



# Adam Smith, Moral Motivation and Business Ethics

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## **ABSTRACT**

This paper shows how Adam Smith's concept of moral motivation applies to business ethics and ethical consumption. Moral motivation for Smith is embedded in his moral psychology and his theory of virtue, particularly in terms of socialization and our social interactions and in his view that people always seek approval for their conduct, either through actual or ideal spectators. It follows that right conduct depends on the spectator's awareness of one's conduct. Thus concerning business ethics, transparency and accountability are essential, as opposed to anonymity which is detrimental. Applying Smith's theory of motivation to consumption entails two further points: One, information concerning business conduct without consumers seeking it and acting accordingly will only have a limited effect. Two, people's concern for the propriety of their action can and should include consumption, such that purchasing behavior becomes a moral issue rather than a mere economic one.

**Keywords:** Adam Smith; moral motivation; business ethics

## **RÉSUMÉ**

Cet article montre comment la conception de la motivation morale chez Adam Smith s'applique à l'éthique des affaires et à la consommation éthique. La motivation morale est intégrée chez Smith dans sa psychologie morale et sa théorie de la vertu, en particulier en termes de socialisation et d'interactions sociales. De son point de vue, les gens cherchent toujours l'approbation de leur conduite. Il s'ensuit que la bonne conduite dépend de la conscience du spectateur de sa propre conduite. Ainsi, en ce qui concerne l'éthique des affaires, la transparence et la responsabilité sont essentielles, par opposition à l'anonymat qui est préjudiciable. L'application de la théorie de la motivation morale de Smith à la consommation entraîne deux autres points: premièrement, l'information relative à la conduite des affaires, si les consommateurs ne cherchent pas à l'obtenir et agissent en conséquence n'aura qu'un effet limité. Deuxièmement, la préoccupation des gens pour le bien-fondé de leur action peut et doit inclure la consommation, de sorte que le comportement d'achat devient une question morale plutôt qu'une simple question économique.

**Mots-clés:** Adam Smith ; motivation morale ; éthique des affaires

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## INTRODUCTION

As the author of *The Wealth of Nations* (1776), Adam Smith (1723-1790) is viewed as the father of the theory of modern capitalism. In light of its world-historical impact and the manifold benefits and problems created through free market capitalism, the literature on Smith is naturally vast and extensive. Much of this literature is devoted to differentiating Smith's own intentions from later interpretations, or more accurately later distortions of his theory. The classical "Das Adam Smith Problem" compounds any reading of Smith in these regards. "Das Adam Smith Problem" states that *The Wealth of Nations*, which is based on self-interest, seems inconsistent with Smith's earlier *The Theory of Moral Sentiments* (1759), which is based on sympathy.<sup>1</sup> In fact, a more accurate interpretation of Smith is achieved through reading *The Theory of Moral Sentiments* together with *The Wealth of Nations* to show that self-interest is only one of many aspects of motivation for behavior and does not constitute the sole basis for economics.<sup>2</sup> The present paper serves as contribution to the literature on Smithian ethics and economics by focusing on the social context for the development of morality and the motivation to follow it and on their relevance to business ethics. This paper concludes by suggesting that Smithian principles can illuminate and be extended to the issue of ethical consumption today.

## MORAL MOTIVATION IN SMITH

Smith's concept of moral motivation in TMS is complex. This complexity arises from the fact that Smith develops several themes that play a role in moral motivation. These variously include sympathy, the impartial spectator, duty, general rules, and what has received a significant amount of scholarly attention recently – his theory of virtue. A correct account of Smith's view concerning moral motivation cannot, and need not be reduced to any one of these aspects. Rather, Smith offers an overarching view of moral motivation embedded in his moral psychology, and Smith sees moral psychology in turn as a product of our sociability. Indeed, Matthew Watson notes that in order to understand Smith's moral psychology, one needs to begin with an analysis of the internalization of moral dispositions because "an action cannot be condensed merely into the moment of its execution."<sup>3</sup> And so, Smith offers an analysis of the formation and functioning of our moral capacities in terms of socialization and our social interactions. Smith's concept of moral motivation begins with his claim that because we can subsist only in society, we are naturally social beings. In order to survive we need each other's assistance, and our sociability is embedded in the fact that we are bounded by sentiments, that is, by love and affection we are drawn to the common good. The assumption here is that nature made us this way, and Smith says that man "was fitted by

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<sup>1</sup> For an overview of the "Das Adam Smith Problem," see Montes, L. (2003). For further interpretations of the relations between *The Wealth of Nations* (abbreviated as WN) and *The Theory of Moral Sentiments* (abbreviated as TMS) see Sen, A. (2009); Rothschild, E. (2001); Griswold, C. L. (1999); Fleischacker, S. (2004).

<sup>2</sup> See: Brown, K. (2008). 'Part I', in Brown, K. and J. McClellan III, p. 1-58.

<sup>3</sup> Watson, M. (2007), p. 266.

nature to that situation for which he was made.”<sup>4</sup> (TMS 85 II.ii.3.1.) It follows that we have a natural love for society and its flourishing, and a dislike or “abhorrence” for what is counterproductive to our collective survival and well being. Smith argues that order is achieved through morality while immorality leads to the destruction of society. Morality, then, is not only natural but is also in our best interest. (TMS 88 II.3.6-7.)

From this assumption that we are naturally social beings it follows that morality is learned in a social context. If a person grew up isolated “without any communication with his own species,” he would have no ideas concerning his character, propriety, beauty, or deformity because he has no mirror to reflect his conduct. (TMS 110 III.i.3.) Once brought into society, a mirror is provided. Smith uses an aesthetic analogy to argue that the same applies to our moral ideas: “Our first ideas of personal beauty and deformity, are drawn from the shape and appearance of others, not from our own.” (TMS 111 III.i.4.) We learn about right and wrong through other people’s reactions to our conduct. We see ourselves in the light in which other people see us. (In effect, this reasoning is how Smith’s concept of the impartial spectator is born. We judge ourselves through considering how an impartial spectator would feel about our conduct.) Jack Russell Weinstein claims that one’s morality is socially constructed through what he terms as a “relational self.”<sup>5</sup> Similarly for Smith, standards of behavior and morality are provided by society, never in a vacuum.

From his account of the way morality is learned in a social context, Smith goes on to consider how morality is enforced. In other words, the question arises: After we learn about right and wrong, why should we care to act accordingly? The answer for Smith is also to be found within the scope of our social nature. Smith argues that we care about what others think of us. We have a desire for praise and an aversion to blame from others: “...we become anxious to know how far we deserve their censure or applause.” (TMS 112 III.1.5.) For this reason we examine our actions in light of how they appear to others. As part of our social nature, therefore, Smith claims that “Nature, when she formed men for society, endowed him with an original desire to please, and an original aversion to offend his brethren.” (TMS 116 III.2.6.) But this desire for praise alone, Smith explains, would not make man “fit for that society for which he was made” because such approbation would only motivate people to appear fit. In order to be “really fit,” Smith claims, in addition to the desire for approval, nature also gave us a desire to emulate “what ought to be approved of.” It is the desire for merited approval that is “necessary in order to render him anxious to be really fit.” (TMS 117 III.2.7.)

At this point Smith arrives at an important part of *The Theory of Moral Sentiments* which he added to the sixth edition (1790) – his theory of virtue. This need for praiseworthiness leads one to develop a moral character, to develop virtues. Smith is careful to distinguish between virtue and propriety; propriety incurs approval, or praise, but virtue commands admiration, or praiseworthiness. (TMS 25 I.i.5.7; 117 III.2.7-8.) The need for praiseworthiness in TMS is expressed as a strong psychological need because it is tied to our well being and happiness. “What so great happiness as to be beloved, and to know that we deserve to be beloved?” (TMS 113 III.i.7.) Likewise, we dread being hated because it leads to misery. In the end

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<sup>4</sup> Smith, A. (1976).

<sup>5</sup> Weinstein, J. R. (2006), p. 82.

Smith thinks that “humanity does not wish to be great, but to be beloved.” (TMS 166 III.5.8.) Ultimately, it is the moral character that incurs happiness. The character of men “...may be fitted to promote or to disturb the happiness both of the individual and of the society.” (TMS 187 IV.2.1.) Virtuous actions incur praise and admiration, and Smith claims that we love virtue as well. Consequently, we develop an awareness of how others view our conduct. It is necessary that others will view our conduct positively to be worthy of praise and of being happy. Moral motivation is embedded in this constellation of ideas.

Elias Khalil points out that not all moral motivation in Smith can be analyzed in terms of public approval. Khalil claims that there are two types of moral judgment, one concerning “action-virtues,” such as prudence, justice and beneficence, which are motivated by their beneficial effects. The other, “inaction-virtue” includes only self-command, and is motivated by the potential approval of others.<sup>6</sup> Khalil wants to argue that when one acts out of the first set of virtues (“action virtues”), people’s approval plays only a secondary role. A decision to donate money, for instance, Khalil notes, is taken mainly for its effect on people’s welfare. Yet, Smith goes further and argues that virtue is worth having for its own sake. Even when it comes to self-command (and I have to disagree with Khalil’s interpretation on this point), Smith claims that self-command enables control of passions that interfere with prudence, justice and beneficence and has “a beauty of its own” regardless of the consequences. Thus, self command “seems to deserve for its own sake a certain degree of esteem and admiration.” (TMS 238 VI.iii.4.) Nevertheless, Khalil’s distinction between these two sets of motives is well taken, although a third needs to be added here, such that in TMS we find three sets of motives: approval by others, beneficial consequences of our actions, and being virtuous for its own sake. The question we now have to ask is which set of motives applies to our thinking about business practices and the conduct of the economy?

## **MORAL MOTIVATION IN BUSINESS ETHICS**

To approach an answer to the above question, another is pertinent here and that is why, according to Smith, do people seek wealth in the first place? Charles Griswold argues that the motivation for seeking wealth is rooted in the fact that people sympathize with joy more than they do with sorrow. Since wealth is associated with joy, people would like to have it and “parade” it, as the resulting attention and admiration provide the sought after praise and approval. But Griswold views Smith as being critical of the pursuit and display of wealth. Not only does Griswold state that in pursuing wealth we “are here in the grip of vanity,” he goes further to claim that searching for approval through seeking wealth amounts to mistaking wealth for happiness which actually lies in tranquility.<sup>7</sup> For Griswold, Smith views the pursuit of wealth as a deceptive goal, but even more such a pursuit has adverse effects in that it takes us further from the aim of tranquility and happiness. Instead of

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<sup>6</sup> Khalil, E. L. (1990), p. 238. Khalil takes a consequentialist point of view concerning Smith and moral motivation. For a deontological interpretation of Smith, especially of the virtue of self command, see Montes, L. (2004).

<sup>7</sup> Griswold, C. L., Jr. (1999), p.127.

happiness following wealth, one ends up ceaselessly working and incurring anxiety instead of tranquility.<sup>8</sup>

Taking a slightly different tack, Samuel Fleischacker objects to Griswold's interpretation of Smith on wealth. First, Fleischacker points to Smith's great concern with poverty, which wealth could alleviate.<sup>9</sup> Then, Fleischacker claims that were Smith as critical of wealth as Griswold sees him, there would have been a gap between *The Theory of Moral Sentiments* and *The Wealth of Nations* and Smith would have been critical of commercial society in WN, which he is not. More specifically, Fleischacker makes a distinction between wealth pursued for vanity and wealth sought for bettering one's condition, and he argues that Smith cautions against accumulating excess, but not that Smith is against wealth per se.<sup>10</sup> In addition, Fleischacker notes that for Smith taking care of one's needs is not only morally permissible but also morally required. Fleischacker concludes that virtuous people seek wealth for legitimate reasons, and that "a world entirely filled with decent and modest people could still have a thriving economy."<sup>11</sup> But Fleischacker does not omit approbation altogether as motive for action, including seeking wealth, even though he thinks that according to Smith, being worthy of approbation is more important than receiving actual approbation, and so he also claims that in Smith's view "actual approbation can guide us in determining whether we are really worthy or not."<sup>12</sup>

When we look closely at the TMS, we see that Smith makes two different claims. On the one hand, he declares that wise and virtuous persons follow the first standard, acting out of "exact propriety and perfection" (TMS 247 VI.iii.25), and Smith here refers to one's character and being virtuous for its own sake. On the other hand, Smith also asserts that most people choose money over wisdom and virtue. (TMS 62 I.iii.3.2.) In confronting these two different points of view, we see that Smith certainly has a conception of virtuous business people pursuing wealth for legitimate reasons in a morally good way, as Fleischacker claims, but also that Smith thinks that most people are driven by vanity, as Griswold claims. Given that Smith is critical of wealth in Part III of TMS, as we will see further, it is not plausible to argue that Smith thinks that the business world is full of virtuous people acting out of prudence, justice, and beneficence. It would be more fair to say that, while Smith places emphasis on virtue and its intrinsic value, he would not think that most people fall under the category of seeking virtue for its own sake. One could claim that Smith would agree that there are plenty of people in the business world who need stronger motivations than beneficial results or following virtue, or at least an additional one. This paper proceeds with the assumption that motivation for good business conduct therefore falls under the second principle, which is other people's approval.

In Part III of the TMS Smith asks: Why do people want money? Why the "toil and bustle of this world?" Is it for the necessities in life? Smith replies in the negative, claiming that "the wages of the meanest laborer can supply them." (TMS 50 I.iii.2.1.) He also asks why do people dread being reduced to poverty and the basic necessities? He replies through a

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<sup>8</sup> Ibid, p.222-4.

<sup>9</sup> Fleischacker, S. (2004), p.104.

<sup>10</sup> Ibid, p.106-7.

<sup>11</sup> Ibid, p.118.

<sup>12</sup> Ibid, p.119.

rhetorical question: “Do you imagine that their [the rich] stomach is better, or their sleep sounder in a palace than in a cottage?” (TMS 50 I.iii.2.1.) His reply to both his questions is that people want to be noticed, “To be observed, to be attended to, to be taken notice of with sympathy.” (TMS 50 I.iii.2.1.) The desire to be an object of attention and approbation Smith calls vanity, which causes the rich person to glory in his or her riches and naturally be the object of attention while the poor is ashamed and hides. In other words, wealth in a desert island, since others cannot appreciate it, will not do anyone any good. This attention to wealth leads Smith to claim that the rich man’s actions are always noticed: “The man of rank and distinction...is observed by the whole world...His actions are the objects of public care.” (TMS 51 I.iii.2.1.) As a result, Smith argues, people are always conscious that they are being observed.

Wealth motivates one to engage in industry and to succeed in business. But what motivates one to be honest in business? Smith poses this question and answers it as follows:

What is the reward most proper for encouraging industry, prudence, and circumspection? Success in every sort of business....What reward is most proper for promoting the practice of truth, justice and humanity? The confidence, the esteem, and love of those we live with. (TMS 166 III.5.8.)

The motivation for honesty in business, then, is for Smith approval, esteem, and respect. More specifically, in order to obtain the necessities in life we need the respect of others which leads to a desire for “rank and credit.” Smith views this desire as the strongest psychological need because it underlies our ability to obtain wealth.

The desire of becoming the proper object of this respect, of deserving and obtaining this credit and rank among our equals, is perhaps, the strongest of all our desires, and our anxiety to obtain the advantage of fortune is accordingly much more excited and irritated by this desire, than by that of supplying all the necessities and ‘conveniences’ of the body, which are always very easily supplied. (TMS 213 VI.i.3.)

It follows for Smith that in business people always care about how others view them and act accordingly. He argues that wealthy men pay close attention and scrutinize their conduct because they care about the respect they incur as their authority depends on it. In *The Wealth of Nations* Smith writes: “He [man of rank and fortune] dare not do anything which would disgrace or discredit him in it, and he is obliged to a very strict observation of that species of morals” (WN 795 V.i.g.12.)<sup>13</sup> Further, Smith claims that good behavior can also last as long as social scrutiny is relevant. Regarding men of “low condition,” Smith notes that they engage in good conduct in their village where people know them and observe their conduct. Once the social context disappears, so does the moral motivation:

But as soon as he [man of low condition] comes into a great city, he is sunk in obscurity and darkness. His conduct is observed and attended by nobody, and he is therefore very likely to neglect it himself, and abandon himself to every sort of profligacy and vice. (WN 795 V.i.g.12.)

First and foremost, then, other people have to be aware of my conduct as a business leader for a correct moral motivation to occur in business decisions. The motivation to exercise

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<sup>13</sup> Smith, A. (1981).

prudence and other virtues in business depends on the social context and on people being aware of one's conduct. In addition to Smith's reference to large cities in the above quotation, he makes the same claim regarding large factories: "The one [a poor independent worker] is less liable to the temptations of bad company, which in large manufactories so frequently ruins the morals of the other [a journeyman who works by the piece]" (WN 101 I.iii.48.)

Smith is well aware of the fact that not all business pursuits are conducted through prudence and honor. There are times in which in the pursuit of wealth people abandon "the paths of virtue." (TMS 64 I.iii.3.8.) Government officials, he writes, can be above the law and commit fraud or crime. But Smith insists in his analysis that it is still praise and honor that is being sought, albeit, a mistaken one. "It is not ease or pleasure, but always honour, or one kind or another, though frequently an honour very ill understood, that the ambitious man really pursues." (TMS 65 I.iii.3.8.) Thus, even immorality and crime for Smith follow (mistakenly) from the desire for to be praiseworthy.

More specifically, the desire for approval is a desire for approval of the propriety of our sentiments and actions. We can add merit, although the emphasis in TMS is on propriety. Smith devotes the first part of TMS to the topic "Of the Propriety of Action," and in so doing he refers both to sentiments and to conduct being just and proper in the eyes of others or the impartial spectator. Propriety continues to be the underlying theme of TMS; either an actual spectator or the impartial spectator's perception of our conduct shapes our behavior and sense of morality. Regarding the "Das Adam Smith Problem," propriety is also another underlying theme that connects *The Theory of Moral Sentiments* and *The Wealth of Nations*. The idea of propriety is carried over to Smith's discussion of wealth. In TMS it is the financially prudent man who deserves the applause of the impartial spectator. The prudent man is capable of long term planning and living within his income. Generally, the virtuous man fares better than his counterpart: "The prudent, the equitable, the active, resolute, and sober character promises prosperity and satisfaction." (TMS 187 IV.2.1.) Accordingly, emphasis in the literature concerning the relation between WN and TMS is placed on the significance of justice and the centrality of the virtues. Indeed, Smith argues that virtues are necessary for economics. But as we saw above, his explanation of why we are motivated to acquire virtues pertains to the desire for praiseworthiness. Virtues certainly underlie economics, but Smith's notion of propriety underlies both virtues (i.e., the motivation to acquire virtues) and actions in the economic world.

Ideally, economic activity thus takes place in a social context in which decision making is based on a desire for respect and approval. Smith bases moral motivation on social awareness and recognition which obviously depend on other people observing our conduct. In other words, for Smith, anonymity is conducive to a compromised morality. Regarding anonymity, Patricia Werhane unpacks Smith's criticism of corporations which he knows as "joint stock companies." She points out that in his economics Smith had "mom and pop stores" more in mind than large corporations with which we are familiar today. Werhane points to a passage in WN in which Smith is critical of corporations because they are not completely accountable to their share holders.<sup>14</sup> Considering Smith's theory of propriety and the quest for approval, one might say that people can be aware of conduct in a small business

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<sup>14</sup> Werhane, P. (1991), p.164.

in a small town concerning, for example, social and environmental responsibility of the business, and yet this awareness is lost when considering large chains in more anonymous urban settings.

The implications for business ethics taken from a reading of Smith are straightforward. Considering the fact that the practice of virtue and the motivation to follow a virtuous path reside in a social context, it follows that for businesses to adopt virtues and behave virtuously the social context first needs to exist. Approval or disapproval serve as moral sanctions for Smith, and so for this mechanism of sanctions to exist, awareness of business practices is a prerequisite. According to Smith, people need to be aware of a corporation's or joint stock company's conduct in order for the business and its leaders to have the motivation for right conduct in the first place. Efforts such as the *Global Reporting Initiative* (involving corporate environmental and social reporting) are examples of practices that generate public awareness of the moral conduct of corporations.<sup>15</sup> Although social reporting is a growing movement, for the most part, corporations presently operate outside of this social context. Smith did not use the terms transparency and accountability in his moral philosophy, yet these are certainly part of his concept of moral motivation. Corporate practices have to be made public on a regular basis. Information has to be provided, such as does the company practice fair trade? Are its prices just? What percentage of the profits are given to charity and for which causes? Does the company use sustainable manufacturing? For the proper moral motivation for corporations to exist, this information needs to be readily and generally available and not only in case of scandals or through websites and publications a few conscientious consumers might seek out.

## **CONCLUSION – BEYOND SMITH**

We can illuminate Smith's reasoning and its power by examining the issue of ethical consumption. We have already seen in Smith that corporate transparency is a desideratum in business ethics. But this requirement is not enough. To see why, we need to go beyond Smith's own arguments and tease out an important implication of Smith's thought. Information alone without consumers seeking it and acting accordingly will not serve Smith's purpose. Thus, ethical consumption is called for.<sup>16</sup> For the purpose of current discussion ethical consumption is broadly conceived as making purchasing decisions not for financial reasons, but out of consideration for the way in which the product was manufactured and sold. Similar to the criteria above, ethical consumption might include consideration of the wages paid by a company to employees (are they sufficient to live above poverty line in their country?), the use of sweat shops or child labor, and pollution and environmental records. Smith's theory of moral motivation provides a conceptual framework for ethical consumption as well. If self-interest is not the only motive in economics and

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<sup>15</sup> On corporate social reporting, see Hess, D. (2008); Hess, D. (2007).

<sup>16</sup> Ethical consumption is still an emerging field with literature available from various disciplines (such as political science, business, sociology, psychology, economics and anthropology). For an overview and a map of the issues see: Harrison, R., T. Newholm, D. Shaw eds. (2005). For a more recent review of the literature see: Lewis, T. and E Potter eds. (2011).



business conduct, then it can not be the only motive in consumption. The desire for approval by the actual or ideal impartial spectator will lead consumers to conduct themselves in accordance with social norms. To apply Smith's argument concerning moral motivation in business conduct to consumption means that consumer culture has to change as well. Consumers need to assume moral responsibility. In other words, consumption ought to be viewed as part of one's moral or immoral behavior. Consumption ought to incur moral status. To the idea of ethical consumption Smith's theory adds that people as consumers should see themselves as subject to approval or disapproval of a real or impartial spectator as well, thus meriting praise and praiseworthiness as a function of their activities as consumers. Thus, what is called for here regarding consumption is a cultural shift of what is acceptable and what it not. Amartya Sen claims that Smith recognized that at times our moral behavior conforms to established social conventions. Sen points out that for Smith "established rules of behavior" play a significant role in people's conduct. Sen writes: "Both individual reasoning and social convention can make a real difference to the kind of society in which we live."<sup>17</sup> Along these lines, in their article Scruggs, Hertel, Best and Jeffords argue that consumption ought to be viewed as political action akin to voting. First they note that the average citizen spends more time choosing what to buy than whom to vote for; and then, they argue that purchase of fair trade coffee, for instance, has no less influence than a vote for a politician who will advocate trade reform.<sup>18</sup> Viewing purchasing as voting with your dollars would serve as an example of the cultural shift called for in order for Smith's concept of moral motivation to apply to consumption. Currently, for the most part, consumption is viewed economically, rather than ethically or politically.<sup>19</sup>

The idea of ethical consumption completes the argument concerning moral motivation in business practices and sheds revealing light on Smith. The social context that would provide moral motivation for businesses' conduct is the consumer's awareness and appropriate action. For initiatives such as the Global Reporting Initiative and consumer guides to be effective, Smith would surely have it that consumers will have to see patronage and purchases as moral decisions as opposed to merely economic ones.

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<sup>17</sup> Sen, A. (2010), p.56.

<sup>18</sup> Scruggs, L., S. Hertel, S. J. Best, and C. Jeffords. (2011).

<sup>19</sup> D'Astous and Legendre report that currently ethical consumption constitutes less than 2% of consumption in general; see D'Astous, A. and A. Legendre., (2009). More recently, Papoikonomou, E., M. Valverde, and G. Ryan report that while 30% of the population is motivated to shop ethically, only 3% of products are produced ethically; see Papoikonomou et al. (2012).

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