The Essential

ADAM SMITH

by James Otteson

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To Daniel Garber, who agreed that there was something worth studying in Adam Smith, and Ian Mueller, whose scholarly example continues to inspire me.

Introduction

Adam Smith (1723–1790) is widely hailed as the founding father of the discipline now known as economics, and he is widely credited as the founding father of what is now known as capitalism. Smith's 1776 book, *An Inquiry into the Nature and Causes of the Wealth of Nations*, is often cited as the beginning of both economics and capitalism, and its influence in the 242 years since its publication ranks it among the most important works of the last millennium.

That fact alone warrants Smith's place in the pantheon of towering figures of the Western tradition, and puts him squarely on the list of authors with whom all educated people should be familiar. But Smith has become, alas, one of the great authors about whom many educated people have opinions but whom few such people have actually read. So Smith's reputation today tends to be based on impressions and second-hand reports, rather than on Smith's work itself—which may explain why Smith has been claimed by people promoting everything from libertarianism to progressivism, and much else besides.

Adding to the confusion, Smith was a professor of moral philosophy, not economics. And he published only two books in his lifetime: the already mentioned, and now much more famous, *Wealth of Nations* (WN), and an earlier book, first published in 1759, called *The Theory of Moral Sentiments* (TMS). TMS was an exploration of how human beings come to form the moral sentiments they have, and it based its analysis on what Smith called "sympathy"; Smith claimed in TMS that all people have a natural "desire for mutual sympathy of sentiments" (TMS: 13). In WN, however, there is no mention of this "sympathy"; Smith doesn't even mention TMS itself. Instead, WN bases its analysis on what Smith alternately calls "self-interest" and "self-love." This has led some scholars to wonder how the two books go together. One dealt with morality and spoke of "sympathy," while the other dealt with economics

and spoke of "self-love." Perhaps, some scholars have thought, Smith is suggesting that morality and economics are actually separate spheres of human life—that morality and markets do not mix. If the system of economics Smith is describing in WN is "capitalism" (a word Smith himself does not actually use), and if morality has no place in "capitalism," then so much the worse for capitalism! Scholars have actually dubbed this issue "The Adam Smith Problem," [1] and some have suggested that Smith's apparent inability to combine morality with economics tells us, or should tell us, that the Smithian system of political economy, which forms the basis of so much of the economic world today, actually has little or no moral foundation. If so, then perhaps the globalized world of trade and commerce is itself of only dubious moral character.

For his part, Smith did in fact believe that morality and markets could mix, and that his two books were each part of a larger philosophical project. Part of the purpose of *The Essential Adam Smith* is to show how Smith's two books are consistent. But the larger question—How do markets and morality mix?—is not merely a scholarly or historical question, but a question for us today. Is there a link between morality and economics? Can we engage in economic transactions while maintaining our morality? As our world becomes increasingly integrated by trade, finance, and commerce, these questions become all the more pressing. Perhaps economic globalism generates increasing material prosperity, but does it do so only at the expense of our moral values? Must we give up on our morality in order to become rich?

As current as such questions are today, they were already anticipated and explored by Adam Smith in the eighteenth century. Indeed, Smith offered a framework for understanding morality that not only integrated market transactions but set parameters for what constituted acceptable transactions. That might be surprising for someone often taken to be the father of an allegedly amoral economic system, but what is perhaps even more surprising is that Smith turned out to get most of his claims right. Modern investigations into both human morality and economic history suggest that Smith was actually astonishingly accurate. Though Smith had some missteps—no author, however great, gets everything correct—nevertheless his two books contain insights and arguments that have stood the test of time. Another part of the purpose of this book is to convince you of that.

1 I too have contributed to the scholarly literature on the "Adam Smith Problem." See Otteson (2002a, 2013) and Montes (2004).

But the main purpose of this book is to introduce you to Adam Smith himself. The best way for you to learn about Smith is for you to read Smith. That is the case for every great author, Smith included. This book, instead, is meant as a primer to Smith's thought, an introduction to several of his most important ideas. Its aim is to familiarize you with some of the central reasons Smith is considered a great author, and to give you some appreciation of both the depth and the breadth of his thought. Although Smith wrote only two books, the number of topics, issues, events, countries, cultures, and ideas he discussed in them is vast. That means that this short book unfortunately will necessarily have to omit discussion of several important aspects of Smith's thought that a fuller treatment would explore. Moreover, although I have striven to present Smith faithfully, nevertheless different Smith scholars would no doubt present him differently. If reading this book leads you to think you need to read Smith's writings yourself, however, then it will have achieved perhaps its most important goal.

Who was Adam Smith?

Adam Smith was born in 1723 in Kirkcaldy, Scotland. Smith was one of the principals of a period of astonishing learning that has become known as the Scottish Enlightenment, which included groundbreaking innovations in everything from medicine to geology to chemistry to philosophy to economics.[2] Smith is the author of two published books: *The Theory of Moral Sentiments* (TMS), in 1759, and *An Inquiry into the Nature and Causes of the Wealth of Nations* (WN), in 1776. TMS brought Smith considerable acclaim during his lifetime and was soon considered one of the great works of moral theory—impressing, for example, Charles Darwin (1809–82), who in his 1871 *Descent of Man* endorsed and accepted several of Smith's "striking" conclusions.[3] And TMS went through fully six revised editions during Smith's lifetime. Yet since the nineteenth century, Smith's fame has largely rested on his second book, which, whether judged by its influence or its greatness, must be considered one of the most important works of the second millennium.

2 For a review of the achievements of the Scottish Enlightenment, see Broadie (2003) and Buchan (2003).

3 Stephen Jay Gould (1980: 66–7) argues that Smith's *Wealth of Nations* also influenced Darwin.

Not many details of Smith's boyhood are known. He was born on the 5th of June and was an only child, his father, also named Adam Smith, having died shortly before he was born. In his 1793 *Account of the Life and Writings of Adam Smith, LL.D.*, Smith's student Dugald Stewart reports that Smith's "constitution during infancy was infirm and sickly, and required all the tender solicitude of his surviving parent. She was blamed for treating him with an unlimited indulgence; but it produced no unfavourable effects on his temper or his dispositions" (Smith, 1982a: 269). Perhaps one anecdote from Smith's childhood bears repeating. Margaret, Smith's mother, would regularly take him to Strathenry, about seven miles northwest of Kirkaldy, to visit her brother, Smith's uncle. On one visit, when the wee Smith was but three years old, he was playing in front of his uncle's house and was kidnapped by a passing group of "gypsies." The alarm was raised and the kidnappers were discovered and overtaken in the nearby Leslie wood, whereupon the wailing toddler was safely returned to his family. Stewart writes that Smith's uncle, who recovered Smith, "was the happy instrument of preserving to the world a genius, which was destined, not only to extend the boundaries of science, but to enlighten and reform the commercial policy of Europe" (Smith, 1982: 270).

Smith matriculated at the University of Glasgow in 1737 at the age of fourteen and in 1740 was elected as a Snell exhibitioner at Balliol College, Oxford. Smith was apparently not impressed with the quality of instruction at Oxford, however. As he wrote years later in WN, "In the university of Oxford, the greater part of the public professors have, for these many years, given up altogether even the pretence of teaching" (WN: 761). Smith was able to make good use of the libraries at Oxford, however, studying widely in English, French, Greek, and Latin literature. He left Oxford and returned to Kirkcaldy in 1746.

In 1748, at the invitation of Henry Home Lord Kames (1696–1782), Smith began giving in Edinburgh "Lectures on Rhetoric and the *Belles Lettres*," focusing on literary criticism and the arts of speaking and writing well. It was during this time that Smith met and befriended the great Scottish philosopher David Hume (1711–76), who was to become Smith's closest confidant and greatest philosophical influence. Smith left Edinburgh to become Professor of Logic at the University of Glasgow in 1751, and then Professor of Moral Philosophy in 1752. The lectures he gave at Glasgow eventually crystallized into *The Theory of Moral Sentiments*, which was published to great acclaim in 1759.

In 1763 Smith resigned his post at Glasgow to become the personal tutor of Henry Scott, the Third Duke of Buccleuch, whom Smith then accompanied on an eighteen-month tour of France and Switzerland. During these travels with the young Duke Smith met Voltaire (1694–1778), on whom Smith apparently made quite an impression: Voltaire later wrote, "This Smith is an excellent man! We have nothing to compare with him, and I am embarrassed for my dear compatriots" (Muller, 1993: 15). Smith also met François Quesnay (1694–1774), Jacques Turgot (1727–81), and others among the so-called French Physiocrats, who were arguing for a relaxation of trade barriers and generally laissez-faire economic policies. Although Smith had already been developing his own similar ideas, conversations with the Physiocrats no doubt helped him refine and sharpen them. In 1767, Smith returned to Kirkcaldy to care for his ailing mother and to continue work on what would become his *Wealth of Nations*. During this time he was supported by a generous pension from the Duke of Buccleuch, enabling him to focus on his scholarly work. It was widely known that the celebrated author of TMS was working furiously on a new book, and the ten years he labored on it raised expectations high indeed. Finally, at long last, Smith's magnum opus was published on March 9, 1776.

Smith remained in Kirkcaldy until 1778, when he became Commissioner of Customs in Edinburgh. Smith's mother died in 1784, when Smith was aged sixty-one. Smith had spent much of this time caring for his mother, which might be part of the explanation for the fact that he never married or had children. Although he apparently did have a love interest during his adult life, it did not result in marriage. Dugald Stewart writes, "In the early part of Mr. Smith's life it is well known that he was for several years attached to a young lady of great beauty and accomplishment. How far his addresses were favourably received, or what the circumstances were which prevented their union, I have not been able to learn; but I believe it is pretty certain that, after this disappointment, he laid aside all thoughts of marriage. The lady to whom I allude died also unmarried" (Smith, 1982: 349–50).

During the decade or so that he spent in Kirkcaldy, and then thereafter when he was in Edinburgh, Smith spent a great deal of time visiting with and entertaining friends, among whom he counted Irish Catholic philosopher and statesman Edmund Burke (1729–97), the chemist Joseph Black (1728–99), the geologist James Hutton (1726–97), the mechanical engineer James Watt (1736–1819), Prime Minister Frederick (Lord) North (1732–92), and Prime

Minister William Pitt the Younger (1759–1806). He also took active roles in learned organizations like the Oyster Club, the Poker Club, and the Select Society, the last of which included among its members William Robertson (1721–1793), David Hume, James Burnett Lord Monboddo (1714–99), Adam Ferguson (1723–1816), and Lord Kames.[4] In 1783, Smith was a founding member of the Royal Society of Edinburgh, which exists still today as Scotland's premier national academy of science and letters. Having previously served as the University of Glasgow's Dean of Arts (1760) and Vice-Rector (1761–63), in 1787 he was elected Lord Rector of the university, a post he held until 1789.

During his years in Edinburgh, Smith extensively revised both TMS and WN for new editions. In 1785, he wrote to Le Duc de La Rochefoucauld that "I [Smith] have likewise two other great works upon the anvil; the one is a sort of Philosophical History of all the different branches of Literature, of Philosophy, Poetry and Eloquence; the other is a sort of theory and History of Law and Government" (Smith, 1987: 248). Neither of these projects was ever published, however. In the days before he died, Smith summoned his friends Black and Hutton to his quarters and asked that they burn his unpublished manuscripts, a request they had resisted on previous occasions. This time Smith insisted. They reluctantly complied, destroying sixteen volumes of manuscripts. It is probable that Smith's philosophical history of literature, philosophy, poetry, and eloquence, and his theory and history of law and government were among the works that perished in that tragic loss.

Adam Smith died in Edinburgh on 17 July 1790 and is buried in the Canongate cemetery off High Street in Edinburgh.

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4 For an overview of these groups and their memberships, see Broadie (2007).

Chapter 1

What is political economy?

The discipline we know today as "economics" began as "political economy" in the eighteenth century. The early political economists, including Adam Smith and David Hume, wanted to adapt a Newtonian scientific methodology to the study of human behavior and human society, for two principal and connected purposes: first, to discover, from history and empirical observation, regular patterns of behavior that could be systematized and therefore explained and understood; and second, to use those discovered patterns as empirical bases from which to make recommendations about institutional reform. They reasoned that if we could understand how human social institutions work, then perhaps we can understand what the moral, political, economic, and cultural institutions are that conduce to human prosperity—and, of course, which do not.

After the eighteenth century, these purposes of political economy developed into two relatively distinct and separate fields of inquiry. One is *moral philosophy*, an attempt to understand not only the goals that we should, morally, pursue, but also what the grounds are of that normative "should"—that is, not only what it is right to do, but also what makes the right thing to do right. A subset of moral philosophy is *political philosophy*, which seeks to apply the conclusions of moral philosophy to specifically public behavior and institutions. The second major field into which political economy divided was *economics*, a positive and technical (and, in the twentieth and twenty-first centuries, an increasingly quantitative) analysis of the ways human beings behave under varied circumstances, along with the development of mathematical models to account for past, and to predict future, human behavior. Today, moral philosophers and economists often proceed with little knowledge of, or even regard for, the work of practitioners in the other field.

One main reason for the divide is the distinction between *descriptive* inquiry and *normative* inquiry—that is, the distinction between investigations

that aim to describe, empirically or factually, what is the case in the world, and those that aim to make recommendations about how we should or ought to behave. These two kinds of investigation are logically distinct. One might be able to describe all of the likely outcomes of, for example, raising the mandatory minimum wage, without thereby committing oneself to a claim that it would be good (or bad) to do so. Similarly, if a student asks me whether she should go to law school, I can tell her things like the average scores and GPAs required to get into various law schools, the average starting salaries of graduates of various law schools, what kinds of things lawyers trained in different specialties go on to do, and so on. Yet none of this would answer the question of whether she should go to law school. To answer that question would require not only an assessment of her particular circumstances and opportunities, but also, crucially, her values. What does she want to do? What are her goals, aims, and ambitions in life? What does she believe would be a valuable use of her limited time, talent, and treasure? Without knowledge of these things, we could not know whether she should go to law school. That "should" depends, then, on her values—including her moral values—and would generate a normative claim distinct from the descriptive claims about law school.

This division of political economy into separate fields of descriptive inquiry (economics) and normative inquiry (philosophy) was absent in the other early political economists, although perhaps ironically it was Smith's friend David Hume who first clearly brought our attention to the distinction:

> *In every system of morality, which I have hitherto met with, I have always remark'd, that the author proceeds for some time in the ordinary way of reasoning, and establishes the being of a God, or makes observations concerning human affairs; when of a sudden I am supriz'd to find, that instead of the usual copulations of propositions,* is, *and* is not, *I meet with no proposition that is not connected with an* ought, *or an* ought not. *This change is imperceptible; but is, however, of the last consequence. For as this* ought, *or* ought not, *expresses some new relation or affirmation, 'tis necessary that it shou'd be observ'd and explain'd; and at the same time that a reason shou'd be given, for what seems altogether inconceivable, how this new relation can be a deduction from others, which are entirely different from it.*
>
> (Hume, 2000 [1740]: 302; emphasis in the original)

Over the course of the nineteenth and twentieth centuries, thinkers became increasingly impressed with this distinction, and the realm of "is"-statements became increasingly relegated to economics while the realm of "ought"-statements became increasingly segregated into philosophy. Economists came to see their work as like physics, or perhaps engineering: if you tell me what your goals are, I can tell you how best to achieve them; or, I can tell you what the likely consequences are of policies you are contemplating, but I leave it to you or others to decide whether those consequences are good or bad. And philosophers, for their part, saw their primary contribution to the discussion being an exploration of what the moral values are that ought to be championed or sought, with little regard for how that might be achieved in practice. Today, economists often see philosophers as unconnected with the real world, while philosophers see economists as focusing on the wrong questions. Little wonder, then, that they often do not read each other's work.

For Adam Smith, however, these two strands of inquiry, the descriptive and the normative, were integrated into a single inquiry: political economy. What Smith wanted to do was understand human nature, including human psychology and human motivations; the human condition, including the state of the world and its resources; and human social institutions, including how they come into existence, how they are maintained or grow, and how they decay. But Smith also believed that such investigations would ultimately be empty and pointless unless they were connected to recommendations that would enable people to lead better lives. So Smith thought the political economist needed to know, first, what the human and other material was with which he had to work,[1] and what the possibilities and limitations of that material were; but, second, the political economist should then use what he learns to recommend behaviors and policies that could enable creatures constructed as we are in conditions like those we face to lead lives worth living. For Smith, this meant he should study human nature the way an empirical moral psychologist today might, but then would draw conclusions about public policy based on his findings. Smith believed that human happiness was a great good, indeed the *summum bonum*, and it required both empirical inquiry and moral philosophy to understand what genuine happiness for human beings is. But Smith also assumed that attempting to achieve it, as well as helping others to achieve it, was a moral imperative.

1 Smith uses only the masculine pronouns throughout his work. Because of this, and to avoid begging any interpretive questions, I adopt the same convention.

The ultimate goal, then, of political economy, as Smith conceived it, was to figure out what social and public institutions would enable a prospering society in which people stand a chance of leading truly happy lives. To do this, he would first have to understand human nature and human psychology, and what constitutes genuine human happiness: that was the primary goal of his first book, *The Theory of Moral Sentiments*. And then the political economist would have to understand the human condition and the material and other constraints human beings face: that was the primary goal of his second book, *The Wealth of Nations*. Only then could he make positive recommendations about what policies would enable creatures like us, in the conditions in which we find ourselves, to prosper and flourish. The political-economic recommendations Smith comes to make in WN can then be understood as the result of this two-step investigatory process.

At the outset of WN, Smith presents us with a vivid picture of what he believes is at stake. Part of his inspiration for writing WN was Smith's observation that some people were much wealthier than others. What was life like in the poor countries in the mid-eighteenth-century? Smith writes, "Such nations, however, are so miserably poor, that, from mere want, they are frequently reduced, or, at least, think themselves reduced, to the necessity sometimes of directly destroying, and sometimes of abandoning their infants, their old people, and those afflicted with lingering diseases, to perish with hunger, or to be devoured by wild beasts" (WN: 10). It may be hard for many of us today, amidst the unprecedented levels of wealth that we enjoy in the twenty-first century, to appreciate the difficulties that faced people living in such desperate and abject conditions. And yet that was the common and virtually uncontradicted fate of most human beings throughout almost all human history until the eighteenth century. But Smith saw that in his day some people, and some countries, were beginning to rise out of these miserable conditions. He wanted to know how they were able to do so—not as a matter of mere academic or historical curiosity, but because he understood, and had seen with his own eyes, that people's lives often hung in the balance depending on the public policies and institutions their countries adopted. If the institutions that enabled people to rise out of such poverty could be understood, then perhaps they could be recommended and spread to others, thereby raising the estate of ever more people. Perhaps one could dare to hope that many lives, even millions of lives, could thus be improved.

The main questions of Smith's political economy, then, were: What is genuine human happiness, and how can it be achieved? What constitutes real wealth, and what is the connection between happiness and wealth? Why are some places wealthier than others, and how can poorer places become wealthier? What public institutions can we recommend that would fulfill our moral aspirations by enabling enable people to achieve happiness? And finally: How can we help all citizens, and especially our poor, to lead lives of not only prosperity but also purpose and meaning? These were Smith's goals, and they were the goals of the field of political economy that he practiced. What more beneficial, and more moral, project could there be?

Chapter 2

Sympathy, moral sentiments, and the impartial spectator

Adam Smith's first book was *The Theory of Moral Sentiments* (TMS), first published in 1759. It went through six editions in his lifetime, all of them revised by him, with the sixth and final edition coming out shortly before he died in 1790. TMS is based on lectures Smith had been giving regularly at the University of Glasgow beginning in 1752. TMS quickly established Smith as a leading moral philosopher, both in Britain and on the European continent, and for the rest of Smith's life—and for some time afterwards—it was one of the single most influential books of moral philosophy. The great philosopher Immanuel Kant (1724–1804), for example, was deeply influenced by Smith's TMS. He went so far as to call Smith his "Liebling," or "favorite." Why did TMS have such a pronounced effect?

The first thing to note about TMS is that Smith's primary goal in it was not to recommend behavior. That is, his primary concern was not in telling people how they ought or ought not to behave. It was thus not a book of *moralism*, but, rather, something closer to an exercise in what we today might call *moral psychology*. Smith wanted to understand how human beings come to form the moral sentiments they have. Almost all human beings have moral sentiments, and forming—and expressing—moral judgments is one of the central things humans do. How do they come to have the moral sentiments they do? How do they come to find some things to be morally required, others morally prohibited, and still others morally indifferent? And what accounts for the changes in people's, and society's, moral sentiments over time? One thing Smith observes is that people develop moral sentiments over the course of their lifetimes. When they are born, they have no moral sentiments whatsoever; they have only wants and desires, which they express by howling

and crying out. Yet as they grow and mature, they come to have an increasingly sophisticated sense of morality that enables them to navigate their way through an increasingly complex set of social experiences.

Another thing Smith observed is that moral sentiments often change. What counts as morally required, prohibited, or indifferent changes over time, both at the individual and societal level. To take a recent example, consider spanking children. It was at one time, and for quite some time, considered not only acceptable but the duty of good parents to use corporal punishment to correct their children's behavior. Then, sometime in the latter half of the twentieth century, sentiments began to change and it was considered a matter of preference. Still later, sentiments changed again, and now the cultural consensus seems to hold that one should not spank one's children. Many other things go through similar changes: same-sex marriage, divorce, obesity, sexual or ethnic chauvinism, and so on. There may be some few things that seem to change little—more on those in a moment—but many matters seem to go through this cycle of moral dynamism. And it is not only ostensibly moral matters that go through similar cycles: think of what is considered appropriate attire for different occasions.

A final observation Smith made is that, despite the dynamic changes over time of our moral sentiments, on a few matters there seems to be overlap among cultures and times. That the dead should be respected, for example (however "respect" is expressed in this case), or that theft (under most circumstances) and murder (properly defined) are wrong, seem to be part of a widespread, cross-cultural consensus. Smith's theory would have to be able to take account of all of these observations. How, then, does Smith proceed?

In TMS, Smith wants to be an empirical scientist, in the fashion of Isaac Newton (1643–1727), whom Smith and many other luminaries of the Scottish Enlightenment took to have established the correct method of scientific investigation. Newton's method, as Smith understood it, was first to observe the phenomena to be explained, next to formulate a hypothesis that captures their patterns in laws or rules, then to tease out of the hypothesis predictions about what would hold in new or future cases, then to make further observations to see whether one's predictions hold, and then, finally, to revise, reformulate, or reject the hypothesis, as indicated or required by the newly observed data. Smith's revolutionary idea was to apply this Newtonian method not to objects moving through space but to human behavior. In the

case of TMS, the behavior Smith focused his attention on was the phenomenon of human moral judgment-making. Are there regularly recurring patterns we can infer from observing how humans judge? Can we formulate hypotheses about what would explain these patterns? Can we test our hypotheses against new observations? Smith's answer to these questions is "yes," and in TMS he offers his hypotheses, buttressed by numerous examples and observations. I called Smith's project in TMS "revolutionary" because he was one of the first to approach human morality the way an empirical scientist might,[2] and the new school of moral thought he inaugurated, which we might describe as empirical moral psychology, transformed the way philosophers thought about human morality. What did Smith believe his new method uncovered about human morality?

A central claim of TMS is that human beings naturally desire what Smith calls a "mutual sympathy of sentiments" with their fellows. For Smith, "sympathy" here was not equivalent to pity; rather, it was a technical term that he used in accordance with its etymological meaning of "feeling with" (TMS: 10). When Smith claims we all desire mutual sympathy of sentiments, he means that we long to see our own judgments and sentiments echoed in others. It gives us pleasure to discover that others judge people, actions, and behavior the same way we do. And it gives us a feeling of displeasure when we discover that others judge differently from the way we do. To illustrate, Smith gives the example of joke-telling and laughing at jokes. Are there jokes you know that would be inappropriate to tell in a business meeting? Are there jokes you know that would be appropriate to tell in the same meeting? The answer to both, no doubt, is "yes." But how did we come to know what constitutes an appropriate or inappropriate joke to tell? Where do these standards come from? Smith is fascinated by the fact that we have an almost innate sense about such matters. But he also notices that our standards change: what might have been appropriate in a given set of circumstances twenty years ago might be inappropriate in the same circumstances today. Why did the standards change—and how did we come to know about the change, as we surely do? Similarly with laughing at jokes: is there such a thing as laughing too long at a joke? Of course there is! Well, when does laughing become "too long"? And, again, how did we come to know this?

2 Smith's friend David Hume was another principal partner in this new way of examining morality. See Hume (2000 [1740]: bk. 3).

Smith argues that the answers to these questions ultimately comes from our desire for mutual sympathy of sentiments. When we tell or laugh at a joke, and others laugh as well, it gives us pleasure, and that response gives us valuable positive feedback. By contrast, when we tell or laugh at a joke, and others do not laugh, that gives us displeasure, which, too, is valuable feedback, even though negative. In both cases they help us develop and hone our judgment about the standards of propriety regarding joke-telling and laughing. Smith writes: "A man is mortified when, after having endeavoured to divert the company, he looks round and sees that nobody laughs at his jests but himself. On the contrary, the mirth of the company is highly agreeable to him, and he regards this correspondence of their sentiments with his own as his greatest applause" (TMS: 14). What Smith here calls "correspondence of their sentiments" is the "mutual sympathy of sentiments," and our pleasure in the former case and displeasure in the latter are, Smith thinks, important clues to understanding human psychology and the development of behavioral standards.

Because we all seek out this "sympathy" (TMS: 13–16)—or "harmony," "concord," or "correspondence" of sentiments (other terms Smith uses)—much of social life is a give-and-take whereby people alternately try, on the one hand, to moderate their own sentiments so that others can "enter into them" and, on the other hand, try to arouse others' sentiments so that they match their own. This process of mutual adjustment results in the gradual development of shared habits, and then rules, of behavior and judgment about matters ranging from etiquette to moral duty. This process also gives rise, Smith argues, to an ultimate standard of moral judgment, what he calls the "impartial spectator," whose imagined perspective we use to judge both our own and others' conduct. The "impartial spectator" is not, according to Smith, a mysterious entity: it is the amalgamation of our lifetime of experiences of judgment. When we see how people judge other's behavior and our own, when we see how we ourselves judge others' behavior and our own, this is data on the basis of which we slowly develop our judgment. Over time we construct a set of principles upon which we rely to judge both ourselves and others. As we mature, this set of principles gradually coalesces into an increasingly coherent picture of virtue and vice, of propriety and impropriety. It becomes the standard against which we judge human behavior. When we use it to judge our own conduct, it constitutes what we call our conscience.

Smith thus envisions what we might call an "impartial spectator procedure." Here is how it works. When we are young, our first step in becoming morally mature is to ask ourselves how other people around us will perceive our conduct—what we do and don't do, what we say and don't say, and so on. On the basis of our past experience, we develop the ability to predict how others will react to, respond to, or judge future cases. The more experience we have, the better our predictions get. But one experience all of us inevitably have is being misjudged by others. Perhaps they do not know the full circumstances of our situation, or perhaps they do not even bother to try to put themselves in our shoes. In those cases we do not achieve a mutual sympathy of sentiments—we have instead an "antipathy" of moral sentiments—and this is emotionally displeasing. It is like the case where we told a joke to our friends that we thought was funny but no one else laughed. That awkwardness creates an unpleasant feeling in us, which helps us hone our judgment for the future. But when we are misjudged, we sometimes believe that if people just knew the full story, or took the time to consider our situation fully, they *would* sympathize with our moral sentiments—even if, in actual fact, they did not sympathize. Such unpleasant experiences lead us, Smith thinks, to consider not how *actual* spectators to our conduct judge us—spectators who, after all, are often biased, uninformed, or simply otherwise occupied—but instead to ask ourselves how a fully informed and impartial spectator, were such a person present, *would* judge us. This is the perspective of the "impartial spectator." The fully morally mature person, Smith thinks, will judge himself by this imaginary and idealized perspective, which will give us more reliable guidance than the often biased actual spectators around us will.

The misjudgment we often face from actual spectators can also go in the other direction, however. Whereas people who do not know us are often disinclined to bother to try to fully understand our situation, our family and friends can often be too partial to us. Because they love or are fond of us, they might be too indulgent when judging our behavior. In such cases their feedback is not what we need, because it does not give us good information about how people outside our close circle of family and friends would judge us. Here too, then, asking ourselves what a fully informed but disinterested and impartial spectator would think of our conduct can help correct the biased and partial information we get from actual spectators. So Smith's "impartial spectator procedure" becomes the process by which we can more accurately

assess our own conduct, and it acts as a heuristic device we can use whenever we are considering doing something and wonder whether we should.

In practice, we engage this process simply by asking ourselves what a fully-informed but disinterested person would think about our conduct. If such a person would approve, then we may proceed; if he would disapprove, then we should desist. If we heed what we imagine would be this impartial spectator's judgment, then we feel a pleasurable satisfaction based on an imagined sympathy between our own moral sentiments and the impartial spectator's imagined sentiments. This pleasure reinforces our behavior, and helps develop our judgment in good directions. By contrast, if we disobey or depart from the impartial spectator's imagined judgment, then we feel an unpleasant guilt based on the antipathy between our sentiments and those of the impartial spectator. This provides a disincentive for the behavior that, again, helps develop our judgment properly.

Morality on Smith's account is thus an earthly, grounded affair. Although Smith makes frequent reference in TMS to God and the "Author of Nature," the actual process Smith describes develops as a result of our lived experiences as we seek to achieve mutual sympathy of sentiments, and avoid antipathy of sentiments, with the other people we actually encounter. The fundamental building block of Smith's moral anthropology is the desire for mutual sympathy of sentiments, which, because Smith believes all humans have it, thus acts like a centripetal social force, drawing us into community with others. Although there are other needs and desires that can be satisfied only by interacting with other human beings—like goods and services produced and exchanged in economic markets, for example—nevertheless the desire for mutual sympathy, and the pleasure it affords when it is achieved, is, for Smith, the glue that holds human society together. Without it, we would have no community, and thus no morality; with it, both community and shared moral standards are enabled.

Chapter 3

The solitary islander and moral objectivity

We saw in the previous chapter that Smith believes our moral sentiments develop over time by an almost evolutionary process that depends on interactions with others. There are two other important elements of Smith's argument that will fill out his account of the origins of human morality.

The first is found in a remarkable thought experiment Smith describes. Smith asks us to imagine a person who had grown up entirely outside of human society, with no contact with other humans—a solitary islander, perhaps (TMS: 110–11). Would such a person, were he able to survive on his own, have any sentiments we could call properly "moral"? Smith's answer is no: he might develop likes or dislikes (this tastes good, this doesn't; this hurts, this doesn't; and so on), but such a person, Smith contends, would not develop notions of propriety or impropriety—no "I should not have done that," or "I acted unjustly." The reason, Smith thinks, is because he has not had experience with the "mirror" on his own conduct that society with others provides. He has thus never had the feedback, both negative and positive, from the judgment of others, which means he never had his desire for mutual sympathy of sentiments triggered, which in turn means he never had the opportunity to develop his specifically moral sentiments. How could such a person develop moral sentiments? Smith: "Bring him into society, and all his own passions will immediately become the causes of new passions. He will observe that mankind approve of some of them, and are disgusted by others. He will be elevated in the one case, and cast down in the other; his desires and aversions, his joys and sorrows, will now often become the causes of new desires and new aversions, new joys and new sorrows: they will now, therefore, interest him deeply, and often call upon his most attentive consideration" (TMS: 111).

When once brought into society, this person would begin the process that for most of us began in childhood, which Smith calls "the great school of self-command" (TMS: 145). It is upon being judged by others, and having the pleasant or unpleasant (as the case may be) experience of realizing that we enjoyed a sympathy or antipathy of sentiments with others, that we begin striving to consciously direct our own behavior to achieve more of the former and less of the latter. Only then do we begin developing and exercising the virtue Smith describes as "not only itself a great virtue, but from it all the other virtues seem to derive their principal lustre" (TMS: 241)—namely, "self-command," or controlling our behavior so that it comports with others' expectations and judgments. Only then do we begin the long process of becoming fully moral agents. Being in the company of others is, therefore, necessary not only because it might enable us to become wealthy—more on that later—but in the first instance because it enables us to become moral.

The second important aspect of Smith's account relates to his claim about what he calls our desire "not only to be loved, but to be lovely," "to be that thing which is the natural and proper object of love" (TMS: 113). Even further, Smith argues that we "desire both to be respectable and to be respected" (TMS: 62). We desire, Smith thinks, not only praise but also to be worthy of that praise, and he argues that, just as unmerited disapproval is unpleasant, so is unmerited approval: an "ignorant and groundless praise can give no solid joy" (TMS: 115). Why? Because we know that a properly informed impartial spectator would not in fact praise us. When we imagine how such an impartial spectator would judge us, and we realize he would not praise us as much as actual spectators might, we realize a failure to achieve mutual sympathy of sentiments with the impartial spectator. Thus the desire for mutual sympathy of sentiments, which on Smith's view accounts for so much of our moral personalities, functions here too: it endows us "not only with a desire of being approved of, but with a desire of being what ought to be approved of; or of being what [we ourselves] approve of in other men" (TMS: 117).

Why is this important? Smith is trying to reconcile two claims about human morality that otherwise seem to fit ill with one another. First, his observations have led him to believe that an individual's moral sentiments develop over time as an interaction between his own motivations—including in particular his desire for mutual sympathy of sentiments—and the experiences he has with others with whom he has come in contact. On this account, one's mature moral sentiments are dependent on one's experiences

and environment. Second, however, Smith has also observed that on a few specific matters there seems to be significant overlap across cultures about what constitutes the core of human virtue. Moreover, while some of our moral sentiments seem variable across cultures and over time, some of them we hold with an almost unshakeable certainty. The first point suggests a kind of moral relativism; the second, a moral objectivity. How can both be true?

Smith's claim that we desire not only to be "loved" but to be "lovely" is the beginning of an answer. Our desire for mutual sympathy of sentiments leads us, as we have seen, into community with others. In addition, one central element of happiness is loving relations with others. Smith writes, for example, that "the chief part of human happiness arises from the consciousness of being beloved" (TMS: 41). Smith further claims that man "can subsist only in society": "All the members of human society stand in need of each others assistance, and are likewise exposed to mutual injuries. Where the necessary assistance is reciprocally afforded from love, from gratitude, from friendship, and esteem, the society flourishes and is happy. All the different members of it are bound together by the agreeable bands of love and affection, and are, as it were, drawn to one common centre of mutual good offices" (TMS: 85). Thus our desire for mutual sympathy of sentiments, because it is mutual—meaning that each of us desires it—draws all of us into society with one another. Because, in addition, we need one another not only to supply our "mutual good offices" to one another but also for love, friendship, and esteem, we are strongly, and naturally, motivated to find ways to behave that we find mutually agreeable. Thus the patterns of behavior that we discover, and that get positively reinforced by achievement of mutual sympathy of sentiments, become a set of real moral standards. They are created by human beings, but they are not arbitrary or subjective: they must meet with others' approval as well and are thus subject to external, social correction. And given that we have similar psychological and material needs that can be met only in society with others, there is bound to be some commonality across cultures, even if some details vary. The impartial spectator standard would then allow some variability with matters that are less central to human survival, and be more fixed regarding other matters that are more central.

If Smith is right, then there should be some aspects of human behavior that are indeed society- and cultural-specific, and others that hold across societies and cultures. Are there? The former are easy to find, but what about the latter? That brings us to Smith's discussion of the rules of justice.

Chapter 4

Justice and beneficence

In his 1759 *Theory of Moral Sentiments*, Adam Smith divides moral virtue into two broad categories: "justice" and "beneficence." Smith describes "justice" as a "negative" virtue, meaning that to fulfill it we must merely refrain from injuring others. By contrast, "beneficence" is a "positive" virtue, meaning that to fulfill it we must engage in positive action to improve others' situations. Beneficence includes for Smith things like charity, generosity, and friendship, things that inspire gratitude in the beneficiaries of our actions. Justice, on the other hand, requires that we do not harm or injure others; if we breach justice, then we inspire resentment in those we hurt.

It turns out, Smith argues, that there are only three rules of justice: (1) the rule to "guard the life and person of our neighbor"; (2) the rule to "guard [our neighbor's] property and possessions"; and (3) the rule to "guard what are called [our neighbor's] personal rights, or what is due to him from the promises of others" (TMS: 84). We can remember the rules of justice as the "3 Ps": *person*, *property*, and *promise*. Smith's argument is that if we do not kill, enslave, or molest others; if we do not steal from, trespass on, or damage another's property; and if we do not renege on voluntary contracts or promises we have made: then we will have acted with justice toward others. The just person, then, is the one who, whatever else he does, causes no harm or injury to others in their "3 Ps." As Smith strikingly puts it: "We may often fulfil all the rules of justice by sitting still and doing nothing" (TMS: 82).

Beneficence, however, is another matter. To fulfill our beneficent obligations—and we do indeed have duties of beneficence, according to Smith—we must take positive action to improve others' situations. Parents have duties of beneficence to their children, for example; friends have duties to one another; and so on. To count as beneficence, however, and not mere benevolence (the latter means "wishing another well," but the former means

"benefitting another"), an action must not only actually improve another's situation but also must come at some cost to us—it must cost us something in money, time, or other resources. But Smith issues some qualifications regarding beneficence. First, he says that "Beneficence is always free, it cannot be extorted by force" (TMS: 78). Why? For several reasons. One, "the mere want of beneficence tends to do no real positive evil" (TMS: 78). If I do not do a good turn for you, even if you hoped or expected I would, I do not make you worse off: I simply leave you as you were. Smith argues that force may be used only to prevent or correct actual injury. By contrast, if I act unjustly toward you, I do in fact make you worse off. And two, real beneficence is actually surprisingly difficult. It is often very hard to know what would constitute genuine help for another person. Think of someone begging on the street. What would constitute genuine help for such a person? Money? Food? Advice? Friendship? Nothing at all? Any of these might be required, and different circumstances will require different actions. This goes not only for the recipient of help but also for the giver of help: What is the best use of the giver's time, talent, or treasure? What other obligations does the giver have? This is not merely an attempt to rationalize a desire not to give. Without detailed knowledge of the specific situations of both the recipient and the giver, we cannot know what beneficence requires in any particular case. For this reason Smith argues that beneficence should properly be left not to government but rather to individuals on the basis of their localized knowledge and individual judgment. Only they can know whether they should give or not, and, if so, what they should give. That is why Smith argues that beneficence should not be required by force from afar.

But there is another reason why Smith thinks beneficence "cannot be extorted by force": we get no moral credit for helping another if we are forced to do so. For something to count as a moral action, it must be freely chosen. "What friendship, what generosity, what charity, would prompt us to do with universal approbation, is still more free, and can still less be extorted by force than the duties of gratitude" (TMS: 79). Whatever else is the case, for an action to count as moral—and hence to qualify as either virtuous or vicious—one must have had the opportunity to choose otherwise. It is only when one freely decides to incur the cost to oneself of affecting another's situation does one get moral credit (or blame, as the case may be) for that choice. A dog that bites a little girl is not morally blamed for its action, even though it caused harm,

and a tree gets no moral credit for providing even much-needed shade. In the same way, a person who is forced to give to a charity—through, for example, mandatory government transfer—gets no moral praise for it.

Smith calls the rules of justice "sacred," which may seem an oddly strong word for an account claiming that moral virtues arise on the basis of experience and interactions among individuals. Why would he call justice "sacred"? The answer is that Smith believes that the rules of justice turn out to be necessary for any society to exist. He calls them "the foundation which supports the building" that is society, whereas he calls beneficence "the ornament which embellishes" society (TMS: 86). A society filled with people who fulfill the rules of justice perfectly—who, that is, never harm others in their persons, property, or promises—but who do not engage in beneficent action toward one another may not be the most inviting society in which to live. But it can survive. On the other hand, a society in which people routinely injure one another but are polite while doing so—or perhaps give some of their pilfered loot to charity—is, despite whatever other charms it might have, not long for this world. Smith goes so far as to say that even in a "society among robbers and murders, they must at least, according to the trite observation, abstain from robbing and murdering one another" (TMS: 86). He concludes from this "trite" observation: "Beneficence, therefore, is less essential to the existence of society than justice. Society may subsist, though not in the most comfortable state, without beneficence; but the prevalence of injustice must utterly destroy it" (TMS: 86). For Smith, then, justice is both necessary and sufficient for society to survive, which is why he calls the rules of justice "sacred." Beneficence, by contrast, is neither necessary nor sufficient for the survival of society, and hence gets no similarly blessed honorific.

Because justice is necessary for any society to survive, Smith believes that all successful societies will have had to hit upon the rules of justice—and exactly these rules of justice. By trial and error, human societies over time and across cultures have come to see, with varying degrees of success, that following the rules of justice (as he understands them) are required for the continuing functioning of their societies. Now, this is not an all-or-nothing affair. While perhaps no society has ever perfectly enforced these rules, some societies follow and enforce them to a greater extent than do others. A prediction entailed by Smith's account is that the relative happiness and prosperity of people in a given society will track the relative degree to which its citizens

follow and its institutions enforce justice. That Smith's account entails predictions like this, which can be empirically verified or falsified, is part of what makes it count as a science, as opposed to a pseudoscience. We will have occasion in later chapters to look at some empirical evidence that seems to confirm Smith's prediction, though for the moment we can leave to the reader to evaluate whether Smith got this right or not. The important point here is that the criterion of the ultimate success or failure of society, and its dependence on these particular rules of justice, explain why Smith calls them "sacred" and why he thinks they are of critical importance even if they had no transcendent sanction from, say, God or natural law.

An objection

Smith's stark distinction between justice and beneficence will have important implications when he comes to discuss the proper role of government in human life. We will discuss these implications in later chapters, but before ending our discussion of Smith's distinction, let us address an objection one might raise to Smith's account. The term "social justice" can mean different things to different people, but one aspect of most accounts of social justice is that it should incorporate at least some duties of beneficence into justice. The objection to Smith that social justice raises is that his account of justice is too thin because it does not sufficiently incorporate our obligations to others who need our help.

The philosopher Peter Singer (2009), for example, gives us the following thought experiment. Imagine you are on your way to an important job interview. You pass by a man-made fountain and see a small child drowning in it. It is not your child, and you did not put the child in the water; but you realize that if you do not wade in to save the child, the child will drown. Suppose that if you do save the child, you ruin your shoes, miss your interview, and do not get your job. Singer's question: should you save the child? The obvious answer is yes, you should save the child. That's the easy part. The hard part is: What should we say about a person who decided *not* to save the child? How should we characterize his immoral inaction? On Smith's distinction between justice and beneficence, all we could say is that such a person was *insufficiently beneficent*. But, Singer argues, that seems too weak. Should we not also be able to say that the person failed in justice—in other words, acted unjustly? The reason to call for the stronger condemnation of "injustice" is that

it might also license punishment. Remember, on Smith's account, we cannot coerce beneficence. We can enforce the rules of justice, coercively if necessary, and we can punish injustice—again, coercively if necessary. But Smith believes that beneficence must be "free," which entails not only that beneficent action cannot be coerced but also that failure to act beneficently may not be (coercively) punished. So Smith would not allow us to punish the person who fails to rescue the drowning child. Similarly, Smith would apparently also not allow us to punish people for not helping others in other situations when they could and when those others desire or even need their help. For that reason, Singer, as well as many other thinkers, criticize Smith's account for being insufficient, for debarring important mechanisms for society to provide aid to people when private, voluntary actions are insufficient.

So who is right—Smith or Singer? Based on the account Smith gives, we can guess that, were he alive to respond, he would suggest that the charge of "insufficient beneficence" is not as weak as Singer might suppose. What recourse could we take, on Smith's account, for the person who fails to rescue the child, or for a person who fails to help anyone else who needs or wants his help? We could publicly condemn the person. We could decide not to be friends with or associate with the person. We could write an editorial in the newspaper decrying the person's actions. All of these, and many other, actions we could take; Smith's argument would preclude only initiating coercive punishment against the person—no fines, no jail time. Are the actions that Smith allows us enough? Smith seems to believe that in most cases it is. Public condemnation, and the consciousness of being judged negatively by others, are, Smith believes, powerful motivating factors for human behavior. "Nature," Smith writes, "has endowed [humankind], not only with a desire of being approved of, but with a desire of being what ought to be approved of; or of being what he himself approves of in other men" (TMS: 117). For the person who has become cognizant that his actions have not only received blame but are actually blameworthy, the guilt can be debilitating: "These natural pangs of an affrighted conscience are the daemons, the avenging furies, which, in this life, haunt the guilty, which allow them neither quiet nor repose, which often drive them to despair and distraction" (TMS: 118). So strong is our desire for mutual sympathy of sentiments that we become, Smith says, "mortified" when we realize others do not approve of our conduct (TMS: 14, 60, 116).

Still, is this mortification sufficiently reliable for us to count on in ensuring proper beneficent conduct? Or should we have public institutions that will enforce beneficence, coercively if necessary, in addition to enforcing justice? Smith has a few more reasons to offer in support of his "thin" account of justice, to which we will return in later chapters when we take up the discussion of what Smith believes is the proper role of government. But for now we will have to leave the evaluation of Smith's position to the reader's judgment. What is important now is that we understand Smith's position, which is that government may be tasked with enforcing justice, but that acting with and enforcing proper beneficence must be left to individuals and private parties.

Chapter 5

The marketplace of morality

As we saw in Chapter 1, Adam Smith was first and foremost a moral philosopher. In his *Theory of Moral Sentiments*, he wanted to understand how human beings come to have the moral sentiments they do, and how they form the moral judgments they do. We saw in the previous three chapters that Smith described a process by which individuals develop moral sentiments over time, through interaction with others, and based on the experiences they have watching others judge and perceiving being judged themselves. In the Introduction, I raised the historical and scholarly issue known as the "Adam Smith Problem," which alleges a rift between the account of morality Smith gives in TMS, on the one hand, and the seemingly different account of political economy Smith gives in his *Wealth of Nations*, on the other. Can the two accounts be reconciled? I argued in Chapter 1 that both accounts could be reconciled by a proper understanding of Smith's "political economy" project. In this chapter, let me lay out how the projects of Smith's two books go together.

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The explanation Smith offers for the development of moral standards holds the process to create what we today might call "spontaneous order." A spontaneous order is a system that arises, as Smith's contemporary Adam Ferguson put it, as "the result of human action, but not the execution of any human design" (Ferguson, 1996 [1767]: 119). As this theory was developed by twentieth-century thinkers like Michael Polanyi and Friedrich Hayek, it referred to the development of an orderly system that arose from the decentralized actions of individuals but without their intending to design any overall system. Language is a good example. The English language is a relatively orderly system: it contains rules of grammar, definitions of words, and accepted or

acceptable pronunciations, but there was no single person or group of persons who invented or designed it. It lives and changes according to the purposes and desires of the users of the language, and its rules are generated and enforced by the users themselves. In order for English to serve its purpose of allowing its users to communicate their thoughts, its rules must be commonly accepted; yet because its users' purposes and experiences change over time, the language itself will also change, at least at the margins, over time. At any given moment, most of the language's elements are fixed and admit of little or no variation. Yet there is always room for linguistic entrepreneurs to try out new usages. If other users find that the new usages serve their purposes as well, the new usages might catch on and eventually become part of the generally accepted body of the language. Some new usages will arise but fail to achieve common use, and will then fade. All of this proceeds without any overall architect or designer of the language.

Another prime example of spontaneous order is ecosystems. If one looks around the world, one might observe that the various elements of the ecosystems seem to fit together well: plants and animals seem well adapted to succeed in their particular environments, and the various parts seem to work together to produce a kind of harmonious whole. Many have concluded from observations like these that the world must therefore have had some intelligent designer, or perhaps Intelligent Designer, who created the whole from scratch and integrated all its elements into a rational unity. Yet one of the things Charles Darwin (1809–1882) noticed is that this seeming harmony is the product, in fact, of a turbulent and contested struggle for survival, with many individual animals and plants not surviving. Thus there is a competition for survival, in which some of the individuals that are better adapted survive where others do not. This competition gives rise over time to the existence of relatively better adapted organisms and species whose fitness can appear to have been antecedently, and rationally, designed but that is in fact merely the result of countless localized contests for scarce resources and reproduction. Even extremely complex organisms, like human beings, and organs, like the human eye, can arise over time from this multiply iterated struggle for survival across thousands and thousands of generations.

One more example of spontaneous order: an economic market. As Smith would go on to describe in his *Wealth of Nations*, the individual actors in economic markets certainly have intentions—they all want, in his words,

to "better their own condition" (WN: 345)—but they nevertheless typically do not have any larger intentions in mind regarding an overall system of market order. They just want to achieve their localized purposes in cooperation with other willing individuals. Yet individuals' decentralized attempts to achieve their purposes lead to the development of patterns and even principles of behavior that can look as if some wise person designed it all.

Let us now relate this discussion of spontaneous order to Smith's account of human morality. Smith's argument is that human morality is a social system that arises—like languages, like ecosystems, and like markets—on the basis of countless individual decisions, actions, and interactions but without any overall plan and with no overall designer. Each of us begins life with no moral sentiments whatsoever, but with an instinctive desire for mutual sympathy of sentiments. Interactions with others—and, in particular, experiences in which others judge us—trigger our desire for mutual sympathy of sentiments and begin the lifelong process of finding ways to behave that stand a chance of achieving this sympathy, which Smith believes is, along with the desire to procreate, among the strongest social desires humans have. This trial-and-error process, which we conduct with others who similarly wish to achieve mutual sympathy, leads us to develop habits of behavior that reflect successful attempts. These habits eventually become, through suitable refinement, principles of behavior, and then come to inform our conscience. Because we develop these principles with others in our community, they can become a shared system of moral judgment—one that no one of us planned but to which we all contribute, that we recognize and respect (even in the breach), and that is enforced mainly by the members of the community itself.

At any given moment, a community's shared moral sentiments may seem as though they are self-evident, bestowed by a wise (even divine) law-giver, or deducible from pure reason or natural law. Smith's argument is not that God does not exist or could not have intended for us to develop some specific set of moral sentiments. Indeed, Smith was apparently a Christian and hence seemed to believe both that God created us and that He intends for us to be happy.[3] Smith's argument is rather that God created us with the

3 Modern scholars differ over the extent to which Smith's many references to God, to the Author of Nature, and so on are indicative of his actual religious beliefs. For discussion, see Ross (2010) and, for a variety of perspectives, Oslington (2011).

necessary psychological tools—in particular, the desire for mutual sympathy of sentiments—as well as with the necessary circumstances—in particular, scarcity of resources, which requires cooperation to survive and flourish—that would, or at least could, lead us to develop mutually beneficial communities of virtue and prosperity. All of this would proceed cooperatively and jointly, but without requiring divine interposition. But Smith also believed that empirical observation suggests that human beings are imperfect and often make mistakes. Their free will enables them to make choices—some of which will turn out to benefit themselves and others, but others of which will turn out to harm themselves or others. The process he envisions, then, is similar to what Darwin would articulate in the succeeding century as that giving rise to species and ecosystems in the natural order.[4] There is a great deal of turbulence and variation at the micro-level, but the decentralized actions and interactions of individuals give rise to a relatively orderly system at the macro-level. This macro-level order is relatively stable, recognizable, and scientifically describable, though it is still subject to change over time, at least at the margins, as a result of individuals' changing circumstances, purposes, and experiences.

Smith's groundbreaking account of human morality, then, holds it to be an evolutionary account. We are not given moral sentiments; we do not deduce them or apprehend them once and for all. Instead, we develop moral sentiments over time. At the individual level, we train our judgment and our sentiments as a result of the interactions we have with others and the feedback we get from others' positive and negative judgments. This feedback has purchase on us because of the pleasure we receive from achieving mutual sympathy of sentiments and the displeasure we receive from experiencing an antipathy of sentiments. We are hence encouraged to discover and follow rules of behavior that we come to see as "moral" because of our needs and desires, both of which can be satisfied only in cooperative relations with others (who can, if they like, choose not to associate with us—thus creating scarcity and competition). And our decentralized striving to discover, and follow, these rules gives rise—unintentionally, without any of us planning it—to a shared system of morality.

4 For a recent discussion of the link between Smith and Darwin, see Ridley (2015), especially Chapter 2.

Some of the rules of this discovered and developed morality are so central to the existence of our community, which is itself necessary for our individual survival, that they get multiply reinforced and deeply fixed in our consciences. They can come to seem almost, or even actually, "sacred," as Smith describes his rules of "justice." Others are less central to our survival, and so admit of more variation—like the rules about proper attire, joke-telling, manners, and so on. Still others are of great importance to our ability to achieve happiness but are highly dependent on localized circumstances and purposes, and so do not admit of universalizing. The rules of "beneficence" fall into this category: we all wish for others to act with beneficence toward us, and we approve of appropriate beneficence in others as well as in ourselves, so we have clear duties of beneficence. Nevertheless, what counts as proper beneficence in any particular case is so dependent on the details of particular circumstances that our system of morality endorses beneficence only in general and in the abstract—we should be generous, charitable, helpful, friendly, loyal, and so on—while leaving the particular instantiations of these virtues in actual people's lives to the relevant individuals and localized communities themselves. Smith writes: "The rules of justice may be compared to the rules of grammar; the rules of the other virtues, to the rules which critics lay down for the attainment of what is sublime and elegant in composition. The one, are precise, accurate, and indispensable. The other, 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" (TMS: 175–6).

We can now specify the particular elements of Smith's model for understanding the human social institution of morality according to what I call Smith's "marketplace of morality." It has six elements: motivating desire, market, competition, rules developed, resulting "spontaneous order," and objectivity. Here is how I believe Smith deploys and understands these six elements.

1. **Motivating desire**: The "desire for mutual sympathy of sentiments," which Smith believes all human beings have by nature.

2. **Market**: What gets exchanged is our personal sentiments and moral judgments.

3 **Competition**: Because we all want mutual sympathy of sentiments but we cannot all sympathize with everyone's sentiments, mutual sympathy becomes a sought-after scarce resource.

4 **Rules developed**: standards of moral judgment and rules determining what Smith calls "propriety" and "merit"—or what we might call virtue and vice, good behavior and bad behavior, and so on. Some of these rules are relatively fixed, like the rules of justice, whereas others, like beneficence, are more variable.

5 **Resulting "spontaneous" order**: commonly shared standards of morality, moral judgment, manners, and etiquette.

6 **Objectivity**: the judgment of the impartial spectator, which is constructed inductively on the basis of people's lived experience with others.

One final consideration. The reader may have remarked at my use of the term "marketplace" in describing Smith's model as "marketplace of morality." I use the term deliberately because the features of Smith's model approximate a market order that is more familiar in other parts of human social life, like economic markets. The system of human morality Smith is trying to explain and account for involves elements of exchange, competition, and cooperation in a context of decentralized striving for scarce resources that indeed resembles economic markets. If it turns out that similar elements can be found in Smith's *Wealth of Nations*, then that would mean that the model Smith develops in *The Theory of Moral Sentiments* applies to WN as well. Thus, far from being inconsistent, the two books would be united on a deep level. Is that same model in fact present in WN? We turn to that in the next chapter.

Chapter 6

The division of labor

Adam Smith's *An Inquiry into the Nature and Causes of the Wealth of Nations* was published on March 9, 1776. It had been in the works for over a decade, and Smith—who was by now the celebrated author of the highly acclaimed 1759 *Theory of Moral Sentiments*—found himself the object of a great deal of anticipation. The leading thinkers of the day knew Smith had been working on a magnum opus, and they had heard hints and suggestions about what might be in it. But he had been working on it so long that the anticipation had grown to worrying heights, since those who had been so impressed by TMS began to worry that its author could not equal his accomplishment in his first book.

The reactions to the publication of WN were swift and, among the principals of the Scottish Enlightenment, highly laudatory. Here is David Hume's reaction:

> *Euge! Belle! Dear Mr. Smith: I am much pleas'd with your Performance, and the Perusal of it has taken me from a State of great Anxiety. It was a Work of so much Expectation, by yourself, by your Friends, and by the Public, that I trembled for its Appearance; but am now much relieved. Not but that the Reading of it necessarily requires so much Attention, and the Public is disposed to give so little, that I shall still doubt for some time of its being very popular: But it has Depth and Solidity and Acuteness, and is so much illustrated by curious Facts, that it must at last take the public Attention.*
>
> (Smith, 1987: 150)

Here is Hugh Blair (1718–1800), Moderator of the General Assembly of the Church of Scotland and Professor of Rhetoric at the University of Edinburgh: "You have given me full and Compleat Satisfaction and my Faith

is fixed. I do think the Age is highly indebted to you, and I wish they may be duly Sensible of the Obligation" (Smith, 1987: 151). William Robertson (1721–93), eminent historian and Principal of the University of Edinburgh: "You have formed into a regular and consistent system one of the most intricate and important parts of political science, and [...] I should think your Book will occasion a total change in several important articles in police and finance" (Smith 1987: 153). And Adam Ferguson (1723–1816), Professor of Moral Philosophy at the University of Edinburgh and author of the 1767 *Essay on the History of Civil Society*: "You are surely to reign alone on these subjects, to form the opinions, and I hope to govern at least the coming generations" (Smith, 1987: 154). Somewhat later, Thomas Malthus (1766–1834), author of the 1798 *Essay on the Principle of Population*, went so far as to claim that Smith's WN "has done for political economy, what the *Principia* of Newton did for physics" (1986: 257).

By the middle of the nineteenth century, WN was regularly cited in the British parliament—in debates about its Corn Laws, for example—and its recommendations of free markets and free trade went on to have great influence in the subsequent political and economic developments not only of Britain, but also of most of the Western and even parts of the Eastern world. Smith's influence on the founding of the United States in particular was also pronounced. Among his readers were Benjamin Franklin (1706–90), George Washington (1732–99), Thomas Paine (1737–1809), and Thomas Jefferson (1743–1826). When compiling "a course of reading" in 1799, Jefferson, for example, included WN along with John Locke's 1690 *Second Treatise of Government* and Condorcet's 1793 *Esquisse d'un tableau des progrès de l'esprit humain* as the essential books (Rothschild, 2001: 4). The English historian Henry Thomas Buckle (1821–62) wrote that WN "is probably the most important book that has ever been written," including the Bible (Skousen, 2001: 20).

What could Smith's book have accomplished to warrant such high praise?

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The main questions Smith set himself to explain were captured in the full title of the book. He wanted to know, first, wherein genuine or true wealth consisted, and, second, what had enabled some countries to grow in wealth where others had not. WN is a long and wide-ranging book, discussing everything from where prices come from to trade policy to public debt. Smith was able to get

figures for things like grain production in several countries of Europe for several centuries—no small feat in an era without an internet, without computers, without telephones, and without electricity. His method was relatively simple, and might strike us today as obvious; in his day, however, it was revolutionary. He wanted to compare the production over time of various goods (like corn, for example), and then track them according to the policies the respective countries had in place over the same periods. Were there patterns that could be discovered? That is, were periods of increasing production and prosperity correlated with specific policies, and decreases correlated with other specific policies? If so, then perhaps hypotheses could be formulated: "Policies like X, Y, and Z lead to increasing production and prosperity, while policies like A, B, and C lead to decreasing production and prosperity." The next step would be to gather further empirical data against which hypotheses like these could be tested; if further data confirmed them, then a recommendation could be made: "Pursue policies like X, Y, and Z, and avoid policies like A, B, and C."

After surveying the evidence that he could gather, Smith came to the conclusion that the primary factor in explaining why some places were increasing in wealth was the division of labor. That might seem like an underwhelming conclusion. What about natural resources? What about infrastructure? What about education? What about technology? Smith had considered these possibilities, but he discovered that they did not account for the differentials in wealth he was observing. Take natural resources: there were some places rich in natural resources, like China, but that overall were not wealthy; and there were places relatively poor in natural resources, like Holland and Britain, but wealthy. Factors like infrastructure, education, and technology Smith argued were in fact functions of wealth, not originators of it. In other words, places that were already generating wealth could afford better infrastructure, could afford more formal education, and could capitalize on technological advances; places that were not already wealthy struggled to develop or take advantage of these things. And to Smith's great credit, he also did not think that racial distinctions played any role. That was an explanation that would have been ready to hand in the eighteenth century (and in the nineteenth century as well—Darwin, for example, took "natural" distinctions among human races seriously in his 1871 *Descent of Man*). But Smith believed that all human beings were relatively equal in their motivations and abilities, and thus policies that worked in one country or in one culture would, or should, work in others as well.

So what did Smith think the division of labor would accomplish? Before addressing this question directly, we need to understand what Smith meant by "wealth." Here too Smith was offering a new account. In the eighteenth century, the reigning economic theory came from a school of economic thought called Mercantilism, which held that wealth consisted in gold or other pieces of metal. The more gold a country has, according to Mercantilism, the wealthier it is; the less gold, the less wealthy. Given that theory, countries often implemented trade restrictions. If British citizens bought, say, wine from France, the British would get wine but the French would get gold. If wealth consists in gold, however, that would mean that Britain is getting poorer relative to France, which is getting wealthier. Thus Britain might be inclined to place restrictions on trading with other countries: Britain would want its citizens to *sell* to other countries, but not to *buy* from them. Because other countries would reason similarly, there would be a mutual contest to implement as many trade restrictions as possible, with the result that overall trade would decrease.

Smith argued, by contrast, that wealth does not consist in pieces of metal; it consists rather in the relative ability to satisfy one's needs and desires. "Every man," Smith wrote, "is rich or poor according to the degree in which he can afford to enjoy the necessaries, conveniences, and amusements of human life" (WN: 47). Because the "far greater part of them he must derive from the labour of other people," Smith continued, "he must be rich or poor according to the quantity of that labour which he can command, or which he can afford to purchase" (ibid.). Thus Smith claims that we are rich or poor according to whether we have the means to accomplish our ends, whatever they are; true wealth, then, is the relatively higher satisfaction of our ends. What the Mercantilist forgets is that when British citizens buy wine from France, they do give up gold, *but they get the wine*—and that is what they wanted. Thus their situations are improved, according to their own lights, and that means they are relatively wealthier on Smith's definition of wealth. Understanding wealth in this way enabled Smith to explain why people would part with pieces of metal for goods or services: if they were not thereby benefitted, why would they have done so? Since each person always wishes to "better his own condition" (WN: 343), the argument of WN is that those policies and public institutions should be adopted that best allow each of us to do so. In this case, it means lowering trade barriers and encouraging free and open trade, even between people of different countries.

What does this have to do with the division of labor? Smith claims that dividing the labor required to complete a task enables a far greater production. Consider Smith's now-famous example of making pins. Smith says that a pin-maker could, if he is a master at it, make no more than twenty complete pins in a day. A shop of ten such pin-makers could thus make 200 pins per day, if they each made one pin at a time from start to finish. If the various tasks involved in making pins are divided, however, with different people specializing on individual tasks—"One man draws out the wire, another straightens it, a third cuts it, a fourth points it, a fifth grinds it at the top for receiving the head" (WN: 15), and so on—the overall production of pins increases dramatically. Smith argues that division of labor will lead to specialization. Specialization, in turn, leads to increasing quantity of production because of three factors: first, "the increase of dexterity in every particular workman"; second, "the saving of the time which is commonly lost in passing from one species of work to another"; and, third, "the invention of a great number of machines which facilitate and abridge labour, and enable one man to do the work of many" (WN: 17). These three factors, and in particular the last one—innovation—lead, Smith claims, to a "great increase of the quantity" in production. In fact, Smith claims that that same ten-person pin-making shop could, if it divides the labor and allows specialization, make upwards of 48,000 pins per day, or the equivalent of 4,800 pins per person. That is an increase in production of 23,900%!

Now, of course, the pin-makers do not need 4,800 pins per day themselves, so what do they do with the surplus? They sell it. As the number of pins available in the market thus increases, the prices will decrease, which means that more and more people will be able to afford them. As division of labor spreads to other industries, the result will be the same: more and more goods (and services) available in the market, with ever-decreasing prices. This means more and more people will be able to afford more and more means to satisfy their ends, which means the overall wealth of the society will increase. And if British shops make more pins than British citizens need, the surplus pins can be sold to people in other countries, making both groups better off. Here are the steps in Smith's story of wealth:

Step One: The labor is divided.

Step Two: Production increases.

Step Three: Increasing production leads to decreasing prices.

Step Four: Decreasing prices leads to increasing standards of living.

That's it. That is the core of the argument Smith makes, capturing the essential elements he gleaned from his survey of centuries of human history across more than a dozen countries.

Here is Smith's summary of his argument, which comes not ten pages into his over-1,000-page WN:

> *It is the great multiplication of the productions of all the different arts, in consequence of the division of labour, which occasions, in a well-governed society, that universal opulence which extends itself to the lowest ranks of the people. Every workman has a great quantity of his own work to dispose of beyond what he himself has occasion for; and every other workman being exactly in the same situation, he is enabled to exchange a great quantity of his own goods for a great quantity, or, what comes to the same thing, for the price of a great quantity of theirs. He supplies them abundantly with what they have occasion for, and they accommodate him as amply with what he has occasion for, and a general plenty diffuses itself through all the different ranks of society.* (WN: 22)

There are several elements of this passage that should be emphasized. First, it highlights the extensive cooperation and interdependence that arises in markets: we all become dependent on one another to supply what we have "occasion for." For Smith, this is a cause of celebration. Far better to view others—including people from other countries, who speak different languages, who practice different religions, who are of different races, and so on—as opportunities for mutual benefit rather than as enemies to be feared. Second, Smith speaks of "universal opulence," "general plenty," and of the common "workman." All of these emphasize Smith's primary concern, namely, the least among us. He is interested to understand how the poor can raise their estate. Pharaohs, emperors, kings, and aristocrats have long been able to take care of themselves, and would continue to do so; Smith is worried instead about the everyday common man.

Third and finally, note Smith's qualifier "in a well-governed society." What constitutes a "well-governed society"? We will flesh this out in more detail in Chapter 10, but we can infer from what Smith has argued so far that a "well-governed society" is one in which the division of labor is allowed

to proceed, and in which people are able to trade or sell away their surplus. What is needed for that? Here we can draw on what Smith argued in TMS was the core of his conception of "justice," namely the 3 Ps: the protection of person, property, and promise. When everyone, even the least among us, is protected in his person, his property, and in the promises made both by him and to him, then he has the security to increase his production as well as the liberty to work, sell, buy, trade, negotiate, and associate as best he can in seeking to "better his condition." In that case, ventures will be launched, labor will naturally divide itself, and all the gains from the rest of Smith's story of wealth will ensue.

Thus Smith's argument is that a country that wants to increase its wealth and enable its citizens to prosper must enact policies that enable the division of labor, the increase of production, the decrease of prices, and the resulting increase in standards of living. His larger political-economic argument then proceeds on the basis of three linked arguments, which we might call the *Economizer Argument*, the *Local Knowledge Argument*, and the *Invisible Hand Argument*. We discuss the first two of these in the next chapter, and the third in the following chapter.

Chapter 7

Smithian political economy

We saw in the previous chapter that Smith believed the key to increasing prosperity was the division of labor. He argued that specialization would lead to increasing production, which leads to decreasing prices, which in turn leads to increasing standards of living. We also saw that he thought this story of prosperity could ensue only in a "well-governed society," which for him is one that, whatever else is the case, has "an exact administration of justice." In Chapter 10, we will look more specifically at the role Smith believes the government should play in society. But can we say a bit more about how Smith thinks prosperity is generated? What, for him, are the causes of the wealth of nations?

Smith's overall political-economic argument proceeds on the basis primarily of three linked arguments, which I call the Economizer Argument, the Local Knowledge Argument, and the Invisible Hand Argument. Let us look at these in turn.

The Economizer Argument

Smith writes: "Every individual is continually exerting himself to find out the most advantageous employment for whatever capital he can command" (WN: 454). This is connected with Smith's discussion elsewhere (and repeatedly) of the "natural effort of every individual to better his own condition" (WN: 540), and his (again, repeated) claim that "It is the interest of every man to live as much at his ease as he can" (WN: 760). We might less charitably call this the "human laziness argument," but it is more accurately described as the claim that all people naturally—that is, without being told to do so—look for the most efficient means to achieve their goals, whatever they are. Do you want to learn to play the piano? To run a marathon or learn French or get a job as an attorney? Whatever your goals, the Economizer Argument holds

that you will assess the limited resources available to you—including your time, your skills and abilities, and your money—and you will look for ways to reach your goals in the surest, fastest, most complete ways, or with the least cost to any other goals you have, given your available resources. You look, as it were, for the best returns on your investment of resources; in other words, you *economize*. Hence the name, Economizer Argument.

The Local Knowledge Argument

Smith writes: "What is the species of domestick industry which his capital can employ, and of which the produce is likely to be of the greatest value, every individual, it is evident, can, in his local situation, judge much better than any statesman or lawgiver can do for him" (WN: 456). As Smith develops it, this argument proceeds as a three-step syllogism:

Premise 1: People's individual situations, along with their values, purposes, and opportunities, are known best by individuals themselves.
Premise 2: To be made wisely, decisions about allocating resources must exploit knowledge of situation, value, purpose, and opportunity.
Conclusion: Therefore, the person best positioned to make such decisions is … the individual.

Smith's claim is not that individuals are infallible or that they never make mistakes; obviously we all make mistakes, frustratingly often. And of course there might be special cases—for example, children or the mentally infirm—where individuals are not, in fact, best positioned to make decisions in their own cases. But for the vast majority of normally functioning adults, Smith's claim is that their personal knowledge of their own situations exceeds that of others. Hence, if making good decisions requires utilizing this knowledge, then in the vast majority of cases the persons who should be making decisions is those persons themselves.

Smith goes on to claim: "The statesman, who should attempt to direct private people in what manner they ought to employ their capitals, would not only load himself with a most unnecessary attention, but assume an authority which could safely be trusted, not only to no single person but to no council or senate whatever, and which would be nowhere so dangerous as in the hands of a man who had folly and presumption enough to fancy himself fit to exercise

it" (WN: 456). Smith does not mince words about the conceit of such statesmen. But look more closely at two specific claims he makes in that passage: the statesman's attention is "unnecessary," and it would result from "folly." It is "unnecessary" because, as Smith explained in his Economizer Argument, people do it already: we are naturally constructed to seek out the best return we can on our scarce resources, so the statesman does not need to attend to it. It is "folly" because, as Smith explains in his Local Knowledge Argument, the statesman does not possess the local knowledge of individual people's circumstances, values, goals, and resources that he would need in order to make good decisions for them. Does the statesman know whether you should go to law school? Whether you should work for that company, buy that car, get a hamburger or a salad, marry that person? Of course not—and his presumption that he can make decisions for you nonetheless is folly.

An objection

A criticism of the Local Knowledge Argument comes, however, from the work of some recent behavioral economists. Richard Thaler and Cass Sunstein, for example, in their 2009 book *Nudge* claim that recent empirical study of human decision making has revealed that we often make mistakes, even mistakes that we ourselves judge to be mistakes after the fact.[5] This is hardly a new discovery, but their claim is that psychologists and economists have uncovered systematic patterns of mistakes that human beings are likely to make. These include, for example, our susceptibility to present pleasures that come at the expense of other, more remote, or longer-term but greater goals we have. Perhaps we wish to be fit and healthy, and yet when someone offers us a doughnut, we eat it. We might wish to have a secure and comfortable retirement, and yet we spend our money on things today whose benefit to us we would see is not as great as that provided by a comfortable retirement—if only we would take the long view. Thaler and Sunstein argue that perhaps a role for government is to help structure the choices we make so that we are more likely to make choices that are the right ones, all things considered, even if that means marginally restricting our liberty to choose. They might concede that in Smith's day, when we did not actually know much about human biology, psychology, health, or nutrition, perhaps an argument for free markets

5 Richard Thaler won the 2017 Nobel Prize in economics for his work in behavioral economics.

and for allowing people to make decisions in a trial-and-error fashion might have been justifiable. Today, however, when we have learned a great deal about human biology, psychology, and so on, there seems little reason to allow people to experiment and try things out. Indeed, it seems almost cruel to let them do so, when we know that people will make mistakes.

This argument takes aim at Smith's Local Knowledge Argument. Smith claimed that individuals themselves know their own situations best, but the Thaler and Sunstein argument, and much contemporary behavioral economics, beg to differ. How would Smith respond? He would no doubt acknowledge the great strides made by the modern advances in the sciences of humanity, and concede that we know much more today than anyone did in the eighteenth century. But he would probably also argue that much of what we know, or at least believe we know (remember that experts routinely change their minds and reverse or change their recommendations), is general and abstract, not tied to individuals. For example, we might know that obesity is not only growing in incidence in the United States today but that it poses significant health risks and health costs. But does that mean that I should not eat the doughnut offered to me? Does it mean I should work out more than, or differently from, how I do now? Does it mean I should skip lunch today and continue working on this book? Questions like these cannot be answered by experts from afar, because those experts do not possess the relevant information about my particular circumstances—and yet those are the decisions facing me, and every other individual. So although we might know in general that obesity is bad, that unfortunately gives little guidance for any particular person or for any particular decision a person must make.

The worry that Smith would have about granting such centralized experts authority about decisions like these in our lives is not, then, that they are not in fact experts. It is, rather, that their expert knowledge is general and abstract, not individualized and particularized. So their recommendations will either be too general to be of much use to a specific individual, or, if they try to make their recommendations more binding on individuals, they will often end up steering individuals in wrong directions because they do not know those individuals' goals, purposes, values, circumstances, preferences, and so on. Erecting experts' judgments into laws or regulations runs, then, the substantial risk of unintended negative outcomes for individuals.

But Smith has a larger worry. Here we might make note of a remarkable passage in Smith's *Theory of Moral Sentiments*. In a discussion of the proper role of the statesman, Smith describes a certain type of political leader, whom Smith calls the "man of system," who "is apt to be very wise in his own conceit; and is often so enamoured with the supposed beauty of his own ideal plan of government, that he cannot suffer the smallest deviation from any part of it" (TMS: 233–4). Smith continues that such a person "seems to imagine that he can arrange the different members of a great society with as much ease as the hand arranges the different pieces upon a chess-board. He does not consider that the pieces upon the chess-board have no other principle of motion besides that which the hand impresses upon them; but that, in the great chess-board of human society, every single piece has a principle of motion of its own, altogether different from that which the legislature might chuse to impress upon it" (TMS: 234).

Human beings are actors and decision makers, and their capacity for making free decisions means they are recalcitrantly—or gloriously, depending on one's perspective—unpredictable. That means that any plan a legislator, regulator, or other political leader has for steering, or "nudging," people in the directions he wants is destined to be frustrated. With "principles of motion of their own," people will undoubtedly depart from the "ideal plan" of the "man of system." In that case, the man of system faces a dilemma: either he gives up on his ideal plan, allowing people to order and organize their own lives for themselves, thus returning to the Smithian "obvious and simple system of natural liberty" (WN: 687); or he imposes his ideal plan by force, with all the risks and dangers that entails. The Smithian preference is clear.

Chapter 8

The invisible hand

As we saw in the previous chapter, Adam Smith's political economy is based on a chain of three arguments. The first we called the Economizer Argument, or the claim that each person naturally seeks out the most economical use of the resources available to him to achieve his goals, whatever they are. Whatever one's goals, one wants to achieve them as efficiently as possible. Smith's claim is that no one needs to tell us to do this: we are psychologically constructed, as it were, to do so already. The second argument is the Local Knowledge Argument, which has a couple of steps. First is the claim that people tend to know their own goals and purposes, as well as opportunities and available resources, better than others. Next is the claim that in order to use resources wisely, decisions about how to use them must be based on this knowledge of people's goals, purposes, opportunities, and resources. It then follows that the person typically best-positioned to make such decisions is the individual himself—for he is the one who possesses the required knowledge. By contrast, if others made such decisions for one, they would necessarily have to base their decisions on less intimate familiarity with the relevant circumstances—and the further away the decision maker is (meaning the less the decision maker knows about the individual's situation), the worse the decision maker's decisions will be. Thus the default for Smith is to allow individuals to make their own decisions about how to allocate their resources to serve their ends, and allow third-party intervention only in exceptional and special cases, like children or the mentally infirm.

Now we come to Smith's third argument, which is based on the most famous passage in all of Smith's *Wealth of Nations*, indeed arguably in all of economics. Smith writes: "It is his own advantage, indeed, and not that of the society, which [each person] has in view. But the study of his own advantage naturally, or rather necessarily, leads him to prefer that employment which

is most advantageous to the society" (WN: 454). Smith continues that each individual "generally, indeed, neither intends to promote the publick interest, nor knows how much he is promoting it"; "by directing that industry in such a manner as its produce may be of the greatest value, he intends only his own gain, and he is in this, as in many other cases, led by an invisible hand to promote an end which was no part of his intention" (WN: 456). What is the "end" the individual promotes that "was no part of his intention"? The "publick interest." Individuals have, of course, ends (or purposes), but they are personal and local. Smith's claim in this famous passage is that in seeking to accomplish their personal and local ends, they are led to discover ways to serve *others'* ends as well—whether they care about those others or not. The Invisible Hand Argument hence finds a way to achieve the lofty goal of helping others from the humble motivation of self-interest.

How is this extraordinary feat accomplished? Recall Smith's claim that the goal of increasing standards of living results from division of labor—but only within a "well-governed society." As we saw, what Smith means by a "well-governed society" is one that protects the "3 Ps" of justice: person, property, and promise. In other words, it ensures that the only way I can get what I want from you is by appealing to *your* interests. If your person, property, and promise are protected, I cannot enslave you, I cannot steal from you, and I cannot defraud you. The only recourse I have, then, to get whatever goods or services you might be able to provide is by making you an offer. And since your 3 Ps are protected, you can, if you please, always say "no, thank you" to any offer I might make and simply walk away. This means that I have to ask myself: What can I offer you that *you* would think is valuable enough to cooperate with me? Given that each of us "stands at all times in need of the cooperation and assistance of great multitudes" (WN: 26), that means that each of us must, in a well-governed society, think constantly of the value we can provide to others—which we can know only if we are thinking about those others and not thinking only about ourselves. In such a society, Smith says, we become "mutually the servants of one another" (WN: 378). The genius of the Smithian market mechanism was that it could coordinate the disparate individual efforts of indefinitely many persons and manage to derive an overall benefit for the good of society from them.

To summarize Smith's argument: because I seek to achieve my goals in the most efficient manner possible (as the Economizer Argument holds), I

am incentivized to make good decisions about how to achieve my goals using the resources available to me (as the Local Knowledge Argument holds), and hence, as long as we are living in a well-governed society that debars me from acting with injustice, I will be led to cooperate with you in ways that will be beneficial to you as well (as the Invisible Hand Argument holds).

In Smith's account, neither of us can benefit at the other's expense; rather, each of us can benefit only by benefitting the other. The result of these mutually voluntary, mutually beneficial transactions is that overall wealth increases, leading to general growth in prosperity. The more people whose "3 Ps" are protected, the more people all on their own entering into ever more mutually beneficial, or "positive-sum," transactions—leading to yet more wealth that can enable even more such transactions, and so on—creating a virtuous cycle of increasing prosperity for all. This is what Smith meant by "universal opulence" and "general plenty" (WN: 22).

Consider an additional important aspect of Smith's argument. Who will be the chief beneficiaries of this generally increasing prosperity? Not the emperor, king, lord, or baron—they already manage to get theirs, mostly by extracting it in "zero-sum," or even "negative-sum," transactions that benefit themselves at the expense of unwilling others. No, the primary beneficiary of this process is the everyday workman, who finds himself gradually and incrementally able to afford more and more of life's necessities and luxuries. It is his standard of living that stands to see the greatest gains, and his lowly station—which has been the situation of the majority of humanity throughout almost all of its history—which should be our chief concern. Smith believes he has discovered the key to unlocking a perhaps limitless engine of prosperity. Its salutary effects on the lives of common people is the moral mandate that drove Smith's political economy.

Smith's bold, even audacious, prediction in WN was that countries that adopted his recommendations would see all their citizens, including especially their poor, rise to heights of wealth and prosperity that even kings in his day could only dream of. He even went so far as to suggest, in 1776, that America, which at the time most enlightened thinkers in Europe considered a "barbaric" country, could one day surpass even the mighty British Empire in wealth—a laughable, even preposterous claim! And yet, what have the subsequent 241 years demonstrated?

How important Is the "invisible hand"?

That phrase "invisible hand" occurs only once, however, in all of *The Wealth of Nations*. It occurs only two other times in Smith's extant works: once in TMS (pp. 184–5) and once in an essay Smith wrote about the history of astronomy (Smith, 1982a: 49). If it occurs only so infrequently, one might wonder why so much subsequent attention has been paid to it. Is it really so central to Smith's thought?

The answer is yes, it is absolutely central to Smith's thought. Although the phrase "invisible hand" appears only a few times, the Invisible Hand Argument appears throughout his works. Here is the one occurrence of the phrase in TMS: the rich "are led by an invisible hand to make nearly the same distribution of the necessaries of life, which would have been made, had the earth been divided into equal portions among all its inhabitants, and thus without intending it, without knowing it, advance the interest of the society, and afford means to the multiplication of the species" (TMS: 184–5). But the idea, if not the phrase itself, occurs throughout TMS. For example: "But by acting according to the dictates of our moral faculties, we necessarily pursue the most effectual means for promoting the happiness of mankind" (TMS: 166). "No qualities of the mind," writes Smith, "are approved of as virtuous, but such as are useful or agreeable either to the person himself or to others; and no qualities are disapproved of as vicious but such as have a contrary tendency" (TMS: 188). Smith continues: "And Nature, indeed, seems to have so happily adjusted our sentiments of approbation and disapprobation, to the conveniency of both the individual and of the society, that after the strictest examination it will be found, I believe, that this is universally the case" (ibid.).

In addition to the one occurrence of the phrase in WN, quoted earlier, the idea is similarly found throughout Smith's WN. Here are a few examples. "The houses, the furniture, the cloathing of the rich, in a little time, become useful to the inferior and middling ranks of people. They are able to purchase them when their superiors grow weary of them, and the general accommodation of the whole people is thus gradually improved" (WN: 347). Another example: "It is his own advantage, indeed, and not that of the society, which he has in view. But the study of his own advantage naturally, or rather necessarily leads him to prefer that employment which is most advantageous to the society" (WN: 454). One more: "It is thus that the private interests and passions of individuals naturally dispose them to turn their stock towards

the employments which in ordinary cases are the most advantageous to the society" (WN: 630). Many other examples could be adduced.

Smith similarly finds an Invisible Hand Argument, even if he does not use that exact phrase, in his short essay on the origins of languages, where he argues that languages change over time in response to individual language users' changing circumstances, and that those changes create a language, as a system of spontaneous order, that enables others to use it for their purposes as well.[6] Smith also makes a similar argument in his account of the nature, and development over time, of legal systems, including in particular the Roman and British systems of common law.[7]

In all these cases, we see the same central elements of his Invisible Hand Argument. First we have individuals making decisions in their own cases based on their localized knowledge about how to act and behave in order to achieve their goals, whatever they are. Given that people need the willing cooperation of others to achieve almost all of their goals, however, this necessarily leads them to seek out ways to provide others with incentives to cooperate with them—which typically means offering them something that they value. Thus the search to satisfy one's own goals inevitably leads people to benefit others, even if benefitting others was, as Smith puts it, no part of their original intention. They may seek to benefit only themselves or those they care about, but they are thereby led, as if by an "invisible hand," to engage in activities that simultaneously benefit others as well—even others they do not know, will never meet, and may even dislike. That is the genius, and power, of Smith's Invisible Hand Argument: it offers a path for channeling the individual's limited knowledge and self-interested concerns into benefit, even inadvertent benefit, to others.

6 Smith's "Languages" essay is contained in Smith (1985). For commentary and further discussion, see Otteson (2002).

7 See Smith's *Lectures on Jurisprudence* (Smith, 1982b). Note, however, that these are students' notes from Smith's lectures, not Smith's own notes. We no longer retain Smith's own lecture notes.

Chapter 9

Self-interest, equality, and respect

In the last two chapters we saw that, according to Adam Smith, in a "well-governed society" (which for him meant one that protects his "sacred" "3 Ps" of person, property, and promise) each of us would naturally seek out ways to achieve our own ends by becoming "mutually the servants of one another" and thereby would benefit others even as we seek to benefit ourselves. According to Smith, the task of the political economist is to conduct empirical, historical investigations to discover what the policies and institutions are that would enable "universal opulence" and "general plenty." Smith's investigations led him to argue that markets, in which the division of labor is allowed to progress, in which trade is free, in which taxes and regulations are light, and in which there is competition for scarce resources, are the most conducive to this end. Smith argues that in market-oriented economies based on private property, each person working to better his own condition will increase the supply, and thus lower the price, of whatever good he is producing; this means that others will in turn be in a better position to afford his goods. Thus each person serving his own ends is led, in Smith's famous phrase, "by an invisible hand" simultaneously to serve others' ends as well, both by providing more plentiful and a greater diversity of goods and by thereby lowering prices. The market, Smith believed, could harness people's industry in the service of their own ends and make it serve everyone else's welfare, even if the welfare of others was not part of the individuals' own motivations.

This is an optimistic, even inspiring, story, and the subsequent history of those countries that most closely adopted his prescriptions would seem to have validated his predictions. Consider the United States, for example, which, at least until recently, has approximated Smithian political economy

more than perhaps any other country. In 1800 in America, the total population was 5.3 million souls. At that time, life expectancy at birth was an appalling 39. And gross domestic product per capita, in 2010 dollars, was $1,343, or $3.68 per person per day. And today? According to the most recent data available, the total population in the United States is now 324 million; life expectancy at birth has increased to 80; and gross domestic product per capita (in constant dollars) stands now at $57,300, or $156.98 per person per day. That means that since the time of America's founding, while its population increased some *61-fold*, life expectancy has nevertheless *doubled*, and real GDP per capita has increased *43-fold*. Truly a remarkable—and historically unprecedented—achievement.[8]

But is that the full story, as astonishing as it is? Are there moral values that have been sacrificed to achieve these lofty goals of prosperity? Perhaps we are richer, indeed much richer, today than we have ever been, but money is not the only thing that matters in life. What about equality? What about human dignity and mutual respect? Is the Smithian tale of fabulous wealth premised on a narrow, even odious, conception of self-interest? What does Smith have to say about the moral values of equality, respect, and altruism? Let us take these in turn.

Equality

In a Smithian society, do people grow richer? Yes. Do people grow richer *equally*? No. Although all get richer, some get richer faster, and to greater heights, than others. Is this not morally problematic? Smith himself seems alive to this issue, even in the eighteenth century. He writes, for example: "No society can surely be flourishing and happy, of which the far greater part of the members are poor and miserable. It is but equity, besides, that they who feed, cloath and lodge the whole body of the people, should have such a share of the produce of their own labor as to be themselves tolerably well fed, cloathed and lodged" (WN: 96). Elsewhere he writes: "By necessaries I understand, not only the commodities which are indispensably necessary for the support of life, but whatever the custom of the country renders it indecent

8 McCloskey (2016) argues that since 1800 the average person's overall prosperity, when factoring in the increased value of infrastructure and public goods, has in fact increased an incredible 100 times.

for creditable people, even of the lowest order, to be without. […] Under necessaries therefore, I comprehend, not only those things which nature, but those things which the established rules of decency have rendered necessary to the lowest rank of people" (WN: 869–70). Together these passages not only reiterate Smith's paramount concern for "the lowest rank of people," but also express his moral mandate that as society increases in overall prosperity the standard of living of the least among us must rise as well.

How, then, can Smith endorse a system of political economy that, while making us richer, nevertheless also entails that some of us will be far richer than others? To see Smith's answer to this question, we must first recall a claim of Smith's that I said in Chapter 6 was "to his great credit": namely, his rejection of claims of racial or natural superiority of some over others, and his endorsement of the claim that all human beings were roughly equal in motivation, rationality, and ability. Early in WN, Smith writes: "The difference of natural talents in different men is, in reality, much less than we are aware of; and the very different genius which appears to distinguish men of different professions, when grown up to maturity, is not upon many occasions so much the cause, as the effect of the division of labour" (WN: 28). Smith continues: "The difference between the most dissimilar characters, between a philosopher and a common street porter, for example, seems to arise not so much from nature, as from habit, custom, and education" (WN: 28–29). Smith was himself, of course, a philosopher, so he includes himself in this comparison. So, according to Smith, we have different geniuses, but are not substantially different by nature. Pause for a moment to consider how radical such a claim would have been taken to be in the eighteenth century, when everyone "knew" that there were stark natural—and thus enduring—differences in different human characters.

What Smith means by the "different geniuses" each of us has is the differing proclivities, skills, and abilities each of us develops as a result of the different choices we make as we mature. We face differing circumstances, and we have differing goals and values, so we make different choices; that means we develop different packages of skills and abilities. But Smith is adamant that these different geniuses we possess are mainly a result of the differing "habit, custom, and education" each of us engages in, and, even more importantly, do not entail that we are entitled to differing moral status. We are, each of us, full moral agents, alike entitled to protection of our person, property, and

promises, and thus entitled to exactly the same scope of liberty and responsibility, of rights and privileges, as anyone else. Smith is here endorsing a profound *moral* equality among all humans.

But do these differing geniuses lead to differing levels of wealth that we will enjoy? Yes. As long as we live in a country whose level of prosperity is growing for all of us, however, Smith is less concerned about material inequality than he is about moral inequality. And in the free society he envisions, Smith claims that "the most dissimilar geniuses are of use to one another; the different produces of their respective talents, by the general disposition to truck, barter, and exchange, being brought, as it were, into a common stock, where every man may purchase whatever part of the produce of other men's talents he has occasion for" (WN: 30). What is the medium through which we "truck, barter, and exchange"? It is the market—and the freer it is, the better. The more people who can enter into the market, the more each of them benefits from the goods and services produced by others' talents, and, by the Invisible Hand Argument, the more the rest of us benefit as well. In this way the "common stock" of overall prosperity grows, and we are all the better for it.

Self-interest and respect

As we saw last chapter, the most famous passage in Smith's *Wealth of Nations*, and indeed perhaps in all of economics, is his "invisible hand" passage. But the *second* most famous passage is this one, which comes already in WN's second chapter: "It is not from the benevolence of the butcher, the brewer, or the baker, that we expect our dinner, but from their regard to their own interest. We address ourselves, not to their humanity but to their self-love, and never talk to them of our own necessities but of their advantages" (WN: 27). Note the phrases "their own interest," "self-love," and "their advantages." What do you hear when you read that passage? Do you hear selfishness? That is what Karl Marx (1818–1883), author of the 1848 *Communist Manifesto*, thought when he read Smith—and he did read Smith. Here, Marx thought, not even twenty pages into the *Wealth of Nations*, was the smoking gun: Adam Smith, the father of economics, admitting—even celebrating—the fact that Smithian political economy is founded on selfishness. Marx would go on to argue that this system of political economy, which Marx called "capitalism," is built on recommending to people that they should be selfish and should consider other people as mere means to their own ends, as mere tools to be manipulated

rather than moral agents with dignity to be respected. Whatever its material virtues might be, capitalism, Marx thought, was thus founded upon an immoral base, and thus its gains were ill-gotten.

Was Smith arguing that we should all be selfish in our dealings with one another? Certainly not in our *moral* dealings with one another: remember that in his *Theory of Moral Sentiments* Smith argued that we all desire mutual sympathy of sentiments, which drives us to into mutually supportive relationships with others. But in our *economic* dealings with one another? Is Smith telling us we should be selfish in the market—as it were, to check our morality at the marketplace door?

Smith did not believe so. What he saw in these dealings with the butcher, the brewer, and the baker was not a narrow, let alone odious, selfishness, but something rather different: *respect*. Let me explain. Just before the butcher-brewer-baker passage, Smith says that human beings, unlike other animals, must rely on others to acquire what they want. "Nobody ever saw a dog make a fair and deliberate exchange of one bone for another with another dog" (WN: 26), because they do not need to: dogs, like most other animals, can procure most of what they need all on their own. "But man has almost constant occasion for the help of his brethren" (WN: 26), both because our needs and wants are more complex than those of other animals and because human beings do not have the equipment—fur, claws, wings, and so on—that nature provided other animals to enable them to satisfy their needs. What do human beings have to compensate for their relative physical weaknesses? They have "the faculties of reason and speech" (WN: 25), which enables them to discover and construct plans for cooperating with one another in ways that makes all parties better off. This is why "man has almost constant occasion for the help of his brethren." But to this Smith adds: "and it is in vain for him to expect it from their benevolence only. He will be more likely to prevail if he can interest their self-love in his favour, and shew them that it is for their own advantage to do for him what he requires of them" (WN: 26). How can one do this? By far the best way is by offering to do something for the other person *that that other person values*: "Give me that which I want, and you shall have this which you want, is the meaning of every such offer" (WN: 26). Because of our peculiar liabilities, human beings need the help of others; and it is by making mutually advantageous offers "that we obtain from one another the far greater part of those good offices which we stand in need of" (WN: 26).

Now the assumption Smith makes in this argument is indeed that we are driven by self-interest. Because, however, of the twin constraints of (1) our desire for mutual sympathy of sentiments and (2) living in a "well-governed society," we are driven—both by our own desires and by our public institutions—to meet one another as peers, as moral equals, and to make offers to one another that either of us is free to decline. Each of us has an "opt-out option" that is protected by our society's commitment to Smithian justice, and this disciplines us from any notion we might otherwise have had about merely trying to steal from or defraud one another. And because each of us desires mutual sympathy of sentiments, we desire to conduct ourselves in ways that others will approve of. So when we seek our meat from butchers, our ale from brewers, and our bread from bakers, we make them offers that recognize that they are our equals, that they have interests and obligations of their own, and that our interests and obligations do not trump theirs. Our desire for their meat, ale, and bread—which after all they had to make with their own labor and time and resources—does not trump their right to decide on their own what to do. In these circumstances, then, how are we going to get their meat, ale, or bread? We will have to treat them the way they want to be treated, and we will have to offer them something they might want; for their part, they will do, will *have* to do, the same for us. Otherwise each of us will go elsewhere. In other words, we have to treat each other with respect, and not presume that either of us is more important or more worthy or more deserving than the other. How might we do this? By expecting our dinner "not from the benevolence of the butcher, the brewer, or the baker," but, rather, by taking due and proper "regard to their own interest."

For Smith, then, the act of making a person an offer is a recognition of the inherent value of others; it reflects the equal dignity that each of us has, and it is a shining example of proper moral relations among people. The mutually voluntary and thus mutually beneficial transaction that is the cornerstone of a Smithian market economy is, then, not only the key to increasing general prosperity, but it is also the instantiation of truly moral human relations.

How would Smith respond, then, to Marx's criticism? He would first of all say that the equality that matters is not *material equality* but, rather, *equality of moral agency*. A society in which each person has the liberty to construct for himself a life of meaning and purpose, and to determine what such a life would be; in which each person also enjoys the responsibility for his own life

that is entailed by his free moral agency; and in which each person has this liberty and responsibility in equal measure with every other person: that is the society of equality that is morally worth championing. And Smith would turn the tables on Marx: it is not the society of individual liberty, responsibility, and mutual respect that dehumanizes people; it is rather the society in which some may take from others, in which some make decisions for others, and in which therefore some have power over others that violates their inherent dignity and a proper conception of moral equality. That kind of society is not worth championing, no matter how grandiosely it is described.

Lying and dignity

Let us close this chapter by addressing two further Marxian objections. The first is Marx's claim that negotiations in markets are essentially extended exercises in lying (Marx, 1844). Consider buying a car. You say to the car dealer, "I won't pay more than $20,000 for that car." (That is a lie.) The dealer responds, "I won't take less than $30,000 for it." (That too is a lie.) As the negotiation proceeds, at each stage each of you lies to the other. Even if you eventually agree on a price, and even if you both voluntarily agreed to the price and you both benefit from the transaction, nevertheless the transaction is based upon, and mediated through, lying. Marx believes that capitalism involves, indeed, systematic lying on virtually everyone's part. And this is a morally vicious way for people to deal with one another. Lying is morally wrong, and any system of political economy that not only allows it but, apparently, endorses it is morally wrong as well.

A related second objection Marx raises is that participants in a market come to view one another not as full moral agents with inherent dignity but, rather, as mere tools to be manipulated into giving us what we want. I want that car, so I say the words necessary to get you to give it to me. Even more insidiously, when I work and earn a paycheck, Marx says I am not actually providing a service to my company or producing a good on behalf of my company; what I am actually producing instead is the means for me to manipulate you into giving me what I want. I don't actually care about my company or about you: I care only about what it or you can give to me. And the same is true for you. So life under capitalism becomes a duplicitous system in which everyone tries to manipulate everyone else, a multi-player strategic game in which each participant tries to dupe and manipulate the others so as to achieve his own goals, regardless of what this means or does to others.

These are damning criticisms. How might Smith respond? He would first remind Marx that he believes that a central and enduring feature of human psychology is the desire for mutual sympathy of sentiments, a desire that makes us genuinely interested in others. The first sentence of *The Theory of Moral Sentiments* is: "How selfish soever man may be supposed, there are evidently some principles in his nature, which interest him in the fortune of others, and render their happiness necessary to him, though he derives nothing from it except the pleasure of seeing it" (TMS: 9). Smith later emphasizes the point: "Sympathy, however, cannot, in any sense, be regarded as a selfish principle" (TMS: 317). So Smith's first response to Marx would be to deny his claim that human beings are fundamentally, or only, selfish, and claim instead that, as a matter of empirical fact, we do actually care about the "fortune of others."

Smith's second response would be to remind Marx that the offers we make to other people to buy from them, sell to them, or cooperate or associate with them all come with the recognition of the other's right to say "no, thank you" and go elsewhere. When we recognize this right, we show respect for the others, and treat them as our peers who have the same free moral agency that we do. We do not presume to know what is best for others, and we do not presume that we are in a better position to know what others should do than those others themselves. Smith would probably also remind Marx of what the alternative is to encouraging people to pursue their ends by making offers to others that those others are free to decline: either prohibiting offer-making altogether, or prohibiting people from exercising an opt-out option. But either of these would constitute a restriction of people's liberty and hence their moral agency. Is that preferable?

Third and finally, Smith might also argue that negotiation, which is indeed a central part of a market economy, can be just as often a genuine discovery process as an exercise in lying. Perhaps people don't actually know what something is worth to them—in which case negotiating with others might help them clarify for themselves what their actual schedule of value, preferred tradeoffs, and opportunity costs are. How much would you be willing to spend on that new house, for example? How much would you be willing to sell your own house for? How much is a house actually worth? Perhaps people are often genuinely unsure about such things, in which case entering into a negotiation with others can help them figure it out. That is not lying; it is instead a mutual exploration of new potential ways to generate mutual benefit.

Chapter 10

The role of government

One might be surprised to learn that Adam Smith did not advocate or rely on a theory of natural law or natural rights. He had read his John Locke (1632–1704), of course, and the surviving students' notes from the lectures on jurisprudence he gave at the University of Glasgow—Smith's own lecture notes do not survive—record that Smith extensively discussed Locke's theory of natural law and natural rights. But when it came to Smith's own discussion of and justification for the proper role of government in human life, natural law and natural rights play no role. Similarly, Smith gave us no overt theory of property, let alone private property. So unlike Locke—and the American founding fathers, many of whom read Smith—Smith does not argue that the government's job is to protect our natural rights to "life, liberty, and estate" (Locke) or to protect our "unalienable rights" to "life, liberty, and the pursuit of happiness" (Jefferson in the Declaration of Independence).

On what basis, then, did Smith justify his recommendations about the proper roles of government? His argument proceeds largely empirically. He examined human history, and many of the experiments different people in different times ran with differing systems of political economy. He found that most such experiments failed to conduce to people's overall happiness and failed to create general prosperity. But occasionally some people hit on ideas and institutions that did generate benefit, and very recently (in his day) some few places seemed to be generating considerably more wealth and prosperity than other places. This enabled Smith, as an empirical political economist, to make fruitful comparisons, and to begin to tease out of the historical record some policies that might, if applied more extensively, allow the generation of even more prosperity.

The first conclusion he reaches is that a specific concept of "justice"—including, as we saw in Chapter 4, the "sacred" protections of every individual's person, property, and promises—is necessary for any human society

to survive. A society that does not respect these things, that does not enforce protection of them, and that does not punish infractions of them is one that is headed, sooner or later, for collapse. Or, a society that only selectively enforces such protections—one that, perhaps, respects the "3 Ps" of some privileged people or some favored groups, but not those of other people or groups—is one that may manage to survive for some time but will have forsaken the greater prosperity it otherwise would have enjoyed. Similarly, a society that did at one time provide widespread protection of its citizens "3 Ps," and thus experienced the increasing prosperity to which this leads, but now begins to depart from those protections, will soon begin to slow the growth of its prosperity; if it continues on its path of departure from the protection of the "3 Ps," it will eventually stagnate, decline, and, if it does not reverse course, it will collapse. Now, Smith wrote that "there is a great deal of ruin in a nation" (Smith 1987: 262n). Thus a great nation, meaning one that has built up a lot of prosperity, can endure "in spite both of the extravagance of government, and of the greatest errors of administration" (WN: 343). Even in such a case, however, the nation will not be as wealthy, and its citizens will not be as prosperous, as they otherwise would have been.

Smith writes in the first chapter of WN: "It is the great multiplication of the productions of all the different arts, in consequence of the division of labor, which occasions, in a well-governed society, that universal opulence which extends itself to the lowest ranks of the people" (WN: 22). As we saw in Chapter 6, what Smith means here by "well-governed" is articulated in his discussion of "justice" in TMS—which, as we just mentioned, comprises the protections of person, property, and promise (TMS: 84). We can conclude from these two passages that Smith believes that the primary duty of government is the protection of (his conception of) justice. Moreover, as we saw in Chapter 4, this conception of justice is a "negative" one, requiring only that we refrain from injuring others. A government reflecting this conception of justice would be summoned into action only upon the infringement of someone's person, property, or promise. We might consider Smith's conception of justice, then, a "negative, defensive only" conception of justice, or "NDO" conception, one whose core purpose is provide us defensive protection against infringements. Finally, as we again saw in Chapter 4, all of the various positive duties of beneficence that we have are not, according to Smith, duties of government, but, rather, duties of us as individuals (and as voluntary and private groups).

When Smith comes to describe in WN the duties of government, we should expect, therefore, that he would articulate a government whose purpose is to protect NDO justice—and little (or nothing) else. And that is indeed what we find. Smith actually spends far more time in WN describing the ways that government makes mistakes, overreaches, and engages in counterproductive activities, sometimes through corruption and sometimes through incompetence, sometimes with malice and sometimes unintentionally. But Smith is not an anarchist; he is not even a principled modern-day libertarian. Instead, he articulates a positive and robust role for government, though he limits its powers and authorities to a small range of specific duties.

Smith describes his recommended duties of government in a few places in WN. Here is one key passage:

> *All systems either of preference or of restraint, therefore, being thus completely taken away, the obvious and simple system of natural liberty establishes itself of its own accord. Every man, as long as he does not violate the laws of justice, is left perfectly free to pursue his own interest his own way, and to bring both his industry and capital into competition with those of any other man, or order of men. The sovereign is completely discharged from a duty, in the attempting to perform which he must always be exposed to innumerable delusions, and for the proper performance of which no human wisdom or knowledge could ever be sufficient; the duty of superintending the industry of private people, and of directing it towards the employments most suitable to the interest of the society. According to the system of natural liberty, the sovereign has only three duties to attend to; three duties of great importance, indeed, but plain and intelligible to common understandings: first, the duty of protecting the society from the violence and invasion of other independent societies; secondly, the duty of protecting, as far as possible, every member of the society from the injustice or oppression of every other member of it, or the duty of establishing an exact administration of justice; and, thirdly, the duty of erecting and maintaining certain public works and certain public institutions, which it can never be for the interest of any individual, or small number of individuals, to erect and maintain; because the profit could never repay the expence to any individual or small number of individuals,*

though it may frequently do much more than repay it to a great society. (WN: 687–8)

There is a lot in this passage; let us unpack and emphasize a few details.

First we should note that what Smith calls the "obvious and simple system of natural liberty" is consistent with the NDO conception of justice he articulated in TMS. As long as one "does not violate the laws of justice," one is "free to pursue his own interest his own way." Smith then specifies one implication of this freedom by stating that everyone may "bring both his industry and capital into competition with those of every other man, or order of men." This means that there should be no barriers to entry; there should be no restrictions on trade, occupational license requirements, or mandatory apprenticeships; there should be no royal charters or state-granted monopolies; there should be no mandatory price ceilings or price floors, no mandatory minimum (or maximum) wage; and there should be no other artificial barriers, costs, or restrictions preventing, or unduly burdening, anyone from entering any occupation or competing in any market.

Second, Smith here recapitulates the Local Knowledge Argument (discussed in Chapter 7), which holds that individuals are themselves best positioned to know how they should deploy their scarce time, talent, and treasure in the service of their ends, and that legislators or other distant third parties are in no position to make such decisions for others. When Smith writes here that "no human wisdom or knowledge could ever be sufficient" for "superintending the industry of private people, and of directing it towards the employments most suitable to the interest of society," he is warning us against what we might call the "Great Mind Fallacy" (Otteson, 2010). One commits the Great Mind Fallacy when one recommends policies or authorities that could succeed only if there existed some Great Mind that possessed all the relevant knowledge about individuals and their circumstances—including their changing values, purposes, and opportunities. Because, alas, no such Great Mind exists, policy recommendations predicated on the existence of such an entity are doomed to fail. Yet people routinely commit the Great Mind Fallacy, even today, perhaps in part because they flatter themselves by thinking that they themselves are such Great Minds. Smith here warns us to beware such pretensions: the person fancying himself able to play such a role "must always be exposed to innumerable delusions."

Third, Smith gives us in this passage the three main roles he believes government ought to play. The first two are: (1) "protecting the society from the violence and invasion of other independent societies"; and (2) "protecting, as far as possible, every member of the society from the injustice or oppression of every other member of it." The first would entail a military, but for defensive purposes only; the second would entail police and a court system, again to protect us from injury and punish those who injure us. Both of these duties would fall squarely under Smith's NDO conception of "justice."

But note Smith's third duty of government: "erecting and maintaining certain publick works and certain publick institutions." This would seem to open a door to positive intervention in the economy. But hasn't Smith's entire argument been against such intervention? Here we see one consequence of Smith's decision not to rely on a conception of, say, natural law and natural rights, which might perhaps provide a principled argument against government intervention. Instead, Smith, as an empirical political economist, wishes to remain open to the possibility that the government might do more than merely protect NDO justice. But is Smith advocating for a more interventionist government than would be implied by his NDO standard? We take up this question in the next chapter.

Chapter 11

Government interventions in the economy?

We saw in the previous chapter that Smith argues for a negative, defense only (or NDO) conception of justice, which seems to entail that the government's primary, perhaps only, job is to protect us against invasion of what he articulates in TMS as our "3 Ps": our persons, our property, or our voluntary promises (TMS: 84). That is consistent with the first two duties of government he articulates in WN, namely, protection from foreign invasion and protection from domestic invasion. But note what Smith argues is the third and final duty of government: "the duty of erecting and maintaining certain publick works and certain publick institutions, which it can never be for the interest of any individual, or small number of individuals, to erect and maintain; because the profit could never repay the expence to any individual or small number of individuals, though it may frequently do much more than repay it to a great society" (WN: 687–8). Has Smith here opened the door to a more interventionist government than his NDO conception of justice seemed to entail?

To understand Smith's full position correctly, note first that he imposes strict qualifications on when such government intervention might be allowed: only when "it can never be for the interest of any individual, or small number of individuals to erect and maintain; because the profit could never repay the expence to any individual or small number of individuals, though it may frequently do much more than repay it to a great society." Thus Smith argues that to justify such intervention, the advocate of government action must meet the burden of making *both* of two claims: (1) the public work or public institution would have to be unable to be provided by private enterprise; *and* (2) it would have to benefit substantially the whole of the "great society," not merely one group at the expense of another.

While Smith has not ruled out such intervention, then, he has shifted the burden of proof on to the person proposing it. And the threshold for making a compelling case is surprisingly high: if you believe the government should take positive action to provide a public work or institution, you would have to demonstrate both that private enterprise could not supply it (note: not merely *is not currently* supplying it, but *could not* supply it), and that substantially everyone would benefit. What possible government programs would meet those two criteria? Upon reflection, it would appear the answer is: not many. Smith himself goes on to entertain some possibilities. He considers, for example, infrastructure such as roads, canals, and bridges. But he notes that the roads, canals, and bridges provided by private enterprise—and there were such in his day, as in ours—are typically of better quality and more efficiently maintained than publicly provided infrastructure.

Smith also considers education. There were many fewer opportunities for formal education in the eighteenth century than there are in many parts of the world today, but Smith worried that if people received no education and instead spent their lives working in one narrow operation created by extensive division of labor—perhaps they spent their entire adult lives doing nothing but putting heads on the top of pins—they could become, in Smith's vivid and almost apocalyptic language, "as stupid and ignorant as it is possible for a human creature to become" (WN: 782). But what does Smith propose as a remedy for such a potential malady? *Partially* subsidized *primary* schooling. Smith considers that the only aspects of education that everyone would need, regardless of the occupation or field or industry into which one goes, is reading, writing, and what he calls "accounting," or arithmetic. The necessity of anything beyond that would depend on one's particular needs given the field in which one works—and would thus be different for different people. Thus Smith suggested that public funding for the "three Rs" might be a justifiable government intervention, but nothing beyond that. Hence: primary schooling only.

In addition, however, he thought the public subsidy should be less than half the total cost—the rest being borne by the students themselves (or their families or sponsors)—to make sure that incentives are aligned properly. Teachers, Smith thought, would, like anyone else, naturally pay more attention to whoever is paying the majority of their fees. If that is the government, they will pay more attention to, and be more solicitous of, the government than

they would be of students. If, on the other hand, students (or their families or sponsors) pay the majority of their fees, teachers will naturally pay more attention to the students (families, sponsors)—which they should. Hence: partial subsidization only.

So although Smith is open to considering positive government intervention in the economy and taxation for things other than to supply NDO justice, many things that governments routinely provide in the world today would be disqualified by Smith's account. Retirement funding (Social Security, for example), welfare benefits, job training, disability, public libraries or universities, national parks, health care, and many other government programs would be disallowed—all because they could be provided privately, would benefit one group at the expense of another, or both.

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The conclusions of WN are therefore largely in favor of limiting political interference in markets. Each individual knows his own situation—including his goals and desires, as well as the opportunities available to him—better than anyone else does, and certainly better than any distant legislator. Hence Smith argues that individuals themselves should be granted the freedom and the responsibility to decide how best to apply and sell their labor or goods, with whom to trade and on what terms, and so on. Smith is withering in his condemnation of meddling legislators who overestimate their ability to direct the lives of others, who presume to rule over others by legislatively substituting their own distant judgment for that of the individuals who have actual local knowledge, and who then use the predictable failures of their decisions as excuses for yet more imprudent intervention.

Yet Smith is equally condemnatory of grasping merchants and businessmen who seek legal protections of their industries or prices. "People of the same trade seldom meet together," Smith writes, "even for merriment and diversion, but the conversation ends in a conspiracy against the publick, or in some contrivance to raise prices" (WN: 145). Such merchants often proclaim that trade barriers, tariffs, and other legal protections are for the good of the country, but Smith exposes these claims as special pleading, since in practice they work to increase those particular merchants' profits at the expense not only of their competitors but also of the public at large. Keeping prices up

and limiting competition will certainly benefit the favored businesses, but such policies just as certainly impose artificial costs on everyone else. Smith argues that the way to deal with such attempts to procure legally granted special protections or favors is, however, typically not to ask the government to regulate them. Instead, it is to disallow legally enforced privileges in the first place. Markets and open competition are, Smith thinks, better providers of social benefit than short-sighted regulation by politically motivated legislators—who are, after all, often remunerated handsomely by the very merchants and businesses from whom they profess to protect the public.

I claimed earlier that Smith was no anti-government anarchist, nor even a modern-day libertarian. But the Smithian government is quite small by contemporary standards. Its first and main duty is to protect justice, to protect each and every individual from invasions against his person, property, and promises. Beyond that, the Smithian government will do little. So how should we classify Smith's political economy? Is he a conservative? His advocacy of free markets and free trade seems to align with some aspects of contemporary American conservatism. Is he a liberal? His primary concern for the poor in society and for granting all citizens equal dignity and respect to construct for themselves lives of meaning and purpose, as well as his cosmopolitan view of human nature, seem to align with some aspects of contemporary American liberalism. So Smith does not fit easily to either of these categories. His own description of his system of political economy was "the obvious and simple system of natural liberty," the system that would grant all people equal liberty and responsibility, that would discharge any group from its pretensions of superintending the lives of others who are their moral peers and should be respected as such, and that would thereby not only encourage proper relations among moral equals but would enable peace and indefinitely growing prosperity. Perhaps we should leave it at that.

Chapter 12

Final assessment

We have now come to the conclusion of the main elements of Adam Smith's thought. We have covered everything from who he was, to what his conception of the nature and purpose political economy is, to his moral theory, to the role he thinks the desire for mutual sympathy of sentiments plays in the development of our moral standards, to the connection between his *Theory of Moral Sentiments* and *Wealth of Nations*, to his explanation of what wealth is and what its causes are, to his conception of and distinction between justice and beneficence, and to the role he believes government should play in our lives. What remains? We have yet to offer a final assessment of Smith's work and importance.

In evaluating Smith's work, we have to consider criticisms and objections that have been raised to it. Although we have addressed a few of these in previous chapters, there are numerous other worries about, and objections to, Smith's arguments that people have raised that we unfortunately do not have space to address here. Some of them concern specific claims Smith makes that contemporary scholars dispute. For example, Smith seems to rely on labor as an ultimate criterion of value (see WN: bk. 1, chap. 5, for example). But a "labor theory of value" has been rejected by modern economists as being unworkable and even ultimately confused: most economists today believe in a "subjective theory of value," which holds that a thing has whatever value a valuing agent ascribes to it, rather than holding that a thing has any objective measure of value based on how much labor went into it.[9] Similarly, many claim today that Smith's conception of justice is too thin. As we saw in Chapter 4, Peter Singer, for example, believes that "justice" should properly also include some positive obligations to help others—like a child drowning in a pond, or

9 I note, however, that Smith's policy recommendations do not depend on a labor theory of value.

people starving in developing countries (Singer, 2009). Yet others claim that the role of government should be more expansive than Smith allows. Many claim that it is indeed a proper function of government to provide things like social security, welfare benefits, health care, or more extensive education, for example.

Other worries people raise concern things like monopolies or cronyism, which some claim are endemic in market-based economies modeled on Smith's recommendations. Smith seems to think these matters become concerning only when government intervenes improperly in the market—when, for example, it grants legal monopolies or gives subsidies to favored firms or industries—and that if instead the government refrained from such interventions, as Smith recommends and as is consistent with his conception of "justice," we would have much less ground for concern.

Still others worry about the scope of material inequality that can arise in countries with market-based economies, about the "destructive" part of the market's "creative destruction" (in economist Joseph Schumpeter's famous phrase), about the boom-and-bust cycles in market economies, about the ability of marketing to manipulate people's choices, and many other concerns that are too numerous to list. The reader interested in pursuing these subjects further is encouraged to consult the suggested further readings. The final issue for us to consider here is Smith's place in the history of economics, political economy, and moral philosophy. Has his enormous influence been, on the whole, beneficial—or not?

Smith's enduring significance

In my judgment, Smith was an intellectual pioneer. He developed a new way of understanding large-scale human social institutions, what I called the "market model," which explains the creation, maintenance, change over time, and sometimes death of systems of moral sentiments, of systems of political economy, and even of human languages, of systems of law, and even of science.[10] That alone would make Smith worthy of study.

But Smith actually managed to accomplish a feat that few prominent thinkers of the past could: he got a lot of things right. Modern science has

10 See Smith's essay on the origins of language (Smith, 1985), his lectures on jurisprudence (Smith, 1982b), and his essays on the history of astronomy and physics (Smith, 1982a).

rediscovered and found evidence to confirm, for example, Smith's claim about our natural desire for mutual sympathy of sentiments. The vast majority of Smith's historical analyses have withstood the test of time. There is modern support for Smith's "market model" as an account of human language, and there is a large body of research confirming, applying, and extending this model as a theory of "spontaneous order" in everything from law to economics to the development of cities to the development of ecosystems. Thus Smith's "market model" constitutes something of a *grand unification theory* of social science, one that has enjoyed substantial modern vindication.[11] That means that Smith might well have been on to something important.

And, finally, to Smith's bold—I called it "audacious"—prediction about the almost limitlessly increasing prosperity that could be generated by countries adopting and maintaining Smith's "obvious and simple system of natural liberty": Did he get that right? By now, the evidence—drawn from scores of countries over decades and even centuries—is strong to the point of compelling, which suggests that Smith got that right too. The levels of wealth that the world enjoys today, including especially those that have more closely approximated Smithian political economy, is historically unprecedented and continuing to grow ever higher. In just the last fifty years, for example, we have gone from 75 percent of the world living in extreme poverty, to just 9 percent. We have increased human productivity by some 3,000 percent. Since just 1970, the proportion of the world's population living at the humanity's historical norm of between $1 and $3 per person per day has dwindled from 27 per cent of the population to today, for the first time in history, below 5 percent. And the rate of decline is increasing, which means we might well soon see, again for the first time in human history, the total elimination of absolute poverty in the world. And those countries that have most closely approximated Smithian political economy have done best: they have vastly outperformed countries that have other political-economic institutions.[12]

Now, this does not mean there are no problems in the world, or that there are not still great challenges that we will face. It also is not meant to imply that money is the only thing that matters. But our increasing wealth

11 See Ridley (2011), Zak (2012), and McCloskey (2016).

12 See the Frasier Institute's annual *Economic Freedom of the World Report*, which shows the high correlation between Smithian institutions—what it calls "economic freedom"—and economic prosperity, all the way up and down the rankings (Gwartney et al., 2017).

provides us the resources to address, and even hope to vanquish, ever more of the problems humanity faces—from poverty to education to health care to environmental protection—than could have been imagined at any prior time in human history. Adam Smith played no small role in articulating the institutions that could enable this spectacular growth. And the moral mandate that he felt and that infused his entire life's work—of understanding human nature and the human condition so that recommendations could be made that would allow ever more people, including in particular the least among us, to achieve lives of peace, prosperity, and purpose—provides a model that should inspire every researcher today.

I think that makes Smith one of the great minds, and still greater souls, that humanity has produced. And it justifies Smith's place in the pantheon of luminaries with whom every educated person should be familiar.

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Suggested further reading

The literature on Adam Smith is vast. It comes from many disciplines, including philosophy, economics, history, political science, and other fields, and, as one might expect, it varies greatly both in intended audience and in quality.

The standard scholarly editions of Smith's works are the Glasgow Editions, published in hardcover by Oxford University Press and in softcover by Liberty Fund of Indianapolis, Indiana. Liberty Fund's editions can be found at <https://www.libertyfund.org/books?author_reversed=Smith%2C+Adam>.

The *Adam Smith Review* is an annual collection of scholarly essays published by the International Adam Smith Society. It can be found at <http://www.adamsmithsociety.net/adam-smith-review.html>.

Places to take the next steps in learning about Smith might include:

1. Butler, Eamonn (2007). *Adam Smith—A Primer*. Institute for Economic Affairs.
2. Otteson, James R. (2013). *Adam Smith*. Bloomsbury.
3. Roberts, Russ (2014). *How Adam Smith Can Change Your Life: An Unexpected Guide to Human Nature and Happiness*. Penguin.

At a more advanced level:

1. Evensky, Jerry (2005). *Adam Smith's Moral Philosophy: A Historical and Contemporary Perspective on Markets, Law, Ethics, and Culture*. Cambridge University Press.
2. Hanley, Ryan Patrick (2009). *Adam Smith and the Character of Virtue.* Cambridge University Press.
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5. Otteson, James R. (2002). *Adam Smith's Marketplace of Life*. Cambridge University Press.
6. Phillipson, Nicholas (2010). *Adam Smith: An Enlightened Life*. Yale University Press.

Some works that are critical of Smith or of Smithian political-economic recommendations:

1. Conly, Sarah (2013). *Against Autonomy: Justifying Coercive Paternalism*. Cambridge University Press.
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6. Ubel, Peter A. (2009). *Free Market Madness: Why Human Nature Is at Odds with Economics—And Why It Matters*. Harvard Business Review Press.

Finally, excellent collections of scholarly articles on various aspects of Smith's writings include:

1. Haakonssen, Knud, ed. (2006). *Cambridge Companion to Adam Smith*. Cambridge University Press.
2. Hanley, Ryan Patrick, ed. (2016). *Adam Smith: His Life, Thought, and Legacy*. Princeton University Press.
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Prof. Otteson is the author or editor of many books and articles on Adam Smith, including "Adam Smith on Justice, Social Justice, and Ultimate Justice," "Adam Smith on Virtue, Prosperity, and Justice," *What Adam Smith Knew: Moral Lessons on Capitalism from Its Greatest Champions and Fiercest Opponents*, *Adam Smith's Marketplace of Life*, *Adam Smith*, and *Adam Smith: Selected Philosophical Writings*.

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