical analysis of the content and methodology of Smith’s views on Man and society, primarily in his two works- “*The Theory of Moral Sentiments*” and “*Wealth of Nations*”. Focus will be on the significance of Smith’s moral philosophy. Furthermore, the research will give an account of the life and worldview of Smith. However, needless to say, it is impossible to cover all aspects of

the text in a short study such as this. Therefore, the primary aim of this study is to concentrate on the nature of man and society according to Smith, particularly in relation to the sphere of economy, and exploring its significance for Islamic Economics.

The *TMS* focused on the origins and processes of moral judgement by employing a psychological cum sociological approach. The *WN* analysed the working of the economy within this moral sphere. Smith had planned to write a third work on jurisprudence, the failure of which he mentioned in the last edition of the *TMS* in 1790. Fortunately, some of his lecture notes on jurisprudence were discovered in the 19th century. These provide clues for the larger project that Smith had in mind. This study will attempt to build on these notes as well to understand the “Moral Philosophical Project” that Smith undertook.

But given the limited space afforded to this study, the author has decided to exclude certain aspects that were not perceived to be central to his philosophy. These include, but are not limited to, the topics related to his theory of language, his evaluation of the evolution of the English Law, the technical aspects of his theory of value and his opinions on military and taxation. Furthermore, there is a relatively large amount of research dedicated to the study of different versions of his works and the historical accuracies of their editions. These issues will not be addressed in this study. Finally, less emphasis will be given to the technical aspects of economic variables like profits, wages, rents and interests since these are today quite well known. The focus would rather be on the role it has in the bigger picture of society and human nature.