In this paper I argue that in his economic and philosophical works Smith develops a normative and objective notion of happiness – which Smith defines as real happiness – based on a specific model of virtue linked to prudence. More specifically, I claim that such notion receives further evidence from Smith’s elaboration of a distinction between value in use and value in exchange developed in the Wealth of Nations. Smith’s notion of value in use relies on an objective notion of utility, understood as usefulness, (the capacity to satisfy of basic needs), which does not affect value in exchange. Equally, the objective nature of utility is linked to Smith’s development of a notion of real measure value, identified with labour commanded. Labour is here defined as the amount of ‘ease, liberty and happiness’ given away by the labourer and must not be understood, I argue, in subjective terms. The presence of the word happiness in the real measure of value underlines the fact that it could not be conceived by Smith in subjective terms, as satisfaction of any given preference, but more as the enjoyment derived from those basic needs which share an objective utility. Oppose to this objective notion of real happiness we find another of false happiness, which Smith considered to be derived by frivolous desires and luxury goods. In other words, I argue that the presence of these two different notions of happiness show that Smith’s economic theory displays the presence of a normative framework, critical of
certain aspects of commercialisation and luxury, which can be also found in his moral theory.

Furthermore, the adoption by Smith of this distinction can also help us to better understand the full meaning of Smith’s diamond-water paradox, also based on the different satisfaction (real and false happiness) respectively provided by water and diamonds.

Interestingly, many of the authors who contributed to the Court and Country debate on luxury and commerce in the 18th century, from Shaftesbury to Bolingbroke, adopted a similar idea of real happiness, derived from basic goods, as opposed to the false happiness derived from luxury.

To support the latter claim we can show that in the *System of Moral Philosophy* Francis Hutcheson developed a similar distinction between the objective value in use, affording real satisfaction and possessing real worth, and the value in exchange, affected by the contingency of market price.

Rather than abandoning an entirely subjective tradition in utility and happiness, Smith seem to have developed Hutcheson’s sketchy distinction between value in use and value in exchange.

The presence of this notion of *real happiness*, based on an objective notion of utility, helps us to underline a strong theoretical link between Smith’s economic theory and his moral thought, as well as his connection to the eighteenth century debate on virtue, commerce and luxury.

The adoption of an objective notion of utility in Smith emerges then as the intended outcome of his moral theory and cannot be explained as the mere author’s neglect of the tradition of subjective utility that it is said to have preceded him.
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