

## Evaluation of Adam Smith's Opinions in the Context of Economic Justice

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**EN Abstract.** In this study, the issues addressed are examined in the context of the concept of economic justice in the works of Adam Smith who is considered the founder of the Classical School. Smith has gained a reputation for himself with his intellectual knowledge and studies in the field of economics in Britain and hence all over the world. In an age when the colonialist empire mentality and overprotective trade mentality adorned with mercantilist policies were at their peak, his handling of basic issues such as free trade, labor market, opposition to monopolies and his works on economic justice contain information worth examining. For this purpose, Smith's life and major works are discussed first. Then, his evaluations on justice and economic justice are examined. His most notable works, *The Theory of Moral Sentiments* and *The Wealth of Nations* are analyzed from the perspective of economic justice, taking into account the perspectives of various researchers working on them.

**Keywords.** Adam Smith, Justice, Economic Justice, Invisible Hand, Free Trade

**JEL Codes:** B1, B4, F5.

### ES Evaluación de las opiniones de Adam Smith en el contexto de la justicia económica

**ES Resumen.** En este estudio, las cuestiones abordadas se examinan en el contexto del concepto de justicia económica en la obra de Adam Smith, considerado el fundador de la Escuela Clásica. Smith se ha forjado una reputación gracias a su conocimiento intelectual y sus estudios en el campo de la economía en Gran Bretaña y, por consiguiente, en todo el mundo. En una época en la que la mentalidad colonialista imperial y la mentalidad comercial sobreprotectora, adornada con políticas mercantilistas, estaban en su apogeo, su tratamiento de cuestiones fundamentales como el libre comercio, el mercado laboral, la oposición a los monopolios y sus obras sobre justicia económica contienen información que merece la pena examinar. Para ello, se analizan primero la vida y las obras principales de Smith. A continuación, se examinan sus evaluaciones sobre la justicia y la justicia económica. Sus obras más destacadas, *La Teoría de los Sentimientos Morales* y *la Riqueza de las Naciones*, se analizan desde la perspectiva de la justicia económica, teniendo en cuenta las perspectivas de diversos investigadores que trabajan en ellas.

**Palabras clave.** Adam Smith, Justicia, Justicia Económica, Mano Invisible, Libre Comercio.

**Códigos JEL:** B1, B4, F5.

### PT Avaliação das opiniões de Adam Smith no contexto da justiça económica

**PT Resumo.** Neste estudo, as questões abordadas são examinadas no contexto do conceito de justiça económica na obra de Adam Smith, considerado o fundador da Escola Clássica. Smith ganhou reputação pelo seu conhecimento intelectual e estudos na área da economia na Grã-Bretanha e, portanto, em todo o mundo. Numa época em que a mentalidade imperial colonialista e a mentalidade comercial super-protectora, adornada com políticas mercantilistas, estavam no auge, a sua abordagem de questões básicas como o livre comércio, o mercado de trabalho, a oposição aos monopólios e os seus trabalhos sobre justiça económica contêm informações que merecem ser examinadas. Para tal, são abordadas inicialmente a vida e as principais obras de Smith. Em seguida, são examinadas as suas avaliações sobre a justiça e a justiça económica. As suas obras mais notáveis, *A Teoria dos Sentimentos Morais* e *A Riqueza das Nações*, são analisadas na perspectiva da justiça económica, tendo em conta as perspectivas de vários investigadores que as elaboraram.

**Palavras-chave.** Adam Smith, Justiça, Justiça Económica, Mão Invisível, Livre Comércio.

**JEL classificação:** B1, B4, F5.

**Sumario:** 1. Introduction. 2. About Adam Smith. 3. Smith's Views on Justice and Economic Justice. 4. Value, Returns on Factors of Production and Their Effects on Economic Justice. 5. Economic Justice in the Labor Market. 6. The Effects of Free Foreign Trade on Economic Justice. 7. Features of Economic Justice Embedded in Trade-Oriented National Systems. 8. Conclusion.

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## 1. Introduction

Adam Smith is one of the most prominent figures in the rise of classical liberalism. He holds a prominent place in the history of economic thought. He is the Scottish philosopher and political economist who, according to some, is the 'father of economics' and the 'father of capitalism'. Just as no world history is written without considering the names and biographies of great leaders, it is inconceivable that a work on economics and the history of economic thought does not include Adam Smith's name and a section devoted to it. One of the most important aspects of a scientific field is establishing a 'school'. Smith is the most prominent figure in the school of thought known as the Classical School of Economics. The Classical School encompasses a period of approximately a century, from the publication of Adam Smith's *The Wealth of Nations* in 1776 to the death of its last representative, John Stuart Mill, in 1873. The term 'Classical' was given to the economists of this period by Karl Marx, and from then on, this movement became known as the Classical School of Economics. Classical Economics emerged in England as the economic manifestation of the environment created by the Industrial Revolution. Adam Smith's works, written based on the impressions he gained both in Britain and during his European travels, provided insights into economic analysis that eventually attracted the attention of the entire world. His views on justice, and particularly economic justice, have inspired hundreds, even thousands, of studies throughout history.

Economic justice is the fair and equitable distribution of produced goods among those who participate in production, those who do not wish to participate in the production process, or those who, even if they wish, cannot participate for various reasons (Alkan, 2018, p. 22). Economic justice is inherent in the concept of justice and is one of its sub-dimensions. Throughout human history, almost every thinker has made economic justice, within the context of justice, one of their core concerns. Distribution (distribution, allocation) in accordance with economic justice, one of the most complex issues in economics, has been a fundamental struggle between individuals and institutions seeking to fully control goods and services, and individuals and organizations opposing this and seeking a more equitable share of the pie. In this distributional struggle, Adam Smith offers arguments that contribute to the establishment of economic justice through his views. This study reflects an effort to consider the issues Smith considers in his works within the context of knowledge that

serves the achievement of justice and economic fairness. It is appropriate to first provide information about Adam Smith's life journey, which shaped his understanding of economic justice.

## 2. About Adam Smith

Adam Smith (1723-1790) was born in the town of Kirkcaldy, Scotland. His father was a customs clerk. At the time of Smith's birth, some townspeople still used nails as currency, a significant reflection of the geographical situation in which he grew up. Smith was known as an absent-minded but intelligent student from childhood. It was clear even then that his career would be in education, and at seventeen, he won a scholarship to Oxford. He was drawn to teaching and in 1751 was offered the Chair of Logic at the University of Glasgow. He worked there briefly, proving his mettle, and was thus awarded the Chair of Moral Philosophy. Considered the center of what came to be called the Scottish Enlightenment and boasting a galaxy of talent, Glasgow served as a stepping stone for Smith's career. After graduating from Glasgow University, Smith continued his studies at Balliol College, Oxford, and returned to Glasgow in 1752, where he served as a professor of logic and ethics for twelve years. In 1759, he wrote his book *The Theory of Moral Sentiments*. He then accepted the tutorship of the Duke of Buccleuch and traveled with the Duke through France for several years. During this trip, he met Voltaire, Quesnay, Turgot, and Dupont de Nemours, and interacted with the Physiocrats. After returning to England, he worked for many years on writing his work, *An Inquiry into the Nature and Causes of the Wealth of Nations*, which would change economic history. He finally published it in 1776. In 1778, with the help of the same duke, he was appointed commissioner of customs in Scotland. Due to his new position, he settled in Edinburgh, where he spent the rest of his life. Smith's encounter with Benjamin Franklin, who taught him much about the British colonies in America and fostered a deep admiration for the role they could play in the future, is a significant detail from a historical perspective. He authored a remarkable work on the history of astronomy, *Essays on Philosophical Subjects*, published by Joseph Black and James Hutton in 1795. His student's notes from his 1763 lectures, titled *Lectures on Justice, Police, Revenue, and Arms*, were published in 1896. His 1764 work, *A Treatise on Public Opulence*, was first published in 1937 (Ersoy, 2015, pp. 236-241; Fonseca, 2001). Looking at the dates, it can be said that the value of some of Smith's works has been recognized over time.

### 3. Smith's Views on Justice and Economic Justice

According to Adam Smith, justice is the limit beyond which no individual may exceed their pursuit of personal gain. Observance of this limit should not be left to individual discretion and should be enforced by force when necessary. Concern for the happiness of others recommends the virtues of justice and benevolence to individuals in society. Justice prevents individuals from harming the happiness of others, and benevolence encourages them to promote this happiness. He preferred to use the term justice in its narrow sense, meaning to refrain from harming those close to us or any other human being with whom we interact. This is the right to life, liberty, and property (Campbell, 1967, pp. 573-574). In his works, Adam Smith discussed economic justice in relation to elements such as justice, politics, morality, value, wealth, and international trade. While the development of a complete theory of justice and economic fairness was neither the aim nor the achievement of Smith's *Wealth of Nations*, according to de Vries, a healthy concern for justice, and therefore economic justice, permeates the entire work. Not only did he frequently make explicit references to what is 'just', 'unjust', but he also introduced explicit themes valuable to any theory of economic justice. In John Rawls's *Theory of Justice*, concerns for freedom, the well-being of the poor, and equal opportunity manifest themselves in Smith's views as broadly equal freedom in society, privileged care for the poor, and equal opportunity. While Smith's justifications for justice and economic fairness do not align perfectly with Rawls's, it is noteworthy that they reach broadly similar conclusions. There is no 'veil of ignorance' that would guarantee Smith's neutrality. Instead, Smith aimed to expand our knowledge and appreciation of other people's needs and desires through genuine conscious 'sympathy.' According to him, humans have a natural inclination to care for the welfare of others for reasons other than the pleasure derived from seeing them happy. This sympathy is defined as empathy felt alongside any passion (Smith, 1759, p. 5; De Vries, 1989, pp. 51-52). Although their methods are quite different, some fundamental concerns regarding justice and economic fairness can be considered similar for Smith and Rawls.

The formulation of justice and economic fairness in *The Theory of Moral Sentiments* is a restraint imposed on self-interest to prevent one person from harming another. In *The Wealth of Nations*, Smith did not abandon the old concept of justice (i.e., avoiding harming another); he merely applied it to new phenomena. In *The Wealth of Nations*, justice and economic justice take on new dimensions, dictated by the necessity of articulating a solid set of principles as the foundation of social policy. Economic justice must permeate the entirety of economic activity, at the interpersonal level as well as the intergroup or interclass level. The operation of economic justice in accordance with social policy requires impartial treatment, implying equality before the law, in which no individual or group is granted special privileges or forced to endure special restrictions. Since all systems are based on either choice or constraint, each person must be left completely free to pursue his

own interests, provided he does not violate the laws designed to ensure justice. The individual must find his own path and be free to place both his industry and his capital in competition with any other person or human order (Campbell, 1967, p. 576).

Smith argued that in a well-governed, just political and economic system, self-interested economic behavior naturally leads to the common good. However, without appropriate social and legal structures, he repeatedly pointed out how self-interest can be quite detrimental to the common good. Monopolies, the wastefulness to which political leaders often tend, and, even worse, the malicious use of governmental authority by privileged merchants in some colonies are the most common examples of such destructive self-interest. According to Smith, government controlled by such merchants is the worst of all forms of government. By obstructing the implementation of economic justice, these individuals harm society in every way. The rich and powerful, seen in every generation, have caused considerable harm to the human race by entitling themselves to everything and deeming others unworthy. When economic and political power encompasses everyone and offers equal freedom, when the poor are protected, and when there is equal opportunity to acquire wealth in a truly free market, self-interest is a driving force generally considered positive for individuals and society. According to Smith, some self-proclaimed benefactors of society often use their 'benevolent' rhetoric to disguise selfish programs and projects. Providing opportunities to such individuals is detrimental to society. He believes that in a just society, individuals who defend their own interests can sustain their own lives without being at the mercy of these so-called benefactors, as they 'more effectively' defend the public interest if they directly and consciously pursue these beneficial outcomes for society. Furthermore, beneficial social reform, the product of public reason, would eliminate the needy. Even if self-interest were unleashed on all members of a society -all participants in the economic system- Smith never advocated self-interest as an end in itself. He also frequently argued that, in the name of justice and the public good, self-interest -through various social policies and practices- must be constrained or directed. While personal interests may be the primary driver of *The Wealth of Nations* generation, concerns for justice and the public good clearly raise the question of how contemporary societies should structure their systems to best utilize this power. To this end, the arguments of Smith and Rawls should be considered together, and economics and ethics should be properly integrated. Ethical concerns are paramount in the creation and distribution of wealth, and perhaps this is why, according to Vries, Adam Smith is truly the father of business ethics (De Vries, 1989, pp. 51-53). It should be remembered that in a society where individuals lacking ethical and moral concerns are unfettered by legal restrictions, those pursuing their personal interests can cause more harm than good to the public, justice, and economic fairness.

Smith made significant contributions to the development of free market economic theories. In his theory, he sought to reconcile the model of the individual, who is relentlessly self-interested and pur-

sues it, with the social order, which is perceived as uncontrolled. Smith strongly criticized mercantilism and, in this context, was the first systematic attempt to explain a functioning economy in market terms, emphasizing the 'invisible hand' of the competitive market. This invisible hand is the price mechanism. The views expressed by Adam Smith in *The Wealth of Nations* also shaped the emergence of Classical Liberalism, or the Classical School of Economics. Smith has some of his own views that form the foundation of Classical Liberalism. According to him, all individuals act according to their economic interests; in other words, individuals are homo economicus. The state should not restrict individuals' entrepreneurial rights through policies or practices, whether implemented or not, which embodies the famous motto *laissez faire, laissez passer*. Indeed, by pursuing their own interests, individuals simultaneously serve the interests of society. Since the order of economic life is automatically provided by the system brought about by the operation of the price mechanism, the state does not need to intervene in the economy for this purpose (Turanlı, 2000, p. 66; Erim and Yasa, 2010, p. 22).

#### 4. Value, Returns on Factors of Production and Their Effects on Economic Justice

Adam Smith defines that there are two fundamental values: *use value* and *exchange value*. The example of diamonds and water is a famous example in this regard. Under normal circumstances, the price of a diamond is very high, and therefore its exchange value (real price, according to Smith) is very high. However, even so, a diamond has no use value. Water, on the other hand, has a very high use value (since cannot be lived without water) but a very low exchange value. Therefore, the measure of use value is utility. The measure of exchange value is labor. In other words, the exchange value, which is the real price of a good, is measured by the labor expended in producing it. Whether willingly or not, laborers are forced to share their production with those who own the goods, landowners, and capitalists. Thus, landowners receive income (rent) from the rent they control on their land, and capitalists profit. Wages, profits, and rent determine the true value of goods. Smith departed from the original theory of value and arrived at the theory of cost of production. He argued that if the exchange value of goods were expressed in terms of money, that is, in a common form of value that allows for exchange, the prices of the goods in question would be determined. The natural price (real price) equals the monetary value of capital profit (interest), land rent, labor wages, and the sum of these—the total costs incurred in the production of goods. The market price, also known as the current price, is the price determined by the supply and demand ratios of goods. The market price is always higher than the value created by the production of goods (natural - real price). Market prices and natural prices undergo constant fluctuations and balancing processes due to the influence of supply, demand, and other variables.

According to Smith, labor is the true source of wealth. It is the equivalent of the annual labor effort required to produce the goods consumed each year

to produce the commodities a nation needs. Without labor, natural resources would be useless. National income is determined by the productivity of labor and the percentage ratio measured between productive and unproductive labor. The criterion for distinguishing productive from non-productive labor is defined by the production of value or the addition of new, additional value to a given value. Thus, productive labor adds additional value to the value of the object on which it is spent. Therefore, services are not considered production. The labor of those employed in the most respected professions in society is also included in the class of non-productive labor. While the work of doctors, lecturers, writers, actors, and the like vanishes as soon as it is produced, productive labor is fixed in the object it produces, which is material because it has the potential to last for a certain period and is marketable (economic). According to Smith, the less unproductive labor receives from the production of its activities and, consequently, the less it consumes, the more opportunities arise for spending on labor considered productive. This creates the conditions for greater capital accumulation. Labor productivity is based on the division of labor, and the resulting wealth flows from the highest to the lowest levels of society. The division of labor arises from the tendency toward exchange and leads each individual to dedicate themselves to a specific task and develop their talents appropriate to that task. Without sufficient capital accumulation in society, exchange and division of labor cannot occur at the desired level. The expansion of the market and the increase in demand increase the division of labor and labor productivity, creating surpluses. These surpluses enrich societies, and the production of useful goods increases (Soule and Antell, 1996, p. 45; Hunt, 2009, pp. 92-94).

Smith believed that the level of production in a society depends on the level of productivity and the number of productive workers. Productivity depends on the extent of specialized individuals or the division of labor. The greatest improvement in the productive labor force directed or applied to any given location, and a significant portion of skill, talent, and correct thinking, are seen as the effects of the division of labor. Smith defined capital as a factor that enables labor to work more efficiently than usual and accelerates it. Machinery, tools, land, fertilizer, and the like are all forms of capital. Fixed capital is defined as a factor of production that includes human-produced items such as buildings, machinery, and tools that do not circulate within economic activities but generate profit for their owner. Variable capital, on the other hand, is defined as materials (raw materials, goods for sale) that generate profit for their owner by changing hands (through the purchase-sale process) and do not generate any profit unless they change hands. According to Smith, the source of capital accumulation is savings obtained through the work of individuals in society, which constitutes the worker's income, consisting of wages, profit, and rent. Capital used in agriculture is the most productive, followed by manufacturing, then domestic trade, and finally capital used for foreign trade. The incomes of capitalists and landowners are incomes generated by workers, but not retained by them but passed on to others as profit and rent. This, in a

sense, formed the basis of Marx's *theory of surplus value*. Therefore, rent and profit are actually parts of the net product generated by labor. Since wages must fall for profits to increase, and profits must fall for wages to increase, these are inversely proportional to each other. The equitable allocation of the shares and returns received by all these elements in relation to each other is economic justice.

Smith argued that economic activity generates three types of income: wages, rent, and profit. Wages are essentially determined by a predetermined agreement between workers and employers, regardless of the outcome of production, and are the price, or rather the price, of labor. Wages are set at the minimum wage, the level that will provide for the worker and their families, who rely on their support. An increase in the minimum wage will, in turn, lead to an increase in births and the number of workers, driving wages back down to the minimum level. From Smith's point of view, the inequality of bargaining power between workers and employers has reached dramatic levels. He argues that employers are always and everywhere engaged in a kind of tacit but constant and consistent coalition, collaborating to prevent the wage paid for labor from exceeding its true value. The public often doesn't know how they collaborate, but workers' opposition to these efforts by employers to unite and keep wages low often leads to angry comments. Even the violence that sometimes accompanies labor movements is suppressed by force. This unfair process undermines economic justice.

Smith's perspective to the extent that rent is not a legitimate source of income because it represents a monopoly price received by landowners. Profit, on the other hand, is the share of the capital involved in production and therefore the price of the risk incurred by the capital, not the entrepreneur. Money, being a simple medium of exchange, should be supplied in proportion to the quantity of goods. Smith placed great importance on the institution of paper money, advocating for the substitution of lower-cost banknotes for gold and silver in the market. Thus, in regard to him, any change in their quantity would also lead to changes in domestic prices. Rising prices, through inflation, distort the distribution of wealth and undermine economic justice. Competition and the market mechanism should lead entrepreneurs to produce the goods desired and demanded by consumers in the cheapest, most convenient, and highest-quality form. The state should establish a strong army and navy with deterrent capabilities to protect against attacks and invasions by another state or states. It must protect its individuals (citizens) against potential threats from other societies and their members through a well-organized justice mechanism. The state must intervene in practices aimed at resolving issues where individuals cannot protect their general interests. To secure the country's future, it must take measures against the ruthless competitive conditions adopted by foreign states in the international arena. According to Smith, the state, when examined from a broad perspective, is incompetent and wasteful, and its intervention in the economy, except for the matters listed, should be kept to a minimum (Erdem et al., 2012, pp. 60-63; Kuruca, 2012, pp. 174-175). This perspective, like

Hobbes's *Leviathan*, expresses a fear that a growing giant, bent on engulfing itself, could infect the empire of which Smith was a citizen. Smith, in his view, acted rationally by distrusting the state apparatus of an empire that was growing relentlessly and becoming increasingly cumbersome and inefficient due to its actions.

## 5. Economic Justice in the Labor Market

Smith analyzes practices related to economic justice in the labor market, the role of labor market organizations, and the law governing their actions, in light of scholastic sources (Noell, 1995, p. 229). Indeed, Schumpeter argued that traces of the comprehensiveness revealed by the framework drawn by the scholastic legacy are clearly visible in Smith's treatment of economic justice. The Scholastics articulated a similar, though not entirely identical, understanding of fairness in exchange for wages determined by free bargaining in the labor market. Like the Scholastics, Smith noted that a worker might be in a weaker bargaining position relative to his employer and presented a more complex economic analysis of the underlying reasons for labor unions. Based on this, he assessed the likelihood of employees succeeding in increasing wage rates. *Distributive justice*, one of the concepts that justifies economic justice, is: It involves the equitable allocation of goods and services, their ownership, and cumulative wealth among individuals and groups. Within the scope of distributive justice and economic justice, Smith viewed guilds and labor market associations in general with equal distrust and caution, opposing laws that facilitated their formation or granted them monopoly privileges. However, Smith explicitly rejected the effectiveness and justice of laws prohibiting labor market associations. He believed that, by their very nature, organizations that did not constitute monopolistic power and served to ensure economic justice should be tolerated.

To counter the power of employers, there should be legislation facilitating the formation of labor organizations. Smith argued that enacting laws prohibiting covert employer associations would be very difficult. He distrusted state intervention, as the power of interest groups to acquire monopoly privileges through legislation and manipulate the state for their own benefit would likely exacerbate the situation. Of course, he did not oppose all forms of government intervention. Indeed, Stone argued that Smith was not an ideologue who sought to demonstrate that state actions were always harmful. Focusing on the public benefits that would accrue if competition prevailed and were not governed by state regulation, Smith's main focus of hostility was on cartels and monopolies, particularly those created and protected by the state. Various statutes and court decisions limiting the formation of collective labor were generalized in the laws enacted in 1799 and 1800. The 1799 Act contained the legal equivalent of a desire to more effectively suppress all combinations, and the 1800 Act contained the legislative response to Parliament's stated opposition to all commercial combinations. Both laws aimed to make any combination between masters or workers to fix wages or alter working conditions illegal and criminal. These

laws, which undermined economic justice and led to a turbulent period in labor-employer relations, were repealed by new laws enacted in 1824 and 1825. These new laws closely implemented Smith's approach to labor market integration (Smith, 1776, pp. 142-145/158; Stone, 1982, p. 44; Bryan, 1909, p. 120 as cited in Noell, 1995, pp. 242-244). History shows that Smith's stated labor market principles aimed at establishing economic justice were ultimately, and had to be, legally implemented.

## 6. The Effects of Free Foreign Trade on Economic Justice

Smith, with his analysis in *The Wealth of Nations*, is known as the first thinker to demonstrate the benefits of free trade, refuting mercantilists' arguments for restricting foreign trade, and to provide the first scientific analysis and explanation of international trade and its functioning. According to him, since the total wealth produced in the world is not fixed, foreign trade fosters a division of labor and international specialization, increasing the productivity of global resources, thereby increasing global production and welfare. This view suggests that two countries trading reciprocally can achieve higher levels of production and consumption and raise their standards of living together as a result of free international exchange and specialization. Therefore, Smith argues that the mercantilist view that one side wins and the other loses in international trade is incorrect. Economic activities resulting from international trade, based on a fair basis through division of labor and specialization, can benefit both parties (Heilbroner, 2013, pp. 42-46; Seyidoğlu, 2015, p. 27; Heywood, 2017, p. 415). From a broad perspective, international free trade, which contributes to economic justice, can increase the prosperity of all nations.

Since Adam Smith, economists have recommended free trade as a policy that increases a nation's wealth and elevates it to a higher level. According to him, every frugal head of a household should not attempt to produce something that would cost him more to make at home than to buy. A tailor does not attempt to make his own shoes, but buys them from a shoemaker. A shoemaker does not attempt to make his own clothes, but wisely has them made by a tailor. This principle, which applies to the governance of any family, also applies to a large kingdom. His understanding to this concept, if a foreign country offers a commodity that can be traded internationally at a lower price than we can produce ourselves, it's better to buy it with a portion of the product of an industry in which we have an advantage. Smith's analysis is significant. Today, economists are making this argument more explicitly, drawing on Ricardo's *theory of comparative advantage* and other modern theories of international trade. According to these theories, a country open to trade in foreign trade can achieve greater trade efficiency and a higher standard of living by specializing in the production of goods considered products with a comparative advantage. Do countries that allow free trade, which, when provided with equitable conditions, provides greater opportunities for practices aimed at establishing economic justice, actually achieve greater wealth? A substantial literature

explores this issue. Looking at international data is one way to observe whether countries that allow free trade and make it work through their practices generally achieve greater wealth. The reality reflected in this data is that they are wealthy.

In their analysis of the period 1970-1989, Jeffrey Sachs and Andrew Warner found that, among countries considered wealthy, economies open to free trade grew at an annual rate of %2.3 and closed economies at an annual rate of %0.7. During this period, among developing countries, economies open to free trade grew at an annual rate of %4.5 and closed economies at an annual rate of %0.7. While these findings are consistent with Smith's argument that trade increases wealth, they cannot be definitively concluded. Correlation does not prove causation. Perhaps being closed to trade is associated with other restrictive government policies, and these other policies slow growth. A second approach is to examine what happens when a closed economy removes trade restrictions. Again, Smith's hypothesis holds true. Throughout history, when countries open themselves to the world economy, the typical result is increased economic growth. This occurred in Japan in the 1850s, South Korea in the 1960s, and Vietnam in 1990. But again, correlation does not prove causation. Jeffrey Frankel and David Romer proposed analyzing the effect of geography to measure the impact of trade on growth. Some countries trade less simply because they are geographically disadvantaged. For example, New Zealand is at a disadvantage compared to Belgium because it is farther away from other, more populous countries. Similarly, landlocked countries are at a disadvantage compared to countries with their own seaports. Because these geographical features are correlated with trade but uncorrelated with the value determinants of economic wealth, they can be used to determine the causal effect of trade on income. After analyzing the data, Frankel and Romer observed that a one percent increase in the trade-to-GDP ratio increases per capita income by at least one and a half percent. From this, they concluded that trade appears to increase income by stimulating the accumulation of human and physical capital and increasing output per given level of capital. Most of the evidence from the studies reviewed suggests that Adam Smith was right. Openness to international trade is beneficial for economic growth. Smith recognized the role of institutions in economic growth. According to him, to elevate a state from the lowest barbarism to the highest degree of wealth, nothing is needed but peace, easy taxes, and a tolerant administration of justice. Everything else can happen naturally (Sachs and Warner, 1995; Frankel and Romer, 1999; Mankiw, 2010, pp. 255-262).

## 7. Features of Economic Justice Embedded in Trade-Oriented National Systems

Adam Smith's analysis refers that a trade-oriented society consists of a set of principles or mechanisms. Two of the most important of these are *moral sentiments* and *competitive markets*. These mechanisms transform the pursuit of self-determination (self-love) into a public good and, when properly di-

rected by the legislature, can ensure both justice, economic fairness, and prosperity. Uncontrolled trade risks undermining workers' moral sentiments, their commitment to economic justice, and their social cohesion. Smith recommends a limited and skeptical endorsement of a trade-oriented social model as a means of establishing and developing economic justice (Cohen, 1989, p. 51). Necessary interventions must be implemented before production-based trade, the foundation of national wealth, evolves into a structure characterized by methods that corrupt society. Through a well-organized social, political, legal, and economic structure, practices and institutions that are both deemed fair domestically and embody the potential for international competition can be implemented.

Smith argues that the terms of international exchange are determined by comparing the absolute cost of the same commodity with the cost of the same commodity in other countries. For example, if cloth is produced at a lower cost in Britain and wine at a higher cost, and the opposite is true in Portugal, it is in Britain's best interest for Britain to produce cloth and Portugal to produce wine, and to acquire these two goods through exchange. This trade situation, one of the theories that addresses static international trade from the supply side, has been referred to in the literature as the *Theory of Absolute Advantage*. It is also known as the '*Law of the Division of Labor According to Natural Endowments*.' The theory's primary purpose is to explain the reasons for the division of labor and trade in the international arena, and according to this theory, free trade between countries is beneficial for both countries (Turanlı, 2000, p. 83; İyibozkurt et al., 2014, pp. 10-11). Thanks to the theory of absolute advantage and the theory of comparative advantage, two fundamental themes of international economics, the benefits of fair trade between countries have been better understood.

Although Smith drew extensively on history to empirically prove the views he put forward in his book *The Wealth of Nations*, he was only interested in its economic aspects, not its overall meaning. While his views are considered inadequate to explain today's economic order, it is significant that they still retain their importance in the eyes of some politicians. For a period, Smith's views and ideas exerted great influence in England and America. In his work *The Theory of Moral Sentiments*, Smith emphasized the importance of social elements in examining morality. According to him, although individuals, as social beings, can only exist within society, they are primarily and exclusively concerned with their own goals. People cannot expect others to help them by relying on their good intentions. They are constantly striving to find the most profitable way to use their capital, using their labor, strength, knowledge, and experience. In this state, people seek their own benefit rather than that of society. Smith firmly believed that the general good was indistinguishable from individual good. Therefore, he argued that the gains achieved by each person properly tackling the characteristics of their own work would lead to the desired level of social welfare. The flow of industry is sufficient to demonstrate the validity of this assertion. The idea that there are minimal or negligible differences be-

tween people's natural abilities, and that this differentiation stems from social environment, habits, traditions and education. Although Smith attributed the wealth of nations to work, he acknowledged some exceptions and advocated that work should not be subject to any administrative restrictions and should be subject only to natural freedoms. If an individual, given the opportunity to work freely and securely, directs all their efforts to improve their living conditions, they not only contribute to the wealth of society through their own actions but also overcome the obstacles posed by laws and regulations (Widgery, 1971, pp. 196-198).

Smith called England a 'land of tradesmen.' Angrily attacking mercantilism, Smith argued that the practices aimed at limiting the competition generated by the system through protectionism, subsidies, and the establishment of monopoly privileges were detrimental to the British economy. In Smith's era, the relationship between cause and effect began to accelerate wildly, and economic motivations increased tenfold. The allure and shock of modern life captivated the citizens of his time. In fact, his primary concern was the nature of the friction between individual desires and social rules. Smith strived to become a moralist and thus eventually became an economist. He argues that a philosopher is not even born. Fundamentally, just as a dog (a similar species) is not much different from a greyhound, a philosopher is not much different from a street porter. Through the knowledge-based contributions provided by education and society, a competent person can become a philosopher. Such competent individuals can establish the necessary justice and economic fairness.

Smith describes the East India Company, which plundered and devastated the lands it reached during its lifetime, as having a peculiar form of government in which every member of the company's management wanted to leave the country as quickly and as quickly as possible. He argues that these company executives, taking all their wealth with them, would not care if an earthquake leveled the entire country the day after their departure. This example, a clear demonstration of capitalist greed engulfing all values, is a manifestation of Smith's astonishment and anger at the mercantilists' motivations. The company members, who were all part of the empire's global conquest, based on their own understanding of justice, morality, and trade, were soldiers tasked with destroying any possible defense of economic justice in Smith's time.

When the information and examples it contains are examined, *The Wealth of Nations* cannot be considered a textbook. Smith wrote his work not just for the school classroom but as a resource that illuminates his era. When considered broadly, it becomes clear that he was not writing a summary thesis for academic purposes. His motive was to develop a doctrine significant enough to imply the power to govern an empire intent on hegemony over the entire world, guided by specific principles. Smith was not a defender of the influential and promising elite bourgeoisie in governance; while he admired their efforts, he was skeptical about their intentions and their consideration of the needs of the vast working masses. He was more concerned with the welfare

of the entire country than with defending the interests of any particular class. Knowing that prosperity consists of things that all individuals in society can consume, even if not in equal amounts, he argued that poverty would naturally exist alongside wealth. The key was to establish a reasonable degree of partial economic justice. Smith's world, despite all its seventeenth-century flavor, its belief in rationality, natural law, and mechanical human behavior, was not devoid of loving, warm-hearted values. For the first time in the philosophy of daily life, the system elevated the consumer to such a prominent position, even to the rank of king. He is an economist of the pre-industrial era; he did not live to see the market system threatened by giant enterprises or the laws of accumulation and population he developed overturned by social developments fifty years later (MacIntyre, 2001, p. 200; Levitt, 2006, pp. 16-17).

Smith's system assumes that eighteenth-century England will remain virtually unchanged until the end of time. The magnificent continent will grow with more people, more goods, and more wealth -in other words, only in quantity. Its quality will remain unchanged. These are the dynamics of a static society; it grows but never matures. Smith was the first to understand how the market holds society together, and the first to build a grand social order based on the insights provided by the method he developed, which enabled England, and subsequently the entire Western world, to understand how the market holds society together. In his work, *The Theory of Moral Sentiments*, Smith asks what is the purpose of this world's desperate work, rush, and hustle, and what is the end of the greed for money and success, the pursuit of wealth, power, and superiority. In response, in *The Wealth of Nations*, he argues that all this grudging pursuit of wealth, splendor, fame, and honor is only justified by the well-being of the common (average, ordinary) man (Chang, 2009, pp. 65-66; Heilbroner, 2013, pp. 48-49/64-67). A welfare state can emerge when the state, which strives to harmonize the interests of individuals seeking to find their place in society and the world and to achieve more, and the benefits of free trade, with the needs of the individual, unites around a common ideal. The crucial issue is how to reconcile the parties -individuals pursuing their own interests, interest groups, and the state apparatus.

Smith's explanations give credit that there are always demands for neutrality within the social order, but the policies of some nations have given extraordinary incentives to domestic industry, while those of others have given extraordinary incentives to urban industry. Few nations have been able to give equal and impartial attention to all types of industry. Geographical conditions and a country's trade routes have been decisive in this process. The natural course of economic development, driven by the urbanization of industry, gave mercantilism a special privilege. Physiocracy, however, by seeking to grant special privileges to agriculture, was not neutral regarding agricultural development. Across all the partisan ideologies and doctrines, Smith sided with the goal of contributing to economic justice by increasing the incomes of struggling workers by taking advantage of the special privileges granted to firms. His aim was not to grant special privileges to labor, but

to eliminate the special privileges of property owners and manufacturers who tended toward monopolization, and to abolish legal restrictions on labor. In Smith's thinking, the interaction between moral progress and economic development was the fruit, rather than the cause, of the expanding commercial civilization. He was not guilty of a rather naive view of the inevitability of progress brought about by the Enlightenment. His observation of a significant flaw in the division of labor, the pillar of his economic plan, is a tribute to Smith's realism and his concern for the development of better people. Progress was not a one-way street. The evils that inevitably result from economic progress must be ameliorated through prudent government action (Campbell, 1967, p. 577). The positive and negative effects of the clash of international powers in the economic sphere have, for centuries, prioritized practices and policies favoring capital. While states, labor organizations, international institutions and organizations, scientists, and thinkers striving to curb the power of capital have not achieved the desired level of success, they have nevertheless spearheaded the development of practices aimed at economic justice. Smith was one of these thinkers.

MacIntyre thinks and expresses his opinion that the successors of David Hume and Adam Smith in Scottish philosophy have little to say, as these two thinkers have already established significant ideas (MacIntyre, 2001, p. 200). Considering Smith's influence on world economic history, it can be easily said that MacIntyre's statement is accurate.

## 8. Conclusion

Adam Smith who is one of the most prominent figures in the history of economic thought, had a significant impact on the rise of classical liberalism. He has been described as the father of capitalism and economics and is considered the founder of the system of thought known as the Classical School of Economics. The Classical School, based on the analyses in Adam Smith's famous work *The Wealth of Nations*, was the product of his efforts to analyze the economic system created by the Industrial Revolution, which virtually transformed the course of humanity and was observed in its most comprehensive form in England. Following his notable educational career, Smith became involved in academic activities. His vision was broadened through his exchanges with members of the Physiocratic school during his travels in England and Europe, particularly France. His views and analyses on free trade, labor markets, monopolies, labor, capital, wealth, and various other topics have increasingly attracted the attention of scholars. Smith's treatment of justice and economic justice has also yielded insights worthy of study.

Economic justice; given that the issue of distributing what is produced in a humane manner among those who participate in production, those who do not wish to participate, or those who, even if they wish, cannot participate for various reasons, the question of how nations increase and distribute their wealth becomes even more crucial, based on Smith's assessment of economic justice based on free trade. In this context, Smith conceives of justice as the limit beyond which no one can exceed in their pursuit of individual self-interest, not left to personal

discretion but, if necessary, by force. Therefore, justice must first and foremost safeguard the rights to life, liberty, and property. Once these are ensured, economic justice comes into play. Economic justice must ground and justify the fair conduct of economic transactions between individuals and interest groups. Economic justice requires equality before the law and impartial treatment without the unjust application of special privileges or restrictions. Every individual should be left completely free to pursue their own interests and their consequences, provided they do not violate the norms of justice and economic justice. A well-ordered, fair system, based on the assumption that the economic behavior of individuals pursuing their personal interests is in the public interest, rewards free trade and competition, not penalizes them. Although the 'invisible hand', the price mechanism, regulates the market through the balance created by supply and demand conditions, reasonable interventions are always necessary against potentially dangerous monopolies.

Smith argues that there are two fundamental values: *use value* and *exchange value*. Labor is the true source of wealth. The level of production in a society depends on the level of productivity

and the number of productive workers. Productivity depends on the extent of specialized individuals or the division of labor. According to him, national income is determined by the productivity of labor and the percentage ratio measured between productive and unproductive labor. There are three types of income: wages, rent, and profit, which are the returns from economic transactions. Smith's explanation to this, practices related to economic justice in the labor market can be implemented through legislation that facilitates the formation of labor organizations and organizations to balance the disproportionate power of employers through legal measures. Monopolies should not be permitted. Free trade must be conducted within the framework of fair international practices. When people realize the benefits and gains derived from pursuing their own interests, they will be inclined to accept, with reasonable and rational thought, policies that establish economic justice, even if they are not willing to adopt these practices. Within the framework of Smith's ideas, a well-regulated system, free trade, and a labor market operating under fair laws can both increase the welfare of nations and ensure economic justice that linked to justice.

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