

# Prudent Entrepreneurship in *Theory of Moral Sentiments*

**Kacey Reeves West**

George Mason University, USA

Adam Smith writes favorably about innovation in *Wealth of Nations* while writing unfavorably about a figure associated with innovation: the projector. His criticism of projectors prompts many scholars to claim that Smith disapproves of entrepreneurship. But Smith criticizes the projector not because he acts as an entrepreneur but because he fails to meet Smith's moral standards for entrepreneurship. In *Theory of Moral Sentiments*, Smith conceives of a framework for moral entrepreneurship based on prudence. The framework consists of two principles: first, approach everyday matters with the general "tenor of conduct" that governs your life and trade, and second, approach life-changing matters with prudence and justice. Recognizing that Smith is concerned with the total effect that an entrepreneurial venture has on society beyond its immediate profits opens the door to engage with contemporary research that studies the ethical and moral externalities of entrepreneurship.

**Key Words:** Adam Smith, entrepreneurship, prudence, *Theory of Moral Sentiments*, virtue ethics

Adam Smith has long been criticized for his treatment of entrepreneurship. Some argue that Smith's economics obviates or minimizes the role of the entrepreneur by assuming a world of static equilibrium (Schumpeter 1962; Rothbard 1995). Given that entrepreneurship is now recognized as an important driver of both economic growth (Schumpeter 1934; Wennekers and Thurik 1999; Braunerjhelm et al. 2010) and societal values (Brenkert 2002), such arguments cast doubt on the efficacy of Smith's analysis. Others argue that Smith views the entrepreneur in a negative light (Campbell and Skinner 1981; Rashid 1998). These assessments complicate our understanding of Smith's attitude toward commercial activity. If Smith approves of honest commerce yet disapproves of entrepreneurship, does that mean that Smith considers entrepreneurship to be immoral?

While the interpretations that Smith neither acknowledges nor approves of entrepreneurship persist today, an opposing argument can be traced throughout the literature (Richardson 1975; Buchanan and Yoon 2000; Buchanan 2005; DelliSanti 2021). These economists argue that Smith's analysis is not confined to standard neoclassical assumptions of perfect information or constant returns to scale. Rather, Smith understands that specialization in trade allows for innovation, which allows for economic growth. Without pausing over the moral considerations of entrepreneurship, they say that the figure we now consider to be the entrepreneur would be a vital component of Smithian growth.

The discrepancy between the two perspectives on entrepreneurship in Smith's work owes partly to the fact that the word *entrepreneur* scarcely existed in English during Smith's life. Richard Cantillon, an Irish French economist, is credited for coining the term in his *Essai sur la nature du commerce en général*, which was published in 1755. Cantillon uses *entreprendre*, a verb that means "to begin" or "to undertake," to signify an investor or business owner who earns uncertain income in the face of risk (54). *Merriam-Webster* notes that *entrepreneur*, the English cognate of *entreprendre*, was not used until 1762, after *Theory of Moral Sentiments* was published in 1759.<sup>1</sup> Smith's *Wealth of Nations* was published in 1776.<sup>2</sup> Smith cites Cantillon's *Essai* one time in *WN* (85.15) but does not use the word *entrepreneur*.

Even today, the entrepreneur remains an obscure, difficult-to-define figure. As William Baumol (1968, 64) puts it,

the entrepreneur is at the same time one of the most intriguing and one of the most elusive characters in the cast that constitutes the subject of economic analysis. . . . In the writings of the classical economist his appearance was frequent, though he remained a shadowy entity without clearly defined form and function.

Entrepreneurs are elusive in part because they do not fit equilibrium model building. The exact role of entrepreneurs is disputed by scholars. To Frank Knight (1921), they face uncertainty. To Joseph Schumpeter (1934), they innovate. To Israel Kirzner ([1973] 2013), they discover. To William Baumol (1990), they create or destroy. To William Gartner (1988), they launch new businesses. To Saras Sarasvathy (2001), they effectuate. To Francis Hannafey (2003), they face complex ethical problems. To Matthias Hühn (2018), they sympathize. None of these accounts are definitive, but a useful portrait of the entrepreneur emerges when one considers them in relation to one another (Klein 2012, 131). A similarity among these accounts is that the entrepreneur exists outside of equilibrium model building, which frames the mind of each agent within a fixed interpretation and bars the human experience of evolving interpretations.

For the sake of clarity, I will define entrepreneurship according to Baumol (1968, 1990, 2010). Baumol, whose work on entrepreneurship is cited widely across disciplines (Boettke and Piano 2016), defines entrepreneurs as those who "locate new ideas and put them into effect" (Baumol 1968, 65). Whereas inventors and innovators might devise new products or technologies, the entrepreneur is the figure who brings them into the public eye (Baumol 1990, 896). The innovator creates; the entrepreneur implements. One of Baumol's key insights is that entrepreneurship is not just one activity (i.e., new venture creation) but a multiplicity of activities that can be productive, unproductive, replicative, or innovative (Baumol 1990, 2010).

Baumol's treatment of entrepreneurship is particularly useful for the present examination because Smith wrote in an era when many of the activities we now associate with entrepreneurship, such as the creation of new markets or businesses,

---

<sup>1</sup> *Merriam Webster*, s.v. "entrepreneur," <https://www.merriam-webster.com/dictionary/entrepreneur>.

<sup>2</sup> *Theory of Moral Sentiments* and *Wealth of Nations* are hereinafter cited as *TMS* and *WN*, respectively, in the form page.paragraph, e.g., 85.15 means page 85, paragraph 15.

were tethered by political restraints. Thus, while entrepreneurship is often defined as new venture creation (Gartner 1988; Reynolds et al. 2000), any definition of entrepreneurship that relies solely on that measure would be inapt here. Baumol's analysis, which provides a basis for discussing entrepreneurship in earlier societies (Baumol 1990, 899–903), can be enriched through Saras Sarasvathy's (2001, 244) model of effectual decision-making, which analyzes the emergence of firms, products, markets, services, and ideas in “nascent” or “nonexistent” markets. I will follow Baumol's lead by labeling the figures in Smith's analysis who “locate new ideas and put them into effect” as *entrepreneurs* and their actions as *entrepreneurship* (Baumol 1968, 65), even though Smith himself did not use the word *entrepreneur*.<sup>3</sup>

The discrepancy between the positive and negative views of Smith's treatment of entrepreneurship is also driven by the fact that in *WN*, Smith writes favorably about innovation (20.8–22.10, 140.16, 448.32), while writing unfavorably about a figure associated with innovation: the projector. In *WN*, the projector is an unfavorable figure who takes big risks and suffers big losses by promoting risky investments and technologies to the public. The projector's ventures are capable of injuring not only herself but her community. Scholars who argue that Smith had a negative conception of entrepreneurship point to the projector as proof (Campbell and Skinner 1981; Rashid 1998). Scholars who argue that innovation and entrepreneurship are important facets of Smith's work either ignore the projector (Richardson 1975; Buchanan 2005; Hühn 2018) or claim that Smith did not actually consider the projector to be a destructive figure (DelliSanti 2021).

I address the discrepancy by arguing that Smith criticizes the projector not because she acts as an entrepreneur but because she fails to meet Smith's moral standards for entrepreneurship. My argument focuses on *TMS* to show that Smith conceives of a framework for moral entrepreneurship. As in *WN*, in *TMS*, Smith never explicitly addresses entrepreneurship. He does, however, lay out a portrait of a person who in important respects resembles an entrepreneur: the prudent man (*TMS* 173.7–74.7, 213.5–17.16). Prudent persons, as conceived by Smith, can be easily misunderstood as overly cautious figures. But they are not persons of “dull regularity” (*TMS* 173.7, 215.12); they are persons who “locate new ideas and put them into effect” (Baumol 1968, 65).

Not every prudent man is an entrepreneur, nor is every entrepreneur prudent (Smith's projector makes this much clear). Smith, however, calls those who engage in entrepreneurship to act with prudence lest they become morally compromised. Smith sets forth this moral framework in *TMS* at 172.6–74.7 in the form of two principles: first, approach everyday matters with the general “tenor of conduct” that governs your life and trade, and second, approach life-changing matters with prudence and justice.

Following the two principles does not ensure economic success, nor does rejecting them necessarily spell economic failure. But Smith calls entrepreneurs to follow the two principles to avoid entrepreneurial pursuits that are destructive both to society and

<sup>3</sup>This is done to provide clarity to the modern reader.

to the entrepreneur's conscience. That Smith criticizes the projector, even though her projects might succeed, and praises the prudent man, even though his projects might fail, reveals that Smith is not concerned simply with entrepreneurial profits (cf. Hühn and Dierksmeier 2016). Rather, Smith's principles point the reader to examine the total effect that an entrepreneurial venture has on society beyond its immediate profits. By doing so, Smith's framework for moral entrepreneurship precedes the burgeoning field of entrepreneurial ethics, which questions whether financial growth should be the sole measure of entrepreneurial success (Dees and Starr 1992; Hannafey 2003; Cornwall and Naughton 2003; Naughton and Cornwall 2010).

My contribution to the literature is twofold. First, I develop Smith's framework for moral entrepreneurship based on the two principles given in *TMS* (172.6–74.7). This novel reading of Smith challenges previous conceptions of his work that assumed entrepreneurs received disapprobation in the Smithian moral framework. I show that the prudent man, who constitutes a foil to the projector, reveals that Smith conceives of both productive and unproductive entrepreneurship in his analysis (cf. Baumol 1990). Smith's focus on the total effect of an entrepreneurial venture, which looks beyond simple profit-and-loss calculation to examine the venture's consequences for society, opens the door for Smith to engage with contemporary research that studies the ethical and moral externalities of entrepreneurial ventures that are not captured by financial metrics (Dees and Starr 1992; Barrier 1994; Cornwall and Naughton 2003; Naughton and Cornwall 2010).

Second, I demonstrate how Smith's perspective of human action highlights difficulties with current conventions in entrepreneurship literature. Namely, Smith's recognition that individuals with dissimilar dispositions can implement new ideas across various institutional settings calls into question the conventions of identifying entrepreneurs by personality traits or by new venture creation. These conventions, particularly the latter, fail to account for societies with different institutional or historical contexts, like Smith's own. Pluralistic accounts of entrepreneurship, like those given by Baumol (1990) and Sarasvathy (2001), permit a closer examination of entrepreneurship in pre-Industrial Revolution societies.

This article proceeds as follows: [section 1](#) demonstrates how pluralistic accounts of entrepreneurship support the examination of entrepreneurship in Smith's works; [section 2](#) discusses traditional interpretations of entrepreneurship in Smith's work; [section 3](#) analyzes Smith's prudent man as a productive entrepreneur; [section 4](#) introduces Smith's two principles for moral entrepreneurship; and [section 5](#) concludes with a discussion on entrepreneurial ethics.

## 1. PLURALISTIC ACCOUNTS OF ENTREPRENEURSHIP

Current conceptions of the entrepreneur, particularly those that define entrepreneurship as new venture creation (Gartner 1988; Reynolds et al. 2000; Acs 2006), must be confronted before analyzing entrepreneurship in Smith's works.<sup>4</sup> As Gartner (1988, 11) states, “entrepreneurs create organizations, while non-entrepreneurs do

---

<sup>4</sup>For a recent survey on modern conceptions of the entrepreneur, see Fillion (2021).

not.” This definition would limit any comprehensive examination of entrepreneurship in a society like Smith’s, which prevented individuals without political and financial resources from incorporating their trades. A separate branch of literature offers a more pluralistic view of entrepreneurship (Schumpeter 1934; Baumol 1990; Kirzner [1973] 2013; Sarasvathy 2001). These accounts demonstrate that entrepreneurship exists across societies—regardless of institutional or historical contexts—and provide a framework to analyze entrepreneurship in Smith’s works.

New venture creation, a prolific identifier of entrepreneurship, relies on metrics like the self-employment rate and number of start-ups as markers to identify entrepreneurship (cf. Peroni, Riillo, and Sarracino 2016). Its widespread usage is partly due to measures like the Global Entrepreneur Monitor that make relevant metrics available for researchers (Sanandaji 2011). Several problems have been raised with the practice of identifying entrepreneurship by new venture creation, among them that business creation—particularly small business creation—is not correlated with entrepreneurship (Hurst and Pugsley 2011; Henrekson and Sanandaji 2014). Other research argues that business failure is a more suitable metric for identifying entrepreneurship (Jovanovic 1982; Yamakawa, Peng, and Deeds 2010; Murphy and Weber 2016).

Another difficulty with measuring entrepreneurship by new business creation is that it excludes other relevant forms of entrepreneurship from analysis. Defining entrepreneurship as new venture creation obscures entrepreneurship in societies—past or present—where new venture creation is not prolific due to cultural attitudes or political restraints. At the time of Smith’s writing, for instance, legal regulations still restrained English commercial activity. Smith writes of the “exclusive privileges of corporations” that regulated the number of skilled craftsmen in cities (*WN* 135.4) and the English Settlement Acts, which prevented farmhands from seeking work in parishes that were not their own (*WN* 152.45).<sup>5</sup> New venture creation was not accessible for most actors and thus would not be an effective means of detecting entrepreneurial activity. As entrepreneurship is studied to understand why economic growth occurs, emphasizing irrelevant metrics can lead to incomplete understandings of growth (Henrekson and Sanandaji 2014, 1764). Although some research designs might find exclusion advantageous, more pluralistic definitions of entrepreneurship—as offered by Baumol (1968, 1990, 2010) and Sarasvathy (2001, 2008)—can be used to analyze societies with different resources or institutions.

Baumol (1990, 897), who is one of the economists responsible for bringing the entrepreneur back to the forefront of economic analysis (Sobel 2008), shows that entrepreneurship exists as a multiplicity of “ingenious and creative” actions that are shaped by societal institutions. Baumol builds on Schumpeter’s model of entrepreneurship—which recognizes the introduction and implementation of new goods, methods of production, markets, sources of supply, and organizational structures as entrepreneurship (Schumpeter 1934, 66)—to show that “innovative acts of technology transfer” and “innovations in rent-seeking procedures,” among other activities,

---

<sup>5</sup> The extent to which the Settlement Acts affected unemployment has been examined by Webb and Webb (1927) and Boyer (1985).

are also examples of entrepreneurship (897). Baumol sought to understand which institutions cause entrepreneurs to act in productive ways (i.e., developing new technology) or unproductive ways (i.e., developing new rent-seeking strategies).<sup>6</sup> Henrekson and Sanandaji (2014) follow a similar line of reasoning in their efforts to understand what motivates entrepreneurs to develop small businesses versus venture capital-backed firms.

Baumol's framework detects entrepreneurship in societies whose institutions limit obvious forms of entrepreneurship like new venture creation. Baumol (1990) shows that entrepreneurs still seek income and reward—albeit on different margins: entrepreneurial politicians in ancient Rome sought extractions from neighboring provinces (899); entrepreneurial barons in the early Middle Ages fought each other for lands and riches (903); entrepreneurial monks in the later Middle Ages sought wealth by obtaining monopoly rights to water-driven mills (905). Baumol's framework would recognize the eighteenth-century farmer who introduces a preexisting technology to a different parish, the artisan who uses political ties to secure patronage, or the projector who promotes the circulation of paper bills for his own gain (*WN* 304.7) as entrepreneurs.

While Baumol highlights these types of entrepreneurship, he does not provide a detailed methodological framework that others can replicate. Effectual models of decision-making, as developed by Sarasvathy (2001, 2008), have the potential to fill the gap. Rather than simply assuming the existence of firms, markets, and economies, effectual models of decision-making bring the “creation of [these] artifacts” to the analytical forefront to explore “emerging technologies” and “nonexistent markets” (Sarasvathy 2001, 243–44). Effectuation is applied to situations that involve the “seizing and exploiting [of] contingencies”—such as the creation of firms, products, markets, services, and ideas (248).

Effectuation is better suited for examining entrepreneurship in the pre-Industrial Revolution and Industrial Revolution eras, when certain industries did not exist or were just beginning to emerge. Entrepreneurs did not have comprehensive data on target markets or existing competitors like today's entrepreneurs might. What they did have at their disposal was knowledge of themselves and their communities. As Sarasvathy (2001, 250) puts it, “entrepreneurs begin with three categories of ‘means’: they know who they are, what they know, and whom they know—their own traits, tastes, and abilities; the knowledge corridors they are in; and the social networks they are part of.” Entrepreneurs are then able to exploit this information to locate new ideas and put them into effect. We can think of a Smithian prudent man who develops and sells a new type of horseshoe after listening to customer feedback in his forge.

Baumol (1990) and Sarasvathy (2001) present pluralistic accounts of entrepreneurship that enable the examination of entrepreneurship across institutional and historical contexts. Their work overcomes the problem of exclusion raised by the literature on new venture creation and supports the current examination of

---

<sup>6</sup> Acs (2006), Sobel (2008), and Clark and Lee (2006) provide empirical support for Baumol's argument that institutional quality is related to allocation of entrepreneurial effort.

entrepreneurship in Smith's works. Pre-Industrial Revolution individuals need not be labeled as static actors incapable of entrepreneurship. Rather, they can be understood as entrepreneurs who innovate based on existing means and social networks.

## 2. TRADITIONAL TREATMENT OF ENTREPRENEURSHIP IN SMITH'S WORK

Entrepreneurship is not explicitly addressed in Smith's work, aside from a few scattered references to figures labeled as "the undertaker" or "the projector." While Smith's undertaker could be interpreted as a possible translation of Cantillon's *entreprendre*, Smith seems to regard the undertaker as a manager or business owner rather than an entrepreneur (*WN* 125.27, 182.13, 287.7).<sup>7</sup> The projector stands as the most obvious reference to the entrepreneur in Smith's work. In *WN*, projectors are considered "chimerical" forces who pursue "extravagant undertakings" that will most likely fail (316.77). Smith blames projectors for everything from "excessive circulation of paper money" (304.57) to the "distress" they bring "upon themselves and upon their country" (315.74). Smith's negative attitude toward projectors seems to cast a general air of disapproval over entrepreneurship.

### 2.1 Equating the Projector and the Entrepreneur

Jeremy Bentham ([1787] 2008) challenges Smith's supposed negativity toward entrepreneurship in his *Defence of Usury*. He urges Smith to realize that not all projectors are wastrels:

If I presume to contend with you, it is only in defence of what I look upon as, not only an innocent, but a most meritorious race of men, who are so unfortunate as to have fallen under the rod of your displeasure. I mean *projectors*: under which invidious name I understand you to comprehend, in particular, all such persons as, in the pursuit of wealth, strike out into any new channel, and more especially into any channel of invention (68, emphasis original).

Here Bentham believes the projector to be the only source of entrepreneurship in Smith's works. He is confused, and understandably so, as to why Smith, who writes that "new manufacture[s]" are more often "prudent and successful" than "injurious and unsuccessful," would label all projectors as destructive forces (Bentham [1787] 2008, 71–72; *WN* 131.43, 342.29). Bentham urges Smith to see that "prudent projectors," who pursue "well-grounded project[s]" that contribute to the "progress of mankind," can exist alongside destructive projectors (71).

Subsequent literature either agrees with Bentham by equating Smith's projector with the entrepreneur or diverges from Bentham by arguing that Smith ignores the role of the entrepreneur altogether. The former category suggests that Smith does not acknowledge productive entrepreneurship; rather, entrepreneurship is the stuff of

---

<sup>7</sup>The *Oxford English Dictionary* also indicates that the word *undertaker* began to be associated with funeral directors in the eighteenth century, which could explain why the term never gained the same meaning as *entreprendre*. *OED*, s.v. "entrepreneur," <http://www.oed.com/view/Entry/62991>.

destructive projectors. Salim Rashid (1998, 62), for example, writes that Smith reduces all “active, restless, creative entrepreneurs” to that “derogatory class of ‘projectors.’” Likewise, Campbell and Skinner write in their introduction to the 1981 Glasgow edition of *WN* that

projectors pass through the pages of the *WN*, frequently to be dismissed as detrimental rather than helpful to economic growth. In spite of his stress on psychological propensities in other parts of his works, Smith did not extend his analysis in a serious way to evaluate the qualities which determined the ability to innovate successfully (49).

The mention of “psychological propensities,” which refers to interior motives, is relevant here. Smith stresses how motives matter in moral assessments (*TMS* 71.1). Ends do not justify the means, so good results that arise from bad intentions are not entirely praiseworthy. Although scholarship discusses which “psychological propensities” contribute to the proper pursuit of wealth or self-interest (Paganelli 2008; Matson 2021), little has been said about which motives contribute to the proper undertaking of entrepreneurship. In future sections I will address what Smith considers to be the proper motives for entrepreneurship.

## 2.2 Labeling Smith as Equilibrium Theorist

The second category argues that entrepreneurship does not exist within Smith’s framework, or, if it does, it plays only a limited role (Schumpeter 1962; Rothbard 1995; McCloskey 2016). According to Rothbard (1995, 351),

the crucial Smithian-Ricardian and Walrasian (classical and neoclassical assumption) that the economy is perpetually in a state of long-run equilibrium fatally rules out the real world of uncertainty. Instead, it focuses on a never-never land of no change, and hence of perfect certainty and perfect knowledge of present and future.

Rothbard’s claim is rooted in the assumption that equilibrium models have no analytical room for discovery and hence no room for the entrepreneur (Kirzner [1973] 2013; Lewin 2005; Baumol 2010). If, according to Rothbard, Smith truly conceives of such a “never-never land of no change,” any discussion of entrepreneurship within his work would be futile. Rothbard’s claim, however, unfairly attributes an equilibrium framework to an economist whose work predates equilibrium modeling.

Rothbard also posits an erroneous relationship between Smith, Ricardo, and Walras that overlooks the role that specialization and increasing returns to scale play in Smith’s analysis. Buchanan and Yoon (2000) and Buchanan (2005) draw a sharp distinction between Smith and Ricardo. They observe that Smith acknowledges the possibility of increasing returns, whereas Ricardo assumes constant returns. Smith, then, acknowledges that trade is mutually beneficial for all parties, whereas Ricardo maintains that trade is mutually beneficial only when trading partners have unequal endowments (Buchanan and Yoon 2000, 58–59; Buchanan 2005, 43). Richardson (1975, 354) affirms the presence of increasing returns in Smith’s analysis:

It is therefore abundantly clear that Smith had a conception of the working of the economic system very different from that implicit in the formal models employed by



modern equilibrium analysis. He appears to have held that the economies of scale and specialization were never exhausted in that an extension of the market would always permit a finer division of labour and a consequent reduction in costs.

Specialization and “a finer division of labour,” as Richardson puts it, are not automatic consequences of trade; rather, they occur as individuals think, discover, and take risks in the marketplace. Discovery, then, seems to be a vital aspect of economic growth in the Smithian framework. Smith holds discovery in high regard throughout *WN*. He praises technological inventions as “the happiest efforts of human ingenuity” (140.16) and later commends the man who “exercise[s] his invention” rather than sitting idle and becoming “stupid and ignorant” (782.50).

Two questions emerge: Why does Smith praise the implementation technology as important, on one hand, while denigrating the projector, on the other? Is it fair to claim—as much of the literature does—that the projector is the only example of entrepreneurship in Smith’s work?

DelliSanti (2021) offers a potential explanation why Smith criticizes the projectors, on one hand, while praising discovery, innovation, and entrepreneurship, on the other. He proposes that Smith engages in esoteric writing—a practice common to writers in the eighteenth and nineteenth centuries (Melzer 2014)—in efforts to downplay the dynamic nature of the marketplace to a readership that might have been skeptical of liberal markets. As Hayek (1979) explains, humans instinctually desire a tightknit community that operates in unison to achieve shared goals. A liberal society, which relies on loose commercial ties to achieve a multiplicity of goals, offends these atavistic tendencies. DelliSanti argues that Smith hid his favor for projectors to appease the atavistic tendencies of his readership.

I disagree with DelliSanti that Smith hides his favor for projectors beneath esoteric messaging. Smith recognizes that there are such things as foolish risk and foolish risk takers—and he clearly decries both (*WN* 315.74, 357.15). I argue that Smith recognizes, prescient of Baumol (1990), that entrepreneurs can be either productive (create wealth) or destructive (destroy wealth). Smith approves of productive entrepreneurs and disapproves of destructive entrepreneurs, hence his harsh commentary on the projectors, whose projects often end in ruin.

The following sections of this article explore how Smith’s prudent man serves as an example of productive entrepreneurship in Smith’s analysis.

### 3. THE PRUDENT MAN AS AN ENTREPRENEUR

Although Smith never explicitly mentions entrepreneurship in *TMS*, he lays out a portrait of the prudent man—an honest, hardworking, and dependable individual who shares characteristics consistent with different accounts of entrepreneurship (173.7). The prudent man is alert to new opportunities, like Kirzner’s ([1973] 2013) entrepreneur, and can act on those opportunities to create new products, like Schumpeter’s (1934) entrepreneur, all while facing uncertainty in the process, like Knight’s (1921) entrepreneur. The prudent man can “locate new ideas and put them into effect” like Baumol’s (1968, 65) entrepreneur and can “seiz[e] and exploi[t] contingencies” like Sarasvathy’s (2001, 248) entrepreneur.

It is important to stress that my argument does not claim that every prudent person is an entrepreneur nor every entrepreneur prudent (the projector makes this much clear). No strict identity between prudence and entrepreneurship exists. My argument merely aims to show that the prudent man can be considered a source of productive entrepreneurship in Smith's work and can serve as a foil to the unproductive projector.

### 3.1 *Smith's Account of Prudence*

Smith defines prudence as the virtue concerned with "the care of the health, of the fortune, of the rank and reputation of the individual" and the "objects upon which his comfort and happiness in this life are supposed principally to depend" (*TMS* 213.5). Smith gives a long passage to the figure he calls "the prudent man" in *TMS* (213.7–16.14). To Smith, the prudent person is honest and sincere. She avoids cabals and relies on hard work to build her reputation. She works steadily with an eye toward the future. She does not associate with those "convivial societies" that prize gaiety over frugality (214.9). In every sense, she is "perfectly inoffensive" (214.10).

At first glance, Smith's prudent person may seem to contradict popular conceptions of entrepreneurship. His steady manner prompts him to be more "cautious than enterprising" so that he can "preserve the advantages which he already possesses" (*TMS* 213.6). Prudent persons are content to "[grow] better and better every day" through "small accumulations" rather than over-the-top projects (215.12). It seems that the prudent man could even be considered the "man of dull regularity" whom Smith criticizes (173.7) for failing to act on opportunities.

Smith, however, does not criticize the prudent man for his caution, nor does he label him dull;<sup>8</sup> in fact, quite the opposite is true. Smith commends the "sober lustre" of the prudent man's self-command (*TMS* 242.13). He argues that the prudent man's "steadiness of . . . industry and frugality" is "always both supported and rewarded by the entire approbation of the impartial spectator, and of the representative of the impartial spectator, the man within the breast" (215.11). To say that a prudent person secures "entire" approval from "the impartial spectator," who represents God or a God-like being in this specific passage (Klein, Matson, and Doran 2018), is high praise within the Smithian moral framework (215.11).

Smith recognizes that while mere prudence is neither the most "endearing" nor the most "ennobling" of virtues, it is a component of superior prudence, which is a necessary ingredient for excellent and praiseworthy conduct (*TMS* 216.14). Smith details "superior prudence" in the following passage:

We talk of the prudence of the great general, of the great statesman, of the great legislator. Prudence is, in all these cases, combined with many greater and more splendid virtues, with valour, with extensive and strong benevolence, with a sacred regard to the rules of justice, and all these supported by a proper degree of self-command. This superior

---

<sup>8</sup> I find it noteworthy that Smith never uses the word *dull* in his lengthy discussion of the prudent person, although he uses the term throughout *TMS* in a slew of derogatory ways: the "dull formality" of a boring youth or the "dull and stupid" idiot (*TMS* 202.4, 260.49).

prudence, when carried to the highest degree of perfection, necessarily supposes the art, the talent, and the habit or disposition of acting with the most perfect propriety in every possible circumstance and situation (216.15).

While the ideal of superior prudence is “presumably out of reach” (Griswold 1999, 206), Smith makes clear that he finds prudence to be a commendable virtue—not a negative quirk of a timid, uninventive person. In fact, a previous passage indicates that the prudent man, like the projector, undertakes projects. Unlike the projector, the prudent man undertakes those projects with care:

[The prudent man] has no anxiety to change so comfortable a situation, and does not go in quest of new enterprises and adventures, which might endanger, but could not well increase, the secure tranquility which he actually enjoys. *If he enters into any new projects or enterprises, they are likely to be well concerted and prepared.* He can never be hurried or drove into them by any necessity, but has always time and leisure to deliberate soberly and coolly concerning what are likely to be their consequences (TMS 215.12, emphasis added).

Smith recognizes that the prudent person’s diligence and attention to the task at hand, rather than to the politics of “clubs and cabals,” can make her prone to discovery in her workplace (213.7). The preceding passage, combined with Smith’s earlier account of the prudent man, paints a portrait of a figure whose diligence enables him to notice new opportunities, analyze their potential for success, and pursue them if deemed profitable.

### 3.2 *The Prudent Man as an Entrepreneur: Difficulties with Trait Identification*

I argue that Smith’s prudent man, in his ability to notice and seize new opportunities, acts as an entrepreneur. My analysis diverges from McCloskey (2006, 135), which renames Smith’s prudent man as “Mr. Maximum Utility.”<sup>9</sup> To McCloskey, Smith’s prudent man is obsessed with “axioms of strict self-interest” (497). He acts in accordance with a strict ends–means framework that eliminates the possibility of discovery and surprise (497). But for Smith to label prudent persons as such would be for Smith to strip them of their humanity and render them caricatures of themselves. That would be uncharacteristic of Smith, who takes care to recognize the heterogeneous and creative nature of humankind (WN 28–30.4–5). As Ronald Coase (1976, 545–46) puts it, “Adam Smith would not have thought it sensible to treat man as a rational utility-maximiser.”<sup>10</sup>

Recognizing Smith’s prudent man as an entrepreneur highlights difficulties with the “trait approach” in entrepreneurship literature (Gartner 1988, 12). The trait approach seeks to identify the personality traits or personal characteristics that distinguish the entrepreneur from the nonentrepreneur. It asks whether the individual acts as an entrepreneur because of her values (Decarlo and Lyons 1979), her

<sup>9</sup> Sen (1986), Den Uyl (1991), Griswold (1999), and Lipka (2013) all give rich accounts of Smithian prudence that clash with McCloskey’s analysis.

<sup>10</sup> For further arguments against the assumption of utility maximization, see Simon (1957) on bounded rationality.

desire for achievement (Komives 1972), her youthful age (Howell 1972), her propensity toward risk (Brockhaus and Horwitz 1986), or her tolerance for ambiguity (Begley and Boyd 1987).

My argument that Smith considers the prudent man to be capable of entrepreneurship indicates a difficulty with the trait approach: exclusion of relevant figures from analysis. Trait studies often highlight individuals with high propensities toward risk as entrepreneurs (Schere 1982; Kobia and Sikalieh 2010). Circumspect individuals like Smith's prudent man would be overlooked by the trait approach, despite the finding that entrepreneurs often have varying levels of propensity toward risk (Palich and Bagby 1995). Scholars who claim Smith did not think highly of entrepreneurs committed the error of interpreting the projector's personality as the sole indicator of entrepreneurship (cf. Campbell and Skinner 1981; Rashid 1998; McCloskey 2016).

Other problems with the trait approach have been raised. Namely, so many traits have been identified as the explanatory cause of entrepreneurship that the entrepreneur himself has begun to morph into "a sort of generic 'Everyman'" (Gartner 1988, 21). Empirical studies have found that personality traits alone cannot differentiate entrepreneurs from nonentrepreneurs (Brockhaus and Nord 1979; Brockhaus 1980; Sexton and Kent 1981). While recent advocates for the trait approach have argued for a softened methodology that integrates personality traits with environmental and behavioral factors (Kamineni 2002; Kobia and Sikalieh 2010; Xie 2014), the inherent difficulties of personality-based definitions of entrepreneurship remain. As Gartner (1988) suggests, identifying entrepreneurs by behavior rather than personality traits offers a means of moving toward a more pluralistic account of entrepreneurship.

### 3.3 *The Prudent Man and the Projector*

The potential for the prudent man to act as an entrepreneur becomes clearer when placed in the context of another entrepreneur in Smith's works: the projector.<sup>11</sup> Although Smith does not mention the projector in his passage on prudence (or anywhere in *TMS*, for that matter), his statement that the prudent man does not bear a resemblance to the "superficial and imprudent pretender" who spouts "confident assertions" (*TMS* 213.7) calls to mind the language that Smith uses to describe the projector in *WN*: the "bold" projector, the "chimerical" projector, the projector who chases "golden dreams" (304.57, 316.77, 310.69).

Smith's distinction between the prudent man and the projector is significant. The difference between the two is not that the projector is entrepreneurial and the prudent man is not—Smith clearly states that the prudent man can "enter into ... new projects" (*TMS* 215.12); rather, the difference between the two is *how* they approach new projects. Unlike the projectors portrayed in Smith's discussion of usury (*WN* 356.13–58.13), prudent persons do not "go in quest" of new ventures hoping to spin

<sup>11</sup> An anonymous referee points out that the prudent man can also be contrasted with the irresponsible director-manager of *WN* (741.18). The director-manager who is placed in charge of other people's resources, not her own, finds it less important to act with prudence.

quick fortunes (*TMS* 215.12), nor are prudent persons “bustler[s] in business where [they have] no concern” (*TMS* 215.13); rather, prudent persons become alert to opportunities that emerge as they go about their work.

After all, many innovations are stumbled upon when a person is focused on his daily tasks. In the first chapter of *WN*, Smith writes of the boy who grows bored of monitoring an engine valve and invents a way for it to open and shut mechanically (*WN* 20.8). His foreman, concerned with numerous other activities, would not have had the same insight. Or consider Malcom McLean, who invents the shipping container after waiting in traffic to deliver his truckload of cargo at the docks (Levinson 2006). McLean’s simple act of perceiving and correcting inefficiency demonstrates entrepreneurship (Candela, Jacobsen, and Reeves 2020).

Although Smith criticizes the projector’s risky projects, he approves of the prudent person’s “well concerted and prepared” projects (*TMS* 215.12). Smith does not oppose risk—all projects involve risk—but rather opposes foolish risk. Smith’s distinction reveals that he recognizes, prescient of Baumol (1990), that entrepreneurs can be productive or destructive forces. Unlike the projectors, prudent persons are not rash, heated, or wild-eyed. They do not forsake their obligations or chase after crises in the hope of making a profit. Rather, prudent persons approach their work in steady, alert manners and are rewarded when opportunities present themselves to them. The proximity of the prudent person to opportunity is key. Prudent persons are so familiar with their work and industry that when they become alert to an opportunity, they can coolly judge it without becoming deluded by vain ambition.

#### 4. TWO PRINCIPLES FOR MORAL ENTREPRENEURSHIP

My interpretation of Smith’s prudent person as an entrepreneur is supported by *TMS*, part III, chapter VI: “*In what cases the Sense of Duty ought to be the sole principle of our conduct; and in what cases it ought to concur with other motives*” (171, emphasis original). Here Smith instructs individuals which psychological propensities ought to be used when pursuing “objects of self-interest,” such as wealth or career (173.7). Recall that the care of these objects is “the proper business of that virtue which is commonly called Prudence” (213.5). This moral framework consists of two principles:

Principle 1: Pursue small matters not with tumultuous passion but with the general “tenor of conduct” that governs your life and trade (172.6).

Principle 2: Pursue large matters with earnest ambition that is bound by both prudence and justice (173–74.7).

Smith’s two principles dovetail with the portrait he gives of the prudent man (213.7–16.14), a steady and even-keeled individual who acts on opportunities as he becomes alert to them. When these principles are applied to trade—a connection Smith makes throughout the passage—they suggest that entrepreneurs must act prudently to receive moral approbation from the impartial spectator. This passage is key to my analysis because it implies that Smith considers prudence to be a prerequisite—not a hindrance—to moral entrepreneurship.

While the vague nature of Smith's two principles might frustrate modern readers, it is reflective of the virtue ethics tradition in which Smith participates.<sup>12</sup> Virtue ethics do not yield practice-specific conclusions; rather, virtues must be broad enough to apply to the whole of one's life (Moore 2005, 245). Indeed, Smith clarifies in *TMS* that the rules for virtues, other than justice, are "loose, vague, and indeterminate, and present us rather with a general idea of the perfection we ought to aim at, than afford us any certain and infallible directions for acquiring it" (175–76.11). Later in *TMS*, Smith criticizes the "useless" and "tiresome" casuists who inappropriately treat rules of virtues as precise and accurate (339.33).

#### 4.1 Principle 1

The first principle applies to everyday matters that contribute to one's well-being but do not have the power to drastically change one's life. A tradesperson, for example, should of course try not to waste money or botch a profitable sale, but her motive for doing so should "flow rather from a regard to the general rules which prescribe such conduct" than from an obsessive desire to secure a few more shillings for herself (*TMS* 173.6).<sup>13</sup> Smith compliments the person of "exact oeconomy and assiduity" who attends to matters "only in consequence of the scheme of life which he has laid down to himself" and criticizes the "miser" who is "anxious about small matters for their own sake" (173.6). Not only does the miser make herself sick with anxiety but the miser also invokes the disapprobation of the spectator: "To be anxious, or to be laying a plot either to gain or to save a single shilling, would degrade the most vulgar tradesman in the opinion of all his neighbors" (173.6).

While the first principle itself does not grant moral justification for entrepreneurship, it reveals that Smith approves of commercial behavior so long as it is motivated by prudence and not by avarice.<sup>14</sup> Although Smith does not explicitly mention prudence until *TMS* 173.7, his description of the economical person bears a remarkable resemblance to his description of the prudent person: both act diligently and do not allow the changing circumstances of their days to impact their behavior. As Smith writes, "vice is always capricious: virtue only is regular and orderly" (*TMS* 225.18). Both the economical person and the prudent man display virtue in their orderly behavior. Smith affirms the commercial ethic again in a later passage of *TMS*: "The habits of oeconomy, industry, discretion, attention, and application of thought ... are apprehended to be very praise-worthy qualities, which deserve the esteem and approbation of everybody" (304.16).

---

<sup>12</sup> McCloskey (2008, 58) writes that Smith is "the last of the former virtue ethicists."

<sup>13</sup> In *Lectures on Jurisprudence*, Smith (1982, 539.328) hints that the "prudent dealer" recognizes that his honest reputation is worth more than any one transaction: "wherever dealings are frequent, a man does not expect to gain so much by any one contract as by probity and punctuality in the whole, and a prudent dealer, who is sensible of his real interest, would rather chuse to lose what he has a right to than give any ground for suspicion."

<sup>14</sup> The question of entrepreneurial motives has caught the attention of contemporary research. Hurst and Pugsley (2011) find that the majority of individuals in their survey chose to launch a business for non-pecuniary reasons, such as flexibility or passion. See also Sullivan et al. (2007) and Catherine (2022).

#### 4.2 Principle 2

The second principle, which pertains to matters and opportunities that have the power to drastically change one's life, is more relevant to my discussion of entrepreneurship. Whereas the first principle advises individuals to conduct everyday business with prudence, the second principle advises individuals to undertake new projects with prudence. Smith writes that when significant opportunities arise, it would be wrong to treat them with the same indifference required for everyday matters. Smith praises persons of "enterprise" who act on life-changing opportunities and criticizes persons of "dull regularity" who refuse to act on life-changing opportunities (*TMS* 173.7). For example, while Smith recommends that tradespersons abide by a general "tenor of conduct" when conducting sales, he also recommends that tradespersons should exert effort to obtain "extraordinary job[s]" or "uncommon advantage[s]" to which they become alert (*TMS* 173.6–7). Otherwise, the tradesperson risks being considered a "poor-spirited fellow" by his neighbors (173.7). Not every tradesperson is an entrepreneur, of course, but the connection is clear. If a tradesperson realizes that great opportunity lies in bringing a new product or idea to the public, the second principle instructs him to pursue that opportunity.

Smith recognizes that these large matters that have the power to change their lives put individuals at risk of disordered ambition. While Smith approves of those who yearn for "true glory" (*TMS* 259.46), he recognizes that ambition, if uncontrolled, can destroy man's character. In an earlier passage of *TMS*, Smith warns, "Never enter the place from whence so few have been able to return; never come within the circle of ambition" (57.7). Smith's concern prompts him to warn the reader that she must practice prudence if she wants to avoid the pratfalls of ambition:

Those great objects of self-interest, of which the loss or acquisition quite changes the rank of the person, are the objects of the passion properly called ambition; a passion, *which when it keeps within the bounds of prudence and justice, is always admired in the world*, and has even sometimes a certain irregular greatness, which dazzles the imagination, when it passes the limits of both these virtues, and is not only unjust but extravagant. Hence the general admiration for heroes and conquerors, and even for statesmen, whose *projects* have been very daring and extensive, though altogether devoid of justice (173.7, emphasis added).<sup>15</sup>

If the pursuit of life-changing opportunities is not informed by "prudence and justice," ambition could transform these opportunities into destructive "projects."

#### 4.3 Locality and Prudence

So how would an individual obey Smith's warning to bind ambition with prudence and justice? The examples that Smith uses in *TMS* (173.7) give us a hint. We are told of the prince who pursues the safety of his province, the private gentleman who pursues an estate, a member of parliament who pursues reelection, and a tradesman

---

<sup>15</sup> It is worth noting that whereas Smith considers ambition, along with other emotions and desires, to be a subset of passion, management literature treats passion as a unique characteristic marked by "intense positive feeling" (Cardon et al. 2009, 215).

who pursues a business advantage. The common thread in these examples is that the object of each character's pursuit aligns with his livelihood. The prince pursues the safety of his province rather than a business advantage. Likewise, the tradesman pursues a business advantage rather than the safety of his province. Although the prince might take notice of the business advantage, it would be imprudent for him to abandon battle to undertake a business opportunity in an unfamiliar industry. Likewise, the tradesman would be imprudent to neglect his own business in attempts to wage a battle with unfamiliar troops.

Although these characters, aside from the tradesperson, have little to do with popular conceptions of entrepreneurship, their example hints at a much greater theme in Smith's work that can inform our understanding of Smithian entrepreneurship: localism. Throughout *TMS*, Smith recognizes that the human person's capacity for sympathy is limited.<sup>16</sup> While we sympathize with those closest to us (perhaps our parents or our neighbors), we struggle to sympathize with those we do not see or to whom we have little connection. Smith's understanding that sympathy exists in gradients incorporates the Stoical account of human development (*oikeiosis*), which holds, among other things, that "human affection weakens as it radiates outward in degrees from the self" (Forman-Barzilai 2010, 8). The Stoics taught that humans should resist the natural ordering of their affections and strive toward a cosmopolitan attitude toward the world. But Smith teaches that humans should reflectively embrace the natural order of their sentiments as they recognize their limits. After all, most individuals do not know how to solve global poverty, but they do know how to cook dinner for their children and fulfill a day's duties at work.

To Smith, localism serves not as an excuse to embrace selfishness but rather as a "desirable middle terrain" between insular, clannish societies and vapid, cosmopolitan societies (Forman-Barzilai 2010, 22). Sympathetic distance is also a multilayered concept for Smith. Whereas Hume treated distance as a matter of geography, Smith's conception of distance accounts not only for geography but also for affective, cultural, and emotional factors (Forman-Barzilai 2010, 5). In Smith's framework, you could be "remote from someone sitting just before [you], or close to someone across the globe" (Forman-Barzilai 2010, 5).

In *Responsible Innovation: A Smithian Perspective*, Hühn (2018, 47) argues that if sympathy is the root of human action that "drives decision-making," it follows that sympathy is also the root of entrepreneurial action. As sympathy connects individuals to the society in which they dwell, it causes entrepreneurs to be embedded in their societies. This embeddedness not only prompts entrepreneurship (as individuals sympathize with others, they "create useful innovations because they are constantly imagining themselves in others' shoes") but moderates entrepreneurship (as individuals sympathize with others, they remember their responsibility to their communities) (Hühn 2018, 51). Hühn's argument that entrepreneurship is a

---

<sup>16</sup> Sympathy plays an important role in the Smithian moral framework: whether we sympathize with another's action corresponds to whether we approve or disapprove of the action. See Macfie and Raphael's introduction to *TMS* for a helpful introduction to sympathy.



sympathetic act reveals how Smith's localist themes can be applied to entrepreneurship: ambitious entrepreneurs who ignore justice or prudence veer outside the bounds of sympathy. They are no longer "embedded" in their communities or aware of their communities' needs or concerns. Hence we see Smith denigrate the projector who chases his "golden dreams" (*WN* 310.69) while praising the prudent man who "does not go in quest" (*TMS* 215.12).

#### 4.4 An Application: The Parable of the Poor Man's Son

Smith's two principles for prudent entrepreneurship shed light on the parable of the poor man's son (*TMS* 181.8–85.10). The parable also highlights an important clarification of Smith's principles: following Smith's framework for prudent entrepreneurship does not guarantee economic success, and straying from Smith's framework does not guarantee economic failure. The principles merely reveal which entrepreneurial actions receive approbation from the Impartial Spectator.

The parable begins with the poor man's son, "whom heaven in its anger visited with ambition" (*TMS* 181.8). Drawn to grandiose ideas of wealth and luxury, the poor man's son forsook his home and labored ceaselessly to gain wealth and status. He achieved both, only to realize "in the last dregs of life" that "wealth and greatness are mere trinkets of frivolous utility" (181.8). In his sickness, the poor man's son "curses ambition" for causing him to chase after things that would never make him happy (182.8).

But the parable does not end there. In a surprise twist, Smith ends the passage with a contradictory message that the rich person's greed increases prosperity for the poor via the distributive powers of the "invisible hand" (*TMS* 184.10).<sup>17</sup> The passage prompts the question, if Smith concedes that the pursuit of wealth can better the condition of the poor, what message is Smith trying to send through the poor man's son, who feels so tortured and unhappy with his wealth?

Smith's framework for prudent entrepreneurship adds some clarity to the riddle. The poor man's son acts imprudently and violates both principles that Smith lays out in *TMS* (172.6–74.7). He violates the first principle by pursuing small matters with miserly obsession rather than orderly diligence:

He submits in the first year, nay in the first month of his application, to more fatigue of body and more uneasiness of mind than he could have suffered through the whole of his life from the want of them. . . . With the most unrelenting industry he labours night and day to acquire talents superior to all his competitors (181.8).

He violates the second principle by courting ambition with no regard to prudence. Unlike the prudent man, who "is averse to all the quackish arts by which other people so frequently thrust themselves into public notice and reputation" (213.7) the poor man's son "makes his court to all mankind" and "serves those whom he hates" (181.8). Unlike the prudent man, who "does not go in quest" (215.12), the poor

<sup>17</sup> This is the only mention of the "invisible hand" in *TMS*.

man's son is fixated on the "distant idea" of "artificial and elegant repose" that "he may never arrive at"—much like the projector of *WN* (*TMS* 181.8). Although he may have achieved wealth, he did so at the cost of his tranquility.

My discussion of the poor man's son complements Matson (2021, 835), who argues that the tale of the poor man's son is an open-ended puzzle meant to encourage readers to "wrestle with" their own perspectives on the pursuit of wealth and happiness. He concludes that for Smith, the pursuit of wealth can complement our pursuit of happiness if it is pursued in a "prudent" manner that will not "detract from other important aspects of life, namely our relationships and our cultivation of virtue" (835). Smith's prudent man, in his modesty and sincerity, could be key to resolving the riddle of the poor man's son (Hanley 2009; Matson 2021). After all, what destroyed the poor man's son's happiness was not his desire for wealth but rather his imprudent pursuit of wealth.

It is important to clarify two things. First, Smith does not disapprove of individuals who desire a better livelihood for themselves or seek to distinguish themselves from others. In fact, he praises those who seek "true glory" (*TMS* 259.46). His concern lies with individuals who believe that wealth is the source of happiness. Second, Smith does not equate moral approbation with economic success (or the flip side: moral disapprobation with economic failure). The poor man's son obtained wealth despite his imprudence. We can also imagine scenarios in which the projector succeeds while the prudent man fails. Smith's two principles do not guarantee economic success, but they do preserve the virtue (and hence the mental tranquility) of the entrepreneur and call the entrepreneur's attention to her community—rather than just her pocketbook.

## 5. CONCLUDING REMARKS

Entrepreneurship, as understood by Schumpeter (1934), Baumol (1990), Sarasvathy (2001), and others, is consistent with *TMS*. Although Smith does not explicitly address entrepreneurship in *TMS*, his character study of the prudent man reveals that Smith looks favorably upon astute, hardworking individuals who are alert to new opportunities and act on them (213.7). The moral framework that Smith lays out in *TMS* (172.6–74.7) suggests that Smith considers prudence to be a moral prerequisite for both small, everyday matters and large, entrepreneurial pursuits. Without prudence, a tradesperson risks becoming a projector who is disconnected from her community. Although conventional theories that equate entrepreneurship with new venture creation might overlook entrepreneurial actors in *WN* and *TMS*, such as the projector or the prudent man, pluralistic accounts of entrepreneurship developed by Baumol (1968, 1990, 2010) and Sarasvathy (2001, 2008) enable a closer study.

That Smith focuses on the character of the entrepreneur rather than the profits he generates might come as a shock to readers who regard Smith as the "Patron Saint of Capitalism" (Forman-Barzilai 2010, 25) who founded the study of economics upon "the granite of self-interest" (Stigler 1971, 265). This interpretation of Smith—often referred to as the "Chicago Smith" after the Chicago School of Economics—has

been criticized as an incorrect yet persistent caricature (Evensky 2005).<sup>18</sup> Although some economists attempted to use Smith to justify their positive, value-free analysis, they overlooked the fact that Smith was first and foremost a moral philosopher who understood that individuals are motivated by more than self-interest. As Hühn and Dierksmeier (2016, 120) stated,

instead of reducing the economic agent to but an impersonation of rational pursuit of self-interest, Smith's view of the individual would be that of a socially minded, politically spirited, and contextually oriented person, constantly judging and being judged from the perspective of an "impartial spectator."

Recognizing Smith as working in the tradition of virtue ethics allows us to understand why Smith disapproves of entrepreneurs like the projector, even if the projector's venture meets with economic success. Smith recognizes that entrepreneurs do not exist in a vacuum; rather, they are socially embedded individuals whose projects risk benefiting or harming their neighbors. Thus Smith's principles for moral entrepreneurship act as a safeguard against projects that bring harm to either the community or the entrepreneur herself.

Smith's focus on the total effect of an entrepreneurial venture, which looks beyond simple profit and loss calculation to examine the venture's consequences for society, puts Smith in conversation with contemporary research that questions whether financial measures should be the sole measure of entrepreneurial success. Cornwall and Naughton (2003, 63) contest that evaluating an entrepreneurial venture by financial growth alone neglects "the subjective dimension of work and the role of virtue." Each new venture yields a vast number of externalities, some economic (Schumpeter 1962) and some ethical (Dees and Starr 1992). An entrepreneurial venture, though profitable, could make society worse off if it were to unleash negative ethical externalities or promote dishonest behavior. Cornwall and Naughton (2003, 71) suggest that a richer notion of entrepreneurial success would evaluate how the venture serves both the good of the entrepreneur and the good of the entrepreneur's community. Hannafey (2003) calls for future research that investigates how to further trace ethical externalities and studies whether entrepreneurs should be held accountable for those externalities.

When Smith wrote *TMS* and *WN*, cultural attitudes and political restraints prevented many forms of large-scale entrepreneurship seen in modern economies. Although Smith recognizes the role that entrepreneurship plays in the economy, it is unrealistic that Smith could have anticipated the vast amounts of technological and economic change generated by entrepreneurship in the nineteenth, twentieth, and twenty-first centuries. For those reasons, Smith's main contribution should not be perceived as the principles for moral entrepreneurship themselves. Though the principles' loose, vague nature certainly allows some application to modern entrepreneurship, they were not written in expectation of the opportunities modern

---

<sup>18</sup> In a survey of papers published from 2000 to 2013 in the *Journal of Business Ethics* and *Business Ethics: A European Review*, Hühn and Dierksmeier (2016) find that most discussions of Smith regard him as the Chicago caricature.

entrepreneurs face and thus cannot be expected to fully address the issues that arise with those opportunities. Rather, Smith's main contribution lies in his recognition that entrepreneurial ventures render social consequences and his efforts to call entrepreneurs to think of the good of the whole—not just their pocketbooks.

### Acknowledgements

I am grateful to Daniel Klein, Erik Matson, and three anonymous referees for constructive feedback that improved the article. I am also grateful to Dominic Pino, Marcus Shera, Rachael Behr, and Garrett West for comments and conversation. All remaining errors are my own.

### REFERENCES

- Acs, Zoltan. 2006. "How Is Entrepreneurship Good for Economic Growth?" *Innovations: Technology, Governance, Globalization* 1 (1): 97–107.
- Barrier, Michael. 1994. "Innovation as a Way of Life." *Nation's Business* 82 (7): 18–25.
- Baumol, William J. 1968. "Entrepreneurship in Economic Theory." *American Economic Review* 58 (2): 64–71.
- Baumol, William J. 1990. "Entrepreneurship: Productive, Unproductive, and Destructive." *Journal of Political Economy* 98 (5): 893–921.
- Baumol, William J. 2010. *The Microtheory of Innovative Entrepreneurship*. Princeton, NJ: Princeton University Press.
- Begley, Thomas M., and David P. Boyd. 1987. "Psychological Characteristics Associated with Performance in Entrepreneurial Firms and Small Businesses." *Journal of Business Venturing* 1 (2): 79–93.
- Bentham, Jeremy. (1787) 2008. "Gulphs in Mankind's Career of Prosperity: A Critique of Adam Smith on Interest Rate Restrictions." *Econ Journal Watch* 5 (1): 66–77.
- Boettke, Peter, and Ennio Piano. 2016. "Baumol's Productive and Unproductive Entrepreneurship after 25 Years." *Journal of Entrepreneurship and Public Policy* 5 (2): 130–44.
- Boyer, George. 1985. "An Economic Model of the English Poor Law circa 1780–1834." *Explorations in Economic History* 22 (2): 129–67.
- Braunerhjelm, Pontus, Zoltan J. Acs, David B. Audretsch, and Bo Carlsson. 2010. "The Missing Link: Knowledge Diffusion and Entrepreneurship in Endogenous Growth." *Small Business Economics* 34 (2): 105–205.
- Brenkert, George G. 2002. "Entrepreneurship, Ethics, and the Good Society." *Ruffin Series* 3 (5): 5–43.
- Brockhaus, Robert H. 1980. "Risk Taking Propensity of Entrepreneurs." *Academy of Management Journal* 23 (3): 509–20.
- Brockhaus, Robert H., and Pamela S. Horwitz. 1986. "The Psychology of the Entrepreneur." In *The Art and Science of Entrepreneurship*, edited by R. W. Smilor, 25–48. Cambridge: Ballinger.
- Brockhaus, Robert H., and Walter R. Nord. 1979. "An Exploration of Factors Affecting the Entrepreneurial Decision: Personal Characteristics vs. Environmental Conditions." *Proceedings of the Annual Meeting of the Academy of Management* 8 (1): 364–68.

- Buchanan, James M. 2005. "Natural Equality, Increasing Returns, and Economic Progress: A Reinterpretation of Adam Smith's System." *Division of Labor and Transaction Costs* 1 (1): 57–66.
- Buchanan, James M., and Yong J. Yoon. 2000. "A Smithean Perspective on Increasing Returns." *Journal of the History of Economic Thought* 22 (1): 43–48.
- Campbell, Roy H., and Andrew S. Skinner. 1981. "General Introduction." In *An Inquiry into the Nature and Causes of the Wealth of Nations* by Adam Smith, 1–60. Indianapolis, IN: Liberty Fund.
- Candela, Rosolino, Peter Jacobsen, and Kacey Reeves. 2020. "Malcom McLean, Containerization, and Entrepreneurship." *Review of Austrian Economics*. DOI: [10.1007/s11138-020-00529-2](https://doi.org/10.1007/s11138-020-00529-2)
- Cantillon, Richard. 1755. *Essai sur la nature du commerce en général*. Paris: Chez Fletcher Gyles.
- Cardon, Melissa S., Joakim Wincent, Jagdip Singh, and Mateja Drnovsek. 2009. "The Nature and Experience of Entrepreneurial Passion." *Academy of Management Review* 34 (3): 511–32.
- Catherine, Sylvain. 2022. "Keeping Options Open: What Motivates Entrepreneurs?" *Journal of Financial Economics* 144 (1): 1–21.
- Clark, J. R., and Dwight R. Lee. 2006. "Freedom, Entrepreneurship and Economic Progress." *Journal of Entrepreneurship* 15 (1): 1–17.
- Coase, Ronald H. 1976. "Adam Smith's View of Man." *Journal of Law and Economics* 19 (3): 529–46.
- Cornwall, Jeffrey R., and Michael J. Naughton. 2003. "Who Is the Good Entrepreneur? An Exploration within the Catholic Social Tradition." *Journal of Business Ethics* 44 (1): 61–75.
- Decarlo, James F., and Paul R. Lyons. 1979. "A Comparison of Selected Personal Characteristics of Minority and Non-minority Female Entrepreneurs." *Journal of Small Business Management* 17 (1): 22–29.
- Dees, J. Gregory, and Jennifer A. Starr. 1992. "Entrepreneurship through an Ethical Lens: Dilemmas and Issues for Research and Practice." In *The State of the Art of Entrepreneurship*, edited by Donald L. Sexton and John D. Kasarda, 89–116. Boston: PWS-Kent.
- DelliSanti, Dylan. 2021. "The Dynamism of Liberalism: An Esoteric Interpretation of Adam Smith." *Journal of Economic Behavior and Organization* 184 (1): 717–26.
- Den Uyl, Douglas J. 1991. *The Virtue of Prudence*. New York: Peter Lang.
- Evensky, Jerry. 2005. "Adam Smith's Theory of Moral Sentiments: On Morals and Why They Matter to a Liberal Society of Free People and Free Markets." *Journal of Economic Perspectives* 19 (3): 109–30.
- Filion, Louis Jacques. 2021. "Defining the Entrepreneur." In *World Encyclopedia of Entrepreneurship*, edited by Léo-Paul Dana, 72–83. Cheltenham, UK: Edward Elgar.
- Forman-Barzilai, Fonna. 2010. *Adam Smith and the Circles of Sympathy: Cosmopolitanism and Moral Theory*. Cambridge: Cambridge University Press.
- Gartner, William B. 1988. "'Who Is an Entrepreneur?' Is the Wrong Question." *American Journal of Small Business* 13 (2): 11–32.
- Griswold, Charles L. 1999. *Adam Smith and the Virtues of Enlightenment*. New York: Cambridge University Press.
- Hanley, Ryan. 2009. *Adam Smith and the Character of Virtue*. New York: Cambridge University Press.

- Hannafey, Francis T. 2003. "Entrepreneurship and Ethics: A Literature Review." *Journal of Business Ethics* 46 (2): 99–110.
- Hayek, Friedrich August. 1979. "The Atavism of Social Justice." In *Social Justice, Socialism, and Democracy: Three Australian Lectures by F. A. Hayek*, 3–16. Sydney, Australia: Centre for Independent Studies.
- Henrekson, Magnus, and Tino Sanandaji. 2014. "Small Business Activity Does Not Measure Entrepreneurship." *Proceedings of the National Academy of Sciences of the United States of America* 111 (5): 1760–65.
- Howell, Richard P. 1972. "Comparative Profiles: Entrepreneurs versus the Hired Executive: San Francisco Peninsula Semiconductor Industry." In *Technical Entrepreneurship: A Symposium*, edited by Arnold C. Cooper and John L. Komives, 47–62. Milwaukee, WI: Center for Venture Management.
- Hühn, Matthias P. 2018. "Responsible Innovation: A Smithian Perspective." *Philosophy of Management* 17 (1): 41–57.
- Hühn, Matthias P., and Claus Dierksmeier. 2016. "Will the Real A. Smith Please Stand Up!" *Journal of Business Ethics* 136 (1): 119–32.
- Hurst, Erik, and Benjamin Wild Pugsley. 2011. "What Do Small Businesses Do?" *Brookings Papers on Economic Activity* 43 (2): 73–142.
- Jovanovic, Boyan. 1982. "Selection and the Evolution of Industry." *Econometrica* 50 (3): 649–70.
- Kamineni, Rajeev. 2002. "Who Is an Entrepreneur? A Review." *Small Enterprise Research* 10 (1): 88–99.
- Kirzner, Israel. (1973) 2013. *Competition and Entrepreneurship*. Indianapolis, IN: Liberty Fund.
- Klein, Daniel B. 2012. *Knowledge and Coordination: A Liberal Interpretation*. Oxford: Oxford University Press.
- Klein, Daniel B., Erik W. Matson, and Colin Doran. 2018. "The Man within the Breast, the Supreme Impartial Spectator, and Other Impartial Spectators in Adam Smith's *The Theory of Moral Sentiments*." *History of Ideas* 44 (8): 1153–68.
- Knight, Frank H. 1921. *Risk, Uncertainty, and Profit*. Boston: Houghton Mifflin.
- Kobia, Margaret, and Damary Sikalieh. 2010. "Towards a Search for the Meaning of Entrepreneurship." *Journal of European Industrial Training* 34 (2): 110–27.
- Komives, John L. 1972. "A Preliminary Study of the Personal Values of High Technology Entrepreneurs." In *Technical Entrepreneurship: A Symposium*, edited by Arnold C. Cooper and John L. Komives, 231–42. Milwaukee, WI: Center for Venture Management.
- Levinson, Marc. 2006. *The Box: How the Shipping Container Made the World Smaller and the World Economy Bigger*. Princeton, NJ: Princeton University Press.
- Lewin, Peter. 2005. "The Firm in Disequilibrium: A Market Process View of Firm Organization and Strategy." In *Explorations in Austrian Economics*, edited by Roger Koppl, 167–92. Bingley, UK: Emerald Group.
- Lipka, David. 2013. "The Max U Approach: Prudence Only, or Not Even Prudence? A Smithian Perspective." *Econ Journal Watch* 10 (1): 2–14.
- Matson, Erik W. 2021. "A Dialectical Reading of Adam Smith on Wealth and Happiness." *Journal of Economic Behavior and Organization* 184 (1): 826–36.
- McCloskey, Deirdre. 2006. *The Bourgeois Virtues: Ethics for an Age of Commerce*. Chicago: University of Chicago Press.
- McCloskey, Deirdre. 2008. "Adam Smith, the Last of the Former Virtue Ethicists." *History of Political Economy* 40 (1): 43–71.

- McCloskey, Deirdre. 2016. *Bourgeois Equality: How Ideas, Not Capital or Institutions, Enriched the World*. Chicago: University of Chicago Press.
- Melzer, Arthur M. 2014. *Philosophy between the Lines*. Chicago: University of Chicago Press.
- Moore, Geoff. 2005. "Humanizing Business: A Modern Virtue Ethics Approach." *Business Ethics Quarterly* 15 (2): 237–55.
- Murphy, Ryan H., and Rick Weber. 2016. "Immigration Causes American Businesses to Fail and That Is a Good Thing." *Journal of Entrepreneurship and Public Policy* 5 (1): 63–72.
- Naughton, Michael, and Jeffrey R. Cornwall. 2010. "Culture as the Basis of the Good Entrepreneur." *Journal of Religion and Business Ethics* 1 (1): 1–13.
- Paganelli, Maria Pia. 2008. "The Adam Smith Problem in Reverse: Self-Interest in *The Wealth of Nations* and *The Theory of Moral Sentiments*." *History of Political Economy* 40 (2): 365–82.
- Palich, Leslie E., and D. Ray Bagby. 1995. "Using Cognitive Theory to Explain Entrepreneurial Risk-Taking: Challenging Conventional Wisdom." *Journal of Business Venturing* 10 (6): 425–38.
- Peroni, Chiara, Cesare A. F. Riillo, and Francesco Sarracino. 2016. "Entrepreneurship and Immigration: Evidence from GEM Luxembourg." *Small Business Economics* 46 (4): 639–56.
- Rashid, Salim. 1998. *The Myth of Adam Smith*. Cheltenham, UK: Edward Elgar.
- Reynolds, Paul D., Michael Hay, William D. Bygrave, and Michael Camp. 2000. *Global Entrepreneurship Monitor: 2000 Executive Report*. Kansas City, MO: Kauffman Center for Entrepreneurial Leadership.
- Richardson, G. B. 1975. "Adam Smith on Competition and Increasing Returns." In *Essays on Adam Smith*, edited by Andrew S. Skinner and Thomas Wilson, 350–60. Oxford: Clarendon Press.
- Rothbard, Murray. 1995. *Economic Thought before Adam Smith: An Austrian Perspective on the History of Economic Thought*. Vol. 1. Auburn, AL: Ludwig von Mises Institute.
- Sanandaji, Tino. 2011. "Essays in Entrepreneurship Policy." PhD diss., University of Chicago.
- Sarasvathy, Saras D. 2001. "Causation and Effectuation: Toward a Theoretical Shift from Economic Inevitability to Entrepreneurial Contingency." *Academy of Management Review* 26 (2): 243–63.
- Sarasvathy, Saras D. 2008. *Effectuation: Elements of Entrepreneurial Expertise*. Cheltenham, UK: Edward Elgar.
- Schere, Jean L. 1982. "Tolerance of Ambiguity as a Discriminating Variable between Entrepreneurs and Managers." *Academy of Management Proceedings* 8 (1): 404–8.
- Schumpeter, Joseph A. 1934. *The Theory of Economic Development: An Inquiry into Profits, Capital, Credit, Interest, and the Business Cycle*. Translated by Redvers Opie. Cambridge, MA: Harvard University Press.
- Schumpeter, Joseph. 1962. *Capitalism, Socialism and Democracy*. New York: Harper and Row.
- Sen, Amartya. 1986. "Adam Smith's Prudence." In *Theory and Reality in Development: Essays in Honour of Paul Streeten*, edited by Sanjaya Lall and Frances Steward, 28–37. London: Macmillan.
- Sexton, Donald L., and Calvin A. Kent. 1981. "Female Executives versus Female Entrepreneurs." In *Frontiers of Entrepreneurship Research: The Proceedings of the 1981 Babson*

- Conference on Entrepreneurship Research*, edited by Karl H. Vesper, 40–45. Wellesley, MA: Babson College.
- Simon, Herbert. 1957. *Models of Man*. New York: John Wiley.
- Smith, Adam. (1759) 1982. *The Theory of Moral Sentiments*. Edited by D. D. Raphael and A. L. Macfie. Indianapolis, IN: Liberty Fund.
- Smith, Adam. (1776) 1982. *An Inquiry into the Nature and Causes of the Wealth of Nations*. Edited by Roy H. Campbell and Andrew S. Skinner. 2 vols. Indianapolis, IN: Liberty Fund.
- Smith, Adam. 1982. *Lectures on Jurisprudence*. Edited by R. L. Meek, D. D. Raphael, and P. G. Stein. Indianapolis, IN: Liberty Fund.
- Sobel, Russell. 2008. “Testing Baumol: Institutional Quality and the Productivity of Entrepreneurship.” *Journal of Business Venturing* 23 (6): 641–55.
- Stigler, George. 1971. “Smith’s Travels on the Ship of the State.” *History of Political Economy* 3 (2): 265–77.
- Sullivan, Sherry E., Monica L. Forret, Lisa A. Mainiero, and Siri Terjesen. 2007. “What Motivates Entrepreneurs? An Exploratory Study of the Kaleidoscope Career Model and Entrepreneurship.” *Journal of Applied Management and Entrepreneurship* 12 (4): 4–19.
- Webb, Sidney, and Beatrice Webb. 1927. *English Poor Law History*. Part 1, *The Old Poor Law*. London: Frank Cass.
- Wennekers, Sander, and Roy Thurik. 1999. “Linking Entrepreneurship and Economic Growth.” *Small Business Economics* 13 (1): 27–56.
- Xie, Chuanyin. 2014. “Why Do Some People Choose to Become Entrepreneurs? An Integrative Approach.” *Journal of Management Policy and Practice* 15 (1): 25–38.
- Yamakawa, Yasuhiro, Mike W. Peng, and David L. Deeds. 2010. “Revitalizing and Learning from Failure for Future Entrepreneurial Growth.” *Frontiers of Entrepreneurship Research* 30 (6): 1–11.

. . .

KACEY REEVES WEST ([kreeves6@gmu.edu](mailto:kreeves6@gmu.edu)) is a third-year PhD student in the Department of Economics at George Mason University and a PhD Fellow at the Mercatus Center. Kacey teaches economics as a lecturer at Christendom College and as a graduate lecturer at George Mason University. Her research focuses on Smithian political economy.