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This book offers a historically sensitive, analytical account of the usage of economic reasoning in the emergence of the moral and political theory of contemporary liberalism, taking the works of Thomas Hobbes, John Locke, Adam Smith, and John Rawls as textual foci. Conventionally, accounts of the history of moral philosophy study debates in political economy to understand how liberals sought to justify property rights and free markets and to examine whether such justifications can be sustained. The innovative perspective of this book is in that it focuses on another central and hitherto unexplored moral problem that was dealt with by political economy: the question of what constitutes equality and hence fairness in economic exchange. While discussions of what constitutes a fair exchange are part and parcel of the history of ethics from antiquity, from the seventeenth century onward it is possible to identify a process by which the model of fair exchange has tacitly 'colonized' other realms of ethical discourse. Thus, for various reasons it became appealing to represent moral problems as problems analogous to the problem of what constitutes equality in economic exchange. The philosophers studied in this book, each in his own way, felt an urgency to develop a ‘theory of value’ taking economic valuation as a model. This sense of urgency was not merely because the institution of the market became more central and economic exchanges took larger portion of the share of social interactions. Rather, the book studies the inner structure of their political philosophies and shows how the sense of urgency was due to the fact that they saw the practice of economic exchange as the key for understanding fairness in general. Therefore, the success of their political projects became dependent upon a successful solution to the problem of justice in the economic realm.

The historical narrative is informed by a new framework for the study of the history of ideas. This framework is based on an analogy between the role of exemplars in science and the role of dominant social practices in moral reasoning. Thomas Kuhn used the term exemplars to describe one of the ways in which scientists conceptualize the problems they are facing: scientific ‘success-stories’ in one field turn into models, or examples, for how to solve problems in other fields. The book shows that we can think
of a dominant social practice – economic exchange is our case in point – as providing philosophers with exemplars for how to think about moral questions in general.

Placing the exemplar of economic exchange as the interpretative benchmark for the study of the history of liberalism reveals that there is a gradual but important transformation in the way Hobbes, Locke, and Smith, on the one hand, and Rawls on the other, conceptualized the practice of economic exchange. For the former, the question of fairness in economic exchange was deemed crucial because they understood economic exchange to be as a site of asymmetric power relations, manipulation, and hidden forms of domination. Therefore, even though Hobbes, Locke, and Smith were not first and foremost fighters for social justice, they all found it necessary to struggle with the question of how to uncover the reality of the economic sphere as part of their own political and philosophical projects. Their excursions into political economy were motivated in part by a need to understand how hidden forms of domination work in the economic realm to be able to use this understanding in their study of politics. Their political economy was political all the way down. Rawls, on the other hand, tended to understand economic exchange as a fair practice, almost by definition, and therefore he relied on the study of economics mainly to provide the presuppositions needed for developing a moral theory.

Thus, this book uncovers within the canon of the liberal tradition a model of political economy that is quintessentially moral, rooted in social practices, and geared towards the unmasking of hidden forms of power relations. Furthermore, the approach offered here turns the question of the scientific origins of political economy on its head. Traditionally, early modern political philosophers are understood as attempting to import the methods of natural sciences into the study of society. Their economic theory is seen as an attempt to emulate Newton’s discovery of the natural law of gravitation by identifying the hidden mechanisms that determine economic variables such as prices and profits. This work studies early modern economics as emerging from their moral theory. It studies the way that a distinction between appearance and reality is required for the attempt to establish a category of fairness in economic exchange.

The book is organized chronologically with a chapter devoted to each of the four philosophers preceded by an introductory chapter which provides the analytical structure and outlines the approach to the study of the history of ideas. Thus, while the chapters speak to each other and constitute a narrative, each of them can be read alone as they all significantly contribute to the scholarship on the individual philosophers and engage with most recent academic scholarship. As such, this book is comparable in its form and the structure to other analytically rigorous historical studies of the moral and political aspects of political economy, such as the now classic works of C. B. Macpherson (The Political Theory of Possessive Individualism), Albert Hirschman (The Passions and the Interests), Ian Shapiro (The Evolution of Rights), and more recently with Stephen Buckle’s Natural Law and the History of Property and Samuel Fleischacker’s A Short History of Distributive Justice. Therefore, the book will be of an immediate interest not only to

1 C. B. Macpherson, The Political Theory of Possessive Individualism (Oxford: Oxford University Press. 1962); Albert. O. Hirschman, The Passions and the Interests: Political Arguments for Capitalism before Its...
scholars and students who study Thomas Hobbes, John Locke, Adam Smith, and John Rawls, but also to those who are interested in the inner structure of contemporary liberalism and its historical development. Finally, the innovative approach to the study of the history of ideas is a contribution to methodological debates regarding the study of the history of ideas (such as those discussed in Mark Bevir’s *The Logic of the History of Ideas*).

The length of the book is expected to be 75,000 words. A draft version of all of the chapters has been written and a full manuscript will be ready by December 2006. Two articles which are based on material in this book now appear as journal articles: “The ‘Market’ and the ‘Forum’ in Hobbes’s Political Philosophy” in *Polity* and “Rawls as a Critical Theorist: Reflective Equilibrium after the ‘Deliberative Turn’,” in *Philosophy and Social Criticism*. An additional article, “Natural Law Meets the Market: the Case of Adam Smith” is currently under review. It is important to emphasize that these articles cover only part of the material discussed in the respective chapters so their appearance in print would not take away from significance and scholarly contribution of the book.

**Chapter 1 - Introduction**

The introductory chapter presents the analytical framework, the approach taken to the study of the history of ideas, and outlines the argument of each chapter.

**Chapter 2 - The “Money of Fools:” Hobbes on Language, Justice, and Economic Exchange:**

Through a study of Hobbes’s writings on science, politics, and economics, the chapter shows that Thomas Hobbes understood politics as a process of valuation and he studied it by taking market valuation as a point of departure. To pursue such an understanding, Hobbes offered a bold and uniquely Hobbesian explanation of obligations. First, he argued that all types of promises, even gratuitous ones, create an implicit expectation for a return of equal value. Thus, all obligations should be understood as a form of economic exchange of equal values. Second, Hobbes argued that fear is a legitimate reason for entering into a contractual obligation and thus contracts made under duress are valid. He then studied the process of valuation – of assigning comparable values to goods, actions, and people – in order to explain how epistemological insecurities create political instability, concluding that lack of common meaning for key political terms leads to instability in the same way that market valuation opens the door to manipulation and hidden forms of coercion. Stability in the economic sphere, in his view, turns out to be both a precondition for and a model of political stability. Both require the sovereign to take an active role in assigning values to goods, actions, and people so that their worth

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could be compared. The sovereign cannot assign values arbitrarily but has to do so scientifically following Hobbes’s own version of political science. This, as the chapter shows, requires an understanding of the dynamics of the economic sphere. The chapter examines the way Hobbes’s own rudimentary excursions into economic matters were motivated by these political concerns.

Chapter 3 - Between the ‘Natural’ and the ‘Political’: Locke on Economic Exchange and Property Rights:

The chapter demonstrates that in his writings both about economics and about politics Locke studied economic exchange in order to understand the relationship between instrumental and moral reasoning. In his economic writings, he examined the way money serves as an equal measure of value in order to highlight what he saw as weaknesses of proposed legislative reforms of the metallic content of coins and of the maximum legal interest rate. He argued that legal tools can be manipulated by skilled merchants to advance their own interest while maintaining the appearance of fairness in the economic sphere. In his writings on politics (particularly the Second Treatise) Locke used the practice of economic exchange to account for the origin of political institutions. In this account, the economic sphere is used to explain how social cooperation can be a mutually beneficial enterprise. At the same time, however, Locke presented the manipulation of commercial activities for profit as a threat for this enterprise, for which the legal system is only a partial and fragile answer. The chapter examines commercial arbitration in Locke’s time and brings textual and contextual evidence that in viewing the state as an arbiter, Locke took the practice of commercial arbitration as a model. It is therefore suggested that Locke understood politics as analogous to the process of establishing fairness in commercial arbitration.

Chapter 4 - “The Workmen Desire to Get as Much, the Masters to Give as Little as Possible:” Moral Evaluation, Economic Exchange, and Political Struggle in Adam Smith’s Jurisprudence

The chapter takes as its point of departure the claim of Istvan Hont and Michael Ignatieff that in the Wealth of Nations Adam Smith dealt with traditional questions of jurisprudence and moral philosophy by transposing them into questions of political economy. In this way, Smith moved away from the view that the fairness of economic exchange consists in the exchange of equal values to the view that the fairness of economic exchange can be secured once it is made voluntarily. In this latter view, the purpose of the legal system is to create the conditions that would secure the freedom to engage in voluntary economic exchanges. But, the chapter shows, Smith was forced to move in such a direction because of inherent difficulties in the structure of his philosophical system. At the heart of this system was an innovative framework for determining which moral issues should become the subject of legislation. His theory of moral sentiments used the device of an impartial spectator to explain the historical

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development of moral evaluations and that of the legal system. He concluded that moral issues that lend themselves to legislation are those that provoke an immediate, almost instinctive, reaction of resentment for an impartial spectator. Such a reaction occurs in cases of injustice, which Smith implicitly associated with unequal economic exchange. *The Wealth of Nations* seeks to show that a legal system that is narrowly based on preventing injustice (the famous system of natural liberty) is able to provide basic subsistence for the poor better than any comparable system. However, the chapter shows that Smith was aware that the institutions of the system of natural liberty put impartial spectators in a weak position because it hindered them from evaluating asymmetric bargaining powers over prices and wages. The emphasis on the long-run benefits of the system is therefore a substitute for its inability to apply the commonsense evaluation that Smith puts at the center of his theory of the moral sentiments to what he saw as the real and political sphere of economic exchange.

**Chapter 5 - Rawls’s Reply to Marx and the Fragility of Justice as Fairness: Between a Thin Theory of the Good and the Politics of Economic Exchange**

The chapter points to an unnoticed distinction between two forms of economic reasoning in Rawls’s well-known theory of justice, which both Rawls himself and other commentators tended to conflate. First, Rawls draws an analogy between the techniques of managing free markets and that of designing an ideal of a model society through reflective equilibrium in what he called the original position. Like Adam Smith, Rawls explicitly moved away from evaluating the fairness of economic exchange at the level of the individual transaction. Instead, he argued that if the basic institutions of society are just then ongoing social relations between individuals, free market transactions included, can be seen as a matter of pure procedural justice. The analogy that he used to make this point is to the institution of the market. By shaping the parameters in which a competitive free market operates (such as the initial distribution of productive resources), one can choose which Pareto equilibrium will be ‘voluntarily’ selected by the participants. In the same way, we can construct just basic institutions that can ensure that people will freely choose their life plans in a way that preserves the fairness of the basic social institutions. However, the free market serves not only as a model for the original position but also as an actual institution in Rawls’s ideal of a well-ordered society. As an institution, the free market allows Rawls to explain how goods will be efficiently and fairly distributed without excessive political debate. The chapter argues that this usage of the free market is in tension with Rawls’s own understanding of the effects of asymmetric power relations.

The making of the distinction between the two forms of economic reasoning which Rawls applies provides us with the opportunity to re-interpret Rawls’s scattered allusions to existing forms of domination, especially in his later writings, and to offer a charitable reading of Rawls as a critical theorist who engages in an immanent criticism of existing social institutions. In this reading, which is presented in the chapter, the representatives in Rawls’s original position engage not only in a design of an ideal society but also with a study of power relations within their own society. Such an inquiry is predicated upon a
distinction between appearance and reality which is, to use Rawls’s own phrase, “political, not metaphysical.”

Chapter 6-- Economic Exchange, Political Interactions, and Critical Inquiry – Concluding Characterization

The concluding chapter provides an analytical summary of the arguments of the previous chapter and discusses the importance of the narrative outlined in this work. One might argue that the narrative offered here tries to salvage a tradition that is not worthy of saving. Thus, it can be argued, the exemplar of economic exchange offers a rather limited framework for thinking about ethical and political questions. While many issues can be re-conceptualized as problem of economic exchange, it is not the best model for considering many of them. The chapter provides two reasons for why the exemplar of economic exchange is both theoretically interesting and politically relevant. First, it allows an immanent criticism of dominant liberal approaches to political theory in its own terms. Thus, the focus on economic exchange exposes tensions between the way it was used as an exemplar in the political-legal philosophy and the way it was used in economic theory. Furthermore, this immanent criticism commences from a sophisticated and historically sensitive re-articulation of the dominant tradition, not from a caricature version of it. Second, the exemplar of economic exchange allows a fruitful discussion and re-evaluation of the role of empirical inquiry in moral and political theory.

The substantive discussions of the four philosophers aims at explaining the inner connections between their view of economic exchange as an exemplar of justice and their attempts to understand the dynamics of the economic sphere. The reference point was the philosophers’ projects in their own terms (though not taking their own understanding of their methods as authoritative). The concluding chapter examines the form of empirical inquiry of the political aspects of economic exchange from a different frame of reference. First, it attempts to examine the form of inquiry that emerges from the exemplar of economic exchange in an abstract way by detaching it from the philosophical context of the individual philosophers. Then, it studies this form of inquiry by situating it in contemporary discussions in the philosophy of social sciences. Thus, the chapter examines the extent to which this form of inquiry can be characterized as practical, pragmatic, or as critical form of inquiry. It shows that these three characteristics capture central aspects of this form of inquiry. Nevertheless, this form of inquiry does not completely fit into each of these characterizations and thus it offers a unique model of social inquiry.
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