

The Shifting Shape of the Smithian Self

by

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Introduction: the Father of Political Economy

On April 18, 1776, about a month after publishing his magnum opus, *An Inquiry into the Nature and Causes of the Wealth of Nations*, Adam Smith received a letter from his friend and colleague, Adam Ferguson. Ferguson's words, with the benefit of hindsight, are a strange mix of prophecy and rather inaccurate predictions:

You are surely to reign alone on these subjects, to form the opinions, and I hope to govern at least the coming generations. I see no addition your work can receive except such little matters as may occur to yourself in later editions. You are not to expect the run of a novel, nor even of a true history; but you may venture to assure your booksellers of a steady and continual sale, as long as people wish for information on these subjects. (Mossner)

As Ferguson expected, Smith's work has attained intellectual immortality.

But he has even exceeded his friend's high expectations in some ways – his work also made him a figure of public renown few other intellectuals have become, then or since. The central theme of his analysis – individual, self-interested actions aggregating into optimal social outcomes – continues to serve as the foundation of economic analysis and, to a lesser degree, other social sciences to this day.

On the other hand, Smith's work has not been as authoritative as Ferguson predicted, or at least not for very long. Many important figures in the history of economic thought published important works relatively soon after the appearance and dissemination of *The Wealth of Nations*, some offering new areas of focus or successfully debunking Smith's perspective. Jean-Baptiste Say published his most

important volume in 1803, containing his (in)famous “Law of Markets.” David Ricardo, more importantly, published his immensely influential work, *Principles of Political Economy and Taxation*, 41 years later largely as a response to Smith. While professing much admiration for Smith, Ricardo also disputed his opinion on several key points, and Ricardo’s opinion on some of these matters has stood the test of time. Over the course of the 19th century, more revolutionary figures would appear in economic analysis, including the leaders of the Marginalist Revolution. And all of them, to differing degrees, disagreed with many of Smith’s assessments and their new perspectives frequently won ascendancy among other economists.

In the end, however, these disagreements are an even greater testament to Smith’s contribution and influence than becoming the unchallenged king of economic theory would have been. It is proof of his immense intellectual importance. Thinkers brilliant enough to see his often subtle errors felt inspired enough to offer their own ideas in response, adding layers of depth and complexity one by one, and thus slowly building the discipline of economic analysis as we know it today. Although Smith did not become a singular authority in the discipline of economics, he is the first step on the path from its infancy to maturity. Before him, the Mercantilists and the Physiocrats demonstrated merely nascent understanding of the workings of a trading economy. After him, other founding figures of economics were able to emerge, standing and building on the firm groundwork Smith had laid. Smith was fundamental in creating a framework for exchanging ideas, for debate, for the intellectual life of economics as a science.

It is difficult to overstate his significance. And this impact, unlike many other revolutionary thinkers, translated into public attention as well. By the standards of the time, *The Wealth of Nations* was a commercial success from its first publication. Ian Ross quotes Smith's publisher, William Strahan, saying, "[the sales] have been much more than I could have expected from a Work, that requires much thought and Reflexion" (Ross p.271). Indeed, Smith saw four subsequent editions printed before his death in 1790, making additions and revisions along the way. The book is still in print, in many different editions, over 230 years after its original publication – and Smith and *The Wealth of Nations* appear frequently on lists of most influential people and books of all time.¹ In popular culture, his name has become synonymous not only with the study of economics but also with capitalism itself.

The Adam Smith Problem

Despite the tremendous positive impact Smith's *Wealth of Nations* had on the discipline of economics, its general reception in intellectual circles was in some senses mixed. Some readers even found the new work troubling. Generally, these uncertainties center on the issue of morality in Smith's conception of an economic system based on free trade, although the critiques which result take varied approaches. One of the less sophisticated avenues is evident in one of Karl Marx's

¹ Martin Seymour-Smith's *100 Most Influential Books Ever Written* (1980) includes the *Wealth of Nations*, and Michael H. Hart listed Smith at number 30 in his *The 100: A Ranking of the Most Influential Persons in History* (1978), above William Shakespeare, Alexander the Great, Napoleon Bonaparte, Plato, and Thomas Edison, among others. The only economist listed higher was Karl Marx, although his contributions to economic theory are highly unlikely to have formed the basis for his ranking.

references to Smith in *Das Kapital*, his massive volume on exploitation of labor in a capitalist system:

For the rest, it goes without saying that political economy has not failed to exploit, in the interests of the capitalist class, Adam Smith's doctrine that the whole of that part of the net product which is transformed into capital is consumed by the working class. (Marx p.738)

Marx asserts not only that Smith's perspective on the workings of the economy is insensitive to the troubles of the working class but also, in addition, that producers have actively used his theories as a justification for their own exploitative business practices. Under this Marxian view, Smith simply assumes that capitalist production benefits the working class – while the opposite is really true. Marx speaks of the 'immiseration' of workers under capitalism, claiming that their well-being and living standards decline over time. In one respect, Marx is right. Smith indeed believes that the growth of production benefits the working class. But on this topic history has roundly supported him. There is very little evidence to suggest that the development of capitalism has led to further impoverishment of the working class *relative to previous standards of living*. In fact, it is almost universally recognized that living standards since Marx wrote have, for the most part, risen. Inequality of distribution is a different story, but today inequality across countries contributes more to total global inequality than inequality within countries (Balbones pp.16-7). This suggests that the class phenomena Marx predicted are certainly not the sole, and most likely not even the primary, source of persistent economic inequality.

Although Marx's theories of capitalist exploitation are dubious at best, they nevertheless highlight a theoretical issue concerning Smith's body of work as a whole

that is more difficult to resolve. *The Wealth of Nations* presents a view of individual ethics focused mostly around providing for oneself in the best possible manner, and advocates a social system that allows all persons to do so as they choose. It is a view of human relations which emphasizes a claim that, on first glance, seems paradoxical: that individual self-regarding actions aggregate into an optimal social outcome.

Briefly put, the pursuit of self-interest is what best allows a community to flourish – and is, therefore, socially just. It is undeniable, given the ethical vision Smith presented 17 years earlier in *The Theory of Moral Sentiments*, that this is a significant shift of focus in his thought. In his earlier work, he emphasized the negative effects people experience when witnessing others' misfortunes. Smith noted that an individual derives no personal benefit from this sentiment, that we simply naturally feel sympathy for other human beings.

The view of not only ethics but also social systems in each work is a further demonstration of the shift in Smith's treatment of the social order. More specifically, in *The Wealth of Nations*, Smith presents a vision of social interaction which is, in essence, competitive. Each individual's motive to action is her own interest, not that of others:

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. (Smith The Wealth of Nations pp.23-4)

In this system, charity has very little role – it relies mostly on mutually beneficial exchange. Moreover, while the interests of different individuals may align at certain points in time, they are frequently opposed to one another. Producers and workers,

for example, have opposing desires regarding the level of wages, other things being equal (Smith The Wealth of Nations p.94). Individuals' interests seem to depend very little on the needs or desires of those around them.

According to his argument in *The Wealth of Nations*, however, this is not a shortcoming, once viewed from a social level, of an economy based on private property and trade. In fact, Smith claims that the pursuit of personal gain in the economy very often supports the public interest, as is evident in his most famous (and famously misused) quote:

[Every individual] generally, indeed, neither intends to promote the public interest, nor knows how much he is promoting it. By preferring the support of domestic to that of foreign industry, he intends only his own security; and 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. Nor is it always the worse for the society that it was no part of it. By pursuing his own interest he frequently promotes that of society more effectually than when he really intends to promote it. (Smith The Wealth of Nations p.572)

Although the case made here for individual freedom has often been overstated, it is nevertheless undeniable. The point is that a social system which allows every individual to pursue his or her own maximum well-being will be the one in which individual private interests do not end up causing more harm than good. When producers, merchants, and laborers are in competition with one another, they will be at a disadvantage if they demand an excessively high price for their services. But they will still be unwilling to accept a price which does not compensate them for their efforts, at least not time and again. Thus, this competition leads to the lowest sustainable price for every good – a benefit to all persons in their role as consumers.

In *The Theory of Moral Sentiments*, on the other hand, Smith takes what seems to be a much less atomistic view of social systems. For Smith, sympathy – a concordance of sentiment with another person that comes from imagining oneself in his or her place – is a natural capacity all humans possess:

That we often derive sorrow from the sorrow of others, is a matter of fact too obvious to require instances to prove it; for this sentiment, like all the other original passions of human nature, is by no means confined to the virtuous and humane. The greatest ruffian, the most hardened violator of the laws of society, is not altogether without it. (Smith The Theory of Moral Sentiments vol. 1, p.1)

Without any extra exertion, we are all affected by the misfortunes of others.

According to Smith's construction, this system is still individualist in nature. We do not feel what others feel exactly; we only *imagine* how *we* would feel in the observed situation. Nevertheless, distinct individuals' interests are inextricably linked in this work, through the sentiment of sympathy.

Therefore, in *The Theory of Moral Sentiments*, the role of benevolence is quite different. In this work, individuals have an inherent desire to see to it that others do well and prosper – a desire that extends even to others in the abstract, those outside of our own circle of acquaintances (Smith The Theory of Moral Sentiments vol. 2, p.61).

At times, then, Smith seems to take a very positive view of ascetic tendencies:

The wise and virtuous man is, at all times, willing that his own private interest should be sacrificed to the publick interest of his own particular order or society. He is, at all times, willing, too, that the interest of this order or society should be sacrificed to the greater interest of the state or sovereignty, of which it is only a subordinate part... (Smith The Theory of Moral Sentiments vol. 2, p.62)

Here, then, self-sacrifice is not necessarily seen as so rare as to be irrelevant – a claim that appears a few times in *The Wealth of Nations*. While Smith certainly does not

claim that this is naturally how all humans behave, he displays high regard for such benevolence and selflessness.

At first glance, the tension between Smith's views of human nature and its effect on social interaction in his two major works is troubling. On one hand, in *The Wealth of Nations*, private vice becomes public virtue. On the other hand, in *The Theory of Moral Sentiments*, Smith extols the willingness to give up one's own particular desires for the good of the whole community as a virtuous endeavor. This seeming inconsistency began a debate in Continental Europe over how to interpret the relationship between the two works. As early as the second half of the 19th century, European scholars began to present opposing views of what became known as the Adam Smith Problem (Oncken p.444). One group asserted that the elevation of self-interest to its lofty stature in *The Wealth of Nations* controverted how Smith had employed the concept of sympathy in *The Theory of Moral Sentiments*. Many of them held that Smith's trip to France and contact with the Physiocrats had changed him from an Idealist to a Materialist between the publications of the two works – that he had become convinced that self-interest is the only possible motive to human action (Oncken p.445). Self-love had been transformed in Smith's system, from a dangerous vice to the highest of virtues. Ethicists were especially perplexed, given how important *The Theory of Moral Sentiments* had been for the discipline and their vehement opposition to the school of political economy he had essentially founded.

There have been a variety of responses to this accusation. The least satisfying (and one to which I will pay no further attention) is that the two works treat different topics, and therefore understandably have different perspectives which need not be in

harmony. It is doubtful, however, that this does justice to Smith's views of his two works. He published a revised version of *The Theory of Moral Sentiments* after the release of *The Wealth of Nations*, and it did not make any revolutionary changes to his treatment of sympathy. Clearly, then, these two perspectives were not products of different views Smith had at different times – otherwise he would have resolved the differences in this later edition of *The Theory of Moral Sentiments*.

The next series of responses, coming at the same time as the critique, focuses on the role of self-love in *The Theory of Moral Sentiments* and the limitations Smith places on the influence of self-interest on human action in his entire body of work:

...it is quite evident that Smith needed no introduction from the Encycopaedists in France in order to give self-love that place among human motives for action which he has given it later on in the Wealth of Nations. For that, in this work also, self-love is not the root of all, but only of economic actions is also to be inferred... (Oncken p.447)

At heart, these explanations claim that the Adam Smith Problem is a result of interpreting Smith's work from a narrow, limited perspective. Specifically, they claim that sympathy is misunderstood as a motive to action (instead of merely a source of sentiments) and self-interest is seen to have a power over human action Smith himself does not claim. While the works treat different topics and have different foci, they are complementary, not contradictory.

Yet, to this day, some authors remain unconvinced that the Adam Smith Problem is or can ever be completely resolved. James Otteson has offered a view of to what extent it can be mitigated in his work, *Adam Smith's Marketplace of Life* (2002). He argues that, although the above-mentioned responses to the Adam Smith Problem are very convincing, they still fail to completely unify Smith's two works –

and are thus unable to address some of the most troubling aspects of the perceived conflict between his works. Otteson claims that, instead of demarcating the works as treating different topics, the correct approach involves noting a shared intellectual approach to the two works. For him, this is the market model, or systems of spontaneous order:

Indeed, I think the concept of a market explains the development of all human social customs and institutions for Smith. The overarching unintended order is that set out in TMS, but it manifests itself in various areas of community life in terms of unintended suborders. (Otteson p.7)

According to Otteson's argument, the free interaction of individuals attempting to satisfy their own interests forms the intellectual backdrop for all of Smith's work. But despite this similarity, he believes it is impossible to resolve the tension between the different motivations that play a role in human decisions that appear in Smith's two major works.

To this day, despite the various responses, scholars have not been able to decisively resolve the Adam Smith Problem. While these rejoinders have pointed out broad similarities between the two pieces, there is still a significant amount of work on Adam Smith which does not fit well with their claims. Few would still claim that the works are contradictory. However, the explanation of *why* they are not contradictory is still very much disputed. Some scholars, like those mentioned above, attempt to bring the underlying framework of *The Wealth of Nations* to bear on *The Theory of Moral Sentiments*. They emphasize Adam Smith's overall individualist approach to social interaction, and take very seriously his position in the discipline of political economy.

Others, to be discussed later, do the opposite. They endeavor to bring the fundamental concepts of *The Theory of Moral Sentiments* to bear on *The Wealth of Nations*. This is done in several ways. First, they emphasize Smith's fundamentally humanitarian tone and his distaste for extreme material inequality. Second, they note the ethical justifications Smith gives for material pursuits in *The Theory of Moral Sentiments*, which they claim one can assume to be applicable to the behaviors described in *The Wealth of Nations*. Third, and finally, they point out Smith's deviations from defending 'perfect liberty,' indicating his recognition that self-interested individuals cannot provide everything necessary for a prosperous society.

Fundamentally, both approaches add to understanding Smith's work. But they are at least partially at odds with one another. In other words, each approach alone is coherent and consistent, but taken together the Adam Smith Problem reemerges. If each work can be grasped better by applying the framework of the other, then, once again, two distinct frameworks for Smith's work come into play. I believe a new approach is necessary to successfully deal with this conflict.

Embedded Reason in the Work of Adam Smith

At bottom, these previous approaches are inadequate for the same reason. They take up one of two conflicting portraits which led to the Adam Smith Problem. Inevitably, one can point to passages in Smith's works which are at odds with either of these readings of his work. This approach simply cannot do justice to Smith's work as a whole, because, as I will argue later, the Adam Smith Problem has been

decisively resolved. It is important to incorporate the ideas used to resolve this debate into a broader interpretation of Smith as a thinker. I will attempt to reframe these two views of human nature by analyzing little-cited passages of Smith's which both point to previously unobserved similarities between his two works and help explain the different behaviors of the Smithian individual in his two major works.

To accomplish this task, I will proceed in four chapters. The first will review the most important literature discussing the Adam Smith Problem, from its early stages up until the last decade. I will outline the major claims behind the Adam Smith Problem, the original responses to them, and more current refinements of each side of the debate. Overall, I will argue that the Adam Smith Problem, as originally stated, has been soundly refuted.

The second chapter will attempt to demonstrate that the terms of the debate over the Adam Smith Problem have had a large influence on interpreters who did not treat this debate directly. More specifically, I will try to show that readings of what constitutes human nature in Smith's work has, up until now, restated the apparent contradictions which led to the Adam Smith Problem. To do this, I will present a brief review of how both economists and others have read Smith's work, focusing on the nature of individual behavior.

The third chapter will employ a detailed analysis of passages of both *The Theory of Moral Sentiments* and *The Wealth of Nations* which call these previous readings of Smith into question. I will argue in favor of a different reading of the individual in Smith's work, one which does not lead to the Adam Smith Problem and fits both works equally well. According to my reading, Smith's individual has

inherently imperfect judgment and is constantly in a process of formation. Individual behavior, I will argue, not only leads to the creation of social systems but also constantly influences and changes the individual participants themselves.

Finally, in the concluding chapter, I will briefly summarize my argument as a whole and offer some ruminations on what we can learn from reading Smith today. I will argue that, in light of my new reading of Smith, the common perception of an inherent conflict between selfish economic desires and morality is questionable at best, both in Smith's work and more generally.

A Century-Long Mirage

Because thought has by now been perverted into the solving of assigned problems, even what is not assigned is processed like a problem.

~Theodor Adorno

From some of his earliest interpreters up to the present, there has been a lot of variation among views of Smith's ideas. Those from a variety of schools, both within and across disciplines, have claimed him as their own. Although one might be tempted to blame Smith for lack of clarity, this is, with a little deeper reflection, a testament to the astonishing breadth of his thought. The fact that politicians, ethicists, and economists, among others, have all felt his influence should not be downplayed. Thinkers with such wide-ranging impact are extremely few and far between.

This is not to say that Smith has been universally accepted as an exceptional theorist. Indeed, in many academic circles (as well as the occasional popular group), the discipline of economics as a whole is viewed with a certain disdain. The doctrine of laissez-faire is thought of as the domain of free-trade ideologues blind to the diverse array of legitimate and compelling reasons for government intervention in the economy. Smith, if thought of at all in this context, would be seen as an early manifestation of an academic discipline which, as a whole, has little merit.

Any specific blame assigned to Smith from this perspective, however, is only for his role in developing and legitimizing the practice of economic analysis. It stems mostly from an irreconcilable difference of opinion over what is important in social science – not a direct critique of Smith's ideas. Some see the analysis of a free trade

economy as a worthless pursuit. But this is far from the norm. Generally, although many social scientists have critiqued components of Smith's works and suggested alternative views, his body of thought is seen in broad terms as cogent, coherent, and often brilliant. Even if he is wrong about specific things, his worth as a thinker is not in question.

One particular body of literature, though, has presented a more serious challenge to the intellectual contributions of Smith's work. Some thinkers have questioned how well Smith's different works complement one another. They have argued that to accept the analysis of one of his works precludes key assumptions in others. More specifically, they have claimed that his concept of sympathy, one of the central themes of *The Theory of Moral Sentiments*, is antithetical to the self-interest which appears throughout *The Wealth of Nations*. Subsequent scholars have called this assertion the Adam Smith Problem. If accurate, it would throw a wrench into the gears of the entire Smithian system, problematizing the view that Smith's body of work as a whole is internally consistent. Basically, if one accepts this claim, the logical consequence is to reject the ideas in at least one of Smith's major works.

To come to this conclusion, though, would be a gross misunderstanding of Smith's thought. Despite renewed attention to the Adam Smith Problem as a legitimate and real concern, I will argue in this chapter that it is ultimately unsustainable. Previous authors have offered insightful and convincing solutions to this problematic interpretation. I will argue further that recent attempts to sustain the Adam Smith Problem come from a confusion of terms. They confuse similarity with consistency. The chapter will proceed in three sections. The first will outline the

Adam Smith Problem from in its earliest articulation and also sketch the most convincing and widely-read solutions which have been proposed. The second will sketch more recent attempts to revive the debate and offer a rebuttal. The third will offer some brief concluding remarks.

The Origins and Responses

The underpinnings of the Adam Smith Problem come from 19th century Germany. In the early part of the century, the immense influence of *The Wealth of Nations* had steadily spread across academic circles throughout Europe. Political economy as a discipline was gaining steam. It was not, however, without its critics. Simultaneous to popular reactions against the spread of the Industrial Revolution, intellectuals began to rebel against what many saw as the spread of amoral individualism – and many of them saw Smith as one of its initial sources.

Several authors in the middle of the century make references to a new interpretation of Smith's major works. One of the earliest expositions of the Adam Smith Problem came in 1877 from a German socialist named Lujo Brentano. In his book, *The Relation of Labor to the Law of To-Day*, Brentano accuses Smith of a troubling philosophical shift between his two major works. Specifically, he claims that Smith's ethical system as developed in *The Theory of Moral Sentiments* is inherently in conflict with the self-interest that permeates his in *The Wealth of Nations*. Brentano notes,

It is well known that Adam Smith, in 1759, had publish a "Theory of Moral Sentiments," according to which, moral actions are only those which obtain

the approval of the well instructed, impartial beholder. According to him, human actions are weighed with respect to this approval... (Brentano p.64)

According to his reading, Smith's story in *The Wealth of Nations* is entirely different:

In the "Investigations into the Wealth of Nations," on the contrary, he holds entirely to the views of the book of Helvetius upon the nature of man, and regards selfishness as the only motive of human action. The consequences of this dogma of selfishness permeate almost all parts of his work. (Brentano p.64)

For Brentano, the key difference here is whether individuals 'weigh' their actions according to a set of ethical standards or not – and how this 'weighing' affects individual decisions concerning what actions to take. Although he does not go into much detail (not even enough to thoroughly understand the concept), he correctly identifies 'the approval of the well instructed, impartial beholder' as Smith's ethical standard. As he implies, this standard is entirely distinct from the standard implicit in actions based on self-interest. For these kinds of actions, the standard is, 'what do I get out of this?' While these two standards will by no means lead to different choices in every possible circumstance, it is rather obvious that they will not lead to identical choices, either. To the extent that each motivation appears in its corresponding work, their dissonance reflects a major issue for followers of Smith. Are these motivations intended to be universal? If so, what happens when they recommend different actions? If not, how does one determine which motivation governs which situation?

Brentano attributes this problematic shift in thought to Smith's stay in France, and the influence of the Physiocrats:

He began the work [The Wealth of Nations] immediately after his return from France, where he had, during a twelvemonth's residence in Paris, at the house of Helvetius, the "Atticus" of the Encyclopaedists, associated with the men whom this general lease-holder, thirsting for literary renown, assembled round his table, in order to discover the quintessence of their ideas and to

publish them in his book "De l'Esprit," the code of individualism. (Brentano p.64)

He claims that the work was written entirely in seclusion after returning from his trip to France, and that it is largely a consequence of his experiences there. Ultimately, Brentano classifies Smith as a disciple of the Physiocrat school – although he pays Smith a minor compliment for producing the “most splendid literary work of the school.”

While this particular manifestation of the critique comes in only a small section of a work dedicated mostly to another topic, subsequent thinkers have expressed a similar inability to comprehend how Smith’s two major works fit together. Jacob Viner, almost 50 years later, asserts Smith’s inconsistency in nearly identical terms:

...on the points at which they come into contact there is substantial measure of irreconcilable divergence between the Theory of Moral Sentiments and the Wealth of Nations, with respect to the character of the natural order. (Viner p.207)

There are two main points of divergence for Viner. The first is with respect to references to a ‘benevolent deity’ as the force behind the harmonious workings of nature. The second is the disappearance of benevolence or sympathy from what Smith sees as the pillars of a properly functioning social order (Viner pp.207-12).

Unlike Brentano, who demonstrates almost tangible scorn for the ideas Smith presents in *The Wealth of Nations*, Viner sees this change as a positive development in Smith’s thought, not a problematic one. He characterizes *The Theory of Moral Sentiments* as an oversimplified, romanticized, and completely harmonious picture of the workings of the real world. *The Wealth of Nations*, on the other hand, he sees as

an admirably more detailed, nuanced, and, as a consequence, realistic examination of the workings of the natural and social order. He notes that, although Smith for the most part extols the freedom of trade as an excellent system, he also refers to many points of tension and conflict, like the divergent interests of specific groups (e.g., guilds or producers of a particular good) and those of the general public (Viner pp.214-5).

For Viner, then, Smith also changed his opinion sometime after publishing *The Theory of Moral Sentiments*, shifting to the outlook on human nature evident in *The Wealth of Nations*. He acknowledges, however, that there is a certain difficulty associated with this interpretation of the arc of Smith's thought. Smith made major revisions to subsequent editions of *The Theory of Moral Sentiments* which came out after the original publication of *The Wealth of Nations*, yet the points of conflict Viner and others perceived between the two works were no way diminished.

To side-step this difficulty, Viner asserts that Smith himself simply failed to see what some of his readers have seen as the lack of unity between his two major works:

This would make it seem that in Smith's mind, at least, there was to the last no consciousness of any difference in the doctrines expounded in the two books. Though we grant this, however, are we obliged to accept his judgment and to strain interpretations in order to find consistency prevailing where inconsistency appeareth to reign supreme? I think not. There persisted within the Wealth of Nations, through five successive editions, many, and to later eyes obvious, inconsistencies. When Smith revised his Theory of Moral Sentiments he was elderly and unwell. It is not altogether unreasonable to suppose that he had lost the capacity to make drastic changes in his philosophy, but had retained his capacity to overlook the absence of complete co-ordination and unity in that philosophy. (Viner p.217)

Viner claims that we should not be too perplexed by these apparent contradictions, since Smith made plenty of logical errors and mutually exclusive claims which he never corrected. Basically, he writes off the Adam Smith Problem as a simple mistake.

However, this answer is fundamentally unsatisfying. Although it is certainly true that Smith made plenty of uncorrected errors, to compare these with the Adam Smith Problem is a little facile. The other errors to which Viner refers have to do with individual results of his analysis. One famous example is a circular argument concerning rent (that rent is one of the three determining components of natural price, but that rent depends on the price one obtains for a certain commodity). The Adam Smith Problem, on the other hand, has to do with the *premises of his analysis*. In *The Theory of Moral Sentiments*, it is the practice of sympathy which creates many of the observable features of our social order, like moral codes and human relationships. In *The Wealth of Nations*, self-interest plays this role, leading to the phenomenon of natural price, for example. Using two contradictory premises for his major works is an error of a different order. To make this particular mistake, Smith would either have to believe only half-heartedly in the ideas of at least one of these works or be quite careless in his writings.

Other readers of Smith asserted that coming to such a conclusion before making a serious effort to resolve the problem would give too little credit to such a distinguished thinker. Beginning shortly after Brentano's work appeared and continuing throughout much of the 20th century, several authors flew to Smith's defense. August Oncken, in the late 19th century, gave what later became the

canonical response. Oncken noted that the Brentano's explanation of what led to Smith's change of opinion was very improbable. First, Smith's personal library did not contain the works to which Brentano refers as formative of Smith's thought. If these works were so important to him, one would expect him to have copies of them. Second, Adam Smith's views of self-interest's effects on the economy had already emerged before his trip to France, as some ideas very similar to those in *The Wealth of Nations* appeared in a student's notes from one of his lectures (Oncken p.446). Clearly, then, his stay with the Physiocrats could not be solely responsible for this perceived break from his earlier work.

More importantly, though, Oncken claims that Brentano's interpretation misunderstands Smith's work. According to him, it is easily inferable from *The Wealth of Nations* that self-love is the root of *only* economic actions (Oncken p.447). Although Oncken does not give a detailed explanation of this assertion, it is possible to conceive of how it would be true. It comes not from a conscious decision to act based on one set of motivations or another, but rather from the fact that different kinds of decisions naturally merit different kinds of consideration. But Oncken, unfortunately, does not give any detailed explanation of how this works. Because of this, even though his solution seems plausible, it is not completely convincing.

Ultimately, Oncken claims that the real problem, then, is an overemphasis on Smith's political economy to the detriment of understanding other components of his work:

It would be a graceful act for the English political economists to set themselves the task of inquiring fully into the Smith problem, and thus to protect their great master once for all from detraction, by presenting his teaching in its entirety, as a system of Moral Philosophy, in which Political

Economy forms but a part. Then no one would blame Smith for lacking "ethical" standpoints, or suspect him of gross Materialism. (Oncken p.449)

As long as one understands that Smith has treated several different components of social life, and in justifiably different ways, the Adam Smith Problem disappears. Many later readers of Smith have taken up this idea, including Ronald Coase, Knud Haakonssen and Robert Heilbroner. Yet, without demonstrating any clear or systematic way Smith separates between economic behavior and other social interaction, there is little room to plausibly argue that this is not simply due to the inconsistency claimed by the proponents of the Adam Smith Problem. Simply because Smith offers differing treatments of these two sets of social science does not mean that he is correct in doing so, or that there is no inconsistency between them.

However, decades after Oncken's article was published, another author would give his claim convincing justification. In the 1980s, Russell Nieli proposed a compelling mechanism he found in Smith's thought for the separation between the economic sphere and other aspects of social life. He argues that the division Oncken refers to fits in with a well-developed distinction Smith makes between different 'spheres of intimacy'. To begin, Nieli notes that *The Wealth of Nations* almost completely ignores how those with close personal relationships behave towards one another economically (Nieli p.619). Relations within the family and within circles of friends are rarely mentioned in this work, if at all. Nieli then observes that Smith, in *The Theory of Moral Sentiments*, has what could be called a theory of *spheres of human intimacy*: our concerns and affections proceed in declining intensity from ourselves, to our family, to our friends, to members of our nation – and end there (Nieli pp.620-2). In other words, we have considerable personal stake in certain

people's pleasures and pains, but only those with which we have frequent contact.

We take pleasure in our family's, our friends' and our nation's citizens' successes (in declining intensity) and feel pained over their failures. But the fate of distant people we never see, with whom we have never spoken, has no significant effect on us.

According to Nieli, this is not only a positive theory. It also has a normative component. In fact, Nieli notes that Smith explicitly claims that concern about the misfortunes of those outside these spheres is misguided (Nieli p.623). We can have little impact on those who are so distantly connected to us. Thus, to undergo the pains of concern for their suffering would be for nothing; we would only succeed in hurting ourselves.

Basically, under Nieli's view, *The Wealth of Nations* is a treatment of only the relations outside these spheres of intimacy:

When one recognizes this aspect of Smith's teaching, one can see that Smith's moral philosophy and his economic theories are perfectly in harmony with one another to the extent that the self-interested acquisitiveness which he describes in The Wealth of Nations applies only to economic relations between people not otherwise bound to one another by intimate ties – between people, that is, from different intimate Gemeinschaften [communities]. (Nieli p.624)

According to Nieli's interpretation, *The Theory of Moral Sentiments* deals with all human interaction; *The Wealth of Nations*, only the impersonal kind.

It is easy to see that Nieli's interpretation is simply an updated, more refined take on Oncken's. Like Oncken's, Nieli's solution to the Adam Smith Problem explains the apparently contradictory motivations which appear in Smith's works by claiming that they apply to different forms of social interaction. For Oncken, self-interest applies to the economy, sympathy to other social interaction. For Nieli, self-

interest applies to impersonal relationships (which include, but are not necessarily limited to, relationships between economic actors), sympathy to personal ones. However, unlike Oncken, Nieli uses a specific idea in Smith's work to explain why decisions in different contexts would come from different motivations. Although Smith never uses the phrase 'spheres of intimacy', the concept is prominent in many different sections of *The Theory of Moral Sentiments*. With Nieli's contribution, one can consider the Adam Smith Problem solved. For Smith, how we behave towards others depends on our relationship with them.

An Old Idea Resurrected

For most of the 20th century, prominent Smith scholars considered the Adam Smith Problem to be a non-issue. Even before Nieli's article, the Adam Smith Problem was mostly considered resolved. Although Oncken had not convincingly justified his solution, it was nevertheless widely accepted. The last decade or so, though, has seen a resurgence of interest in this particular debate. Three authors, Spencer Pack (1997), Leonidas Montes (2003), and James Otteson (2002), have recently argued that the Adam Smith Problem is, despite the defenses discussed above, partially irresolvable. While all three note that Smith's two works complement each other in certain ways, they maintain that the sympathy described in *The Theory of Moral Sentiments* does not reconcile easily with the self-interest prevalent in *The Wealth of Nations*.

Otteson's argument is essentially similar to those of the other two, but better developed and more clearly argued, so I will treat it as representative of the resurgent view that the Adam Smith Problem remains partially unresolved. Overall, his view depends on the fact that certain features of each of Smith's major works are unique to them. In other words, there are certain ideas and argument which appear only in *The Theory of Moral Sentiments* and others only in *The Wealth of Nations*. More specifically, Otteson argues, in a similar fashion to Brentano and Viner, that human nature in *The Theory of Moral Sentiments* is to balance concern for oneself and concern for others through ethical evaluation while the former is implicitly the only motive to action that appears in *The Wealth of Nations*:

In TMS, Smith argues that a person should properly be motivated by a balance of self-interest and benevolence, as determined by the judgment of the impartial spectator. In WN, however, Smith's argument seems to presuppose that people are motivated only by self-interest, and his argument there makes no mention of or room for benevolence. This is a more serious problem than many recent commentators have thought. (Otteson pp.170-1)

For Otteson, these different portraits of human nature are troubling, and the preceding attempts to explain them are insufficient. According to his argument, there is no individual moral code whatsoever apparent in *The Wealth of Nations*, which necessarily conflicts with his earlier piece, in which ethics was a primary theme.

Otteson certainly concedes that there are factors which mitigate this problem. He mentions two, specifically. The first factor is a common conceptual theme he observes underlying both major works. According to Otteson, the general model of a market is apparent throughout both *The Theory of Moral Sentiments* and, more obviously, *The Wealth of Nations*. Basically, "free exchanges among people pursuing their own interests give rise over time to an unintended system of order" (Otteson

p.171). Concerning ethics, interactions among individuals are what lead to moral principles:

It is in these associations, in the daily intercourse people have with one another, that they encourage each other to discover and adopt rules of behavior and judgment that will lead to mutual sympathy. Without such interactions with others – recall the case of solitary islander – people would have no occasion to pursue such rules, and hence they would not. (Otteson p.123)

Under this view, ethical rules are analogous to prices. They originate from, and change due to, interactions among a wide body of people – interactions which do not consciously intend to promote their ultimate effect.

The second factor is what Otteson refers to as ‘the familiarity principle,’ which is essentially identical to Nieli’s ‘spheres of intimacy.’ He defines and employs the concept as follows:

Smith develops the familiarity principle in TMS, arguing that people’s natural benevolence toward others varies directly with their familiarity with them – the more familiar a person is to one, the greater the tendency to feel benevolent toward him; the less familiar, the less benevolent... When this principle is applied to people qua actors in economic marketplaces, we shall find that their proper motivations should be quite similar to what it turns out Smith presupposes as the motivations of economic actors in WN. (Otteson p.123)

For him, this helps to unify the two works by serving as the justifying principle for Smith’s shift in focus.

Despite these mitigating factors, Otteson claims, “a discrepancy nevertheless seems to exist between the way Smith describe proper or moral motivation in TMS and the way he describes motivation in WN” (Otteson p.298). At least for the purposes of his argument, he reclaims the Adam Smith Problem as an issue that merits further discussion. Yet, his approach is confusing. After reading his entire

work, it is unclear how relevant he believes the Adam Smith Problem to be for contemporary readings of Smith. At the end of Otteson's chapter on the aforementioned mitigating factors, he even claims, "we have seen that [the] two books are consistent on the central points, and therefore we can, I believe, at long last, lay the Adam Smith Problem to rest" (Otteson p.198). Nevertheless, when referring to solving the Adam Smith Problem, he almost always qualifies his arguments. He writes "to the extent that it can be resolved" and more often than not speaks of "mitigating" the problem, not solving it. As far as I can tell, Otteson in fact believes that the problem still exists, but leaves it highly qualified. In my estimation, what is left of the Adam Smith Problem boils down to Otteson's particular reading, in which "the Adam Smith of WN gives no real indication that there ever was an Adam Smith of TMS" (Otteson p.300).

In making this argument, I believe that Otteson is in error. It is not that his observation is inaccurate. Apart from some stylistic similarities, there is little indication that the same author wrote *The Theory of Moral Sentiments* and *The Wealth of Nations*. The books' respective topics, while certainly applicable to one another in certain ways, overlap in few places. What is unclear is why this is a problem in the first place. Otteson makes no discernible argument to justify seeing the contrast between the two works as problematic. He seemingly assumes that it is obvious, claiming,

...if Smith had thought that any motivation besides self-interest is active in human behavior, he would have appealed to it somewhere in WN, especially given the extremely broad range of human activities he discusses in WN...
(Otteson p.156)

But this is far from self-evident. Even just from reading the full title of the book – “An Inquiry into the Nature and Causes of the Wealth of Nations” – it is quite clear that the topic of the book is limited in scope. To assume that all, or even most, of the motivations ‘active in human behavior’ *in general* would appear in the work is quite misguided. Only those that are active in *economic behavior* are relevant to the topic of the piece. Thus, if Otteson concedes what he calls the ‘familiarity principle’, he has no credible justification for deeming the Adam Smith Problem still relevant.

I think this fundamentally erroneous assertion that the Adam Smith Problem continues to be unresolved comes from a particular confusion of terms. The original Adam Smith Problem claims that the individual motivations Smith relies upon to explain social behavior in his respective works are at odds. He places inconstant emphasis on the extent of the role of self-interest in human behavior. While it certainly appears in both of Smith’s major works, it is so prominent in *The Wealth of Nations* that it seems to be the exclusive motivation at work – and this exclusivity is in stark contrast to the balance between several motivations Smith describes in *The Theory of Moral Sentiments*. This earlier work catalogs a diverse array of motivations which inspire human actions, among them not only self-interest, but also benevolence and justice. Smith gives a detailed account of different kinds of virtues, and also claims that, because we want others see us in a favorable light, we have a powerful incentive to act according to the prescriptions of these virtues. No such account appears in any part of *The Wealth of Nations*. This is a problem based on *inconsistency* – one that disappears courtesy of the ‘spheres of intimacy’ Nieli refers

to or, as Otteson calls it, the ‘familiarity principle’, which explains which motivations apply under which circumstances.

Otteson, in contrast, claims that what is troubling is *the simple fact that* only one of several motivations Smith utilizes in *The Theory of Moral Sentiments* appears in *The Wealth of Nations*. He is claiming a problem based on *dissimilarity*. Because he accepts the ‘familiarity principle’ Otteson no longer has any basis for claiming that this different emphasis is in any way antithetical to Smith’s former focus. For some reason, Otteson nonetheless finds the contrast between the two works troubling. He is troubled that the Smith of *The Theory of Moral Sentiments* appears nowhere in *The Wealth of Nations*. However, I think it is just as reasonable to applaud this contrast as a testament to the breadth of Smith’s work. Making significant contributions to both ethics and economics is an impressive feat for anyone to achieve. This is really no problem in Smith’s work at all. In fact, it is the opposite – it is a strength.

Conclusions

As discussed above, the Adam Smith Problem posed a serious challenge to interpreters of his work for some time. It took over a century from its inception in the middle of the 19th century for a satisfying solution to reach full fruition – and even now some scholars remain unconvinced. Certainly, the contrast between Smith’s two books is striking. The positive and normative analysis of ethics that permeates *The Theory of Moral Sentiments* is virtually absent from *The Wealth of Nations*. The most crucial ideas in his earlier book are nowhere to be found in his magnum opus of

economic analysis. Similarly, it is a stretch to trace the most crucial and innovative ideas of *The Wealth of Nations* directly back to *The Theory of Moral Sentiments*.

Such independent and dissimilar works are rarely the product of the same author. At first glance, such contrast seems unjustifiable. How can they both be accurate, since they use very different sets of motivations to explain social phenomena?

As Nieli convincingly demonstrates, the answer to this quandary lies in Smith's work itself. Smith's theory of 'spheres of intimacy' explains how it is possible to employ the narrow focus of *The Wealth of Nations* without assuming that benevolence is virtually nonexistent. Because our concern for others depends on the extent to which we have had prior contact with them, we have a tendency towards benevolence only with a limited set of people. Thus, to utilize only self-interest in describing impersonal business relationships in no way implies that we never act benevolently. It is simply a different sphere of analysis. And because the study is limited to a particular sphere, limiting motivations to self-interest is not only justifiable but accurate.

Nevertheless, despite this solution, some recent authors have argued that it is still necessary to analyze the Adam Smith Problem. They claim that previous resolutions have been fundamentally unsatisfactory, and that the transition from the Smith of *The Theory of Moral Sentiments* to the Smith of *The Wealth of Nations* remains mysterious. This final point I will concede. It is difficult to know exactly what motivated Smith in changing his intellectual approach. However, this in no way means that solutions to the Adam Smith Problem have been unsuccessful, or even incomplete. Dissimilarity does not imply inconsistency. By now, we have an

explanation found in Smith's own work which demonstrates why such dissimilarity is, in fact, completely consistent. We can safely consider the Adam Smith Problem solved for good.

However, this does not mean that there are no longer unresolved issues in reading Smith's body of work. In fact, I will argue in the next chapter that the great amount of attention dedicated directly to the Adam Smith Problem has led scholars away from a more important debate. The nature of the individual in Smith's work, not solely the motivations for her actions, is a matter that has not yet been settled.

The Legacy of the Adam Smith Problem

As we have seen in the previous chapter, there has been some serious disagreement over how to appropriately interpret Smith's work. The motivations which Smith sees as ethical, and those he presupposes to dominate the economic sphere, seem to be in conflict. This has led some readers to claim Smith's two major works to be inconsistent, that they portray the natural behavior of the individual in mutually exclusive terms. This is, however, for the reasons described in the previous chapter, an argument I believe to be settled. As Nieli's 'spheres of intimacy' argument shows, there is no real inconsistency between the behaviors outlined in Smith's works.

Nevertheless, this does not mean that the problem is no longer relevant. The influence of the Adam Smith Problem has extended beyond simply discussion of the problem itself. It has had a large impact on readers' interpretations of Smith's broader conception of the self. Up until now, there has been no attempt to systematically address differing interpretations of the nature of the individual in Smith's work. In this chapter, I will present a new classification for these different readings, and argue that they trace their roots to the Adam Smith Problem.

As discussed in the previous chapter, the Adam Smith Problem focuses on the different individual motivations Smith employs in his two major works. As I will

now argue, the focus on individual motivations behind the Adam Smith Problem has led to two distinct visions of the nature of the individual in Smith's work, which, although clearly different, share a certain conception of how individuals make decisions. Both visions assume that individuals make choices based on a preconceived set of motivations. Fundamentally, individuals *calculate* which of their available actions best satisfies their motivations and then act according to this calculation. In the following two sections, I will outline the fundamental features of these two visions. The first relates mostly to how economists have claimed Smith's legacy; the second, to how Smith scholars have attempted to sustain his body of work as a whole against a more narrow economic vision. In the final section, I will offer a brief summary and argue that, although they are not substantively inaccurate, both these interpretations are incomplete.

The Invisible Hand Within: the Instrumental Rationality Interpretation

*Eroticism has its own moral justification because it says that pleasure
is enough for me; it is a statement of the individual's sovereignty.*

~Mario Vargas Llosa

From the beginning, it is important to distinguish between how Adam Smith has concretely influenced economic analysis and his status as a figure of public renown. In the interval between his publication of *The Wealth of Nations* and today,

he has become popularly known as the inventor of political economy. This seminal work captured both the fascination and the ire of a generation of intellectuals, and had immense intellectual and political influence which cannot be denied. Such influence has understandably led many to credit him as the original architect of the framework of political economy – a view which, to the present day, remains widely held.

However, those with a more developed knowledge of the history of economic thought would dispute the validity of such claims. Many of the ideas made famous in *The Wealth of Nations* had appeared earlier in other authors' works. Maurice Allais, of Allais Paradox fame, refers to Smith as follows: "So great are his borrowings from his predecessors, that objectively Smith has no right to be considered the 'Founder of Political Economy' " (Allais p.32). Though immensely influential, his work was not especially new. Robert Turgot and David Hume, among others, had already made many of the claims which were to appear in Smith's economic opus.

His innovation is not, then, one of originality, but rather one of synthesis. Although far less than today's standard neoclassical framework, Smith provided a *systemic* view of human economic behavior which had previously only appeared in piecemeal fashion, often alongside other absurd or erroneous concepts which Smith wisely left out. The importance of his work in the study of economics lies in how it has been adopted and expanded upon, eventually becoming one of the preeminent tools of the discipline of economics: general equilibrium theory.

The immense impact of this theory on economic analysis is obvious. In recent decades, however, the scope for this type of analysis has increased significantly beyond the realm of economics alone, appearing most prominently in political science

literature. At the beginning of their widely-read work, *General Competitive Analysis*, F.H. Hahn and Kenneth Arrow pay Smith some well-deserved respect:

...Adam Smith's "invisible hand" is a poetic expression of the most fundamental of economic balance relations, the equalization of rates of return, as enforced by the tendency of factors to move from low to high returns... Whatever the source of the concept, the notion that a social system moved by independent actions in pursuit of different values is consistent with a final coherent state of balance, and one in which the outcomes may be quite different from those intended by the agents, is surely the most important intellectual contribution that economic thought has made to the general understanding of social processes. (Hahn and Arrow p.1)

Thus, Smith's place is not one of an inventor, but of a director. Over the course of 230 years, the basic foundation Smith laid has felt the influence of many other architects, who have built it into a massive edifice. He directed economic analysis towards a perspective which, to this day, remains highly relevant – not only within the discipline, but in all of social science.

The fundamental concept behind this vast intellectual history is, in the end, quite simple: each individual acts so as to maximize her own satisfaction. Samuel Hollander, the famous historian of classical economic thought, refers to this as the 'self-interest axiom'. He argues forcefully against 19th century interpreters, including John Rae and Alfred Marshall, who had branded Smith's work as unscientific. To do this, he demonstrates how Smith's work fits into the basic framework of the scientific method: the emergence of patterns of events given an initial premise. Moreover, he asserts that this fits well with Smith's demonstrated attitude towards scientific analysis. Hollander notes that Smith demonstrated significant admiration for the methodology of Sir Isaac Newton in his *Essay on the History of Astronomy*, in that his work represented an excellent case of a system with a premise which was

verifiable through its ability to demystify concrete, observable patterns of facts (Hollander pp.134-5). “There is,” Hollander contends, “every reason to believe that Smith retained his original position regarding scientific method throughout his later career” (Hollander p.136).

Hollander goes on to argue that Smith’s economic analysis is, in essence, a social application of this scientific methodology. It is the system which emerges from the premise outlined above, that every individual acts so as to satisfy her interests to the maximum extent – a motive recognized long before Smith’s arrival on the intellectual scene (Hollander p.137). Moreover, in Hollander’s view, this premise is ever-present in Smith’s work, even before its extensive role in *The Wealth of Nations*. In his earlier work, *The Theory of Moral Sentiments*, Smith assigns two characteristics unrivalled usefulness to the individual: ‘superior reason and understanding’ and ‘self-command’. These two together constitute the virtue of ‘prudence,’ which Hollander claims is synonymous with ‘self-love’, or the self-interest axiom (Hollander p.138).²

This view sees the economic system in *The Wealth of Nations* as the culmination of Smith’s thinking on an aspect of human nature he had uncovered early on in his intellectual career. The theories in this piece, like the models of classical physics which arose from Newton’s laws of motion, constitute a mechanics of

² Hollander commits, however, a significant error here. While Smith explicitly claims that the virtue of prudence is the most useful virtue for individuals, he does not make any claim to support the assertion that the ‘superior reason and understanding’ component applies only to the consequences experienced by this theoretical individual. In fact, he says it is this component which makes us capable of discerning the *remote* consequences of our actions. Hollander here seems to assume that this remoteness refers to time alone. But the text itself does not make such a limitation, explicitly or implicitly. Clearly, time is a component, since it refers to predicting the consequences of a future action. But space is not specifically excluded. Nevertheless, although he misinterprets its role in Smith’s ethical system, Hollander is correct in noting the early appearance of self-interested behavior in Smith’s thought.

markets built with the self-loving individual as its foundation. Some have claimed that Smith, in his economic analysis, is consciously abstracting from other possible components of human nature. But according to Hollander, like Newtonian mechanics, it is intended as an explanation of the real world, not a thought-experiment. He claims that Smith's economic thought aims to account for *all* the causes of individual action, not just a portion of them:

Now it cannot be positively ruled out that Smith introduced the "economic man" into the Wealth of Nations as a deliberate abstraction for analytical purposes as did J.S. Mill. But a much more likely interpretation is that which attributes to Smith concern with the "entire man" in the anonymous market place where there is little scope for social sentiments. In his inquiry regarding the economic order Smith adopts this motive force as the overwhelmingly most significant at work and there is little to suggest that he was devising a deliberate abstraction (Hollander pp.139-40; emphasis Hollander's).

In essence, under this interpretation of Smith's thought, *The Wealth of Nations* was for economics what *Philosophiæ Naturalis Principia Mathematica* was for physics: the carefully constructed magnum opus that put the science on the map.

After this account of Smith's view of the individual, one might puzzle over why he does not believe free societies to be marred by anarchic conflict. If everyone acts only to satisfy her own desires, will not conflict over scarce and desired objects and goals be woefully commonplace? The answer, for Hollander, is that there are limits to self-interested action. While individuals do not, in general, restrain their desire for personal satisfaction, a community's institutional arrangements alter which beneficial choices each person has at her disposal. In other words, social and political structures have a significant restraining impact on the available avenues for satisfying one's tastes (Hollander p.141). There are rules and consequences for breaking them

which exercise a significant influence on our choices. This curb to self-interested behavior leads Hollander to describe Smith's vision of the individual as follows:

The self-interested man of Smithian economic theory, applicable largely to a capitalist exchange economy and assuming "order and good government," is thus a rather carefully specified individual, who has limited opportunities for indulging various tastes... (Hollander p.146)

In essence, Hollander's reading of Smith claims that his individual is a fully formed, instrumentally rational being which adapts to her environment to her best advantage. Some self-interested actions, due to legal and social ramifications, are not actually beneficial. Nevertheless, it is still self-interest which governs all these actions.

Although this particular manifestation of the interpretation of Smith's thought is a little extreme, its overarching themes are widely held, especially among those concerned mostly with Smith as an economist. There are two fundamental claims Hollander makes: (1) Smith, in *The Wealth of Nations*, analyzes the economic order according to the scientific methodology of deriving results from an initial premise; and (2) self-interest is the overwhelmingly most important explanatory cause of the individual choices we see in the real world.

These claims are present in a significant proportion of others' readings of Smith. Jacob Viner and Ronald Coase both, in slightly different ways, see these two features of individuals throughout Smith's work. Regarding the first claim, Viner is closer to Hollander's view. Towards the end of a passage arguing that benevolence plays an insignificant role in the Smithian system, he states, "It is what a man regards as his interest, even though mistakenly, that controls his actions" (Viner p.213). For Viner, this is the defining aspect of Smith's view of human nature and he makes no

significant effort to include any additional characteristics. Self-interest alone is sufficient.

Coase presents a more complex reading. He initially argues that self-interest “is by no means the only motive” in human behavior that appears throughout Smith’s complete body of work, especially *The Theory of Moral Sentiments* (Coase p.529). He claims that the influence of morality is an essential component of any faithful interpretation of Smith’s individual.

Nevertheless, Coase seems to be arguing that Smith’s individual operates according to a more subtle, nuanced conception of self-interest – not that she actually acts according to any principle other than self-interest. Despite explicitly noting the importance of morality in *The Theory of Moral Sentiments*, he characterizes Smith’s idea of human nature in terms that, even in this work, look strikingly similar to the most infamous proponent of instrumental rationality, Thomas Hobbes:

The picture which Adam Smith paints of human behavior is not edifying. Man is not without finer feelings; he is indulgent to children, tolerant of parents, kind to friends. But once this is said, it is also true that he is dominated by self-love, lives in a world of self-delusion, is conceited, envious, malicious, quarrelsome, and resentful. Adam Smith’s view is in fact a description of man much as we know him to be. (Coase p.535)

He rightfully notes that *The Theory of Moral Sentiments* – which covers such topics as ambition, vanity, greed, and others – does not simply assume that individuals behave according to commonly held moral codes. In many ways, the human beings Smith describes in this work are just as amoral as those which appear in *The Wealth of Nations*.

For Coase, although Smith’s individual is not as callous towards others as some have claimed, those influences which seem to be distinct from self-love are in

fact both limited and channeled through self-interested desires. He holds that Smith's thought, where it departs from what is commonly associated with instrumentally rational behavior, can be explained in terms of *self-centered* moral sentiments (Coase p.533). We care about other people (especially those with whom we have close relationships) because their experiences *affect us directly*, not actually *for their sake*. Ultimately, he disagrees with Viner over *what constitutes self-interest in the Smithian system*, not the extent of its domain in motivating individual choice. Self-interest, despite his explicit claim to the contrary, is still the sole influence on human behavior.

In terms of the second claim, both Viner and Coase present a view almost identical to that of Hollander. Both see Adam Smith as ultimately a systematic, scientific thinker. Viner asserts that, earlier in his work, Smith has a simplified vision of the natural world as an unconditionally perfect system:

What we have, therefore, in the Theory of Moral Sentiments is an unqualified doctrine of a harmonious order of nature, under divine guidance, which promotes the welfare of man through the operation of his individual propensities. (Viner p.206)

Although the claim of divine guidance may seem a bit troubling to claiming Smith's thought as scientific in orientation, it is really of only incidental importance here.³

Whether theistic or not, in this reading, the order of nature is unchanging, universal, and followed without exception – which are the essential characteristics of scientific systems.

³ Whether the laws in operation here come from God or from some other source is of little significance in this inquiry. Indeed, the issue of the compatibility between scientific thought and the belief in some form of deity is highly disputed, and requires an extensive review of theology and the intellectual history which is quite off the topic at hand. Suffice it to say here that many of the most important figures in the history of scientific thought were devout Christians of one denomination or another, including Johannes Kepler, Isaac Newton, and Gregor Mendel. Thus, even if Smith's conception is theistic, this in and of itself presents no real challenge to viewing his work as scientific.

Viner sees this vision, however, as oversimplified and somewhat inattentive to the real world. In *The Wealth of Nations*, Viner claims, this very generalized vision has become much more qualified and rigorous:

*Smith's argument [in *Wealth of Nations*] for the existence of a natural harmony in the economic order, to be preserved by following the system of natural liberty, is, in form at least, built up by detailed inference from specific data and by examination of specific problems, and is not deduced from wide-sweeping generalizations concerning the universe in general. (Viner p.210)*

Thus, Viner sees Smith's thought as a progression from a somewhat poorly specified, yet still scientific, vision of human behavior to a diligent search for the order behind real-world occurrences.

Coase obviously disagrees with Viner's perception of a revision in Smith's thought, claiming there is little to no evidence to suggest any significant break on the workings of the natural order between his two major works (Coase p.538). The picture of the workings of the world presented in Smith's two major works is, according to Coase, fundamentally similar. Nevertheless, this bone of contention is only minor. Like Viner, Coase makes several passing references to 'natural harmony' and 'natural order' in Smith's thought, and contends, "Adam Smith tended to think, as I suppose was usual at that time, of the universe as a machine" (Coase p.538). Overall, he concords with Viner's view of the ultimate form of Smith's later thought, but disagrees over how it evolved in getting there.

Although the above readers of Smith noted what they see as the two most important building blocks of Smith's thought, they made no attempt to present the formal system to which these concepts would lead. Maurice Allais has, however, done an admirable job of this. He fluently uses Smith's concepts to build a simple

competitive equilibrium model. According to Allais' argument, there are fundamentally three concepts and one principle underlying Smith's ideas on the workings of the economy. The concepts are: (1) each consumer seeks to maximize her index of preference; (2) all producers seek production techniques likely to produce surpluses of value; (3) prices on each market are, through competition, fixed at a level which ensures that each participant sees her situation improve and realizes a surplus. The principle, which is crucial for the model as a whole, is that "realized surpluses are attributed to those who realize them" (Allais p.33).⁴

Although Allais may be slightly overemphasizing Smith's direct connection to later economic theory, his general themes fit quite well. His claim is that the above ideas, which appear throughout *The Wealth of Nations*, are what underlie two propositions of Smith's. The first is that the search for surplus is the motivation behind every act in the economy. The second "is that the decentralized search for realizable surpluses...constantly brings the economy towards a situation of coherent interdependence where a certain 'optimum' is realized" (Allais p.38).

Allais' model is no more than the consequences of private property in a community composed of self-interested individuals. He simply has a more specific definition for self-interest: seeking a surplus. Here, the concept of a surplus is to receive a better reward than one would be willing to accept for some action or currently receives for it. Consumers, for example, achieve a surplus either by paying less than their reservation price for a good or service, or by purchasing some

⁴ This statement ignores the Marxist critique, that capitalists appropriate surpluses that are mostly if not completely realized by their workers. However, if the surplus depends on several factors of production used in a clever combination, then this critique cannot stand. For now, let us assume that Smith believes that producers' choices of technique are fundamental for the creation of surpluses.

commodity for a price lower than what they have paid for the same commodity in the past. Producers achieve a surplus by selling their goods for more than they paid to produce them. The picture resulting from these concepts is one of a simple model of competitive equilibrium. Basically, consumers and producers constantly search for surpluses, and continually appropriate those they find, until no more are available. In other words, the economy as a whole reaches a stable state once all opportunities to realize a surplus are exhausted.

At this point, it is important to qualify the above argumentation. The interpretation of Smith we have examined so far, while widespread, is not universally held among economists. Some have seen possibly crucial roles for motivations other than self-interest proper in Smith's economics. James Buchanan, for example, has emphasized the significant role a 'work ethic' could play in the Smithian system. He begins by extending international trade theory's division between 'tradable' and 'non-tradable' goods to individual labor supply decisions. He sees production in the market as analogous to 'tradable' goods; production for personal consumption, to 'non-tradable' goods (Buchanan p.106). Thus, just like reducing the production cost of 'tradables' relative to 'non-tradables' increases the volume of trade, reducing the costs of production in the market relative to production for one's own consumption increases the volume of labor supplied. Buchanan further claims that this increase in the supply of labor would act as an external economy, if there are generalized (not necessarily universal) increasing returns to scale, by decreasing the market price and augmenting the supply in any industry that experiences these increasing returns

(Buchanan p.111). This would affect consumers' utility through a beneficial shift in the budget constraint, brought about through increased purchasing power.

The role of the 'work ethic' would be channeled through the individual budget constraint describing the relative costs of labor and leisure. Specifically, according to Buchanan's argument, this social 'work ethic' would create a kink in the budget constraint, in which the cost of leisure relative to labor increases once labor supplied falls below a certain level (Buchanan pp.112-3). Thus, individuals who would, in the absence of said 'work ethic,' choose to supply an amount of labor below this crucial level, would increase their supply. While the differing character of individual preferences would determine the magnitude of the change, as long as the indifference curves are convex the supply would increase.

Although there is some significant confusion in Buchanan's exposition of the model,⁵ it nevertheless offers an intriguing modification to the canonical interpretation of Smith's views on the operations of the economy. Firstly, as Buchanan explicitly notes, the presence of increasing returns is not easily compatible with the existence of a competitive equilibrium. Increasing returns imply decreasing average costs, which in turn imply marginal costs below average costs. Thus, the competitive equilibrium condition that market price equals marginal cost would amount to selling a good below its average cost of production – a practice that is

⁵ Buchanan makes it somewhat ambiguous whether the 'work ethic' he describes is a matter of preferences or constraints. He claims that it operates through instilling a sense of guilt in the individual if the proportion of leisure to labor is high, which implies that it is a matter of preferences. But he claims that it will affect the budget constraint in the model, not the indifference curves. Nevertheless, this contradiction is easily avoidable without changing any of the conclusions of the model. Replacing this instilled guilt with social disapproval as the manifestation of a 'work ethic' is a possible way to make absolutely certain that it operates through the budget constraint and leaves the indifference curves as they were. Here, the cost of leisure relative to labor would change at some crucial point below which others would disapprove of our 'laziness.' Constraints, not preferences, would be the decisive influence.

surely unsustainable. Secondly, it makes a strong case for the existence of social phenomena that can have positive effects on economic efficiency. This challenges the notion that decentralized self-interested actions producing an optimal outcome is the defining aspect of Smith's thought. As Buchanan shows, a fundamentally social phenomenon, combined with his idea of the beneficial effects of extending the division of labor, leads to Pareto-improvement.

That said, the vast majority of interpretations of Smith's economic thought characterize self-interested action as the fundamental component of his system. Specifically, the idea is that individuals will, through the market, pursue surpluses of value – a good which costs less than what they are willing to pay for it, a consumer who will buy a good for a price higher than what it costs to produce it – wherever they may find them. According to this interpretation, Smith sees human nature as *instrumentally rational*. Individuals use the knowledge and reason they possess to pursue a given set of ends whose source and origins have little, if any, socially derived component to them and are without any outer bound. This perspective holds, as Thomas Hobbes put it over a century earlier, “a general inclination of all mankind, a perpetual and restless desire of power after power, that ceaseth only in death” (Hobbes p.88).

Head Over Hedonism: the Ethical Rationality

Interpretation

*Perfection of moral virtue does not wholly take away
the passions, but regulates them.*

~St. Thomas Aquinas

Some authors, though, have challenged this interpretation. Once one steps outside the domain of economics, the extreme focus on Smith's 'invisible hand' is no longer apparent. Indeed, besides Hollander, few who make an effort to incorporate *The Theory of Moral Sentiments* in their interpretations find use for the instrumental rationality interpretation. Smith's ethical views certainly do not support such a narrow view, even if the individual plays a prominent role in his ethical system.

In fact, Emma Rothschild has offered an intriguing, though controversial, new interpretation of Smith's use of the 'invisible hand' metaphor. She claims that, although there is some evidence supporting the idea that Smith held the 'invisible hand' he refers to in esteem, there is more persuasive evidence suggesting that Smith actually referred to the 'invisible hand' derisively. For Rothschild, there is one kind of evidence that points to Smith's high regard for the 'invisible hand.' In several cases Smith refers to 'invisible hand' explanations – systems of order that arise from individual actions with no intention of producing such an end-state – as aesthetically pleasing (Rothschild p.122). These references appear in both of his major works, regarding both political economy specifically and other systems of order.

For Rothschild, however, the evidence against this interpretation is more compelling. She identifies three main arguments in support of Smith's distaste for the 'invisible hand.' First, it takes a very condescending tone towards individual actions and aims, seeing them as blind to the hand that leads them to support a larger system. This does not sit well, Rothschild notes, with Smith's frequent defense of individuals as the best judges of their own options (Rothschild p.123). Second, the 'invisible hand' is based on a notion of privileged universal knowledge which some theorist can see despite the fact that 'normal' individuals cannot – an idea even more at odds with his defense of the individual and his critiques of mercantilist controls of the economy (Rothschild pp.124-5). Third, and finally, she claims that it does not reconcile well with Smith's criticisms of merchants' attempts to further their own interests through political means. While Smith implores legislators to allow merchants to employ their capitals as they themselves see fit, he also notes that individual merchants derive significant benefits from monopolies and other restrictions to competition. According to Rothschild, the key issue for Smith is which avenue is taken in pursuit of self-interest, not the pursuit alone:

The success of the invisible hand will depend, in these circumstances, on whether individual merchants choose to pursue their own interests by political influence, by the use of force, or in other ways... The invisible hand, that is to say, requires both good institutions and good norms, whereby individuals pursue their interests within the rules of well-defined games, and not by seeking to influence institutions and rules. (Rothschild p.127)

Thus, the whole economic system will depend not on the pursuit of one's own gain through any means necessary but on defining which means are appropriate.

According to interpreters like Rothschild, the general theme behind Smith's thought is the attempt to ground his view of appropriate behavior in common-sense

concepts. It is a far cry from the more mechanistic, or even behaviorist, approach taken by the instrumental rationality interpreters. Indeed, it leads to an entirely different vision of the individual. While both interpretations see the individual as calculating, the two methods of calculation contrast sharply. Under this view, instead of comparing decisions to one another in terms of how they further some final goal, individuals judge others' and their own actions according to general rules formed through intuitive standards – sentiments. Unlike the instrumental rationality interpretation, the final goal here is fully under consideration.

To see how this works out, we will examine, in turn, how readers have seen Smith's theories on how one should judge the propriety of others' actions and one's own choices. But first, in order to understand this interpretation of Smith's work, it is essential to understand his conception of sympathy. There has been some confusion over this, partly because Smith uses the same term to refer to seemingly different concepts. Otteson classifies these different references into three rough meanings: 'natural fellow-feeling', 'pity', and 'correspondence of sentiments'. In considering Smith's ethics, the third interpretation is the important one – and the only one to be maintained.

Many readers of Smith have recognized the fundamental role of this particular use of the term sympathy in his ethics. Glenn Morrow's argument is the perfect example of this. In his article on sympathy, he notes that, for Smith, a particular kind of thought experiment is the foundation of morality. We determine whether another's action is appropriate by imagining ourselves in her place and what sentiments we would experience. If what we perceive of her passions agree with our own

sentiments, her actions are proper; if not, they are improper (Morrow p.69). Thus, the ‘correspondence of sentiments’ use of sympathy Otteson observes is nothing but the perception of an ethically appropriate behavior.

As Morrow notes, our method for judging our own actions is fundamentally similar. In this case, though, we imagine ourselves to be an ‘impartial spectator,’ observing our own behaviors as if it were another person acting. If the sentiments of our ‘impartial spectator’ correspond to the ones we actually feel, then they are appropriate; if not, they are inappropriate (Morrow p.70). It is important to keep in mind that this is not simply seeking the approval of our fellows, but behaving in accordance with the reactions of a hypothetical, particularly well-informed peer.

Morrow sees these two sources of moral judgment as leading to a socially-derived theory of ethics:

It scarcely needs to be pointed out that this is in principle a social theory of ethics. The individual moral consciousness is the result of social intercourse, the individual moral judgments are the expression of the general sentiments of the society to which the individual belongs. (Morrow p.70)

Other readers, like D. D. Raphael, have emphasized the role of the individual and her own imagination over that of the social body:

The ‘supposed impartial spectator’, as Smith often called him, is not the actual bystander who may express approval or disapproval of my conduct. He is a creation of my imagination. He is indeed myself, though in the character of an imagined spectator, not in the character of my agent. (Raphael p.90)

Overall, Morrow’s explicit recognition of social influence is rare in these readers of Smith, and even he mentions it mostly as an aside. The majority of these interpreters emphasize the *actions of the individual agent* in the ‘impartial spectator’ procedure.

Individual judgment is just as important for this reading as for the instrumental rationality reading – it is simply a different kind of judgment.

Some authors have drawn out this evaluation of our own ends even further, locating the ethical justifications Smith outlines for the pursuit of material things. Samuel Fleischacker, in his book *On Adam Smith's Wealth of Nations: A Philosophical Companion*, proposes four different categories which make such acquisition ethical. The first, and most obvious, is the preservation of oneself and one's health with food, clothing, and lodging. The second is the protection of one's family-members and their needs, especially children. For this, the pursuit of comforts over and above the goods required for subsistence is perfectly legitimate. The third category includes physically unnecessary goods which our good for humanity's sociability, those associated with festivities shared with friends – like music, art, theater, and even fine foods and drinks. The fourth and final category are those goods which are necessary to live up to society's standards of decency. Clothes, for example, play a big role in how others judge us, and to dress according to society's standards is a 'necessary good' for Smith, not a luxury (Fleischacker pp.118-9).

Thus, even in the pursuit of material goods, individuals make judgments based on their concept of propriety, not efficiency. In other words, ends and means of achieving them alike are under evaluation. Most of the above interpreters of Smith, like those who subscribe to the instrumental rationality interpretation, still see his thought as centered around the individual. But unlike these other readers, they see ends evaluated based on a certain degree of abstract reasoning and pursued on the basis of their appropriateness. This perspective I will call *ethical rationality*

interpretation. It is in some ways quite similar to Immanuel Kant's view of the enlightened individual. Although Smith's judgment based on sentiment is quite a bit less abstract than Kant's categorical imperative, it nonetheless involves abstracting from one's own particular circumstances in order to make an ethical judgment.

Conclusions

Thus, we have seen that the real variance in interpretations of Smith's work is not in the motivations to action alone, but in his broader conception of the individual. One school of readers, those of the instrumental rationality persuasion, see the Smithian individual as one with ends and goals that cannot be usefully explained by social science. The theorist, and the individuals themselves, can gain little from such a pursuit. The real action, then, is in determining the most effective method of achieving these ends. At a social level, this universal pursuit of individual ends becomes an observable, and laudable, phenomenon of economic efficiency. The other school places much more emphasis on Smith's ethics, seeing the Smithian individual as a fundamentally evaluative being, not only of means but also of ends. Individuals imagine themselves in another's place, both in evaluating their own actions and those of others, and change their behavior based on these evaluations.

As we will see in greater detail in the next chapter, both of these interpretations are only partial – which is, in the end, the real reason behind the Adam Smith Problem. Both interpretations focus solely on motivations to behavior, and how individuals calculate which choice is best based on these motivations. Seeing

Smith's individual in this way is, however, incomplete on two counts. First, it makes no mention of Smith's frequent discussions of individuals' imperfect capacity of calculation. Second, it does not address pervasive references throughout Smith's work to the dynamic nature and social formation of the motivations behind the choices we make. In the next chapter, we will examine in greater detail the role of an imperfect capacity to evaluate ourselves and others and the process of forming desires in the Smithian individual.

All the World's A Stage: the Creation of the Individual in the Work of Adam Smith

*All that is valuable in human society depends upon the
opportunity for development accorded the individual.*

~Albert Einstein

The central disagreement between the two views of Smith's work presented in the previous chapter offers some insight into how we can determine a more general view of Smith's individual, one that is applicable to both works. The two interpretations outlined in the previous chapter disagree, for the most part, over one broader question: what can social science usefully analyze and what must it simply take as given? In the language of scientific analysis, what are Smith's premises? Although beginning from any assumptions at all may seem unappealing at first glance, in much of today's social scientific landscape, it is recognized that logical argumentation must appeal to some initial premise in order to come to a conclusion at all. In other words, it is impossible to derive systematic knowledge of how the world works in the first place without having some reference point from which to proceed.

At root, instrumental rationality and ethical rationality are simply two different places to draw the line between assumption and derivation. Instrumental rationality, on one hand, cordons off interests and desires as premises and outlines the

patterns of behavior that result from them. It takes people's inclinations to choose one well-defined, concrete goal over another (i.e., preference ordering) as given and analyzes how their independent pursuits of these goals aggregate into observable social outcomes. This is not to say that these desires are unimportant, but rather that there is no systematic and analytically useful method of deriving them, at least for social scientists. Specifically applied to Smith, the idea is that the desires for consumable goods must be taken as fact, but given these one sees individual behaviors aggregate into a market that reaches equilibrium at an efficient point.

Ethical rationality, on the other hand, takes an individual's capacity to observe accurately and evaluate objectively her own desires, motivations, and needs as well as the her social and physical environment as the premise of analysis. Under this view, unlike the instrumental rationality interpretation, instructive positive and normative statements may be made about individual goals. Which goals an individual *should* pursue, as well as those she *does* pursue, follow partially from whether she considers them properly. Essentially, this interpretation takes an individual's capacity critically examine others' and one's own behavior as given, although it is sometimes unrealized, and analyzes how this activity translates into a system of ethics, on one hand, and how unethical behavior may be explained through failing to engage in this activity, on the other. In Smith's work, this capacity is the capacity for sympathy in his technical sense (i.e., imagining oneself in the situation of another) as well as the construction of an 'impartial spectator' of one's own actions. Although most interpreters in this school recognize that this practice is undertaken imperfectly, this is mostly seen as an interesting afterthought, not a central concern.

Both these views, however, take as given phenomena which Smith at least partially analyzes. They both draw the line between primitives and propositions in the wrong place. As we will see, Smith's primitives are only very general desires – like longing to be worthy of others' praise, or the passions of joy, happiness, anger, and others. The instrumental rationality interpretation makes little attempt to incorporate Smith's discussion of how desires become concrete *preferences*, in the sense given them by modern economic analysis (i.e., choosing one option over another); the ethical rationality interpretation does little to integrate the fact that the practice of Smith's ethical procedure is *uneven* into its purview, despite noting that its undertaking is far from universal.

Given Smith's work as a whole, these oversights are unacceptable. Both *The Theory of Moral Sentiments* and *The Wealth of Nations* are rife with passages which are ill at ease with either the instrumental rationality or the ethical rationality interpretation. The inclinations to choose one concrete goal over another and the activity of evaluating others' and one's own behaviors are both *formative processes* for Smith, not initial assumptions, as can be seen in his extensive discussions of the formation of knowledge and the formation of desires, values and interests.

Blind Spots: Areas of Imperfect Judgment in Smith

Throughout both of his major works, Smith notes that individuals have only an imperfect capacity to evaluate themselves and their surroundings. This weakness

in judgment is greatest with respect to the needs and desires of others. Mostly, this is due to the central role of experience in forming knowledge. Smith notes:

Every man, as the Stoicks used to say, is first and principally recommended to his own care; and every man is certainly, in every respect, fitter and abler to take care of himself than of any other person. Every man feels his own pleasures and his own pains more sensibly than those of other people. The former are the original sensations; the latter the reflected or sympathetick images of those sensations. The former may be said to be the substance; the latter the shadow. (Smith The Theory of Moral Sentiments vol. 2, pp.37-8)

Here, the ability to take care of an individual depends on vivid experience. Because the individual alone experiences ‘the substance’ of her own sensations, she is the most qualified candidate to take care of her own needs. No other person can decide what is best for her as well as she can herself – a fact which, for Smith, is universally applicable, (barring circumstances which would seriously detract from one’s mental abilities, like mental or physical illness).

While the emphasis for Smith is an argument against paternalism, it is just as much a claim that human beings necessarily have only limited judgment of the importance of others’ sensations. ‘Original sensations,’ as he puts it, are limited to the individual. The ‘sympathetick reflections’ are only a product of one’s imagination. They are the consequence of envisioning oneself in another’s situation, which makes them inherently less vivid than actual experience. His ‘shadow’ metaphor is particularly instructive in understanding the difference. While one can deduce a rough image of what an object is from the shadow it casts alone, there are many features which would nonetheless be inaccessible. The proportions between its different parts, its movement, its opacity would all be visible; yet its color, exact size, depth, and other features would still be unknown. Likewise, sympathy can make

approximations of why a person is experiencing pain or pleasure, its relative intensity, its duration. But it cannot necessarily distinguish the exact series of causes, reproduce the absolute intensity, or retrace the path from the full experience of the sensation to its lingering presence. Because of this, although we can observe and feel concern for others' sensations, it is very difficult to judge what is most important to them and, consequently, what their best choice is in any given situation.

While most extreme with the sensations of others, Smith also notes that individuals have some cognitive dissonance regarding their own behavior. In terms of behavior, surprisingly, the previous hierarchy of knowledge is seemingly reversed. Smith claims,

Rather than see our behaviour under so disagreeable an aspect, we too often, foolishly and weakly, endeavour to exasperate anew those unjust passions which had formerly misled us; we endeavour by artifice to awaken our old hatreds, and irritate afresh our almost forgotten resentments: we even exert ourselves for this miserable purpose, and thus persevere in injustice, merely because we once were unjust, and because we are ashamed and afraid to see that we were so. So partial are the views of mankind with regard to the propriety of their own conduct, both at the time of action and after it; and so difficult is it for them to view it in the light in which any indifferent spectator would consider it... This self-deceit, this fatal weakness of mankind, is the source of half the disorders of human life. If we saw ourselves in the light in which others see us, or in which they would see us if they knew all, a reformation would generally be unavoidable. We could not otherwise endure the sight. (Smith The Theory of Moral Sentiments vol. 1, pp.209-10)

Although Smith recognizes that our ability to consider our behavior objectively increases after we have already undertaken the actions under consideration (Smith The Theory of Moral Sentiments vol. 1, pp.208-9), we are nonetheless blinded by our own desire not to see our unjust behavior. We often see what we want to see; not necessarily what is actually there. Interestingly, the appropriate device for evaluating

the propriety of one's own behavior – the so-called 'impartial spectator' – can be utilized only with difficulty.

As will be discussed later, these major limitations in our ability to use the proper methods of moral evaluation, regarding both others and ourselves, is a significant source of persistent unethical behavior. We must, however, qualify the extent of these limitations. As we will discuss in further detail below, experience mitigates both these defects in judgment. The more we get to know others, the better we understand their sentiments. The more we see our peers judge the propriety of certain behaviors, and engage in these judgments ourselves, the better our perspective on the propriety of our own behavior. Nevertheless, even though their effects may become more moderate, for Smith these inherent deficiencies cannot completely disappear and will continue to exert influence on our lives.

These limits to individual judgment are, however, far from a problem solely applicable to ethics. The above noted restraints to understanding others' sentiments are a crucial feature of economic interactions as well. As other interpreters have noted time and again, Smith was one of mercantilism's most scathing critics. His disdain for regulation of foreign trade to the end of maximizing a nation's trade balance is evident throughout *The Wealth of Nations*. None have noted, however, that Smith's reasons for criticizing mercantilist principles are mostly based on one of the primary limits to judgment previously treated in *The Theory of Moral Sentiments*.

Smith asserts that it is impossible for any one individual or group to determine what is best for a nation's economy as a whole:

...there is no certain criterion by which we can determine on which side what is called the balance between any two countries lies, or which of them exports

to the greatest value. National prejudice and animosity, prompted always by the private interest of particular traders, are the principles which generally direct our judgment upon all questions concerning it. (Smith The Wealth of Nations p.597)

Information by which we could ascertain which party benefits most from foreign trade is simply unavailable. While this in and of itself says nothing about individual behavior, our attempts to nonetheless come to some firm conclusion on the matter are quite significant for Smith. Instead of simply recognizing that we cannot know which country gets the most out of a trading relationship, Smith claims that we substitute our own biases for sound evidence, often deducing convenient conclusions from unsound premises. For Smith, this is exactly the source of mercantilist principles: ineffective policies based on partial, biased information.

To regulate such matters effectively is impossible for one simple reason: the information necessary for a market to distribute resources most efficiently is necessarily contained in many different individuals. Just like the individual is the only person who feels her own ‘original sensations,’ she is the only person who knows her own best employment of her available resources:

Every individual is continually exerting himself to find out the most advantageous employment for whatever capital he can command. It is his own advantage, indeed, and not that of 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. (Smith The Wealth of Nations pp.569-70)

It is important to realize that, for Smith, this knowledge *is not prior to experience*.

This superior (but imperfect) self-knowledge comes about only because the individual ‘is continually exerting himself’ towards maximum gain. By engaging in such efforts, each individual is likely to find any better opportunity available. When seen

at a national level, these improvements are equivalent to advances in national prosperity. A state, by comparison, simply cannot engage in the same process for every one of its citizens. This is why Smith argues passionately for the superiority of free trade compared to mercantilist regulation.

Just as limited ability to judge others' circumstances affects the economy, so does limited capacity to judge our own. One site where its effects are particularly evident is in the labor market, in Smith's famous compensating wage differentials. According to Smith's argument, along with other factors, the probability of success in a profession affects its market wage relative to others. However, the differences in wages do not balance in the same proportion as the different probabilities of success (Smith The Wealth of Nations pp.147-8). Smith gives two reasons for this. First, he notes that professions have some non-pecuniary benefits, like reputation, which also factor into people's decisions (Smith The Wealth of Nations p.148). Second, and for our purposes more importantly, he claims that human beings naturally act with skewed judgment of the actual chances they will benefit from such a pursuit:

The over-weening conceit which the greater part of men have of their own abilities, is an ancient evil remarked by the philosophers and moralists of all ages. Their absurd presumption in their own good fortune, has been less taken notice of. It is, however, if possible, still more universal. There is no man living who, when in tolerable health and spirits, has not some share of it. The chance of gain is by every man more or less overvalued, and the chance of loss is by most men under-valued, and by scarce any man, who is in tolerable health and spirits, valued more than it is worth. (Smith The Wealth of Nations p.149)

With few to no exceptions, human beings miscalculate their real prospects of success or failure. It is crucial to realize that this is not a statement about *preferences* but rather about one's *capacity of evaluation*. Although we naturally fear risk and must

be compensated for willfully exposing ourselves to it, according to Smith we naturally underestimate its magnitude. Even the most even-tempered and wise among us suffer from this defect.

Learning By Doing In Smith

As we have seen above, according to Smith's analysis, all have inherently imperfect judgment, an imperfection which affects both their ethics and their financial decisions. This is far from the end of the story, though. Each individual's experiences constantly endow her with new knowledge – knowledge which has a distinct effect on her future perceptions and behavior. In other words, in the market as well as other social structures, the Smithian individual learns by doing.

In *The Theory of Moral Sentiments*, Smith focuses on experience affects two things: human relationships and ethics. Regarding relationships, he notes that past observations of someone's pains or pleasures, and their sources, diminishes the inherent distortion imposed by viewing them only through sympathy:

After himself, the members of his own family, those who usually live in the same house with him, his parents, his children, his brothers and sisters, are naturally the objects of his warmest affections. He is more habituated to sympathise with them: he knows better how every thing is likely to affect them, and his sympathy with them is more precise and determinate, than it can be with the greater part of other people. It approaches nearer, in short, to what he feels for himself. (Smith The Theory of Moral Sentiments vol. 2, p.38)

By spending time in the same house, members of the same family come to know each other's sentiments better. They come closer to feeling them firsthand. While they are still but a shadow compared with the original sensations, experience has made them

less blurry, less distorted. Indeed, one begins to form the ability to predict her close relations' sentiments, to know 'how every thing is likely to affect them.'

Even more crucially, it is not the relationship in general that leads to this greater power of the exercise of sympathy, but the past exercise of sympathy itself:

What is called affection, is, in reality, nothing but habitual sympathy. Our concern in the happiness or misery of those who are the objects of what we call our affections; our desire to promote the one, and to prevent the other, are either the actual feeling of that habitual sympathy, or the necessary consequences of that feeling. Relations being usually placed in situations which naturally create this habitual sympathy, it is expected that a suitable degree of affection should take place among them. (Smith The Theory of Moral Sentiments vol. 2, p.39)

For Smith, the habitual practice of sympathy is indistinguishable from 'affection.' He is agnostic about whether the two are simply necessarily linked, yet distinct, phenomena, or whether they are in actuality one and the same thing. Although the latter would be a significantly stronger statement, either option places primary importance on the practice of sympathy. Whether our feelings towards others are a result of this practice or identical to the practice itself, they are nonetheless determined by it. Thus, the experience of practicing sympathy, to an extent, *dictates our feelings towards others.*

Certainly, for Smith, the number of times we observe others' experiences and imagine ourselves in their place is not the sole influence on our feelings towards others. There are at least three other causes that play a significant role in the formation of our personal affections. Namely, three non-familial categories of people also tend to be the objects of our sympathy: those we hold in esteem, those who show us kindness, and those extremely distinguished, either highly or lowly, in the order of ranks in society. Those we hold in esteem are individuals for whom we feel

sympathy that is not necessarily encouraged by habitual interaction, but rather from an observed pattern of what we hold to be proper, ethical behavior:

Such friendships, arising not from a constrained sympathy, not from a sympathy which has been assumed and rendered habitual for the sake of convenience and accommodation, but from a natural sympathy, from an involuntary feeling that the persons to whom we attach ourselves are the natural and proper objects of esteem and approbation, can exist only among men of virtue. (Smith The Theory of Moral Sentiments vol. 2, p.46)

Essentially, judging another person's behavior to be ethical naturally increases our sympathetic feelings towards them – and leads, therefore, to affection as well. While the practice of sympathy is still necessary to form these friendships, since otherwise we could not judge their behavior in the first place, the *outcome* of this practice has a significant effect. The practice alone cannot explain our affections.

Next, for Smith, those who show us kindness naturally become the objects of our own kindness. While he emphasizes his point that it is *proper* to reciprocate kindness from which we have benefited, he also claims, “Nature, which formed men for that mutual kindness, so necessary for their happiness, renders every man the peculiar object of kindness, to the persons to whom he himself has been kind” (Smith The Theory of Moral Sentiments vol. 2, p.47). Thus, according to his argument, humans *by nature* reciprocate kind feelings and actions. Here, even more than in the previous example, the practice of sympathy has less influence. Indeed, it is *others' affection for us* that plays the decisive role here – something in which our own prior practice of sympathy need not have any role whatsoever.

The third, and final, category of persons who receive a special sympathy from us are those most extremely set apart in the distinction of ranks in society, those with the highest or lowest status:

After the persons who are most recommended to our beneficence, either by their connexion with ourselves, by their personal qualities, or by their past services, come those, who are pointed out, not, indeed, to what is called our friendship, but to our benevolent attention and good offices; those who are distinguished by their extraordinary situation; the greatly fortunate, and the greatly unfortunate, the rich and the powerful, the poor and the wretched.
(Smith The Theory of Moral Sentiments vol. 2, p.48)

We have no special bonds of friendship with these people; they receive only ‘our benevolent attention and good offices.’ While the feelings which come from the distinction of ranks are of a different kind, which will be examined in greater detail below, they are nevertheless an influence distinct from our prior practice of sympathy. One’s good or ill fortune sets her apart for extraordinary sympathy and affection from many people, regardless of any history of a personal relationship.

Moreover, apart from influences other than the practice of sympathy proper, Smith claims that the prevalence of relationships based on habitual sympathy depends on the structure of society. He argues that the economic foundations of a society have a decisive influence on the importance and, consequently, the maintenance of close familial relations. According to his argument, in pastoral communities, the imperfect authority of legal regulations draws families closely together for mutual protection. Commercial societies, in contrast, tend to have well-developed and enforced laws; as a consequence, since family members need not stay together for practical purposes, they “naturally separate and disperse, as interest or inclination may direct” (Smith The Theory of Moral Sentiments vol. 2, p.44). Although Smith recognizes that similar bonds, coming from a different kind of need for mutual accommodation, may occur in commercial settings or simply from living in proximity to non-familial relations (Smith The Theory of Moral Sentiments vol. 2, p.45), the progress of

civilization from pastoral to commercial endeavors tends to erode the strength of affections produced by habitual sympathy.

At this point, the reader may be wondering how important the influence of experience on human relationships is for Smith. The above qualifications seemingly call its significance into question – if the impact of one’s personal history with another person is so partial in determining our feelings towards her, then does it even merit consideration? However, while Smith extensively qualifies the influence experience exerts on human relationships, this is no reason to disregard it. Habitual sympathy, even though it is not necessarily the only influence on the formation of interpersonal affections, can nonetheless form them by itself. Although cases to the contrary are relatively common, it is frequent for family members with little to nothing in common to nevertheless possess a significant emotional stake in each other’s happiness. As a matter of fact, it is quite common for family members who possess none of the other characteristics which tend to promote sympathetic feelings (a correspondence of ethical beliefs, past demonstration of kindness, etc.) to still be objects of uncommon affection. More specifically, imagine parents whose children frequently misbehave. While some parents in this situation may lose sympathy for a child, it is just as common, if not more so, that the parents will feel equally strong affection for their children, regardless of their failures. The same can be true for siblings, and even non-familial relationships. For Smith, habitual sympathy is the source of unconditional love – a frequent, and important, phenomenon.

In ethics, prior practice of sympathy plays a similarly important role. As has been noted above, our moral judgments of others are based on this activity. For

Smith, by hypothetically placing ourselves in another's place, and imagining whether our sentiments would concord with those we observe them to have, we can determine whether or not a particular action is proper. Past interpreters of Smith have noted that his view of ethics is highly, if not completely, dependent on social interactions. But the importance of these interactions, these *experiences*, is worth emphasizing in detail.

In particular, it is crucial to trace how exactly the practice of sympathy leads to the formation of an ethical system. This is because, for Smith, although ethics is always based on sympathy, the two phenomena are not identical. Sympathy alone does not explain what an ethical system is, or how people employ it. A system of morality, according to Smith, is purely a system of general rules of behavior – like the Ten Commandments. It tells us which actions are proper and which are not. The role of sympathy is not in determining propriety in particular contexts, but *in forming this general code of conduct*. By practicing sympathy ourselves, and also by observing its practice in our community at large, we distinguish wrong and right:

Our continual observations upon the conduct of others, insensibly lead us to form to ourselves certain general rules concerning what is fit and proper either to be done or to be avoided. Some of their actions shock all our natural sentiments. We hear every body about us express the like detestation against them. This still further confirms, and even exasperates, our natural sense of their deformity. It satisfies us that we view them in the proper light, when we see other people view them in the same light. We resolve never to be guilty of the like, nor ever, upon any account, to render ourselves in this manner the objects of universal disapprobation. (Smith The Theory of Moral Sentiments vol. 1, p.210)

Note that, for Smith, the formation of these rules does not come about through some process of rational deduction. It is rather a byproduct of two factors, one contingent and one necessary: our observation of others' behavior (as well as those of our peers)

and an innate desire to be worthy of our peers' praise. On one hand, certain actions we see 'shock all our natural sentiments' and also provoke the larger community's 'detestation against them.' On the other hand, we make a decision to avoid, whenever possible, acting so as to 'render ourselves in this manner the objects of universal disapprobation.' Here, the extreme displeasure of being the object of social disapproval is implicit. We will examine the second factor in more detail below, but suffice it to say, for now, that the formation of the rules of ethics in the Smithian system is completely dependent on past experiences.

It is only once these rules have been formed that an individual can act under the influence of morality. Sympathy is not the direct cause of deeming any specific action immoral, and as a result avoiding it. Morality is rather a *code*, formed by the past practice of sympathy, which influences our decisions:

Those general rules of conduct, when they have been fixed in our mind by habitual reflection, are of great use in correcting the misrepresentations of self-love concerning what is fit and proper to be done in our particular situation. The man of furious resentment, if he was to listen to the dictates of that passion, would, perhaps, regard the death of his enemy, as but a small compensation for the wrong he imagines he has received; which, however, may be no more than a very slight provocation. But his observations upon the conduct of others, have taught him how horrible all such sanguinary revenges appear. Unless his education has been very singular, he has laid it down to himself as an inviolable rule, to abstain from them upon all occasions. This rule preserves its authority with him, and renders him incapable of being guilty of such a violence. (Smith The Theory of Moral Sentiments vol. 1, pp.212-3)

This morality is not transcendental, unlike Judeo-Christian or Kantian ethics. It is firmly grounded in real-world experience and, as a result, adjustable and adaptable.⁶

⁶ This is, for Smith, mostly a *positive* question on the formation of ethical systems. As a result, commonly held prejudices will almost certainly influence the formation of community ethics. Smith himself frequently disparages prejudices against other nations or communities, but this does not mean that they do not come into play in the formation of codes of morality.

More importantly, *it cannot exist without life experience of some kind.*

Granted, ethical rules already exist in the social body before we learn them ourselves. But this experience is essential for us to familiarize ourselves with them in the first place. Moreover, each individual's moral judgments contribute to some extent to community wide ethics. While an individual appraisal cannot form a social rule on its own, according to Smith these social rules cannot exist without such individual actions. They are the building blocks of morality itself.

In *The Wealth of Nations*, this treatment of the formation and effects of moral codes drops out. There is no mention of the process of conceiving and then acting according to ethical rules. Discussions of self-interested decisions fill the void left by the disappearance of propriety. However, despite this different focus, there is a fundamental underlying similarity in the nature of the individual as it appears in each work. Smith's discussion of both the generalized effects of the division of labor and the changes to an individual brought on by a decision to specialize depend just as significantly on the formative effects that past experiences have on all human beings.

Regarding the division of labor, two of the three ways in which it increases productive efficiency are, at root, arguments about the determining effects of experience on individual ability. According to Smith, the division of labor inherently leads to increased individual dexterity. By focusing on a single task instead of many, individuals become more proficient at whatever their particular task may be:

A smith who has been accustomed to make nails, but whose sole or principal business has not been that of a nailer, can seldom with his utmost diligence make more than eight hundred or a thousand nails in a day. I have seen several boys under twenty years of age who had never exercised any other trade but that of making nails, and who, when they exerted themselves, could

make, each of them, upwards of two thousand three hundred nails in a day.
(Smith The Wealth of Nations p.15)

Note that the decisive influence on the difference in productivity between a smith and a nailer, in this example, is past experience. In describing both professions, Smith refers to time spent. The smith ‘has been accustomed to make nails,’ but it is not his ‘sole or principal business’; the young men, on the other hand, ‘had never exercised any other trade but that of making nails.’ In this case, the higher productivity comes from *prior* specialization. Experience in a specialized field leads to technical knowledge embodied in specific individuals. Thus, this component of increased productivity as a consequence of the division of labor is not instantaneous, but one that accumulates over time.

Smith’s third component, the invention of better technology, comes from two distinct sources. One particular manifestation of the human capital improvements outlined above plays a special role, and therefore fits into this third category better than the first. The invention of technology, like other employments, becomes its own specialized field:

In the progress of society, philosophy or speculation becomes, like every other employment, the principal or sole trade and occupation of a particular class of citizens. Like every other employment too, it is subdivided into a great number of different branches, each of which affords occupation to a peculiar tribe or class of philosophers; and this subdivision of employment in philosophy, as well as in every other business, improves dexterity and saves time. Each individual becomes more expert in his own peculiar branch, more work is done upon the whole, and the quantity of science is considerable increased by it. (Smith The Wealth of Nations p.18)

While the invention of technology is not synonymous with philosophy in this example, it is nevertheless a subcategory of it. Thus, inventors undergo the same transformation as everyone else who specializes. Each one ‘becomes more expert in

his own peculiar branch' – which leads to more and better improvements to productive technology.

In addition, specialization in a certain kind of production, on its own, leads to the same progress in technology. The laborers themselves, not just specialized inventors, conceive of new and better methods of manufacture:

Men are more likely to discover easier and readier methods of attaining any object, when the whole attention of their minds is directed towards that single object, than when it is dissipated among a great variety of things. But in consequence of the division of labor, the whole of every man's attention comes naturally to be directed towards some one very simple object. It is naturally to be expected, therefore, that some one or other of those who are employed in each particular branch of labour should soon find out easier and readier methods of performing their own particular work, wherever the nature of it admits of such improvement. A great part of the machines made use of in those manufactures in which labour is most subdivided, were originally the inventions of common workmen, who, being each of them employed in some very simple operation, naturally turned their thoughts towards finding out easier and readier methods of performing it. (Smith The Wealth of Nations pp.16-7)

Here, the experience of specialization leads not only to better performance of a predefined process of production but to such detailed knowledge of the process that its faults are more easily perceived and corrected. Once again, the decisive component is time spent working in a specialized field. The more time spent dedicating 'the whole attention' of one's mind to a 'single object,' the greater the chance of devising a more efficient means of attaining it.

As can be inferred from the above analysis, Smith gives high priority to the influence of experience in forming individuals' productive abilities. Personal background makes a prominent appearance in his discussion of the division of labor. Intriguingly, for Smith, inherent differences among people play little to no role in

causing specialization. In general, he argues that human beings are mostly the same at birth:

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. 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. (Smith The Wealth of Nations p.25)

Here, it is different life histories which lead to wide disparities in individual character. Habit, custom, and education – three types of *experience* – are the important influences.

Building Interests from Desires

As we have discussed above, previous experiences have a significant influence on both our ethical standards and our productive knowledge for Smith. It is through the practice of sympathy that we form general ethical rules. It is through working in a specialized capacity that we become individuals with unique talents in a specific trade. There is, however, another way in which our experiences have a decisive effect on us. Our conceptions of what is desirable, in ourselves and in the external world, come from our own judgments and our observations of others' judgments.

According to Smith, both beauty itself and our yearning for wealth both result from these activities. Regarding beauty, he claims that our original conceptions of it come from observing others, but that these judgments also come to be directed toward oneself:

Our first ideas of personal beauty and deformity are drawn from the shape and appearance of others, not from our own. We soon become sensible, however, that others exercise the same criticism upon us. We are pleased when they approve of our figure, and are disobliged when they seem disgusted. (Smith The Theory of Moral Sentiments vol. 1, p.149)

Thus, for Smith, the concept of human beauty is the final result of a process similar to what forms a community's morality. Individual judgments mutually corroborated across an entire community form a loose set of standards which models its individual members' values quite closely.

Indeed, Smith claims that much of what we see as beautiful does not come from any transcendental standard. Many of our standards come from custom alone. He asserts that, once we become accustomed to see certain things together, we naturally expect to see them connected in the future, and failures to fulfill this expectation are displeasing to our senses:

When two objects have frequently been seen together, the imagination acquires a habit of passing easily from one to the other. If the first appear, we lay our account that the second is to follow. Of their own accord they put us in mind of one another, and the attention glides easily along them. Though, independent of custom, there should be no real beauty in their union, yet when custom has thus connected them together, we feel an impropriety in their separation. (Smith The Theory of Moral Sentiments vol. 2, pp.1-2)

Note that there need 'be no real beauty in their union' for custom to make their connection beautiful. What we expect to see, because we have seen it before, becomes not only normal but beautiful.

The logical result of these views on beauty is that what we are most accustomed to seeing is what we find most aesthetically pleasing. Beauty, for Smith, lies in the averages derived from our previous observations:

Thus, in the human form, the beauty of each feature lies in a certain middle, equally removed from a variety of other forms that are ugly. A beautiful nose, for example, is one that is neither very long, nor very short, neither very straight, nor very crooked, but a sort of middle among all those extremes, and less different from any one of them, than all of them are from one another.
(Smith The Theory of Moral Sentiments vol. 2, p.7)

According to Smith, then, there is no transcendent standard which persists across time and space. It is constantly changing as we make further observations and as our community changes in composition.

At surface level, Smith's argument seems to suggest that beauty is extremely commonplace – a suggestion which is highly suspect. If beauty is only an average of what we observe, would it not be the most common form we observe? Would this standard not judge a very great number of people to be beautiful? But Smith notes that, although the average form may be what is seen as beautiful, almost no individual fits the average exactly for any one feature, let alone a number of them. The actual result is that most individuals *resemble* the form that is seen as beautiful to differing degrees, but do not fit it perfectly (Smith The Theory of Moral Sentiments vol. 2, p.8).

Interestingly, our past observations not only determine what is beautiful but also determine how well we can judge beauty. We need to observe a fair number of members of a species of thing before we can begin to judge what its average characteristics are. Experience in a certain environment is essential in order to determine standards of beauty:

And thus the beauty of each species, though in one sense the rarest of all things, because few individuals hit this middle form exactly, yet in another, is the most common, because all the deviations from it resemble it more than they resemble one another. The most customary form, therefore, is, in each species of things, according to him, the most beautiful. And hence it is, that a certain practice and experience in contemplating each species of objects is requisite, before we can judge of its beauty, or know wherein the middle and most usual form consists. The nicest judgment concerning the beauty of the human species, will not help us to judge of that of flowers or horses, or any other species of things. It is for the same reason, that in different climates, and where different customs and ways of living take place, as the generality of any species receives a different conformation from those circumstances, so different ideas of its beauty prevail. (Smith The Theory of Moral Sentiments vol. 2, p.8)

Like learning what is ethical, we must observe the things around us in order to learn what is beautiful.

Regarding our desire for wealth, which he calls ‘vanity,’ Smith claims that it actually comes from a desire to be observed favorably. It is not, as many others have claimed, desire for more material goods themselves. Lower income jobs provide subsistence just fine; middle income jobs provide plenty of inessential goods. It is a desire for the *status* that comes with wealth that drives our material pursuits more than a desire for the direct benefits of the material goods themselves:

The rich man glories in his riches, because he feels that they naturally draw upon him the attention of the world, and that mankind are disposed to go along with him in all those agreeable emotions with which the advantages of his situation so readily inspire him. At the thought of this, his heart seems to swell and dilate itself within him, and he is fonder of his wealth, upon this account, than for all the other advantages it procures him. The poor man, on the contrary, is ashamed of his poverty. He feels that it either places him out of the sight of mankind, or, that if they take any notice of him, they have, however, scarce any fellow-feeling with the misery and distress which he suffers. He is mortified upon both accounts; for though to be overlooked, and to be disapproved of, are things entirely different, yet as obscurity covers us from the daylight of honour and approbation, to feel that we are taken no notice of, necessarily damps the most agreeable hope, and disappoints the most ardent desire, of human nature. The poor man goes out and comes in

unheeded, and when in the midst of a crowd is in the same obscurity as if shut up in a hovel. (Smith The Theory of Moral Sentiments vol. 1, pp.64-5)

Here, the observations of others we experience are completely different depending on our status in the system Smith calls the ‘distinction of ranks and the order of society.’ If we are rich, we are looked upon with admiration. If we are poor, we are scarcely looked upon at all.

Smith is ambivalent about whether ‘vanity’ is a negative or a positive force in society. On the negative side, he notes that it can often lead to a failure of morality – and Smith certainly thinks this is a serious problem. He notes that valuing wealth over virtue is, and has been, commonplace:

This disposition to admire, and almost to worship, the rich and the powerful, and to despise, or, at least, to neglect, persons of poor and mean condition, though necessary both to establish and to maintain the distinction of ranks and the order of society, is, at the same time, the great and most universal cause of the corruption of our moral sentiments. That wealth and greatness are often regarded with the respect and admiration which are due only to wisdom and virtue; and that the contempt, of which vice and folly are the only proper objects, is often most unjustly bestowed upon poverty and weakness, has been the complaint of moralists in all ages. (Smith The Theory of Moral Sentiments vol. 1, p.78)

For Smith, this is a clear case of misplaced admiration. The true test of a person’s character is not in her material assets, but rather her regard for propriety in all her actions, large or small.

Nevertheless, those to whom the most admiration is properly due are often overshadowed by more wealthy, more powerful people who may not deserve it at all. Indeed, he notes that the situation of the rich and powerful tends to reinforce faulty judgment:

In the courts of princes, in the drawingrooms of the great, where success and preferment depend, not upon the esteem of intelligent and well informed

equals, but upon the fanciful and foolish favour of ignorant, presumptuous, and proud superiours; flattery and falsehood too often prevail over merit and abilities. In such societies the abilities to please, are more regarded than the abilities to serve. In quiet and peaceable times, when the storm is at a distance, the prince, or great man, wishes only to be amused, and is even apt to fancy that he has scarce any occasion for the service of any body, or that those who amuse him are sufficiently able to serve him. The external graces, the frivolous accomplishments, of that impertinent and foolish thing called a man of fashion, are commonly more admired than the solid and masculine virtues of a warrior, a statesman, a philosopher, or a legislator. All the great and awful virtues, all the virtues which can fit, either for the council, the senate, or the field, are, by the insolent and insignificant flatterers, who commonly figures the most in such corrupted societies, held in the utmost contempt and derision. (Smith The Theory of Moral Sentiments vol. 1, p.81)

Thus, it is actually more likely that the rich and powerful will *not* be virtuous. Those in their social environment afford little esteem to virtuous behavior, and it is therefore uncommon in such places.

This is, however, only a problem for those in what Smith calls ‘the superiour stations of life.’ While those lower down may view the wealthy with more esteem than they deserve, this esteem does not lead them to defects in their own behavior. In fact, virtue and success often go hand in hand for more common people:

In the middling and inferiour stations of life, the road to virtue and that to fortune, to such fortune, at least, as men in such stations can reasonably expect to acquire, are, happily, in most cases very nearly the same. In all the middling and inferiour professions, real and solid professional abilities, joined to prudent, just, firm, and temperate conduct can very seldom fail of success. Abilities will even sometimes prevail where the conduct is by no means correct. Either habitual imprudence, however, or injustice, or weakness, or profligacy, will always cloud, and sometimes depress altogether, the most splendid professional abilities. Men in the inferiour and middling stations of life, besides, can never be great enough to be above the law, which must generally overawe them into some sort of respect for, at least, the more important rules of justice. The success of such people, too, almost always depends upon the favour and good opinion of their neighbours and equals; and without a tolerably regular conduct these can seldom be obtained. (Smith The Theory of Moral Sentiments vol. 1, p.80)

Those who are not wealthy and powerful, therefore, find that their social environment reinforces virtuous behavior. Acting properly generally leads to personal success, so there is little to gain from what the community sees as vicious actions. The vice that comes from excessive esteem for status in ‘the distinction of ranks’ does not extend too far.

On the positive side, Smith notes that the pursuit of vanity, even though it can lead to failures of morality, has also had beneficial consequences. Material and intellectual progress has depended upon it. It is this ambition which has led to the industrious behavior of humankind, behavior which has greatly improved human life in general:

The pleasures of wealth and greatness, when considered in this complex view, strike the imagination as something grand, and beautiful, and noble, of which the attainment is well worth all the toil and anxiety which we are so apt to bestow upon it. And it is well that nature imposes upon us in this manner. It is this deception which rouses and keeps in continual motion the industry of mankind. It is this which first prompted them to cultivate the ground, to build houses, to found cities and commonwealths, and to invent and improve all the sciences and arts, which ennoble and embellish human life; which have entirely changed the whole face of the globe, have turned the rude forests of nature into agreeable and fertile plains, and made the trackless and barren ocean a new fund of subsistence, and the great highroad of communication to the different nations of the earth. The earth, by these labours of mankind, has been obliged to redouble her natural fertility, and to maintain a greater multitude of inhabitants. (Smith The Theory of Moral Sentiments vol. 1, p.248)

While such vanity is a ‘deception’ for Smith (because the efforts to attain such wealth may be unsuccessful or more than the achievement is worth), it is a crucial motivation for the progress of society. A cosmopolitan, educated, and plentiful planet came about due to the effects of vanity. Despite the tendency to lead to failures of morality, it is undeniable that such effects are beneficial. Without such industry, death from

starvation and disease would be much more common. The world is a better place for more people because of the industry vanity inspires.

In *The Wealth of Nations*, Smith further emphasizes the importance of our appearance to others in day to day life. It makes a prominent appearance in his discussion of what constitutes necessary goods. For Smith, necessary goods are not solely what is necessary for physical survival. They may include goods which are commonly seen as luxuries. While physically essential commodities certainly qualify as necessary goods in his analysis, those necessary to keep up our appearance to others count as well:

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 for creditable people, even of the lowest order, to be without. A linen shirt, for example, is, strictly speaking, not a necessary of life. The Greeks and Romans lived, I suppose very comfortably, though they had no linen. But in the present times, through the greater part of Europe, a creditable day-labourer would be ashamed to appear in public without a linen shirt, the want of which would be supposed to denote that disgraceful degree of poverty, which, it is presumed, no body can well fall into without extreme bad conduct. (Smith The Wealth of Nations pp.1102-3)

From this analysis, it is clear that our desire to gain praise, or at least avoid revilement, does more than simply drive us to pursue wealth. It also has an extensive effect on our consumption patterns. Certain commodities we cannot go without if we wish to avoid exposing ourselves to the ridicule of others. And this ridicule is not only displeasing to us in and of itself. Others' regard, as has been noted above, is an important factor in professional success for all but the most wealthy and powerful. Thus, consumption necessary to preserve our public image helps us not only avoid the displeasure of contempt but also gives us the best chance to succeed in other areas of life.

Conclusions

As we have seen above, there are extensive discussions in Smith's work which are not captured well by either the instrumental rationality or the ethical rationality interpretations from the previous chapter. Both see a fully formed individual confronting conditions outside of herself and using a method of calculation to decide the best course of action. The method according to instrumental rationality is utility-maximization; according to ethical rationality, constructing an internalized 'impartial spectator' to judge whether the action we are about to undertake is proper.

While neither of these is blatantly incorrect, they are both incomplete. First, neither one places much emphasis on the dynamic nature of the individual. Although neither instrumental rationality nor ethical rationality is *inconsistent* with a constantly forming and changing individual, they miss some fundamental aspects of the social order by treating it as an afterthought. On one hand, instrumental rationality ignores either how the production decisions one has the capacity to make or one's preferences come to be. Smith, in contrast, discusses in several different places the causes of one's productive capacity, how we form our ideas of beauty, and how our knowledge of our own best course of action comes from our experience in the market as opposed to solely abstract calculation. Ethical rationality, on the other hand, emphasizes individual action under general rules over the actual formation of these rules. The formation process is treated as an aside or an afterthought to the judgment itself, when it fits Smith's words better to recognize that the judgment *forms the rules*. In

other words, individuals do not repeatedly judge others' and their own behavior according to the practice of sympathy and the 'impartial spectator' procedure, respectively, but rather form general codes of what is proper through these judgments. Most of the time, individuals simply react to whether others' or their own behavior follows these general rules.

If neither of these approaches does justice to Smith, what, then, defines the individual in his work? It is a set of characteristics which I will call *embedded rationality*. Unlike the previous interpretations, which assume that knowledge of ethics, of ourselves, or of others to be static, this approach emphasizes that this knowledge is constantly in a process of formation. While the other interpretations do not assume this knowledge to be unchangeable, when examining individual actions they assume that we act from a well-defined base of knowledge. We have a set of ethical rules; we have a set of individual preferences; we have a certain knowledge of others' wants and needs. Neither of these previous approaches recognizes the fact that these actions are one of the crucial determining factors of this knowledge. As has been outlined above, our personal experiences affect the basis of our judgments extensively. Our ethical rules come about from judging others' conduct and observing others' judgments of our own and others' actions. Many of our preferences form from general desires for the praise and admiration of others – which we learn how to best satisfy through our experience. Moreover, we only form a concept of beauty, which influences our choices of dress, decoration, and other things, through experience in observation. Finally, our observations of others, specifically practicing

sympathy in the technical sense, is a crucial component of the development of our relationships. It forms our desires to see others experience pleasures and avoid pains.

As a consequence of this fact, much of the motivations behind our actions are inextricably embedded within our social and physical world. Each one of a large category of experiences changes our ethics, our desires for consumption goods, and our feelings towards others. To the extent that these things motivate our decisions, which is large in Smith's estimation, these experiences change how we will act in the future.

The previous interpretations emphasize a snapshot of individual behavior while missing an essential component of Smith's story of human behavior. Both emphasize how social outcomes look in equilibrium. Instrumental rationality examines economic equilibria; ethical rationality, moral equilibria. But even for Smith equilibrium, although an important concept, is only a partial view. It is, at best, a snapshot of the world and, at worst, an approximation which is not completely accurate at any particular moment in time. Smith's own discussion of natural price makes this clear:

The natural price, therefore, is, as it were, the central price, to which the prices of all commodities are continually gravitating. Different accidents may sometimes keep them suspended a good deal above it, and sometimes force them down even somewhat below it. But whatever may be the obstacles which hinder them from settling in this center of repose and continuance, they are constantly tending towards it. (Smith The Wealth of Nations p.82)

It is not necessarily where prices actually settle at any moment in time. Smith does not claim that prices will necessarily ever be at this level. They constantly move towards it, surely, but 'different accidents' keep them from reaching it. To ignore these accidents, about which Smith says plenty, is to miss a crucial part of his story.

Conclusion: Ethics and Economics

Over the course of the 230 years since the publication of *The Wealth of Nations*, Adam Smith has received a wealth of positive attention. He has been lauded as a genius. He has been honored as a crucial historical figure. And this praise extends beyond the realm of academia alone. In 2006, Smith's picture adorned the newly issued 20£ banknote (Seager). He is the first and only Scot to receive such a distinction. In 2005, two colleges in Scotland – Fife and Glenrothes – merged and took Smith as their namesake. Adam Smith College, with current British prime minister Gordon Brown as chancellor, was born.

But this second example demonstrates not only the reverence Smith commands, but also the disdain he inspires in some of his critics. The students' association, upon hearing of their college's new name, protested what they saw as an undue honor. The leader of the association, Paul Muirhead, expressed the students' disapproval in crystal clear terms. He claimed that Smith is associated with "exploitation and greed" due to his thought's affinity with "socio- economic policies that work against the people, that were synonymous with Thatcherite and Reaganite governments." According to his assertions, Smith's arguments in favor of free markets were echoed roughly 200 years later in policies which ignored the plight of the poor. For those who care about the concerns of the least fortunate, to associate oneself with such a man let alone honoring his legacy was unacceptable. To distance

themselves, the students chose to name their association after former Labour MP Jennie Lee instead (Lister, all of preceding paragraph).

It is unnecessary here to once again run through Smith's explicit arguments in support of the well-being of the poor. Although to paint Smith as completely callous of the difficult situation of the poor is quite ignorant and inaccurate, I think it reflects a wider issue both for interpreting Smith's work and for understanding our social world in general. The Jennie Lee College Students' Association's portrait of Adam Smith reflects a deeper belief in the fundamental incompatibility of morality and free markets. This belief is, at root, an ascetic one. Under this view, what is moral cannot possibly further self-centered motivations. Ethical behavior must be synonymous with self-denial, helping others *instead* of oneself.

As we have seen, this view has affected not only popular conceptions of Smith's work but also scholarly interpretations. For roughly 150 years, many scholars have been puzzled as to how the same thinker could write both of Smith's major works, *The Theory of Moral Sentiments* and *The Wealth of Nations*. The former, they claim, portrays concern for the fate of others as a fundamental motivating factor in human behavior. In this work, human nature includes ethical reflection. The latter, these scholars claims, sees humanity in an entirely different light. Ethical reflection appears nowhere. Instead, they assert that, in this work, Smith claims humanity acts only to further their own selfish desires – which is, for him, a *good* system. For these readers of Smith, humanity cannot act according to both of these sets of motivation. If either of his works is accurate, the other must be wrong. This is what has been called the Adam Smith Problem.

Others among Smith's interpreters have reacted strongly against this interpretation. Beginning only shortly after the first appearances of the Adam Smith Problem, these other scholars claimed that the apparent inconsistency of Smith's work came from a misconception of his writings. *The Theory of Moral Sentiments*, they claimed, was intended to deal with a wide variety of social behaviors. Its view of human nature contained a complex blend of motivations, which were sometimes mutually reinforcing and sometimes in conflict. *The Wealth of Nations*, however, was not meant to deal with such a vast array of human behaviors. It was only intended to describe economic behaviors, including both the individual reasoning behind them and the social results of them. This was why it emphasized self-interest above any other motivation for individual action.

The phenomenon which explained why individuals sometimes acted according to the motives described in *The Theory of Moral Sentiments* and other times those in *The Wealth of Nations* was Smith's implicit theory of 'spheres of intimacy,' also called 'the familiarity principle.' Basically, this theory asserts that we act differently towards others based on our relationship to them. We have a significant personal stake in the fortunes and misfortunes of those we are close to, like our family and our friends. Because of this, we often act with benevolence towards them. We do favors for them. We protect them. But we have no such interest in the fate of strangers or mere acquaintances. As a result, we act towards these people based only on our own personal needs and desires. We seek their advantage only if it is also our own.

Despite this compelling resolution, the reasoning behind the Adam Smith Problem has affected the way scholars have interpreted the individual in his work, even those who do not address the Adam Smith Problem directly. As we have seen above, there are two loose portraits of the nature of the individual readers have garnered from Smith's work. The first is instrumental rationality. Under this reading of Smith, each person always behaves in a fashion which furthers their own selfish desires. People evaluate which of the options available to them will lead to their greatest benefit, and then choose that option. The second is ethical rationality. According to this reading, the individual in Smith's work builds general rules of ethics through repeatedly engaging in a specific thought-experiment: a hypothetical change of place with another person. We evaluate the propriety of a choice by asking ourselves if we would make the same one under the circumstances. By considering a decision without being under the influence of the passions a person feels at the moment of action, we are able to consider the choice as objectively as possible. Through engaging in this process, we build a general code of which actions to take and which to avoid under different circumstances – and we subsequently act according to this code. As I have argued above, these two readings conform roughly to the apparently contradictory visions of human motivation behind the Adam Smith Problem.

Like the two distinct sets of motivations behind the Adam Smith Problem, these two readings cannot be true simultaneously without some further explanation, at least. In fact, they both fail to incorporate two significant components of Smith's thought which are evident in both his major works. First, both of the above readings

recognize humanity's imperfect judgment capabilities only as an afterthought. Moreover, they both rely on this faculty of judgment in describing human motivations. According to the instrumental rationality reading, what leads to our choices is our calculations of what best serves our interest; according to the ethical rationality reading, what lies behind our choices is a moral code built from evaluating others' actions through imagining ourselves in their place and judging whether their action was proper, given the circumstances. Second, while neither reading is specifically inconsistent with the idea, neither emphasizes the role of experience in determining our judgment capabilities and our interests. Both readings of Smith analyze the behavior of static individuals. It is not that they claim that people do not change, but rather that such a change is not a crucial characteristic of the individual in Smith's work. I have argued that these two features are indeed crucial, and help to further unify Smith's body work into a cohesive whole. Smith's individual acts according to *embedded rationality* – our choices are embedded within a never-ending process of self-formation and each decision shapes and reshapes both our judgment capabilities and our interests.

This new reading points to a different way of seeing the relationship between ethics and economics, both in Adam Smith's work and in general. For centuries, many have seen others' detriment as a necessary consequence of the pursuit of one's own material gain. This kind of self-serving behavior became, as a result, associated with immorality. From Benedict Spinoza to Jeremy Bentham to Friedrich Nietzsche to Sigmund Freud, many great thinkers have reacted against this kind of morality. Smith deserves a place among them – not as a materialist, but as an ethicist. He saw

no necessary conflict between acting to further one's own personal interests and obeying a code of ethics. At root, he saw standards of material well-being and those of morality as fundamentally similar. They are both the result of our real world experiences. In addition, he presented one of the most powerful arguments that one could pursue her own material well-being through avenues which were *beneficial to others*. For this reason, the pursuit of self-interested goals, in many circumstances, is not only morally *acceptable* but morally *valuable*.

Smith, as others before and after him have done, makes a powerful case against the ascetic association of morality and self-denial. In essence, his rejection of asceticism is a rejection of the transcendental. Asceticism, blind to the particulars, makes a blanket condemnation of any self-furthering behavior. Smith, in contrast, grounds both the interests of an individual and any concept of ethics in the particular, in our personal history. He made a passionate case against the idea that standards from outside of our reality can dictate how we should behave in it. Over 100 years later, Nietzsche made a similar condemnation:

We can no longer conceal from ourselves what is expressed by all that willing which has taken its direction from the ascetic ideal: this hatred of the human, and even more of the animal, and more still of the material, this horror of the senses, of reason itself, this fear of happiness and beauty, this longing to get away from all appearance, change, becoming, death, wishing, from longing itself – all this means – let us dare to grasp it – a will to nothingness, an aversion to life, a rebellion against the most fundamental presuppositions of life... (Nietzsche pp.598-9, emphasis Nietzsche's)

Smith, like Nietzsche after him, presented a life-affirming philosophy. What is good is what is good *for us, good for humanity*. In essence, for Smith, this is what both ethics and economics are about.

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