

LEARNING FROM ADAM SMITH: PROPRIETY IN INDIVIDUAL CHOICE,  
MORAL JUDGMENT, AND POLITICS

by

Paul D. Mueller  
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Doctor of Philosophy at George Mason University

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## **DEDICATION**

This dissertation is dedicated to my loving and lovely wife, Kathryn.

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## LIST OF ABBREVIATIONS

An Inquiry into the Nature and Causes of the Wealth of Nations.....	WN
Correspondence of Adam Smith .....	Corr.
Essays on Philosophical Subjects.....	EPS
Homeowner's Association.....	HOA
Lectures on Jurisprudence A.....	LJA
Lectures on Jurisprudence B .....	LJB
Lectures on Rhetoric and Belles Lettres .....	LRBL
The Theory of Moral Sentiments .....	TMS

## **ABSTRACT**

LEARNING FROM ADAM SMITH: PROPRIETY IN INDIVIDUAL CHOICE,  
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This dissertation explores and develops several important themes in Adam Smith's thought. Firstly, it explores the relationship between happiness and consumption. Smith thought that consumption was a necessary but not a sufficient condition for happiness. Virtue is also necessary. Secondly, it examines how Smith's moral theory works better or worse depending on the context. At low levels of concrete context, sympathy and moral judgment work remarkably well. At high levels of context involving macrocosms, however, there is no literal impartial spectator and our moral judgments are far more prone to error and corruption. Thirdly, it comments on a debate over how Smith viewed political actors and government intervention. Rather than being naive about the motives of political actors, Smith had a realistic and skeptical view of them; thus supporting a strong presumption of liberty that could only be overruled under special circumstances.

Smith also recognized that political actors are moral agents and encouraged them to advance universal benevolence by resisting the influence of special interest groups.

## CHAPTER ONE: INTRODUCTION

This dissertation explores Adam Smith's moral and political thought as it relates to modern economic discourse and public policy. It brings to light facets of Smith's thinking that are relatively unknown among economists. Rather than focusing on Smith's ideas about the division of labor, the extent of the market, and free trade, it looks at his ideas about politics, about personal judgment, and about morality. Although Adam Smith is best known as the "father of economics" for his treatise on political economy, *An Inquiry into the Nature and Causes of the Wealth of Nations* (WN), he actually held a chair in moral philosophy at the University of Glasgow. We have access to a wide array of Smith's ideas well beyond *The Wealth of Nations*. The most important of which are found in *The Theory of Moral Sentiments* (TMS), his other published book. Smith also published several *Essays on Philosophical Subjects* (EPS). But besides his published work, we also have the *Correspondence of Adam Smith* (Corr.) as well as student notes of his *Lectures on Jurisprudence* (LJ) and *Lectures on Rhetoric and Belles Lettres* (LRBL).

This work consists of three main chapters. Chapter two explores Smith's views on consumption and happiness. It solves the puzzle of why Smith both praises and condemns consumption in *The Wealth of Nations*. His moral theory reveals that he was most concerned about advancing happiness—which he says requires inner tranquility. Achieving this tranquility does require some basic level of consumption but it also

requires virtue. Consumption, therefore, is a necessary but not a sufficient condition for happiness. Smith condemns consumption that he feels cuts against virtue.

Chapter three explores how Smith's conceptions of sympathy, the "man within the breast," and the impartial spectator give us the ability to judge ourselves and others in a socially harmonious way. But these mechanisms do not always work perfectly. Sometimes they are corrupted by our natural admiration for the rich and powerful, by our passions causing us to deceive ourselves, and by the bias of faction and fanaticism. This chapter offers a new lens for thinking about moral judgment and its potential for corruption. It develops three parallel examples given by Smith (in Part IV of TMS) that show how the context in which a judgment is being made affects its susceptibility to corruption. At low levels of context where the situation is concrete and well-known, Smith's mechanisms of judgment work quite well. But as we move to higher contexts involving macrocosms, both direct and indirect effects need to be considered. At this high level of context there is no actual spectator who is impartial, and our judgments are more likely to be corrupted. Politics and political issues are macrocosms in this highest level of context—making it very difficult to judge them well. The problem posed by macrocosmic complexity helps explain why Smith frequently advocates decentralization and degovernmentalization.

Chapter four analyzes how Smith thought about politics and liberty. It builds on some of the ideas from the previous chapter about moral corruption and degovernmentalization. There is a misunderstanding of Smith's views of political actors from both the right and the left. George Stigler, for instance, faults Smith for not

recognizing that politicians are fundamentally self-interested just like everyone else.

Emma Rothschild, on the other hand, approves of Smith treating politicians as altruistic people and for loosening his commitment to people being always and everywhere self-interested. Both readings of Smith are somewhat misleading.

Jerry Muller explains how in Smith's thought morality can play into economic analysis. He writes:

Smith did not try to develop a science of economics free of moral judgments or ethical considerations. As we have seen, his policy recommendations were shot through with moral purposes. But his science of political economy was not a moralistic science: he tried to bring about improvement not through preaching but through designing institutions which would strengthen the incentive to act in a socially beneficial manner. His attention to the gap between intentions and consequences provides a powerful antidote to the tendency to substitute moral indignation for social analysis. (Muller 1995:197-198)

Smith clearly thought ethics and morality were important, yet he realized that incentives and self-interest were the primary shapers of human action. Smith was not naive about politicians' self-interest. Moralizing or preaching was not the best way to change society, channeling people's natural self-love was. In TMS he explores the ethical dimensions of what people consider to be their interests, such as being praised and praiseworthy. In contrast WN analyzes institutions and interests to explain how society functions.

But in both *The Wealth of Nations* and *The Theory of Moral Sentiments* he talks about how politics creates faction and fanaticism, how the conceited "man of system" can create all kinds of trouble, and how political actors in general should not presume to do things for people that people can and will do for themselves. Smith's general favoring of

liberty and degovernmentalization stem from his skeptical view of how politicians and governments actually work.

Smith's ideas about happiness, about how we make moral judgments, and about how we should be wary of political actors and of governmentalizing social affairs, remain relevant today—especially for economists who sometimes forget that the end goal of economics is promoting happiness and human flourishing, or in Smith's language "universal benevolence," rather than abstract mathematical efficiency. They would do well to remember that markets generally advance such benevolence extremely well. Political action, with its faction, fanaticism, and men of system, rarely does. Finally, having a better grasp of what issues people naturally judge well, and on what issues their judgments are more likely to be corrupted, may make economists more cautious when advocating government intervention without requiring them to oppose all government intervention. Smith himself supported a number of government interventions in society; but they were clearly exceptions bearing the burden of proof. The rule was natural liberty where each man is left free to better his own condition as he sees fit.

## CHAPTER TWO: ADAM SMITH'S VIEWS OF CONSUMPTION AND HAPPINESS

**“Consumption is the sole end and purpose of all production” (WN 660.49)**

### 2.1 Overview

To the casual observer, Adam Smith seems to have conflicting views about consumption in his book *An Inquiry into the Nature and Causes of the Wealth of Nations*. On the one hand he makes it very clear that wealth should be measured by goods for consumption, not by gold or silver. On the other hand, he often criticizes consumption for being wasteful and extravagant. He also warns against ambitiously pursuing wealth. Which is the real Smith? The aesthetic Scottish Presbyterian or the utilitarian sympathizer? To answer that question we should interpret Smith's views in *The Wealth of Nations* in light of his earlier work *The Theory of Moral Sentiments*. There Smith argues that happiness involves exercising virtue, not maximizing consumption. He views consumption as subsidiary to happiness; as a necessary but not sufficient condition. Virtue requires consideration of others, a reasonable provision for the future, and self-command. Nor is happiness a simple matter of consuming or abstaining from consumption. In the right context consumption is laudable. But in other contexts where it cuts against virtue it is blameworthy.

One of the most important contributions of *The Wealth of Nations* was the discrediting of the mercantile system. Advocates of Mercantilism claimed that the wealth of a nation was to be found in its stores of gold and silver (WN 450). The nation became wealthier when it had a favorable balance of trade—which meant exporting as many



goods as possible in exchange for gold and silver, while also limiting imports. Smith's most important critique of mercantilism was that gold and silver are only proxies for wealth: "Every man is rich or poor according to the degree in which he can afford and enjoy the necessaries, conveniencies, and amusements of human life" (WN 47). The man with a vault full of gold is considered rich, but only because of what he can buy with his gold. If he were prohibited from spending any of the gold in his vault, he would be little more than a pauper. So it is with nations.

Goods and services are the real wealth of a nation; not gold coins but chairs, clothing, books, and bread. Mercantilism was particularly pernicious because it deliberately sacrificed real wealth (goods) to stockpile idle metals. Despite demolishing the Mercantilist fallacy that gold and silver are wealth, Smith runs into his own conundrum between how to value the "nature" of wealth (consumption) and its "causes" (production). Goods and services constitute wealth because people's lives are made better by consuming them. Yet Smith does not approve of all consumption as contributing to one's happiness. He thinks that consumption can be wasteful, extravagant, ill-conceived, and socially-damaging. This paper addresses the following question: how could Smith think that consumption is the true measure of wealth, the sole end of production, and yet sometimes be a bad thing?

For the past century economists have shied away from passing any judgment on consumption decisions. Ludwig von Mises (1949) argues stridently in *Human Action* that the economist only evaluates the means to accomplish some end, not the end itself. The

consumer is king and his consumption choices cannot be disputed or criticized except within a means-ends framework:

economics deal[s] with the means for the attainment of ends chosen by the acting individuals. They do not express any opinion with regard to such problems as whether or not sybaritism is better than asceticism.... Any examination of ultimate ends turns out to be purely subjective and therefore arbitrary. (Mises 1949:95-96)

Stringham (2010) carries that line of reasoning even further when he argues that subjectivism not only prohibits judgments of what people value, it also prohibits any judgment about cost/benefit comparisons in society. Stigler and Becker (1977) argue that people's preferences should be taken as given so that the economist can focus on evaluating their "production function," not their ends. Normative judgments have no place in the "science" of economics and explanations of economic phenomena by changes in preferences are no explanations at all. Although many economists will call people's choices imprudent or foolish in private, the official mantra is that people's ends relate to psychology and should not, or cannot, be evaluated by the economist.

Deirdre McCloskey (2008, 2010) battles against the tradition that subjective consumption is the sole standard of economic analysis. Her condemnation of "Max U" theorizing and her promotion of the "bourgeois virtues" offer a window into how we can see consumption as good and important, but not ultimately or absolutely so. She claims that Smith himself was more concerned about virtue than he was about consumption. If McCloskey is right, then considering how Smith thought about virtue will shed light on why he alternates between viewing consumption favorably and unfavorably. But human well-being is not just about virtue either. Modern research suggests that a significant

correlation exists between wealth and happiness in country by country comparisons (Headey, Muffels, & Wooden 2004; Stevenson & Wolfers 2008). Happiness requires some basic level of consumption.

The key to understanding Smith's contrasting comments about consumption is realizing that he viewed happiness as the natural goal of every individual. We should dwell for a moment on how Smith defines happiness in TMS: "Happiness consists in tranquillity and enjoyment. Without tranquillity there can be no enjoyment; and where there is perfect tranquillity there is scarce any thing which is not capable of amusing" (TMS 149). By "tranquillity" Smith does not mean a peaceful state of the world but a peaceful state of mind and conscience. Without that inner peace, he argues, it is nearly impossible to enjoy anything, even consumption. His praise or criticism of consumption builds on the foundation that happiness requires internal tranquility. That fits Solomon's claim that "Better is a dinner of herbs where love is than a fattened ox and hatred with it" (Proverbs 15:17). Smith would probably add: yes, and dinner is better yet where there is love *and* a fattened ox.

In a letter to David Hume in 1767, nearly ten years before the publication of *The Wealth of Nations*, Smith says "My Business here is Study in which I have been very deeply engaged...My Amusements are long, solitary walks by the Sea side....I feel myself, however, extremely happy, comfortable, and contented. I never was, perhaps, more so in all my life" (Corr. 125). Later in life, after being elected a rector of the University of Glasgow in 1787, Smith writes that his time at Glasgow twenty-three years earlier "I remember as by far the most useful, and, therefore, as by far the happiest and

most honourable period of my life” (Corr. 309). Industry, usefulness, and a peaceful state of mind seem to accord with what Smith called the happiest times of his life.

Smith clearly held that one's internal state of mind was far more important than one's circumstances. He makes this point in a letter to William Strahan, which appears in Hume's autobiography in 1777, giving an account of the end of David Hume's life.

Despite Hume's sickness being so severe that he had given up hope of recovery, Hume resigned himself to it:

with the utmost cheerfulness, and the most perfect complacency and resignation. Upon his return to Edinburgh, though he found himself much weaker, yet his cheerfulness never abated, and he continued to divert himself, as usual, with correcting his own works for a new edition, with reading books of amusement, with the conversation of his friends; and, sometimes in the evening, with a party at his favourite game of whist. His cheerfulness was so great, and his conversation and amusements run so much in their usual strain, that, notwithstanding all bad symptoms, many people could not believe he was dying. (Corr. 218)

Smith's admiration of Hume shows us the practical outworking of his philosophy. Hume lived out the "inner tranquility" that Smith considers essential to happiness. In another letter Smith writes that Hume's temper "seemed to be more happily balanced, if I may be allowed such an expression, than that perhaps of any other man I have ever known" and that Hume seems to be as near "to the idea of a perfectly wise and virtuous man, as perhaps the nature of human frailty will permit" (Corr. 221). Hume's cheerful resignation and manner of living were admirable and praiseworthy in Smith's eyes, showing both wisdom and virtue.

## 2.2 How Smith Talks About Consumption

As a general rule, Smith favored consumption. He was no ascetic. As the opening quote of this paper pointed out, he claims that consumption is the sole purpose of production. Consumption is the end, production the means. There are several other examples of Smith's favorable view of consumption in both WN and TMS. Most importantly, Smith argues that happiness requires some basic level of consumption. His criticisms of consumption, therefore, should be seen as exceptions, not the rule. This section highlights where Smith favors consumption. Then, it considers many of the exceptions to that rule where he criticizes consumption.

One reason Smith generally favors consumption is because it recommends itself to us by nature when we are children:

The preservation and healthful state of the body seem to be the objects which Nature first recommends to the care of every individual. The appetites of hunger and thirst, the agreeable or disagreeable sensations of pleasure and pain, of heat and cold, etc. may be considered as lessons delivered by the voice of Nature herself, directing him what he ought to chuse, and what he ought to avoid. (TMS 212)

Nature motivates us to care about our physical utility. Smith acknowledges this natural motivation and argues that people *should* be concerned about consumption. He thinks there should be harmony between our natural sentiments and our happiness. That does not mean that whatever passing feeling we have “naturally” is right, but that, upon reflection, we can see how consumption recommends itself to us through the natural order of the world. Nature also plays a prominent role in his arguments about virtue and happiness.

Smith argues that prudence is the most natural, because the most original, virtue.

Prudence recognizes that:

some care and foresight are necessary for providing the means of gratifying those natural appetites, of procuring pleasure and avoiding pain, of procuring the agreeable and avoiding the disagreeable....this care and foresight consists the art of preserving and increasing what is called his external fortune. (TMS 212)

Being prudent requires men to provide for their future consumption. The prudent man achieves his goals of satisfaction, ease, and contentment when he:

lives within his income, is naturally contented with his situation, which, by continual, though small accumulations, is growing better and better every day. He is enabled gradually to relax, both in the rigour of his parsimony and in the severity of his application; and he feels with double satisfaction this gradual increase of ease and enjoyment. (TMS 215)

We can see this description lived out by Smith during his life. Through his teaching, writing, tutoring, and personal thrift, Smith lived comfortably most of his life and even accumulated a modest fortune before he died (Hurst 1904:213; Sher 2004). Smith's description of the prudent man, however, is not merely personal. He holds out the rewards of prudence as the means of achieving happiness. He believes that it is what everyone should pursue.

Smith's approval of consumption can also be seen in his discussion of wealth. Although he often makes the mistake of calling wealth the ability to command labor, the reason one wants to command labor is to receive its produce. Control and use of goods and services are what make people wealthy. From the first sentence of *The Wealth of Nations*, Smith talks repeatedly about wealth consists in the “necessaries and conveniencies” of life (WN 10, 23, 47, 51, 181). A major benefit of the division of labor,

according to Smith, is that it increases the quality and variety of goods that people can enjoy. That is why he can say that the frugal peasant in Britain is wealthier than the African king who rules over thousands of savages yet has fewer of these “necessaries and conveniencies” (WN 24). Though that claim may have been a stretch 250 years ago, it is undeniable today. The average, or even the poor, citizen of the United States has access to better food, clothing, entertainment, sanitation, etc. than even the royalty in Britain had during Smith's time!

Smith also describes the enjoyments of ordinary laborers in great detail and in a positive light. Common laborers generally had a large assortment of goods including clothing, furniture, silverware, shelter, and food (WN 22-23), all courtesy of the division of labor. When discussing the ale house and the brewer, Smith suggests that they serve a reasonable interest of the workingman and the wealthy in consuming alcohol (WN 491-493). He says that although the freedom to consume alcohol may be abused and bring some people to ruin, on the whole such behavior is uncommon. For the responsible majority, alcohol is a reasonable good that promotes human happiness and well-being.

We can see another clear example of Smith favoring consumption when he points out the superiority of goods over money:

Goods can serve many other purposes besides purchasing money, but money can serve no other purpose besides purchasing goods....The man who buys, does not always mean to sell again, but frequently to use or to consume; whereas he who sells, always means to buy again....It is not for its own sake that men desire money, but for the sake of what they can purchase with it. (WN 439)

Consumption, not hoarding gold or accumulating money, ultimately gives meaning or value to production. Mises makes a similar point: “All other things are valued according

to the part they play in the production of consumers' goods" (1945:94). People labor and produce, not because they like doing it or because they are primarily altruistic, but because of what they can get from it.

An important benefit of having enough wealth to live in relative comfort is that it allows people to exercise care for others. Smith praises material wealth as a conduit to human well-being: "Before we can feel much for others, we must in some measure be at ease ourselves. If our own misery pinches us very severely, we have no leisure to attend to that of our neighbour" (TMS 205). People in poverty and distress rarely commit great acts of charity—primarily because they do not have the means to do so. And when speaking about the humane virtues, Smith says "The man who is himself at ease can best attend to the distress of others" (TMS 153). Wealth and consumption are not only important for our own enjoyment and happiness, but also because they allow us to exercise virtue and improve the well-being of others.

But we should consider some of Smith's caveats and condemnations of consumption. His primary scorn is reserved for the spendthrift—for the man who slowly (or quickly) dissipates his wealth or capital or stock. Smith has scathing criticism for landlords who have lost the ownership of their land through prodigality:

Having sold their birth-right, not like Esau for a mess of pottage in time of hunger and necessity, but in the wantonness of plenty, for trinkets and baubles, fitter to be the play-things of children than the serious pursuits of men, they became as insignificant as any substantial burgher or tradesman in a city. (WN 421)

These landlords wasted their wealth on vanity and impoverished themselves for no good reason. Smith criticizes the "trinkets and baubles" that were purchased by the landowners



without regard for how much they subjectively enjoyed them. These landlords are violating the “should” of providing for the future mentioned earlier. Elsewhere Smith notes that “many people ruin themselves by laying out money on trinkets of frivolous utility” (TMS 180). These acts of consumption violate the virtues of prudence, moderation, and self-control; making those individuals worse off and, in Smith's opinion, less happy. Consumption has usurped virtue, with unpleasant consequences.

Continuing on the themes of frivolity and waste, Smith writes that “the man who borrows in order to spend will soon be ruined” (WN 350). In a longer condemnation of wasteful consumption he writes of the prodigal:

By not confining his expence within his income, he encroaches upon his capital...he pays the wages of idleness....diminishing the funds destined for the employment of productive labour, he necessarily diminishes...the real wealth and revenue of [his country's] inhabitants. If the prodigality of some was not compensated by the frugality of others, the conduct of every prodigal, by feeding the idle with the bread of the industrious, tends not only to beggar himself, but to impoverish his country. (WN 339.20)

Not only does he condemn the prodigal for wasting his money and impoverishing himself, Smith argues that the prodigal's behavior is bad for society too because it uses up stock. The spendthrift does not promote future consumption because he is using up capital to fund his consumption and not replacing it. But the worst spendthrifts of all, according to Smith, are government officials (WN 346).

Smith's concern about the prodigal using up capital and impoverishing himself and his country helps us understand why Smith distinguishes between productive and unproductive labor. His major concern is whether people's behavior, either producing or consuming, will promote economic growth and future consumption; which is necessary

for human happiness and well-being. The rich man who hires servants to wait upon him or entertainers to perform for him dissipates his wealth and accumulated stock. After paying the servants and entertainers, he is not left with any greater stock than before, and so may be less able to employ them in the future. The servants and entertainers may have provided a valued service but their actions do not contribute to more food or houses or machines in the future. Indeed, he says they have contributed “to the value of nothing” (WN 330-332).

Smith takes several pages to explain the difference between whether a wealthy man spends his money on food, drink, hospitality, and menial servants or on physical objects (WN 346-349). The first set of expenses are enjoyed, he says, and then disappear. The second set, however, can be enjoyed now and in the future. They can also be resold or inherited. Smith tries to look at these types of consumption impartially and weighs them against the future. Since one type of consumption promotes wealth accumulation more than the other, he claims the first kind contributes to long-term human well-being. Still, Smith is also concerned about the distribution of goods in the sense of whether everyone has some livelihood and means of support.

He analyzes an important transition that occurred in how the wealthy can spend their money. In feudal times, landowners and lords had more money than they could spend on themselves because of the limited availability of fine and precious goods. So instead they used their wealth to support large courts and retinues. But, Smith argues “[i]t is to no purpose, that the proud and unfeeling landlord views his extensive fields, and without a thought for the wants of his brethren, in imagination consumes himself the

whole harvest that grows upon them” (TMS 184). When paying the wages of their retainues, the rich "are led by an invisible hand to make nearly the same distribution of the necessaries of life, which would have been made, had the earth been divided into equal portions among all its inhabitants" (TMS 184-185). Although the lord may not consume much more than those in his service, they are dependent on him for their livelihood and are often legally bound in his service.

But with the rise of commerce, many more expensive goods became readily available for purchase. The rich now had the:

opportunity of expending his whole stock on himself. He has architects, masons, carpenters, taylors, upholsterers, jewelors, cooks, and other ministers of luxury, which by their various employments give him an opportunity of laying out his whole income. He gives nothing away gratuitously, for men are so selfish that when they have an opportunity of laying out on their own persons what they possess, tho on things of no value, they will never think of giving it to be bestowed on the best purposes by those who stand in need of it. Those tradesmen he employs do not think themselves in any way indebted to him....This manner of laying out ones money is the chief cause that the balance of property confers so small a superiority of power in modern times. (LJA 50)

This is a major shift in how society is structured from relationships where some people are superiors and others are inferiors with respect to power and status to relationships of equality before the law. Smith argues that the shift from dependent vassals to independent tradesmen benefits society immensely for "Nothing tends so much to corrupt and enervate and debase the mind as dependency, and nothing gives such noble and generous notions of probity as freedom and independency. Commerce is one great preventive of this custom" (LJA 333). In commercial society, the wealth landowner has to deal with independent and free men instead of maintaining political dominance over his vassals

who are dependent on him. While independent tradesmen and workers gain from his employment, they are not beholden to him because they have many other customers and alternatives.

The powerful, who often happen to be rich, are not admirable characters in Smith's thinking or in his philosophy. They tend to oppress people when it is to their advantage to do so. They frequently advocate constraints that prevent others from reaching their level. Smith describes their thinking as:

All for ourselves, and nothing for other people, seems, in every age of the world, to have been the vile maxim of the masters of mankind. As soon, therefore, as they could find a method of consuming the whole value of their rents themselves, they had no disposition to share them with any other persons. For a pair of diamond buckles perhaps, or for something as frivolous and useless (WN 418-419).

Yet it was the creation of these luxuries that changed the relationship between landlord and workmen. The landlord's power, influence, and even wealth, have declined with their ability to spend money on expensive frivolous trinkets for themselves.

Similarly, Smith observes that:

it is not so much the police that prevents the commission of crimes as the having as few persons as possible to live upon others. Nothing tends so much to corrupt mankind as dependency, while independency still increases the honesty of the people. The establishment of commerce and manufactures, which brings about this independency, is the best police for preventing crimes. (LJB 486-487).

Besides diffusing the wealth and power of rich landowners, commercial society also increases personal responsibility and self-respect, thereby reducing crime.

Smith's criticism is not limited to people who spend more than they make—it also includes particular types of consumption. In his discussion of using precious metals as

money he says that the value of gold and silver fluctuates because of, among other reasons, “the continual waste of them in gilding and plating, in lace and embroidery” requiring “a continual importation, in order to repair this loss and this waste” (WN 62-63). Gold is valued for its scarcity, and therefore for the status it gives to those who own it. In TMS, Smith argues that many people value wealth because of the admiration they receive from others for it, not because they actually consume or use the wealth itself. But that sort of valuation, Smith argues, is not conducive to happiness. Therefore taking gold and silver out of the useful role of money and using it for decoration to suit people's vain fancies he condemns as “waste.”

Smith concludes that “every prodigal appears to be a publick enemy, and every frugal man a publick benefactor” (WN 340.25). Consumption can promote long-term prosperity or it can produce ruin. It is worth noting, however, that Smith does not worry about too many *private* prodigals ruining a country. As Evensky (2005:154) notes: “The real danger...to the progress of opulence of a nation is, according to Smith, not individual prodigality. It is government prodigality.” Smith argues that the tendency towards prudence and industry, because of the corresponding rewards to the individual, is far too strong for more than a handful of private citizens to ignore. But there is not such a check on the prodigality of government officials. Still, Smith condemned prodigality on grounds other than national bankruptcy, which we can only understand in light of how he thinks about happiness, virtue, and morality in *The Theory of Moral Sentiments*.

## **2.3 Standards for Evaluating Consumption**

Many economists equate happiness with utility. Our models assume that people attempt to maximize their utility when choosing from various options. If people fail to achieve happiness, we quickly conclude that some external cause must be preventing them from having enough utility. But for Smith, utility and happiness are not identical. Consumption is important only inasmuch as it contributes to human happiness. Furthermore, since utility is subjective and varies by individual, we think that happiness must be subjective as well. People would never choose to consume things that would make them worse off. In contrast to the modern view that whatever people choose in the moment (their revealed preference) must give them the highest utility, and therefore happiness, Smith thinks that people can choose to consume in ways that make them less happy in the long run. Certain types of consumption can be wasteful or even destructive.

For example, Smith thinks that when individuals act in ways that cater to their vanity and pride, they actually reduce their ability to be happy in the long run. Happiness is not solely about the pleasure, physical or intellectual, that comes from actively consuming things. He does not think that utility is the best term to be used in weighing human well-being. That view seems to separate Smith from narrow utilitarian arguments. But neither does Smith agree with those who argue that happiness and consumption are unrelated, or even inversely related.

He takes a middle position between narrow utilitarianism and stoicism; both of which he thought were too extreme and contrary to nature. Morality cannot be boiled down to a single principle like utility or asceticism (TMS 299). How Smith criticizes both of these philosophies, and contrasts them with his own, highlights how his own views of

virtue and morality differ from the extreme self-interested utilitarianism of Mandeville and the extreme asceticism of the stoics.

According to Smith, Mandeville argues that the gratification of any desire beyond the bare necessity of maintaining life should be considered luxury and vice. Unlike the stoics, however, Mandeville uses this claim to argue that the categories of virtue and vice are meaningless because they have such extreme implications for human behavior and society. Hence, Mandeville argues in *The Fable of the Bees* that “private vices are public benefits.” As Smith puts it:

Wherever our reserve with regard to pleasure falls short of the most ascetic abstinence, he treats it as gross luxury and sensuality. Every thing, according to him, is luxury which exceeds what is absolutely necessary for the support of human nature, so that there is vice even in the use of a clean shirt, or of a convenient habitation. (TMS 312)

Mandeville's fable derides ordinary views of virtue and vice, claiming both playfully and seriously that the distinction between the two is blurry or even nonexistent. For example, Mandeville condemns certain amenities of life, like a clean shirt or a pleasant home, as vice. Smith certainly did not consider them to be so. He calls Mandeville's system “wholly pernicious” and finds it to be full of vice and error (TMS 308).

An important passage from Smith about Mandeville's system of philosophy reveals what Smith thinks about the use, or consumption, of luxuries or otherwise unnecessary goods. He writes:

If the love of magnificence, a taste for the elegant arts and improvements of human life, for whatever is agreeable in dress, furniture, or equipage, for architecture, statuary, painting, and music, is to be regarded as luxury, sensuality, and ostentation, even in those whose situation allows, without any inconveniency, the indulgence of those passions, it is certain that luxury, sensuality, and ostentation are public benefits: since without the

qualities upon which he thinks proper to bestow such opprobrious names, the arts of refinement could never find encouragement, and must languish for want of employment. (TMS 313.12)

There are several things to note in this passage. First, Smith describes the “luxuries” in praiseworthy, rather than belittling, terms. We have the “elegant” arts when he could have said “frivolous.” He talks about what is “agreeable” rather than what is “superfluous,” “extraneous,” or “vain.” He also calls these various conveniences “improvements” in human life, not “distractions”. Though Smith's word choice may seem like a minor point in the context of this passage, when viewed with respect to the whole book, where he uses words like “frivolous” and “vain” to condemn various practices and consumption choices, it is worth noting that he seems to view the luxuries in the previous passage as good and proper for people to enjoy.

Smith also argues in the passage that the elegant arts and nice furniture or architecture should be enjoyed by: “those whose situation allows, without any inconveniency, the indulgence of those passions.” What exactly does Smith mean by “inconveniency?” Although he does not tell us directly, it seems quite likely that he is referring to physical provision—hence his comment on the “situation” allowing indulgence. His prior discussion of prudence also suggests that consumption can only be proper if it takes place within one's means. When talking about how to understand someone's income, Smith says that we really want to know "what is or ought to be his way of living, or the quantity and quality of the necessaries and conveniencies of life in which he can with propriety indulge himself" (WN 289). These passages offer substantial



evidence that Smith favored consumption generally, even in fine dress or furniture, as long as the individual took responsible care for his future provision.

But Smith does qualify his praise of consumption by saying that it is only right under some conditions, not others. Virtue, for example, must be present with consumption. Neither one without the other. He says that: “virtues, however, do not require an entire insensibility to the objects of the passions which they mean to govern. They only aim at restraining the violence of those passions so far as not to hurt the individual, and neither disturb nor offend the society” (312). This matches his social theory of morality where our natural sympathy leads us to judge our own behavior and the behavior of others in a way that promotes social harmony. Although Smith disagrees with Mandeville's claim that everything beyond survival is vice, he still considers the “violence” of some types of consumption or behavior to be vice—particularly, but not solely, because such behavior harms the individual himself or those around him.

Smith argues in TMS that the views of an impartial spectator serve as a barometer for propriety. The impartial spectator serves as an important check upon our natural passions and appetites. He uses the impartial spectator to argue that providing for future consumption is a moral matter:

In the steadiness of his industry and frugality, in his steadily sacrificing the ease and enjoyment of the present moment for the probable expectation of the still greater ease and enjoyment of a more distant but more lasting period of time, the prudent man is always both supported and rewarded by the entire approbation of the impartial spectator....The impartial spectator does not feel himself worn out by the present labour of those whose conduct he surveys; nor does he feel himself solicited by the importunate calls of their present appetites. To him their present, and what is likely to be their future situation, are very nearly the same...and is affected by them very nearly in the same manner. He knows, however,

that to the persons principally concerned...they naturally affect them in a very different manner. He cannot therefore but approve, and even applaud, that proper exertion of self-command, which enables them to act as if their present and their future situation affected them nearly in the same manner in which they affect him. (TMS 215)

Men who do not save for their future consumption are blameworthy in a moral sense because they disregard the views of an impartial spectator. In the passage above, Smith brings the impartial spectator into the decision of present versus future consumption. The impartial spectator has no reason to judge other people's current consumption more important than their future consumption.

The virtuous man, Smith argues, is the one who can most closely view his situation, passions, and actions as an impartial spectator would because when he does so, he can truly act justly and virtuously. In his chapter about our sense of duty, Smith describes how the wise and virtuous try to become impartial spectators of their own conduct. Through practice and self-command, they learn how to make the impartial spectator's sentiments their own. Smith writes that:

The man of real constancy and firmness, the wise and just man who has been thoroughly bred in the great school of self-command....does not merely affect the sentiments of the impartial spectator. He really adopts them. He almost identifies himself with, he almost becomes himself that impartial spectator, and scarce even feels but as that great arbiter of his conduct directs him to feel. (TMS 146-147)

The ideal man acts with the views of an impartial spectator in mind. His conduct is always proper as he seeks not only praise, but to be praiseworthy. Through continual practice,

He soon identifies himself with the ideal man within the breast, he soon becomes himself the impartial spectator of his own situation....The view of the impartial spectator becomes so perfectly habitual to him, that, without

any effort, without any exertion, he never thinks of surveying his misfortune in any other view. (TMS 148-149)

Smith's conception of the virtuous man explains why people should care about how an impartial spectator views their consumption choices. The moral person, adopting as best he can the views of the impartial spectator, should exercise restraint and maintain or increase his consumption over time. That moral claim of near zero time preference explains many of Smith's criticisms of profligacy, waste, and imprudent or impulsive spending beyond one's means.

Still, we cannot fully appreciate why Smith alternates between praising and criticizing consumption unless we understand why he thought that individuals could actually harm themselves through their consumption choices out of ignorance or weakness. He writes that:

The great source of both the misery and disorders of human life, seems to arise from over-rating the difference between one permanent situation and another. Avarice over-rates the difference between poverty and riches: ambition, that between a private and a public station: vain-glory, that between obscurity and extensive reputation. (TMS 149)

There is either a lack of knowledge or some kind of self-deception that causes people to misjudge the merits or demerits of certain situations. He also claims that:

in all the ordinary situations of human life, a well-disposed mind may be equally calm, equally cheerful, and equally contented. Some of those situations may, no doubt, deserve to be preferred to others: but none of them can deserve to be pursued with that passionate ardour which drives us to violate the rules either of prudence or of justice; or to corrupt the future tranquillity of our minds. (TMS 149)

In contrast, the ambitious man who pursues riches causes himself a great deal of trouble because:

To obtain the conveniencies which these [riches] afford, he submits in the first year, nay in the first month of his application, to more fatigue of body and more uneasiness of mind than he could have suffered through the whole of his life from the want of them (TMS 181.8)

To put it simply, the ambitious man values the future conveniences of wealth too highly and does not appreciate how much unease he will have in pursuing them. There is a tension here between gratification of desires and happiness. Smith is claiming that, based upon human nature, he, Adam Smith, can argue that another man will not find some particular situation or pursuit conducive to his happiness; even if the man gets gratification from that activity.

Smith tells a parable about how: “The poor man's son, whom heaven in its anger has visited with ambition, when he begins to look around him, admires the condition of the rich” (TMS 181). The ambitious son pursues the vanity and ostentation of the rich because he wrongly believes that it will bring him happiness. Flattering his vanity will not bring any happiness greater than what the son could already obtain without it. He will find his riches:

to be in no respect preferable to that humble security and contentment which he had abandoned for it....he begins at last to find that wealth and greatness are mere trinkets of frivolous utility, no more adapted for procuring ease of body or tranquillity of mind than the tweezer-cases of the lover of toys; and like them too, more troublesome...than all the advantages they can afford him. (TMS 181)

What is more, the necessary level of work to gain a fortune will substantially impinge on the man's current happiness. Smith does not advocate workaholism in the name of increasing production as much as possible. Indeed, man's natural goal, according to

Smith, is to worry less and less about his physical provision—perhaps to have more leisure to contemplate virtue or perhaps to follow other pursuits that interest them.

When addressing the stoics, Smith has to shift gears and argue that enjoying consumption is important. The fact that in TMS Smith devoted nearly as many pages to discussing stoicism as he did to the philosophies of Plato, Aristotle, Epicurus, Hutcheson, and Mandeville *combined* demonstrates that he admired elements of stoicism. The stoics argued that happiness, fulfillment, and virtue can, and should, be obtained independently of wealth or other worldly circumstances. The focus is upon what one can control unhindered—one's own mind, belief, and actions. To achieve that control, however, one needs to learn to accept any state of the world with equanimity.

Smith's admiration of stoicism can be seen in every discussion of how the impartial spectator shows us that the proper course of action is often to dampen our natural passions and emotions to what others can go along with. That dampening of emotions clearly follows in the stoics' footsteps. We can also see another instance of his admiration of stoicism in his reference to the sunbathing beggar who has the internal security and tranquility that "kings are searching for" (TMS 185). Thomas Martin (2014) shows that Smith was referring to story told by Plutarch about Diogenes the Cynic (akin to stoicism) and Alexander the great. Alexander, being magnanimous and having heard about Diogenes' stoicism, offers him whatever he wants. Diogenes replies that all he wants is for Alexander to move aside so that he is not blocking the sun. Plutarch tells us that Alexander was amazed and told his followers that if he were not Alexander, he

would be Diogenes. Smith uses the story to argue that Alexander's riches and power cannot deliver more than the inner tranquility possessed by Diogenes.

Consumption promotes happiness because people, by their very nature, are made to enjoy it. The stoics, on the other hand, argued that people should focus on their internal state of mind and dismiss their external circumstances. To do that, they argued, one must give up worldly pursuits and extraneous consumption in order to pursue internal peace and virtue. Smith criticizes these goals for being unnatural:

The plan and system which Nature has sketched out for our conduct, seems to be altogether different from that of the Stoical philosophy....By the perfect apathy which it prescribes to us, by endeavouring, not merely to moderate, but to eradicate all our private, partial, and selfish affections...it endeavours to render us altogether indifferent and unconcerned in the success or miscarriage of every thing which Nature has prescribed to us as the proper business and occupation of our lives. (TMS 292-293)

Not only would the widespread practice of stoicism reduce *The Wealth of Nations*, it would also cut against most of Smith's moral theory that encouraged people to consider how others (that is, impartial spectators) view their behavior. Smith argued that rather than being apathetic and inward-focused, people should actively produce and consume. Free enterprise, invention, skillful labor, all of these are good for people to pursue. Likewise their various pleasures and enjoyments, within moderation and prudence, promote contentment and happiness.

Still, Smith criticizes what he sees as frivolous consumption—not frivolous in the sense of being unnecessary, but frivolous in terms of not promoting virtue or happiness. He argues repeatedly that the reason people pursue riches (as in a fortune, not modest honest income) is to improve their social status and flatter their vanity with others' praise:

“it is chiefly from this regard to the sentiments of mankind, that we pursue riches and avoid poverty....Do [the rich] imagine that their stomach is better, or their sleep sounder in a palace than in a cottage” (TMS 50)? In Smith's mind there is little physical pleasure to be gained by amassing a fortune. The food, drink, and shelter that the wealthy enjoy is not substantially different from that of the poor: “The rich only select from the heap what is most precious and agreeable. They consume little more than the poor” (TMS 184). Therefore, there must be some other source of utility for the rich. Smith thinks it is in vanity and in others' regard for him that the rich man enjoys his wealth.

He further criticizes the consumption of the wealthy that promotes the “pleasures of vanity and superiority” rather than “tranquillity and enjoyment” (TMS 150, 149). He argues that such pleasures are unnecessary, and even detrimental, to happiness:

In the most glittering and exalted situation that our idle fancy can hold out to us, the pleasures from which we propose to derive our real happiness, are almost always the same with those which, in our actual, though humble station, we have at all times at hand, and in our power. Except the frivolous pleasures of vanity and superiority, we may find, in the most humble station, where there is only personal liberty, every other which the most exalted can afford; and *the pleasures of vanity and superiority are seldom consistent with perfect tranquillity, the principle and foundation of all real satisfactory enjoyment.* (TMS 150 emphasis added)

That passage explains how he thinks that the foundation of enjoying consumption comes from perfect tranquility, which is just as available to the poor man from “humble station” as to the rich man. Therefore, “our real happiness” comes from simple “pleasures” available to rich and poor alike. He also slips “personal liberty” into this discussion in a way that suggests that it too has an important contribution to human happiness. Dennis Rasmussen (2008a) makes a compelling argument that Smith advocated commercial

society, not because it inherently made people happier, but because liberty in a commercial society removes obstacles to happiness like dependency, poverty, and insecurity.

One of Smith's most interesting passages condemns vainly pursuing power and riches, which leads to excessive or frivolous consumption, and makes their owners miserable rather than happy:

Power and riches appear then to be...enormous and operose machines contrived to produce a few trifling conveniencies to the body...which must be kept in order with the most anxious attention, and which in spite of all our care are ready every moment to burst into pieces, and to crush in their ruins their unfortunate possessor. (TMS 182-183)

Although his condemnation of poor man's son seems harsh, Smith be making an esoteric argument. Many philosophers had taught that one pursues riches at the cost of one's soul. But one wonders whether Smith whole-heartedly subscribes to their teaching. Consider how Smith says that "we rarely view it [the value of power and riches] in this abstract and philosophical light" (TMS 183). Exploring what Smith was actually arguing would require another paper.

Smith repeatedly praises honest income. He also thinks wealth is far less insidious than political power or influence. The pursuit of honest income advances universal benevolence. In commercial societies making money honestly *means* producing goods or services for other people. It seems like an unlikely coincidence that Smith's single reference to the invisible hand in TMS shows up in the section about the poor man's son.



## 2.4 Conclusion

Smith wrote about how to promote the well-being and prosperity of people in England and Scotland. But his ideas clearly apply in other places and other times. In *The Wealth of Nations* he does not limit his concerns to solely the economic and material. Justice, peace, contentment, enjoyment, and virtue are important sub-themes throughout the work. But seeing his overall goal in a normative sense should also cause us to realize that political economy is not purely a dry, abstract, positive science. It is intertwined with questions of justice, morality, and human happiness.

That view of economics sets Smith at odds with a good part of the Austrian tradition, particularly with respect to Mises, Schumpeter, and Rothbard. Both Schumpeter and Rothbard explicitly criticize Smith. Schumpeter (1987 [1954]) thought him unoriginal and wrong in many of his economic ideas. Rothbard (1995) criticized Smith for bringing morals into economic theorizing and for paving the way for Marxism by advocating a labor theory of value. Smith's approach does not fit strict praxeology or value-neutrality. He would have been skeptical of whether the "flat" view of human choice offered by Austrians, and the mainstream, was the best way of studying human behavior and institutions.

Unlike modern "Max U" theorists who equate happiness with the utility gained through consumption, however broadly defined, Smith seems to separate happiness and utility. He argued that virtue and vice exist and that people's behavior can be praiseworthy or blameworthy. In TMS he outlines what behavior constitutes the good life and is most conducive to happiness. Although he thought that consumption was good and important, he did not consider it to be the sole measure of well-being. Happiness requires

more than high levels of consumption. It requires internal tranquility, which some forms of consumption can disrupt. This inner tranquility comes by exercising virtue. Prudence requires that men concern themselves with sustaining their wealth over time because that is what the impartial spectator applauds. Therefore for Smith, saving, investing, and consuming are moral decisions.

In some ways Smith seems amenable to the stoic idea that happiness and virtue are completely independent of wealth. That certainly fits his indifference, or even hostility, towards ostentatious displays of wealth or ambitiously pursuing wealth believing it to be a means to happiness. Yet at the same time, Smith distances himself from the stoics. He says the indifferent apathy they preach is contrary to nature. And even though he admires Diogenes for his contentment as a beggar, he also suggests that such a mindset and circumstances are unusual and should not be pursued. Some basic level of wealth, security, and comfort are both consistent with, and even supportive of, contentment, virtue, and happiness. He asks rhetorically: "What can be added to the happiness of the man who is in health, who is out of debt, and has a clear conscience" (TMS 45)? Knowing how Smith defined happiness helps us reconcile his conflicting descriptions of consumption in *The Wealth of Nations*.

## CHAPTER THREE: WHO BEST REPRESENTS IMPARTIALITY? THE HIGHER WE GO, THE MORE PARTIAL OUR JUDGMENTS

In *The Theory of Moral Sentiments* Adam Smith explores how sympathy, propriety, and impartial spectators give us insight into how human beings form moral judgments that promote social harmony. Yet despite the usefulness of Smith's theory, in some contexts it faces significant obstacles because most people are "admirers and worshippers, of wealth and greatness" and because indirect effects rarely appeal to "the natural sentiments of the bulk of mankind." This paper develops three levels of context from Smith's parallel examples of trinkets, the poor man's son, and the man of public spirit. The prevalence of moral corruption depends in part on the level of context.

The second part of this chapter relates the insight that context affects moral judgment with Smith's views of government. I argue that moving from a low level of clearly defined contexts to more general contexts worsens our moral judgment. That worsening judgment suggests, in turn, that devolving power, authority, and decision-making to lower levels of concrete contexts will improve moral judgment. We can find many examples from Smith's work advocating such devolution—which suggests that he realized that the quality of individuals' judgment depends on the context.

### 3.1 Overview

People form standards of propriety, virtue, and justice, and judge their own and others' behavior, by appealing, consciously or unconsciously, to impartial spectators. Each person has his or her own "man within the breast" who tries to render judgments according to the example or the dictates of those impartial spectators. People constantly

moderate their passions and restrain their most destructive impulses because of external social censure and internal condemnation. Virtues that reduce our own passions to what an impartial spectator can "go along with" Smith calls "the great, the awful and respectable" virtues of "self-denial" and of "self-government" (TMS 23). Those virtues that rouse our emotions to sympathize with the passions of others he calls "soft," "gentle," and "amiable" (TMS 23, 242). On the whole, Smith observes, the respectable and amiable virtues fostered by these mechanisms of moral judgment bring about a remarkable degree of social harmony.

Jacob Viner has suggested that the impartial spectator procedure (Haakeson 1989), along with the other mechanisms in TMS, presents "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 1927:206). Yet the procedure involving the impartial spectator and the man in the breast does not work perfectly. Crimes are still committed. People frequently act unethically and violate standards of propriety and justice. Democratic governments sometimes create institutionalized injustice and inequality. What is going on in these aberrations? Are the actors ill-informed? Is their man within the breast sick or on vacation? Do they have a wrong impartial spectator in view? Smith essentially answers, "yes," to each of these questions when discussing the possibility of corruption in his moral theory.

Smith discusses at least three not necessarily distinct or separate ways that our moral sentiments can be corrupted. First, we can admire the rich and powerful too much. Second, our moral sentiments can be corrupted through self-deceit, either by repressing

our man within the breast or by receiving an inaccurate judgment from him due to our passions. Finally, we can think that a partial spectator represents an impartial spectator because of the presence of faction or fanaticism.

Smith's moral theory describes how we treat our neighbors, our children, and our employers. But it also explains how we judge particular organizations, traditions, and projects, how we evaluate governments, systems of philosophy, fashion, beauty, virtue, and vice. The breadth of Smith's theory is impressive, yet the application will vary by context. Smith describes three distinct levels of context that range from concrete to abstract and from personal to impersonal. The lowest level of context involves everyday personal experience. What are other people doing? What aspects of their actions, feelings, or motivations strike a chord in us? How would another impartial person view the various situations?

As we move higher, we reach another level of context involving weightier decisions regarding self-hood or identity such as career choices, habits, projects, or customs. Judgment at this level requires more reflection because the phenomena are more complex and the indirect effects of actions or institutions become more important. From one angle, someone's behavior may seem strange, shallow, or blameworthy to us. But from another angle, we may approve of the behavior's consequences. Such considerations help us evaluate people's choices of careers. They also help us evaluate traditions, organizations, and objects. Some traditions or objects may suit our fancy and receive our approval for their direct effects, while actually having destructive indirect effects of greater magnitude. Conversely, we might disapprove of or dislike the appearance of

certain objects that indirectly produce greater beneficial effects (like a prison or a landfill). Often we may not even see the indirect effects.

Moving to the highest level of context involves judging macrocosms. A macrocosm is the whole of a complex system rather than a single part. Judging macrocosms involves weighing the beauty, fitness, and beneficial effects of broad systems of politics, morals, history, philosophy, or economics. We have to identify the various parts of the system, how they work together, and then judge whether or not they serve universal benevolence. This level of context is the most abstract, philosophical, and impersonal. We have to judge systems and ideas that we do not experience directly. Our lack of experience means that we have very little natural sympathy to guide us in determining whether a law is good or bad. Also, because many of these broad systems are incompatible with each other, accepting one usually means rejecting all the others—creating unavoidable factions—which then create fanaticism and partiality. At this highest level our moral sentiments are more likely to be corrupted by partial spectators.

Another reason why our moral sentiments are more prone to partiality at the highest level of context is because there is no clear, or even unclear, impartial spectator for us to appeal to. Only God stands entirely outside of these systems and can survey them with an impartial eye. Every other person we could appeal to will either have an imperfect view of the situation or will not be impartial. If we do not have direct access to God's thoughts on the topic at hand, our man within the breast has to construct an impartial spectator based upon our own experience and circumstances. Yet without the check and the input of real impartial spectators, it is easy to become fanatical and to

construct a partial spectator—whether we want to or not! There can be no final appeal to experience or to the "data" to determine which presuppositions or "pre-analytic cognitive" frameworks are true (Schumpeter 1987 [1954]; Sowell 2007 [1987]; Mueller 2013).

Maria Paganelli (2011), in a paper about Smith and the financial crisis, asks if a "beautiful system is dying." The beautiful system she refers to is one that Smith described as consisting of natural liberty and social harmony. But, Paganelli points out, greed, envy, and ambition can work against social harmony. They motivate the "speculators and projectors" in *The Wealth of Nations* who impoverish the nation through their rent-seeking, their prodigality, and their reckless behavior. As my discussion of the poor man's son will illustrate, however, the strength of her claims depends in large part on the level of context and institutions within which these actors operate. For example, in local concrete settings, speculators and projectors are less likely to engage in destructive behavior because social mores are clearer and are more strongly enforced. Paganelli (2011) also points out the moral corruption that leads people to exchange a "beautiful system" of free exchange and private enterprise for the glamour of the rich (Wall Street) and the powerful (Washington). Admiration of wealth and power can corrupt our moral sentiments regarding the beautiful system of natural liberty.

There is some controversy over how closely Smith linked wealth and power. He uses the phrase "wealth and greatness" ten times in TMS. "Riches and power" appear twice, although they appear together more frequently in lists of achievements and possessions. In Smith's time the powerful were primarily large landowners and the

aristocracy—who also happened to be very wealthy. Smith seems to have this class in mind as the object of people's overweening admiration because of how he describes palaces, courts, and privilege when talking about wealth.

But Smith explicitly argues that there is no intrinsic connection between wealth and power. In fact, Smith explains why wealth brings less power in modern commercial societies than under feudalism (LJA 50; WN 411-427). In contrast to Hobbes who claimed that wealth is power, Smith writes:

the person who either acquires, or succeeds to a great fortune, does not necessarily acquire or succeed to any political power, either civil or military. His fortune may, perhaps, afford him the means of acquiring both, but the mere possession of that fortune does not necessarily convey to him either. The power which that possession immediately and directly conveys to him, is the power of purchasing. (WN 48)

If we define power as coercion, or as being able to limit the liberty of others, Smith did not think it was a necessary consequence of increasing wealth. Of course, one could use wealth to influence political actors, and thereby exercise coercive influence over others. But that is exactly the activity for which Smith attacks merchants and manufacturers.

Fonna Forman-Barzilai (2005) has worked on ideas somewhat parallel to mine. Instead of contexts, though, she talks about the influence of "space" and "proximity" on the procedures of sympathy and the impartial spectator. She argues that Smith expands upon Hume's notion that our sympathy declines as our physical distance grows. Physical proximity "begets familiarity, which in turn makes affections stronger, understanding more accurate, sympathy likelier, and other-concern more natural and appropriate" (Forman-Barzilai 2005:190). But "affective" and "historical" distances are also important. Smith's moral theory, she claims, addresses physical and affective distances well,



“affection gradually diminishes as the relation grows more and more remote” (TMS 220), but his theory does not address historical distance very well.

Her overarching concern is whether Smith’s moral theory fits under the umbrella of cosmopolitanism (Forman-Barzilai 2005, 2010a, 2010b). Answering that question involves analyzing the impartial spectator. Is he culturally conditioned? Do his judgments apply across cultures? Can the impartial spectator be different in different situations? The impartial spectator of a rural subsistence farmer may be very different than that of a computer programmer in Silicon Valley:

different sorts of impartiality are required for different sorts of judgement, and the sort of impartiality achieved by Smith's impartial spectator might be effective for correcting for physical and affective short-sightedness but is not the sort required to render unbiased cross-cultural judgements. (Forman-Barzilai 2005:207)

According to Forman-Barzilai, Smith's moral theory cannot be cosmopolitan because it is historically, or rather culturally, constrained. But she sees that Smith wrestled with the shortcomings of parochialism and did not base his theories on local prejudice. In fact, she claims that he developed a “commercial cosmopolitanism” and advocated a “jurisprudential cosmopolitan” position (Forman-Barzilai 2010b:156).

Although I think Smith was quite a humane fellow, I agree with her skepticism that there can be an expansive actual impartial spectator who transcends local, historical, and cultural influences. Klein (2012), however, has suggested that such an impartial spectator would not have to be actual. He presents an allegorical ideal impartial spectator whom he calls "Joy." This allegorical being, who is super-knowing and universally

benevolent, transcends particular cultures and can serve as a reference for everyone's man within the breast.

The rest of this chapter explores corrupting influences on our moral sentiments such as admiration of the rich and powerful, self-deception, and faction and fanaticism that cause us to appeal to a partial spectator. My novel contribution is exploring how Smith's moral theory works in three parallel contexts: trinkets, the poor man's son, and the man of public spirit. I take Smith's parallel examples and draw out three overlapping, yet distinct, levels of context. The levels represent points on a continuum moving from low to high, from microcosm to macrocosm, from specific to general, and from personal to impersonal. Although the impartial spectator procedure works quite well at the lowest level of context, it works less well at higher levels of context where more reflection on both direct and indirect effects is necessary to render good judgments.

At the highest level of context we no longer have direct experience of the phenomena we are judging. We no longer have a literal impartial spectator to appeal to. Instead we must rely on an imaginary and “supposed impartial spectator;” one based upon our own experience and the opinions of experts and exemplars. Making good judgments at this level is difficult and susceptible to corruption by the partial spectator. If that is true, then I suggest—and I think Smith suggests—that we should try to push policy issues to lower levels of context or out of public discourse altogether by decentralizing or degovernmentalizing them. I conclude the paper by reaffirming Smith's general moral framework, despite the challenges highlighted in the paper. The importance of context in Smith's moral theory gives us an additional reason to decentralize and degovernmentalize

many public policy issues. But even for those issues that cannot be moved to lower levels of context, Smith's theory gives us guidance for how to go about discussing and considering them.

### **3.2 How Our Moral Sentiments Can Be Corrupted**

Smith builds his moral theory upon socially constructed standards of virtue and propriety in *The Theory of Moral Sentiments*. He does not argue that people can define morality any way they like, but rather that we learn what constitutes moral behavior—behavior warranting praise or blame, approval or disapproval—from those around us: “people properly learn what is right and wrong through their upbringing and their interaction with others...this idea seems central to Smith’s moral theory” (Rasmussen 2008b:250). Our sociability develops and refines our morals. It serves a function similar to a mirror, only instead of reflecting our physical appearance, it reflects our character. A man who lived a solitary existence on an island, for example, would have a severely deficient sense of morality (TMS 110, 192-193).

But how exactly do we form judgments about our own behavior and that of other people? Sympathy, impartial spectators, the man within the breast, and philosophy help us judge whether an action is praiseworthy or blameworthy. Yet these mechanisms do not usually deliver a precise or definitive answer. We judge by degrees and comparison. Suppose that Ben's brother passes away. We can ask whether Ben demonstrates an appropriate amount of grief over his loss. Are his feelings praiseworthy or blameworthy? How should I treat Ben? In order to judge whether Ben's reaction to his brother's death, and my reaction to Ben's reaction, are praiseworthy or blameworthy, I need to imagine

what his actual sentiments are, how I should feel if I were he, and how other people view the situation.

Is Ben behaving well when he seems rather callous or indifferent? Maybe there are special circumstances that in some degree justify his callousness. Smith suggests that many situations and issues are like this — "loose, vague, and indeterminate" — while in other situations the proper behavior is clear and easy to discern (e. g. Ben should not steal from Mary). The rules determining proper actions of commutative justice are like those of grammar and usually render clear and precise answers. In contrast, the rules of propriety and the other virtues are more like guidelines for achieving "what is sublime and elegant in composition" (TMS 175).

Considering the views of an impartial spectator confirms the distinction between "loose, vague, and indeterminate" and "grammatical." Here is one of the clearest descriptions Smith gives of how the impartial spectator moderates our naturally selfish and indulgent self-love:

Though it may be true, therefore, that every individual, in his own breast, naturally prefers himself to all mankind, yet he dares not look mankind in the face, and vow that he acts according to this principle. He feels that in this preference they can never go along with him, and that how natural soever it may be to him, it must always appear excessive and extravagant to them. When he views himself in the light in which he is conscious that others will view him, he sees that to them he is but one of the multitude in no respect better than any other in it...he must, upon this, as upon all other occasions, humble the arrogance of his self-love, and bring it down to something which other men can go along with. (TMS 83)

We naturally desire the approval of others and seek to avoid their disdain. As such, we need to consider how they would view us and our actions. The best way to do this, in Smith's view, is to consider how other people would judge our behavior if they were

observing us. And since most of mankind are impartial towards us, that is how we should imagine the spectator of our behavior to be.

Smith appeals to the view of an impartial spectator as a kind of standard for making moral judgments. We have a man within our breast, according to Smith, who gives us an account of what an impartial spectator thinks or would think. In most cases our man within the breast renders fairly accurate judgments of an impartial spectator, judgments which then promote social harmony. But sometimes our moral judgments become corrupted. Smith makes many off-handed remarks about how corruption occurs but I only examine three: admiring the rich and powerful too much, faction and fanaticism causing our standard to be the "partial and indulgent spectator," and self-deception. Although these corrupting influences do not always occur independently, I will describe them separately for the purpose of clarity.

### **1<sup>st</sup> Corrupter: Admiring Wealth and Status**

People naturally sympathize with others' joys and happiness far better than they sympathize with others' pain and grief. Where there is no envy, they are eager to put themselves in the place of those living in prosperity. Only reluctantly do they imagine themselves as paupers in sickness or distress. "Nature," Smith says, "when she loaded us with our own sorrows, thought that they were enough, and therefore did not command us to take any further share in those of others, than what was necessary to prompt us to relieve them" (TMS 47). We do not enter others' sorrows easily or eagerly. On the other hand, the

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. (TMS 61)

Smith talks at length about people's tendency to value wealth and greatness too highly:

"The great mob of mankind are the admirers and worshippers, and, what may seem more extraordinary, most frequently the disinterested admirers and worshippers, of wealth and greatness" (TMS 62). People's imaginations and natural inclinations get the better of their judgment. But why does this sympathetic tendency to idolize the rich corrupt our morals?

It is because our tendency to sympathize too much with the rich leads us to render false or blameworthy judgments. We see the virtues of wealth but turn a blind eye to its vices. When we look at the rich, "Even their vices and follies are fashionable" (TMS 64). Just as with fashion in clothing or lifestyle, people admire wealth and greatness even when they gain no personal benefit from their admiration. The rich serve as models and we elevate their manner of living.

Not only do we sympathize with the rich and powerful too easily, Smith also claims that we are likely to overlook virtue among the poor because we are offended by their condition. Smith suggests that we naturally tend to denigrate the poor, if we notice them at all, and cast aspersions on their manner of living simply because they are poor. Therefore, people often neglect real virtuous and admirable behavior in the poor and esteem the often worthless behavior of the rich and the powerful too highly.

The natural eagerness to sympathize with others' happiness corrupts our judgment because we focus on the appearance of external happiness. Our imagination extrapolates from external appearances to conclude that the rich and powerful must be especially

happy. We imagine that they must have far easier lives than we do because they live in palaces and have servants. But sober reflection reveals that they sleep no sounder and are not much better fed than we: "Do they imagine that their stomach is better, or their sleep sounder in a palace than in a cottage? The contrary has been so often observed....It is the vanity [of wealth or power], not the ease, or the pleasure, which interests us" (TMS 50). People desire wealth and power primarily because it flatters their vanity, not because it increases their material comfort.

Smith suggests that people pursue trinkets, emoluments, awards, and riches chiefly out of vanity. They pursue wealth, status, and power because they want "to be observed, to be attended to, to be taken notice of with sympathy, complacency, and approbation....it is chiefly from this regard to the sentiments of mankind, that we pursue riches and avoid poverty" (TMS 50). Since riches and power cannot increase one's physical consumption all that much, the only thing left to give them their "dazzling" appearance is the applause and admiration received from others.

Just as he was clear about people naturally admiring wealth and greatness too much, Smith also clearly argues that pursuing them in order to flatter our vanity will not bring happiness:

If we consider the real satisfaction which all these things [riches, status, influence] are capable of affording, by itself and separated from the beauty of that arrangement which is fitted to promote it, it will always appear in the highest degree contemptible and trifling. But we rarely view it in this abstract and philosophical light. We naturally confound it in our imagination with the order, the regular and harmonious movement of the system, the machine or oeconomy by means of which it is produced. (TMS 183)

The conflating of the beauty of objects with the beauty of the system that created the objects will be crucial to understanding what corrupts our moral sentiments in different levels of context. In his most striking condemnation of wealth and greatness, Smith writes:

Power and riches appear then to be, what they are, enormous and operose machines contrived to produce a few trifling conveniencies to the body, consisting of springs the most nice and delicate, which must be kept in order with the most anxious attention, and which in spite of all our care are ready every moment to burst into pieces, and to crush in their ruins their unfortunate possessor. They are immense fabrics, which it requires the labour of a life to raise, which threaten every moment to overwhelm the person that dwells in them, and which while they stand, though they may save him from some smaller inconveniencies, can protect him from none of the severer inclemencies of the season. They keep off the summer shower, not the winter storm, but leave him always as much, and sometimes more exposed than before, to anxiety, to fear, and to sorrow; to diseases, to danger, and to death. (TMS 182-183)

It is clear, at the very least, that wealth and greatness should be pursued and handled with care. Pursuing either out of vanity or for personal aggrandizement will leave people unhappy. They discover too late all the encumbrances and inconveniences their "trinkets" and "operose machines" create. And they find too, as I argued in the previous chapter, that consumption is not a sufficient condition for happiness.

## **2<sup>nd</sup> Corrupter: Faction, Fanaticism, and the Partial Spectator**

A second important corrupter of our moral sentiments is the presence of a partial, rather than an impartial, spectator. Our man within the breast can appeal to the wrong standard for serving universal benevolence and promoting social harmony. The old adage about bad company corrupting one's morals fits Smith's claim that the "propriety of our moral sentiments is never so apt to be corrupted, as when the indulgent and partial



spectator is at hand, while the indifferent and impartial one is at a great distance" (TMS 154). How could the impartial spectator be at a great distance while the spectators around us are partial and indulgent? And what constitutes "bad company"?

There is actually a double meaning to "bad company." It could mean keeping company with bad or immoral people, as the traditional warnings about bad company imply. But the company could also be "bad" in light of helping one achieve propriety. In the context of the last quote, Smith talks about the literal company we have in prosperity or adversity. The "indulgent sympathy" of our "intimate friends" may give approval, or at least acceptance, to our ventings of anger or outpourings of grief when an impartial spectator would not (TMS 154). They do so, not because they are immoral or corrupt themselves, but because they are naturally more partial towards us. In this case they over-emphasize the amiable virtues at the expense of the respectable virtues. Smith recommends an "assembly of strangers," therefore, to moderate our passions instead of the indulgent presence of friends and family (TMS 23).

Smith identifies two other forces that can distort our perception of the impartial spectator and thereby our standard of conduct: "Of all the corrupters of moral sentiments, therefore, faction and fanaticism have always been by far the greatest" (TMS 156). These two forces often coexist and are particularly prevalent in political contexts. Faction and fanaticism are two of the hallmarks of politics because political decision-making creates divisive interests, which stoke people's passions (fanaticism), and it promotes parties (faction) (see Mueller 2014b:6-7). Although Smith occasionally, and Hume almost always, talks about fanaticism in religious contexts, in TMS and WN nearly every

reference to faction and fanaticism includes a political element, both at the national and international level. In TMS, Smith suggests that political parties are the main propagators of faction and fanaticism.

Political issues, whether national or international, are tough to agree upon because they are inherently suffused with faction and fanaticism. Self-selection into a group of partisans can strengthen people's existing partiality or ideology. That contributes to an even deeper problem in politics: the absence of an impartial spectator. The level of context is so broad and abstract for political issues that no person can truly stand outside the issues to judge them impartially. People are left having to appeal to imaginary impartial spectators that they have constructed—often using as material those they admire, or those who happen to be around them.

### **3<sup>rd</sup> Corrupter: Self-Deception**

A third reason people's moral sentiments are often corrupted is self-deception. Smith says that "self-deceit, this fatal weakness of mankind, is the source of half the disorders of human life" (TMS 158). It causes us to act in ways that we may not even realize are wrong at the time. Perhaps there are no impartial spectators nearby to provide us with a meaningful standard. But he says that we can act badly even when the real impartial spectator is at hand because our man within the breast gives us a false report: "the violence and injustice of our own selfish passions are sometimes sufficient to induce the man within the breast to make a report very different from what the real circumstances of the case are capable of authorising" (TMS 157). This false report can be made in one of two circumstances: either before we act or after we act.

Before we act, the violence of our passions may make us unable to take the view of an impartial spectator even when we want to take his view. In this case we simply cannot think straight or calmly or impartially about what constitutes proper conduct. We only catch "glimpses" of an impartial spectator's view of our situation:

When we are about to act, the eagerness of passion will seldom allow us to consider what we are doing, with the candour of an indifferent person. The violent emotions which at that time agitate us, discolour our views of things; even when we are endeavouring to place ourselves in the situation of another... the fury of our own passions constantly calls us back to our own place, where every thing appears magnified and misrepresented by self-love... we can obtain, if I may say so, but instantaneous glimpses, which vanish in a moment, and which, even while they last, are not altogether just. We cannot even for that moment divest ourselves entirely of the heat and keenness with which our peculiar situation inspires us, nor consider what we are about to do with the complete impartiality of an equitable judge. (TMS 157)

In the heat of the moment our brain literally sees the world differently and cannot reflect on the impartial spectator's view accurately. Many scholars have shown how people make "inconsistent" choices when their emotional or mental states are altered by receiving a suggestion, a starting endowment, or some other "nudge" (Tversky and Kahneman 1974, 1981; Ariely 2008; Thaler and Sunstein 2008; Kahneman 2011).

The problem of passions seems to be a serious flaw with Smith's theory of morals. People often make emotional decisions in the heat of the moment. Are all of their decisions corrupt and wrong because they could not accurately refer to the views of an impartial spectator, even if they wanted to? Smith argues that our man within the breast has another important resource besides the views of an impartial spectator: general rules of conduct. These general rules often take the form of heuristics, which have been summarized well by Gigerenzer et al. (2002, 2011).

Instead of having to reinvent the wheel, so to speak, of discovering what an impartial spectator would think every time we make a judgment, we learn formal and informal rules through years of observation and feedback:

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....We thus naturally lay down to ourselves a general rule....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. (TMS 159-160)

These rules offer clarity in moments of passion. Though I may feel justified in my desire to kill someone else, and even believe in the moment that I could persuade an impartial spectator to go along with my sentiment, the long-standing, clear-cut rule against murder, and the punishment that necessarily comes with it, may restrain my passion.

But even knowing the rules is insufficient if we lack the virtue to act on that knowledge. Smith emphasizes our need for self-command in order to act rightly:

The most perfect knowledge of those rules [perfect prudence, strict justice, and benevolence] will not alone enable him to act in this manner: his own passions are very apt to mislead him; sometimes to drive him and sometimes to seduce him to violate all the rules which he himself, in all his sober and cool hours, approves of. The most perfect knowledge, if it is not supported by the most perfect self-command, will not always enable him to do his duty. (TMS 237)

He speaks highly of the virtue of self-command because it prevents people from acting wrongly out of passivity, weakness, or ex ante self-deception.

But self-deception can also corrupt our sentiments after we have acted. Once we have acted wrongly, we may try to ignore our past actions or attempt to justify them by stirring up the passions (bitterness, anger, etc.) that made us act in the first place. Denial

is a form of self-deception where we refuse to look at or evaluate our past actions. As Smith says, "It is so disagreeable to think ill of ourselves, that we often purposely turn away our view from those circumstances which might render that judgment unfavourable" (TMS 158). We do not ask whether our behavior was good or right. We simply move on and do not "awaken" the man in the breast to form a judgment (TMS 253).

People engage in denial because admitting that their past actions were evil and sordid is painful. Smith notes that:

He is a bold surgeon, they say, whose hand does not tremble when he performs an operation upon his own person; and he is often equally bold who does not hesitate to pull off the mysterious veil of self-delusion, which covers from his view the deformities of his own conduct. (TMS 158)

Many people would rather leave some of their life unexamined rather than face their mistakes. Or it can be too painful to admit that the world is not as we want it to be. Sorkin's (2010) account of Dick Fuld's state of denial after Lehman Brothers filed for bankruptcy, even asking the Secretary of the Treasury to reverse the process and give him his company back, illustrates this type of denial. So does Lewis' (2011) chilling account of how people at a major mortgage origination and securitization conference in 2007 refused to believe that the housing boom was quickly coming to an end: "These people believed that the collapse of the subprime mortgage market was unlikely *precisely because it would be such a catastrophe. Nothing so terrible could ever actually happen*" (2010:148 emphasis added). They refused to seriously consider certain scenarios because the thought was too painful and upsetting.

But while many people may not be bold enough to pull away the veil of self-delusion, they are also not content to live emotive, unexamined lives. They cannot simply ignore the moral status of their past actions. But because admitting their moral faults is so painful, they rationalize or justify those past actions instead:

Rather than see our own 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. (TMS 158)

The widespread problem of rationalizing our past actions has long been recognized in psychology and behavioral economics (Kahneman 2011). There are several natural tendencies, which researchers call biases, that motivate rationalizing.

For example, confirmation bias involves looking for evidence that validates our beliefs and expectations, or in this case the appropriateness of our behavior, while dismissing evidence to the contrary. Status quo bias involves an aversion to change, especially of changing ourselves. Endowment bias has to do with the fact that we value objects that we own or ideas that we have long held disproportionately to how we value them in the abstract, or how a newcomer, or an impartial spectator, might value them. Loss aversion builds on the fact that people value losses and gains asymmetrically. Losses are far more painful, which explains our desire to rationalize our choices. Admitting past faults can involve losing some of our reputation and our self-esteem. Smith recognized that people have these biases towards rationalization and that rationalizations often corrupt our otherwise harmonious moral sentiments.

### 3.3 Smith's Moral Theory in Different Contexts

The corrupters of moral sentiments relate closely to the context of action. Smith describes three different levels of context in the fourth part of TMS. The subtitle for the first chapter of this part of the book is: "*Of the beauty which the appearance of UTILITY bestows upon all the productions of art, and of the extensive influence of this species of Beauty*" (TMS 179). By utility Smith means usefulness, not the modern economists' idea of satisfaction or utils. Beginning with the most concrete context, he observes a natural tendency for people to buy trinkets that seem beautifully suited for a particular purpose, yet end up being troublesome to maintain and carry about. Such trinkets are "toys" having "frivolous utility" (TMS 180). People buy these trinkets thinking that they will be useful. It is *the appearance* of usefulness that motivates them. In reality they lay out more time and effort acquiring and maintaining these trinkets than they ever receive in terms of ease, usefulness, or time saved in return.

Smith gives a concrete example of how people will do something because of the beauty of its apparent utility rather than its actual usefulness. Suppose you enter a room where the chairs are out of place. Although the "usefulness" of a chair does not usually depend on how the rest of the room is configured, most people would organize the room before sitting down; despite the organization lending next to nothing to the utility of the chair they end up sitting in. People organize the chairs, not so much because it is more useful, but because they find the order of the arrangement pleasing or the disorder displeasing.

Smith thought this point was important and original. Hume had claimed that we admire or enjoy objects based upon how much we could enjoy the results of using them.

We might admire and delight in looking at a large house because we can think of all the uses we could put the rooms to and how spacious it would feel to live there. We value it in the abstract because of how much we would enjoy it in the concrete. But we also value the house simply for its grandeur, magnificence, or beauty.

Smith's point is that the abstract and concrete are only loosely connected. Our imagination of something's usefulness in the abstract, by itself, makes the object attractive. As Rasmussen (2008b:252) notes: "imagination is what leads people to pursue their self-interest, or rather to continue striving to 'better their condition' even when doing so is *contrary* to their (apparent) self-interest. The imagination *overrides* pure self-interest in a way that drives the economy." The usefulness we imagine a certain object, trinket, or career to have will usually be far grander than its real usefulness. Smith uses parallel examples of people buying trinkets, the career choice of the poor man's son, and the policy choices of the man of public spirit to illustrate the difference between the beauty of utility in the imagination versus usefulness in reality.

Some people will, at a steep discount, sell a watch that falls a minute or two behind every day and then go buy an expensive watch that only loses a minute every two weeks. The new watch seems so much more useful and accurate, even beautiful, for its purpose of telling us what time it is. Yet, Smith observes, the man with the newer watch is often no more punctual than he was before. Nor is he necessarily more punctual than others are. His imagination of the order or aptness of the new watch prompts him to buy it, not the real use he gets out of it. This might not be a problem if people recognized and assented that they were buying the new watch because it pleased their imagination, not



because they thought it would make them more timely. The problem arises when people justify their purchase in terms of real usefulness and the object turns out to be far less useful than they had expected.

Smith draws a parallel between how we waste time and effort on trinkets of "frivolous utility" like the watch because they seem beautiful and how some people choose to direct their lives. In drawing this parallel, Smith has moved into a second level of context where there is more at stake and there are more important second and third order effects to consider. He tells a story of the "poor man's son, whom heaven in its anger has visited with ambition" (TMS 181). The son "admires the condition of the rich" and becomes dissatisfied with his current surroundings. He imagines that wealth, and the status that comes with it, will make his life much better. But, Smith says, "to obtain the conveniences which these afford, he submits in the first year, nay in the first month of his application, to more fatigue of body and more uneasiness of mind than he could have suffered through the whole of his live from the want of them" (TMS 181). Smith suggests that the additional costs of pursuing riches for one year are greater than the costs the poor man's son would have had in his whole life if he were not pursuing riches. In his ambitious pursuit, the poor man's son incurs heavy emotional and mental costs that he had not expected. It is as if he bought the large house he had so admired only to discover that he had not considered how much effort he would have to spend maintaining it.

In addition to the unexpectedly high costs of pursuing riches, they are not worth striving for because their usefulness is fleeting and outweighed by the trouble they inevitably bring. Consider again the purchase of a large house. The new owner may

discover that although the house is great for hosting large parties, he is not able to enjoy its size as much as he thought. The rest of the time it may sit almost entirely vacant and useless. In a similar way, the poor man's son "will find [riches] to be in no respect preferable to that humble security and contentment which he had abandoned for it" (TMS 181). The son eventually discovers:

that wealth and greatness are mere trinkets of frivolous utility, no more adapted for procuring ease of body or tranquillity of mind than the tweezer-cases of the lover of toys; and like them too, more troublesome to the person who carries them about with him than all the advantages they can afford him. (TMS 181)

The son views wealth as the "lover of toys" views trinkets. He is enamored with the beauty, aptness, and supposed usefulness of wealth. But like the buyer of the watch, his justification for pursuing wealth rings hollow because it does not deliver the "ease of body or tranquillity of mind" that he expected.

So what are we to think of the poor man's son? Although the son might be deceived in thinking that greater material prosperity will make him happy, Smith argues that this is a useful deception because it encourages industry and the production of benefits for others. The rich man ends up making a general distribution of goods as if the earth had "been divided into equal portions among all its inhabitants" (TMS 185). Such consequences are welcomed by universal benevolence. As Coase observed, Smith often points out how "particular characteristics of human beings which were in various ways disagreeable were accompanied by offsetting social benefits" (Coase 1976:538). Still, besides leaving the actor unhappy, pursuing wealth out of vanity and admiration is

frequently condemned by observers who do not see the beneficial effects of his actions on society.

But should we simply condemn the son's choices as destructive? Should we institute high marginal income taxes to discourage him from pursuing wealth? Smith suggests we ask what effects the son's actions have on others. The son has made a choice that will probably make him less happy in the long run since he has underestimated the costs and overestimated the benefits of gaining wealth and greatness. But something else important is happening.

Besides being deceived by the glamour of riches and power, the poor man's son is affecting other people and society. The deception, Smith claims, "rouses and keeps in continual motion the industry of mankind....which ennoble and embellish human life" (TMS 183). Although admiration of the rich and powerful often corrupts our moral sentiments and leads us to make foolish decisions with regard to our own happiness, it also causes us, at least in commercial societies, to benefit our fellow man and serve universal benevolence. As Smith points out, "The rich....consume little more than the poor [and] though the sole end which they propose...be the gratification of their own vain and insatiable desires....They are led by an invisible hand [to] advance the interest of the society" (TMS 184-185). Hayek says it was Smith's great achievement to recognize that:

a man's efforts will benefit more people, and on the whole satisfy greater needs, when he lets himself be guided by the abstract signals of prices rather than by perceived needs, and that by this method we can best overcome our constitutional ignorance of most of the particular facts, and can make the fullest use of the knowledge of concrete circumstances widely dispersed among millions of individuals. (Hayek 1991:118)

Smith's idea of the invisible hand suggests that it is better to let people be guided by price signals, and the accompanying profit or loss, than to prevent them from doing so—even if people are ambitiously pursuing wealth and greatness in ways that are unlikely to make them happy. It is worth noting that one need not pursue wealth for the same reasons or with the same expectations as the poor man's son. Smith's description of the prudent man, which I discussed in the previous chapter, values increasing one's wealth highly.

Smith continues drawing his parallel in a still more general context: philosophy, politics, and the motivations of statesmen. Just like the lover of toys and the poor man's son, most statesmen are motivated by the beauty or aptness of policies rather than how such policies prove useful to the parties who benefit from them. Smith says that:

The same principle, the same love of system, the same regard to the beauty of order, of art and contrivance, frequently serves to recommend those institutions which tend to promote the public welfare. When a patriot exerts himself for the improvement of any part of the public police, his conduct does not always arise from pure sympathy with the happiness of those who are to reap the benefit of it. It is not commonly from a fellow-feeling with carriers and waggoners that a public-spirited man encourages the mending of high roads. (TMS 185)

A statesman may care far more about the "beauty" or status that comes from having well-kept roads in the country than he does about the farmers, peddlers, and manufacturers who benefit from better roads. He fits the model of the poor man's son—acting on motives other than prudence or beneficence, but advancing universal benevolence nonetheless. Sometimes statesmen can advance universal benevolence indirectly when they pursue "trinkets" of state, provided that their taste in state trinkets coincides with what serves universal benevolence.

We need to recognize the opportunities and constraints facing the poor man's son and the statesmen. If the poor man's son gratified his ambition for riches and power through raping, pillaging, and plundering, I am confident that Smith would not have said "it is well that nature imposes" the deception of wealth and greatness on the greater part of humanity. Outside of commercial societies, such as in the feudal system preceding Smith and the communist systems following him, the ambition of the poor man's son might be bad for society. The benefits of the son's behavior that Smith highlights stem from a system where the son must win the voluntary cooperation of others and, to do so, produce goods and services of value to others in order to become wealthy.

The statesman, however, is not in the same situation. His advancement often comes through doling out favors and satisfying constituencies—not by his own production but by using political power to coerce others. Coase notes that:

Smith allows for a good deal of folly in human behavior. But this does not lead him to advocate an extensive role for government. Politicians and government officials are also men. Private individuals are constrained in their folly because they personally suffer its consequences....[But] men who bankrupt a city or a nation are not necessarily themselves made bankrupt. (Coase 1976:545)

The lack of strict accountability separates political actors from private actors. Private individuals have more accountability in their personal and concrete contexts than statesmen do in their higher more indirect and more abstract context. Politicians and regulators face pressure from voters, lobbyists, and colleagues. The statesman's noble goals may or may not improve society.

But, given Smith's awareness of how easily politics corrupts our moral sentiments, and how politicians often create harmful policies, it is surprising that he only

talks about the statesmen following the model of the poor man's son in this passage. The examples he gives of creating more effective police and improving the roads tend to advance universal benevolence. But what about when statesmen seek to turn their country into the world's leading exporter through tariffs and subsidies? They are still motivated by a desire for greatness, yet their policies will likely create a great deal of harm and injustice. Or statesmen could easily think that a new government building, fancier uniforms, or a new agency, are worth pursuing—even when such things are national "trinkets of frivolous utility" costing far more than they produce. In these cases the trinkets of state that motivate statesmen can have negative indirect consequences.

Another problem Smith raises with statesmen being motivated by the beauty or greatness of projects, is that they will neglect the small and mundane projects. They will try to win applause rather than advance the common good:

The proud minister of an ostentatious court may frequently take pleasure in executing a work of splendor and magnificence, such as a great highway which is frequently seen by the principal nobility, whose applauses, not only flatter his vanity, but even contribute to support his interest at court. But to execute a great number of little works, in which nothing that can be done can make any great appearance, or excite the smallest degree of admiration in any traveler, and which, in short, have nothing to recommend them but their extreme utility, is a business which appears in every respect too mean and paltry to merit the attention of so great a magistrate. Under such an administration, therefore, such works are almost always entirely neglected. (WN 729)

Smith realized that the constitutional or institutional framework of government will influence whether statesmen's trinkets are socially beneficial or socially destructive. The framework will also affect how negligent statesmen can be regarding the interests of the public.

Smith suggests that some natural harmony between noble goals and universal benevolence exists. But that harmony has a lot to do with the limits and powers of government. As James Buchanan (1984) famously wrote, we need politics without romance. It may be that when government can only perform a few functions, the statesman's pursuit of public policy trinkets may be mostly beneficial, or at least benign. But as the scope of government grows, there may be many more situations under which these trinkets lead to misery and ruin—as the monuments of kings, tyrants, and dictators can attest. The problem of destructive choices by statesmen is related both to the framework of government and to the level of context. They often make decisions at the highest level of context where there is no concrete impartial spectator and where moral corruption is far more common. Political intervention usually moves issues from low levels of concrete personal contexts to higher levels of context. The final chapter examines Smith's views of politics and moral corruption at greater length.

### **3.4 Three Levels of Context: Microcosm to Macrocosm**

This section explores three levels of contexts ranging from microcosm to macrocosm. Although there is a continuum from low levels of context to higher ones, the parallels that Smith uses, and some of the criteria I use to distinguish one context from another, allow us to talk about three distinct levels. Table 1 illustrates how Smith's parallel examples fit into these levels of context:

**Table 1: Smith's Parallel Contexts – trinkets, the poor man's son, and the public-spirited man (TMS 179-187)**

<p><b><u>1<sup>st</sup> level of context: “trinkets of frivolous utility”</u></b></p> <p>“What pleases these lovers of toys is not so much the utility, as the aptness of the machines which are fitted to promote it.”</p>	<p>“tweezer-cases”  “toys”  “tooth-pick”  “ear-picker”  “baubles...of which the whole utility is certainly not worth the fatigue of bearing the burden”</p>
<p><b><u>2<sup>nd</sup> level of context: the “poor man's son”</u></b></p> <p>“wealth and greatness are mere trinkets of frivolous utility”</p> <p>“Power and riches...are, enormous and operose machines...ready every moment to burst into pieces, and to crush in their ruins their unfortunate possessor.”</p>	<p>“visited with ambition”  “admires the condition of the rich”  “fancies he should be lodged more at his ease in a palace”  “judges, that a numerous retinue of servants would save him from a great deal of trouble”  “it is well that nature imposes...this deception which rouses and keeps in continual motion the industry of mankind”  “The rich only select from the heap what is most precious and agreeable. They consume little more than the poor...though the sole end which they propose...be the gratification of their own vain and insatiable desires....<i>They are led by an invisible hand</i>...and thus without intending it, without knowing it, advance the interest of the society”</p>
<p><b><u>3<sup>rd</sup> level of context: the “public-spirited man”</u></b></p> <p>“It is not commonly from a fellow-feeling with carriers and waggons that a public-spirited man encourages the mending of high roads....The perfection of police, the extension of trade and manufactures, are noble and magnificent objects.”</p>	<p>“The same principle...frequently serves to recommend those institutions which tend to promote the public welfare.”  “When a patriot exerts himself for the improvement of any part of the public police, his conduct does not always arise from pure sympathy with the happiness of those who are to reap the benefit of it.”</p>

**1<sup>st</sup> Level of Context**

The first and most concrete level of context involves individual actions in concrete settings. At this level our natural sympathy generally contributes to social harmony because we have learned to judge well through countless observations and



judgments. We live most of our lives in the first level of context—so we have a lot of experience and have received extensive feedback about our own actions and judgments. Our natural sympathy is further strengthened in this context because we can easily define and appeal to an impartial spectator.

Making good judgments in the first level of context rarely requires reflection on indirect consequences. Smith's moral theory is strongest and clearest when the context is defined, specific, and limited to a small number of individuals. Our knowledge is most comprehensive in these circumstances. The first level of context is not solely about physical proximity. It also includes relational or “affective” nearness as well as historical or cultural nearness (Forman-Barzilai 2005). But even here our moral sentiments can be corrupted by self-deception or by our admiration for the rich and powerful. The following example of a dispute with a homeowner's association illustrates how self-deception can be a problem, even at the lowest level of context.

Suppose that John is a member of the architectural committee of my homeowner's association (HOA). He is responsible for assessing whether all of the townhomes meet certain maintenance standards. Suppose also that John has given me a citation because the paint on my shutters is chipped. I dispute how badly the paint is chipped and whether I should have to repaint the shutters in order to meet the architectural committee's standards. Rather than going into practical and legal questions, I want to consider how John and I may be thinking about the dispute.

John had to make a decision about whether the chipped paint was worth writing a citation over. As a homeowner he realizes that painting the shutters is a hassle. He would

not want to do it if he were in my position. At the same time, however, he has a responsibility to the homeowner's association to assess whether people are taking care of their homes. If he never wrote any citations simply because they inconvenience people, he would not be fulfilling his obligations to the HOA. He has to balance being unreasonably strict and being unreasonably lax, largely according to how an impartial spectator would see it.

I, on the other hand, can sympathize with John's responsibility to the HOA. He should not refuse to write citations simply because people do not want to expend time and energy fixing problems. Yet I may still disagree with him about whether the citation in my case is too strict. Is the paint really chipped that badly? This situation lends itself to self-deceit, both on my part and on John's part—though I will argue my situation is far more liable to self-deceit.

Regarding the paint, John says it is chipped and that I should repaint it. I agree that it is chipped but disagree that I need to repaint it now. At some point, if the paint were to get even more chipped, I agree that I should repaint it. But for now, I argue, it is in a limited area that is not very visible. To require me to repaint the shutters solely for that limited area seems overly strict to me. I come to that decision even after considering John's perspective and situation. My man in the breast tells me that an impartial spectator would judge John's claim to be overly strict and thereby does not obligate me to repaint.

There are two ways in which I might be deceiving myself. First, I may be downplaying the severity of the chipped paint because it is in my interest to do so. I do not want to spend thirty dollars and a few hours of labor to fix what seems like such a

trivial problem. My perspective of the severity of the problem and John's perspective are different. If each of us acts in good faith and enters into the other's situation by imagination, our perspectives of the problem will move closer to each other. But there is no reason to expect them to coincide. In fact, the distance between them can remain great if I give a false report to my man in the breast about how badly the paint is chipped or about how costly it is to comply.

Another area of self-deceit could involve me downplaying how much my judgment is affected by my interests. Sure, I may realize that I should not be absolved from all responsibility for the upkeep of my house simply because I do not want to spend time or money doing so. That would clearly be an unreasonable position that no impartial spectator could go along with. But I might think that I have compensated for how my interests affect my judgment when I really have not. And I am no longer aware that my interests are unduly influencing my perception of the problem and whether I should have to remedy it.

John, of course, may have problems of self-deception too. He may take his role on the architectural committee too zealously. He may feel self-important from it or feel like issuing strict citations is a matter of justice rather than a matter of "loose, vague, and indeterminate" judgments. Although architectural committee standards are written in some detail, their interpretation and their enforcement involve judgment calls. If John represents the situation to his man in the breast as an issue of justice when it is actually loose, vague, and indeterminate, he will form an incorrect judgment. If he only considers

how an impartial spectator would judge the situation as a matter of justice, he will be far stricter than propriety warrants.

There are many ways this dispute could be resolved—illustrating that it is not a precise matter of justice. John's consistency in his assessments, the tone and method of my disagreement, and the expectations or norms of people in the community will all shape an impartial spectator's judgments of the situation. Even though self-deception can be present, the concrete details of the dispute and the wide array of impartial spectators give us ample resources to resolve the dispute. As we move to higher levels of context, however, these resources begin to disappear.

### **2<sup>nd</sup> Level of Context**

Instead of judging a single action or dispute, at a higher level of context we are evaluating lifestyles, organizations, or institutions. Smith's parable about the poor man's son illustrates the different facets of context necessary for good judgment. Although Smith criticizes the poor man's son's behavior as vain and self-destructive, the son's actions have other important beneficial effects. So we do not want to restrain him through laws, or perhaps even through private censure.

But suppose we are trying to decide whether to build a prison or a palace. Smith argues that a prison is clearly more useful to society than a palace. Assuming it is only used to restrain those who harm others, the effects of a prison advance universal benevolence. Yet most people prefer palaces to prisons. They prefer them because palaces are pleasant to look upon and because it is more enjoyable to imagine how the

inhabitants of a palace live than it is to imagine the misery and deprivation of prison inmates. Smith summarizes the issue nicely:

[I]t is the immediate, and not the remote effects of objects which render them agreeable or disagreeable to the imagination. A prison is certainly more useful to the public than a palace; and the person who founds the one is generally directed by a much juster spirit of patriotism, than he who builds the other. But the immediate effects of a prison, the confinement of the wretches shut up in it, are disagreeable; and the imagination either does not take time to trace out the remote ones, or sees them at too great a distance to be much affected by them. A prison, therefore, will always be a disagreeable object; and the fitter it is for the purpose for which it was intended, it will be the more so. A palace, on the contrary, will always be agreeable; yet its remote effects may often be inconvenient to the public. It may serve to promote luxury, and set the example of the dissolution of manners. Its immediate effects, however, the conveniency, the pleasure, and the gaiety of the people who live in it, being all agreeable, and suggesting to the imagination a thousand agreeable ideas, that faculty generally rests upon them, and seldom goes further in tracing its more distant consequences. (TMS 35)

Smith contrasts "immediate" with "remote" effects as well as near and "more distant" consequences. There is tension here and a possibility for poor judgments to be rendered because indirect effects are not considered or are not given their proper weight.

When deciding whether to build a palace or a prison there are many issues to consider. How much will it cost? Who will benefit? How might it affect a given area of the city? We could ask many other questions too. But who is to decide these questions? Although we can imagine a real spectator who could weigh these questions impartially, we are unlikely to find him in reality. Instead, we generally appeal to experts. What do politicians say? The police commissioner? The royal family? We also begin moving into the realm of complex and conflicting values. Do we appreciate splendor? How important is beauty? How important is order? What should we do with criminals?

It is interesting that Smith claims "a much juster spirit of patriotism" for the person building prisons than for the person building palaces. He does not explain why the wise statesmen would see the prison as superior to the palace. Perhaps he is suggesting that not all statesmen do but only those with a "juster spirit of patriotism." But that means that some people, citizens or statesmen who do not have this "juster spirit," may choose trinkets of state, such as palaces, that do not advance universal benevolence. One wonders why he did not discuss this possibility in TMS when he was drawing parallels between trinkets of frivolous utility, the poor man's son, and the man of public spirit.

Smith suggests that sometimes the invisible hand uses vulgar motives to advance universal benevolence. As Coase again observes: "The great advantage of the market is that it is able to use the strength of self-interest to offset the weakness and partiality of benevolence, so that those who are unknown, unattractive, or unimportant, will have their wants served" (Coase 1976:544). Just as ambition for wealth leads to productive activity, and the desire of the rich to be served supplies the livelihood of many, statesmen seeking glory or grandeur may also benefit their fellow man without intending it. In seeking noble projects to make their country great, they may create something useful too. Of course, they might not benefit their fellow man if they pursue dazzling trinkets like palaces rather than useful ones like prisons. But the question we need to consider is: How should we judge complex macrocosms?

### **3<sup>rd</sup> Level of Context**

Macrocosms, by their very nature, require greater abstraction and reflection even to comprehend, let alone to judge well. How should nations be governed? What are

governments trying to achieve? How should they go about doing it? Although these big questions can be broken into many smaller ones focusing on concrete situations, people still need to filter these questions through an overarching framework or worldview about politics and morals. Because the phenomena of a "just government" or a "good society" are so abstract and complex, there can be no literal impartial spectator—meaning there is no person who can stand outside of the phenomenon being judged and view it as a whole. Such a spectator would need to have knowledge that is only accessible to God. Since we do not have access to such knowledge, we must construct our own characterization of the ideal impartial spectator. But the process of construction cannot itself be impartial. Our values and beliefs will influence how we perceive impartiality and how we interpret the facts at hand.

Because forming our ideal impartial spectator in the abstract is so difficult, most people turn to exemplars and experts. While I might appeal to Milton Friedman or Friedrich Hayek for how to deal with and judge some problem, you might appeal to Paul Samuelson or John Maynard Keynes. Unfortunately, such behavior is susceptible to faction and fanaticism. We have a problem in political discourse not only of two opposing views, but of two opposing groups that we self-select into based upon our political views. As we try to construct an ideal impartial spectator, all the real spectators around us are partial. Is it any surprise that political discussions are usually so heated and divisive?

Smith repeatedly contrasts political actors and private citizens in both TMS and WN. He notes that: "Every man, as the Stoics 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" (TMS 219). Unlike politicians or bureaucrats, private individuals and families have a substantial interest in their own circumstances. Political actors can never be experts in Joe the way that Joe can be an expert in himself. Smith highlights both a knowledge and an incentive problem for political actors dealing with issues in the highest level of context. Just as "physical proximity will improve the preciseness" of a bystander's knowledge of a situation, "distance will diminish it" (Forman-Barzilai 2005:199). Furthermore, besides having less accurate and specific knowledge, even political actors' benevolent intentions will often be distorted by faction and fanaticism because of the absence of truly impartial spectators.

But besides distorting people's natural sympathy, higher levels of context also weaken it. Physical distance, of course, is not the only dimension that weakens sympathy. So do familial, cultural, and historical ties. Coase interprets Smith as saying that:

as we go beyond the family, to friends, neighbours and colleagues, and then to others who are none of these, the force of benevolence becomes weaker the more remote and the more casual the connection. And when we come to foreigners or members of other sects or groups with interests which are thought to be opposed to ours, we find not simply the absence of benevolence but malevolence. (Coase 1976:534).

One of the passages in Smith that Coase was drawing from is the following:

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. They are naturally and usually the persons upon whose happiness or misery his conduct must have the greatest influence. He is more habituated to sympathize 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 people. It approaches nearer, in short, to what he feels for himself. (TMS 219)



"Habituated" sympathy is an important characteristic of the lowest level of context. My knowledge of my son's discomfort, though not as accurate or direct as his own knowledge, is still better than the knowledge that some bureaucrat or stranger has, or even could have, about my son's suffering. I am better at feeling and imagining how my son feels than they are because I am closer relationally and have made a habit of sympathizing with him.

Smith also strongly condemns government intervention in labor markets, in part, because of the problems of poor knowledge and perverse incentives. Besides violating the laborer's "most sacred and inviolable" property (WN 138), who is fitter to judge whether or not to hire someone than the employer? Yet labor restrictions, such as minimum wage laws, workplace safety requirements, health care mandates, limits on working hours, etc., take many decisions from the lowest level of context between the employer and employee to higher contexts of political actors, lobbyists, and other interest groups. Smith writes:

To judge whether he is fit to be employed, may surely be trusted to the discretion of the employers whose interest it so much concerns. The affected anxiety of the law-giver lest they should employ an improper person, is evidently as impertinent as it is oppressive. (WN 138)

Interest makes the employer the best judge of whether or not to employ someone, not some government official. The law-giver has an "affected" or pretended anxiety over the issue; though the matter hardly affects him directly. He has no skin in the game, which dramatically reduces his incentives to make good decisions (Coase 1976; Taleb and Sandis 2014).

Table 2 summarizes many of the characteristics of the continuum from 1st level contexts to 3rd level contexts; from considering microcosms to considering macrocosms.

**Table 2: Characteristics of Different Levels of Context**

<u>Level of context</u>	<u>Individual's experience</u>	<u>Impartial Spectator</u>	<u>Examples</u>	<u>How we judge</u>	<u>Quality of our moral sentiments and our judgments</u>
<b>1<sup>st</sup> Level</b>  Everyday interactions	<b>Primarily Direct</b>  Judging <i>microcosms</i> ; such as a dispute between two people	Concrete, literal impartial spectators	Trinkets  Minor disputes	“Habituated to sympathize”  Sympathy “more precise and determinate”	People judge well because of: <ul style="list-style-type: none"> <li>• Extensive practice</li> <li>• Accurate knowledge</li> <li>• Presence of literal impartial spectators</li> </ul>
<b>2<sup>nd</sup> Level</b>  Lifestyles, habits, careers; institutions, traditions	<b>Direct and Indirect</b>  Judging whether something promotes universal benevolence	More abstract impartial spectator but still tied to literal impartial spectators	Ambition of the poor man's son  Palace vs. Prison	Aptness of an action towards its end. How indirect effects contribute to universal benevolence	People judge less well because: <ul style="list-style-type: none"> <li>• Indirect effects warrant less natural sympathy</li> <li>• They need to construct an abstract impartial spectator with few literal examples to draw from</li> </ul>
<b>3<sup>rd</sup> Level</b>  Political Issues  Philosophical Systems	<b>Primarily Indirect</b>  Judging whether <i>macrocosms</i> promote universal benevolence	Constructed impartial spectator drawn from exemplars and experience, not literal impartial spectators	Opulence of a nation  System of Government	Appeal to a “constructed” impartial spectator  Beauty and grandeur of a system or order	People judge badly because: <ul style="list-style-type: none"> <li>• They have no direct experience of the issue</li> <li>• They need to construct an abstract impartial spectator with only literal partial spectators</li> </ul>

But Smith's examples oversimplify the problem by tacitly assuming an impartial spectator's view of universal benevolence. For example, do we really know that a prison advances universal benevolence better than a palace does? Arguing about third level of context issues may yield some productive conversation but on the whole it is extremely limited. While we might be able to agree about the vast majority of the actions and disputes in the most concrete contexts, in the most general contexts we might only agree

about a small minority of issues. It seems reasonable to infer that agreement will be easier to reach among smaller more homogenous societies than in large diverse ones.

This has a number of important implications. Firstly, these levels of context support arguments made by Buchanan and Tullock (1962) that agreement at the most general level of society—the constitutional level—is extremely difficult to achieve. Small homogenous populations have a much easier time agreeing about political and social systems. These small uniform societies constitute what Leeson (2014) calls "the easy case" for spontaneous voluntary coordination and governance.

Secondly, centralization leads to increasing size and diversity of the population being governed. Public policy issues must be debated at higher levels of context involving more people, opinions, and interests—leading inevitably to disagreement and conflict. That is why world governance organizations, such as the International Monetary Fund, the World Bank, the Bank for International Settlements, or the United Nations are highly unlikely to solve global problems. They may even exacerbate them (Easterly 2001, 2006; Coyne 2013).

Despite the difficulty of judging macrocosms, Smith's philosophy can still be of use. Rather than giving us the "right answer" to public policy questions, Smith offers guidelines for the process of answering those questions. Humility and moderation become more important when deliberating about questions and topics at the highest level of context. Besides acknowledging one's own fallibility, Smith argues that we should not push our agenda too strongly, even when we are right, because other people simply may

not be able to go along with it. In contrast to his condemnation of the man of system, Smith praises the man of public spirit saying:

The man whose public spirit is prompted altogether by humanity and benevolence, will respect the established powers and privileges even of individuals, and still more those of the great orders and societies, into which the state is divided....When he cannot conquer the rooted prejudices of the people by reason and persuasion, he will not attempt to subdue them by force....He will accommodate, as well as he can, his public arrangements to the confirmed habits and prejudices of the people. (TMS 233)

Smith emphasizes persuasion over force. He also suggests accommodating the "habits and prejudices of the people," whether they are healthy or not. His description of public spirit might be the key to understanding why Smith did not advocate complete laissez faire and why he allowed many exceptions to "perfect liberty" in *The Wealth of Nations* (Clark 2010; Klein & Clark 2010; Mueller 2014b). Not everyone can accept perfect liberty and "forcing" it upon them might be harmful.

The most important remedy for problems at this highest level of context is to move disputes to a lower level of context. Since increasing size and centralization reduce the quality of judgments and of governance, devolving or decentralizing government authority will lead to greater agreement on policy issues. This idea underlies many arguments for federalism and what Elinor Ostrom (2010) called "polycentric" governance. If the federal government does not have an education policy or department, there will be little need for national agreement on the issue. The same goes for drug policy, agricultural policy, housing and urban development, and several other federal departments. Taking these issues out of the political arena altogether may reduce faction and fanaticism even further.

### 3.5 Smith's Advocacy of Decentralization

If the efficacy of Smith's system of moral judgment depends on the level of context, as I have argued it does, we should not be surprised to see him advocating moving decisions or issues from high levels of context to lower ones. We see just that tendency in several passages in *The Wealth of Nations* and in *The Theory of Moral Sentiments*. Smith advocates decentralization into lower levels of decision-making because individuals make better decisions regarding their own welfare than bureaucrats or politicians do. Smith discusses the practical considerations involved in a particular context like accountability and local knowledge. He argues that greater accountability and knowledge will exist if public works like canals, harbors, and schools are run at the local level, not nationally, and are financed principally by user fees.

Smith thought local parishes should be responsible for providing schools and that even poor parents should still pay some fee to send their children to school. Although not everyone in society can be educated to the same degree, Smith argued for a minimum level of education provided by:

establishing in every parish or district a little school, where children may be taught for a reward so moderate, that even a common labourer may afford it; the master being partly, but not wholly paid by the publick; because if he was wholly, or even principally paid by it, he would soon learn to neglect his business. (WN 785)

Accountability changes with something as simple as who writes the teacher's paycheck. It is worth emphasizing, contrary to Left Smithian interpretations, that Smith thought teachers' salaries *should not* be principally paid by taxation. The government subsidy he allows for education is clearly minor.

Smith talks about how well Scotland's parish school system increased literacy, writing, and accounting. The schools in Scotland were not supported by national tax revenue but by the fees of the students along with minor subsidies from local tax revenues. But he concludes that although the cost of education might,

without injustice, be defrayed by the general contribution of the whole society. This expence, however, might perhaps with equal propriety, and even with some advantage, be defrayed altogether by those who receive the immediate benefit of such education and instruction, or by the voluntary contribution of those who think they have occasion for either the one or the other. (WN 815)

The voluntary market provision of education is ideal. For something so important, a little decentralized government encouragement is not blameworthy in Smith's eyes, though it is also far from necessary or ideal. He argues later in Book V that taxes, as well as public works, should be specific and decentralized (WN 825-828).

Public works should be paid for by those who use them because they have an interest in keeping costs low and benefits high. Without a tight connection between costs and benefits, resources are likely to be wasted or to be taken from those who do not receive any benefit from the public good (Buchanan & Tullock 1962; Friedman 2009).

Smith's clear preference for decentralization hinges on accountability. He argues that:

The abuses which sometime creep into the local and provincial administration of a local and provincial revenue, how enormous soever they may appear, are in reality, however, almost always very trifling, in comparison of those which commonly take place in the administration and expenditure of the revenue of a great empire. They are, besides, much more easily corrected. (WN 731)

Besides limiting the scale of corruption and abuse, local management allows problems to be fixed more easily. They are easier to fix because they are on a smaller scale—meaning

fewer interest groups to oppose reform. It is also much easier to uncover the root of a problem in a local context.

Smith says "it seems scarce possible to invent a more equitable way of maintaining" roads, canals, bridges, and harbors than by directly charging those who use them (WN 725). He does not advocate using national revenues for any of these projects because the "greater part of publick works may easily be so managed, as to afford a particular revenue sufficient for defraying their own expence" (WN 724). Most public works should be able to pay for themselves if they are truly worthwhile. But for those public works that do not lend themselves to collecting tolls Smith says:

Even those publick works which...cannot afford any revenue for maintaining themselves, but of which the conveniency is nearly confined to some particular place or district, are always better maintained by a local or provincial revenue, under the management of a local or provincial administration, than by the general revenue of the state, of which the executive power must always have the management. (WN 730)

In these passages he clearly argues that decentralized local administration was superior to centralized administration.

Smith extends this general argument to specifically talking about how London's streets are lit, paved, and maintained. It is not from general revenue but from local taxes. Although these are not directly fee-based, like toll roads or canals might be, the funding is still local. The context remains fairly concrete and specific, allowing for greater accountability. He asks, "Were the streets of London to be lighted and paved at the expence of the treasury, is there any probability that they would be so well lighted and paved as they are at present, or even at so small an expence" (WN 730-731)? The implied answer to his rhetorical question is clearly: No, there is very little probability. If the

national treasury were to provide such funding, taxes would have to be levied "upon all the inhabitants of the kingdom, of whom the greater part derive no sort of benefit from the lighting and paving of the streets of London" (WN 731). One might add, "who also know nothing of how well or poorly such streets are maintained and whether the money was used efficiently." Smith's descriptions suggest that accountability and judgment are much better at low levels of concrete context.

Consider also Smith's description of the man of system who believes that he knows what is best for society and can use the power of the state to make his ideal (imaginary) system into reality:

The man of system, on the contrary, is apt to be very wise in his own conceit; and is often so enamoured with the supposed beauty of his own ideal plan of government, that he cannot suffer the smallest deviation from any part of it....He seems to imagine that he can arrange the different members of a great society with as much ease as the hand arranges the different pieces upon the chess-board. He does not consider that the pieces upon the chess-board have no other principle of motion besides that which the hand impresses upon them; but that, in the great chess-board of human society, every single piece has a principle of motion of its own, altogether different from that which the legislature might chuse to impress upon it...If they are opposite or different, the game will go on miserably, and the society must be at all times in the highest degree of disorder. (TMS 233-234)

The man of system operates at the highest level of context as he seeks to use government power to impose his system on others. Such hubris will cause the game of society to go on "miserably" and "in the highest degree of disorder" if it conflicts with people's goals.

Smith's language describing the man of system reveals the problem of lacking good knowledge and the perspective of a literal impartial spectator. The man of system thinks he is "very wise" but he is not really wise, he is only conceited. He is "enamoured"



by his "ideal plan" and he "imagines" that he can "arrange" society however he wishes. The language used here resembles Smith's description of trinkets and the ambition of the poor man's son. Besides ignoring the motives, desires, and goals of individuals, the man of system has the illusion of knowledge and a corrupted moral sense. He falls prey to both self-deception and appealing to a partial spectator. The corruption of his moral sense comes in large part because he is acting in the highest level of context.

The declining quality of judgment as issues move to higher levels of context support devolution, decentralization, and degovernmentalization whenever possible. As Paganelli notes, Smith thought the damage of anti-social, morally corrupt behavior could be minimized by localizing "the area of effect as much as possible. The more decentralized a system is, the less danger it faces" (Paganelli 2006:208). These ideas give Smith a moral defense of classical liberalism. They add to his strong economic arguments in favor of liberty and further support his strong endorsement of natural liberty in *The Wealth of Nations*:

All systems either of preference or of restraint, therefore, being thus completely taken away, the obvious and simple system of natural liberty establishes itself of its own accord. Every man, as long as he does not violate the laws of justice, is left perfectly free to pursue his own interest his own way, and to bring both his industry and capital into competition with those of any other man, or order of men. The sovereign is completely discharged from a duty, in attempting to perform which he must always be exposed to innumerable delusions, and for the proper performance of which no human wisdom or knowledge could ever be sufficient; the duty of superintending the industry of private people, and of directing it towards the employments most suitable to the interest of the society. (WN 687-688)

The sovereign faces "innumerable delusions" in his attempt to direct his citizens' lives because he has no concrete impartial spectator to appeal to. He also lacks the knowledge

necessary to deal with macrocosms well. In other words, the sovereign generally operates at the highest level of context, while individuals operate at the lowest level of context.

Smith is quite clear about who we can expect to make better decisions.

### **3.6 Conclusion: What Smith's Moral Theory Can and Cannot Do**

The three levels of context explored in this paper improve our understanding of Smith's moral and political philosophy. At the lowest level of context, natural sympathy works remarkably well in leading people to more or less harmonious judgments. But as the context becomes more general, natural sympathy becomes less effective for two reasons. First, it becomes more difficult to discover the relevant direct and indirect effects of what we are judging. But even more importantly, we have no real impartial spectator for our man within the breast to appeal to. We are left to construct our own impartial spectators—ones that often end up looking like our exemplars and role models.

Because of these problems, it is difficult to reach harmonious judgments about macrocosms—especially as larger numbers of increasingly diverse people are involved. Our moral sentiments are far more likely to be corrupted by faction and fanaticism in this highest level of context. Without an impartial spectator, we are left with partial ones. Our judgments are measured against those we agree with and admire. But is this where Smith's moral theory ends? Are we left without resources to address these intractable problems? Although it may seem that way at first glance, there are lessons from Smith that can alleviate this corruption.

One lesson is that moving issues from high levels of context to lower levels will improve people's judgment. That could mean letting local communities run schools,

harbors, roads, or health services rather than national governments. Decentralization reduces the scope of the issue and the number of people who must agree about it.

Degovernmentalizing issues altogether is even better because each man knows his own business, circumstances, and interests best. When issues are taken outside of the political sphere it becomes far less important that people agree or render similar judgments on an issue. Faction and fanaticism decline because people can make opposite decisions on issues without having to fight over a universal rule that everyone must follow.

His support for decentralization and degovernmentalization explains why Smith has been considered a major advocate of laissez faire. Yet such a characterization is not entirely accurate because Smith allowed many exceptions to natural liberty in *The Wealth of Nations*. He had a presumption, rather than an inflexible doctrine, of liberty. He realized, as the man of public spirit does, that he should not impose his system of natural liberty in its entirety because not everyone can go along with it. Political issues at this highest level of context are inherently "loose, vague, and indeterminate." So despite Smith's strong opinions on decentralization, degovernmentalization, and natural liberty, he exercised humility in how adamantly he advocated his position and was willing to allow exceptions for the status quo. He was taking his own advice about dealing with macrocosms and higher levels of context.

In Smith's philosophy the impartial spectator can improve our judgments at the highest level of context. This time, however, we are not appealing to such a spectator for whether our policy views are correct or not. As argued earlier, such an impartial spectator does not exist. Instead, we look for an impartial spectator to judge how we form our

policy views, how we argue them, and how we treat opposing views. Are we doing so in a proper and praiseworthy way or in an improper and blameworthy way? Honesty and openness are preferred to intrigue and indirection: "Frankness and openness conciliate confidence....Reserve and concealment, on the contrary, call forth diffidence" (TMS 337). Smith's impartial spectator procedure is powerful because in addition to evaluating our policy views (albeit only in imagination), he or she can help us judge the process by which we form our views and how we judge the views of others. We thereby moderate our passions, exercise restraint, consider others' views sincerely, and present ourselves with greater candor.

## CHAPTER FOUR: ADAM SMITH, POLITICS, AND NATURAL LIBERTY

### 4.1 The Debate

There is a lively debate over how much Adam Smith thought that government intervention was a good and natural aspect of civil society. The traditional view claims that he strongly favored free markets, free trade, and limited government. But just how strongly he favored these positions is the subject of debate. There is a strong current of revisionist interpretations of Smith, initially led by Winch (1978), and snowballing in the last couple of decades (Evensky 1989, 2005; Peil 1989; Brown 1994; Rothschild 2001; Fleischacker 2004; Brubaker 2006; Kennedy 2005, 2008; Rasmussen 2008a). These revisionists, or Left Smithians, mock the “traditional” view for caricaturing Smith as a dogmatic advocate of complete *laissez-faire*. But rarely do they name just who it is that advocates such a caricature.

The debate is longstanding and covers a host of issues. I will briefly remark on a few dimensions of the debate. In particular, I will elaborate the traditional view as it has actually been advocated by classical liberal scholars. The rest of the paper builds on this long tradition of classical liberal interpretation of Adam Smith in order to address a particular puzzle in the recent debate: how did Smith think about political actors? Did he treat them any differently than he treated ordinary citizens, particularly with regard to their knowledge or motives?

As I mentioned before, the traditional view attacked by Left Smithians is a straw man. They suggest that those who hold the traditional view believe that there are no conflicts of personal economic interests in a *laissez faire* society (Winch 1978; Evensky

1989; Rasmussen 2008a). Or they suggest that the traditional view rules out government providing for defense, enforcing contracts, or providing public works (Butler 2007; Peil 1989; Rothschild 2001). The traditional interpretation of Smith, Left Smithians maintain, thought that markets brought perfect harmony without any flaws, dangers, or problems except those introduced by government policy itself (Winch 1978; Rasmussen 2008a). If this was an accurate depiction of the dominant traditional view, then they are right to criticize it.

But who actually holds such an extreme view? The name that surfaces most frequently is George Stigler. His article “Smith’s Travels on the Ship of State” suggests that Smith at least should have supported *laissez faire* and been quite skeptical of government intervention because he founds his whole philosophical system on the “granite of self-interest” (Stigler 1971). Stigler and the Chicago school interpretation of Smith seem to be the primary targets of Left Smithian disdain. Evensky doubts that Smith fits within the Chicago school of economics, known for its *laissez faire* views, which in addition to Stigler includes Milton Friedman, Gary Becker, and Ronald Coase. Evensky argues that the “Kirkcaldy Smith” is quite different from the “Chicago Smith” (Evensky 2005:245-264).

On its face, their criticism of this straw man has some merit. Even James Buchanan claimed that: “A returned Adam Smith would be a long distance from the modern libertarian anarchists, and even from the espousal of the minimal state described by Robert Nozick” (1979:117-118). Evensky may be right in condemning Stigler’s conclusion that Smith was primarily interested in “economic man.” But other members of

the Chicago school disagree with Stigler's conclusion too! Coase says that it is wrong to think that:

Adam Smith had as his view of man an abstraction, an "economic man," rationally pursuing his self-interest in a single-minded way. Adam Smith would not have thought it sensible to treat man as a rational utility-maximiser. He thinks of man as he actually is—dominated, it is true, by self-love but not without some concern for others....realization that his thought has a much broader foundation than is commonly assumed makes his argument for economic freedom more powerful and his conclusions more persuasive. (Coase 1976: 545-546)

The traditional view recognizes that besides strongly supporting free trade, free markets, and limited government, Smith had his reservations and exceptions to the simple system of natural liberty. Coase's argument that Smith supported economic freedom *despite* human ignorance and imperfection, has frequently been made by classical liberal scholars. One problem with the revisionist interpretation is that it fails to address the rich historical traditional interpretation.

Jacob Viner's famous paper on "Adam Smith and Laissez Faire" made at least two important arguments. First, Smith was not completely laissez faire. He made many exceptions, which Viner catalogues in great detail, to his system of natural liberty.

Second, despite all of Smith's exceptions to liberty, Viner still concludes that:

There is no possible room for doubt, however, that Smith in general believed there was, to say the least, a strong presumption against government intervention beyond its fundamental duties of protection against its foreign foes and maintenance of justice.

He uses the idea of a "presumption" of liberty to talk about Smith's political views. Such a view surfaces repeatedly in classical liberal interpretations of Smith and will be a critical part of the argument made in this chapter.

Dugald Stewart, one of Smith's students, was a prominent Scottish intellectual himself and left an impressive legacy of students who went into government, industry, and academics. Because of his influence on so many students, much of Smith's reputation came from how Stewart represented him in classes and conversations. Stewart gave an *Account of the Life and Writings of Adam Smith LLD* in 1793. This work begins the traditional classical liberal interpretation of Smith. It is in this account of Smith's life that we hear the claim that "peace, easy taxes, and a tolerable administration of justice" is all that is needed for a kingdom to rise from the lowest barbarism to the highest state of opulence. Very little government planning involved.

Frederic Maitland, a renowned British legal historian, claims that Smith advocated liberty and limited government. Besides being the first systematic book on political economy, *The Wealth of Nations* "is also the first powerful plea for commercial freedom" (Maitland 2000:127). He also maintains that the "main argument of the *Wealth of Nations* remains to this day a valid reason for leaving trade free, and the main argument is that interference only makes bad worse" (Maitland 2000:133). Although many people think the primary defense of laissez faire is the harmony between individuals' economic interests, Smith did not put too much stock in this defense. Problems, corruption, and conflict can arise out of individuals' economic interests—even in a free society. Instead, Smith's defense of commercial society against government interference comes primarily through his criticisms of government:

The most convincing pleas for laissez faire...are those which insist a priori on the great 'probable error' of any opinions on matters...of political economy, and those which relate a posteriori the history of the well-intentioned failures of wise and good men. (Maitland 2000:135)



Smith's skepticism of government intervention is rooted in the fact that political actors generally have limited, incomplete, or simply false knowledge about what effects their policies will have on society.

E. G. West claims that Smith had a strong presumption of liberty (1996:38-56) and so we should think of Smith's exceptions to a complete system of liberty as failures or compromises: "Smithian exceptions to laissez-faire might better be regarded at most as failures of the ideal to be realized" (West 1996:52). In contrast to J. S. Mill, Smith thought liberty meant freedom to pursue one's interests and to act according to one's plans "as long as he does not violate the laws of justice." Mill had suggested that men should have liberty "except where 'harm to others' may be prevented." West (1996:53) concludes, rightly, that the "wording of Smith's condition is clearly the tighter and less likely to provide loopholes for ambitious, arrogant and ideological legislators." This supports his claim that Smith had a strong presumption of liberty that sets him apart from later social liberals like Mill or Keynes.

Francis Hirst describes a theme in Smith's works that Klein and Clark (2010) call "direct versus overall liberty." According to Hirst, the "so-called exceptions or limitations" Smith makes regarding retaliatory or defensive tariffs were not ideal or wealth-enhancing. They only made sense as "a measure of defence" for "reason led him by every road to a complete system of liberty as the true end of commercial policy" (Hirst 1904:191, 196). Smith's "exceptions" were a matter of expediency; such as determining whether it is better, or perhaps more politically feasible, to reduce tariffs gradually rather than immediately. It is a question of "what manner...trade ought gradually to be opened;

what are the restraints which ought first, and what are those which ought last to be taken away; or in what manner the natural system of perfect liberty and justice ought gradually to be restored” (WN 606). Left Smithians often mistake Smith’s moderation towards reforming government for diffidence towards liberty and free markets (Clark 2010).

Smith claims that although laying a bounty on corn may reduce its price, “Upon the whole, therefore, it is by far the best police to leave things to their natural course, and allow no bounties, nor impose taxes on commodities” (LJB 499). It is better because of the many unintended consequences such an interference with the market will have. It will raise rents, increase the cost of feed—which increases the cost of livestock. So meat from the butcher will be more expensive. And as horses become more expensive to maintain, transportation will become more expensive too—raising the price of nearly every other kind of good.

Hirst also argues that political liberty was more important to Smith than economic efficiency. And he is not alone in arguing such an idea (Buchanan 1979; West 1996; Maitland 2000; Cropsey 2001:67; Rasmussen 2008a:137). But Hirst applies this insight to an interesting observation about Smith’s literal politics. Smith never supported Shelburne or Pitt, even though they strongly advocated the free trade he had written about so clearly. Smith “never allowed economical considerations to weigh in the scale with political liberty; and the clue to his distrust of Shelburne and Pitt is his dislike of the King as a corrupter of politics, and of the Court as a corrupter of morals” (Hirst 1904:222). Instead, Smith supported “Rockingham, Fox, and Burke [who] sought manfully, and not unsuccessfully, so to maintain and glorify constitutional usages as to check and limit the

power of the King” (Hirst 1904:222). Here is evidence that Smith cared about constitutional questions and about the rule of law—not simply increasing economic efficiency. Of course, he did not think the two had to be in conflict, but Hirst’s point is that Smith was not willing to compromise on the political issues to support a single economic issue.

Alan Macfarlane describes the real traditional view, in contrast to the straw man view, when he points out:

It is often alleged that Smith advocated a weak state. This is a half-truth. In fact what he suggested was that the State should both be strong, as a defence against sectional interests, but also not interfere too much. Ideally the State should be like a referee or umpire - able to punish or even expel, but not actually involved in the everyday contests and exchanges that led to wealth creation. (Macfarlane 2000:119)

The issue is not exactly over the strength of the state, but rather over the scope and extent of its influence. For enforcing contracts and protecting the borders, a strong state fits the system of natural liberty quite well. If the state was unable to do those things, commercial society would not be sustainable: “Thus Smith realized that the duties were ‘of great importance’, but they were specific and limited” (Macfarlane 2000:120). The important word here is “limited.” One of the goals of the Left Smithians’ seems to be to open the door to the idea that Smith may have favored all kinds of social legislation if he were alive today.

Joseph Cropsey, despite being well-aware of Smith’s reservations about commercial society, says that Smith was a whole-hearted advocate of commercial society. He defends the traditional view of Smith, but with liberty and freedom being the justification for having commercial society, not vice versa. Cropsey claims that Smith’s

discussions of the state of nature versus the state of civil society led him to advocate: “civilization, which implies not merely the distinction of polity and society but the subordination of the former to the latter, and the general reduction of ‘polity’ to the service of ‘society’ for the sake of ‘civilization’” (Cropsey 2001:67). Smith advocated capitalism for the sake of freedom, not vice versa. Furthermore, Smith subordinated the state to the interests of society. As Jeff Young (2000) puts it, Smith’s work is actually “anti-political economy” in the sense that Smith does not want government to actively manage or promote economic growth.

Cropsey further claims that Smith thought justice was special. Ethics studies all of the virtues except justice; jurisprudence and government are the arena of justice. And so social arrangements should be based upon “justice and rights” because of “the impossibility of benevolence and duty as the principles of social life” (Cropsey 2001:34). Yet he also distances himself from the straw man view, claiming that “Smith was not the dogmatist that some advocates of laissez-faire were later to become” (Cropsey 2001:141).

Other contributors to the traditional view include J. R. McCulloch, William Scott, and Henry Brougham. Some of these older contributors were more laissez faire than Smith himself, and perhaps read greater support for such a system into his works than was warranted. Still, they highlighted the many ways in which Smith advocates free markets and criticizes governments. There are also quite a few modern defenders of the traditional view (Minowitz 1993; Young 2000, 2005; Otteson 2002; Smith 2006; Paganelli 2006, 2011; Clark 2010; Lucas 2011; Klein 2012, 2013). Many of their ideas and contributions to the current debate will be explored throughout the rest of this

chapter. The puzzle being addressed has to do with how Smith portrays politicians and government intervention.

Left Smithians argue that he did not oppose government intervention on principle. He realized that there were bad politicians but: “Smith’s many comments on the evil and folly of politicians and legislators were no more a condemnation of government than his many criticisms of merchants were a condemnation of commerce” (Muller 1995:203). Although Muller himself would disagree with many Left Smithian policy ideas, they use the idea he expresses to claim that Smith would have readily accepted, and even advocated, many forms of government intervention today like unemployment insurance, universal healthcare, mandatory schooling, the minimum wage, and other social policies.

But advocates of the traditional view argue many more passages from Smith's major works suggest that he did not view government actors or government intervention as being particularly benevolent. Instead, they claim that Smith thought that government laws, on the whole, were at best a necessary evil because they encroached upon his ideal of the “obvious and simple system of natural liberty.”

The tension between these two interpretations of Smith can be seen in the pages of *The Wealth of Nations*. Smith frequently criticizes government intervention because it prevents self-interested individuals from coordinating themselves as they are “led by an invisible hand” (WN 456). He argues in favor of the “obvious and simple system of natural liberty” and “the inviolable sacred right of property” (WN 687, 138). Yet, as Left Smithians have pointed out, in the same book Smith claims that government intervention can improve the market by restraining the excesses of private greed and acquisitiveness

as well as by providing public works (Rothschild 2001; Kennedy 2005, 2008; Brubaker 2006; Long 2006).

As I have mentioned, some revisionist and some traditional Smithian scholars have taken this tension too far in opposite directions. One extreme view on the traditional end of the spectrum interprets *The Wealth of Nations* as arguing that narrow self-interest, directed towards advancing one's material ends, almost always promotes social cooperation and prosperity (Stigler 1971; West 1996). The motive of self-interest is sufficient for studying social phenomena. On the left they claim that Smith thought self-interest was a necessary evil that needed to be restrained while sympathy, benevolence, and generosity were more important human motivations (Brown 1994, Rothschild 2001, Brubaker 2006). But many advocates on both the left and the right agree that Smith wholeheartedly supported some government interventions and thought that political actors were often benevolent. For Stigler, Smith's support of benevolent statesmen and beneficial government intervention contradicts his premise that all men are self-interested and that self-interest in markets naturally leads to good outcomes. Rothschild and others use Smith's defense of government intervention to argue that Smith may not have been as pro-liberty and anti-government as the traditional view claims.

I argue that neither of these views is quite right because both are based on a misconception of how and why Smith defends certain government interventions. They have overlooked two critical elements in Smith's works: his distrust of political decision-making and his presumption of liberty. Although Smith was skeptical that political actors had enough benevolence or wisdom to interfere beneficially in citizens' lives in most

cases, he concedes that the safety and wellbeing of society justify some violations of individual liberty by government policy.

In the next section I elaborate the tension between Smith's presumption of liberty and his exceptions to liberty, where he supports some form of government intervention. I also offer a brief overview of how many Smithian scholars have tried to resolve this tension. Then I argue in section three that Smith was skeptical of politics and political action because he believed that politics promotes faction and fanaticism which corrupt individuals' morals. Furthermore, Smith claimed that politicians and bureaucrats have little incentive to care for the poor and even less knowledge of how to do so effectively. The idea of presuming liberty as the default fits Smith's claims about what government should and should not do. Besides looking at what Smith said, developing this presumption of liberty requires that we evaluate *how* Smith said things and perhaps what he left unsaid. Smith's exceptions are consistent with both his presumption of liberty and his skepticism of politics and government intervention. I conclude with remarks about the relevance of Smith's politics and his presumption of liberty today.

## **4.2 A Popular Misconception**

Although hundreds of books and articles have been written about Adam Smith, most put insufficient weight on his descriptions of politicians, bureaucrats, and political decision-making in WN and TMS. The literature most closely related to this topic integrates Smith's thought across his works and across disciplines including philosophy, history, political theory, and economics. Yet even these works tend to address either Smith's various policy prescriptions or his moral philosophy. This chapter tries to

reconcile how Smith could have been a strong advocate for liberty while simultaneously defending many violations of liberty in the form of government intervention. Stigler frames the problem beautifully when he asks:

How could [Smith] have failed to see the self-interest written upon the faces of politicians and constituencies? The man who denied the state the capacity to conduct almost any business save the postal—how could he give the sovereign the power of extirpating cowardice in the citizenry? How so, Professor Smith? (1971:174)

Could it be that Smith analyzed market behavior using the idea of narrow self-interest, yet simply assumed benevolence in the realm of politics?

Several Left Smithians have taken up Stigler's question and resolved the conflict by arguing that Smith was not as narrowly focused on self-interest as Stigler suggests. Rothschild (2001), for example, argues that Smith was primarily concerned about greed and acquisitiveness as well as about the plight of the poor. Brubaker extends this claim by arguing that Smith was not opposed to government intervention per se but only to bad government policies; a sentiment echoed by Kennedy and Rasmussen. In fact, Brubaker argues, Smith saw many examples of self-interest in markets creating conflicts and injustice. Therefore, self-interest must be ameliorated by wise government policy in order for natural liberty to flourish (Brubaker 2006:198-199). Rasmussen (2008b:250), commenting on Mehta (2006), says that self-interest “plays a nuanced and complicated role in [Smith’s] writings, and that it is just one of a whole range of human motivations.” According to these scholars, self-interest is only one of many human motivations, and certainly not the best.



Of course Smith scholars on the right do not accept that interpretation of Smith and counter that he was staunchly in favor of markets and liberty. Otteson (2002) argues that Smith saw markets as promoting beneficial orders through self-interested exchange; not only in economics but in language and morals too. Liberty, and the protection of rights, were essential to Smith's arguments. If government limits itself to protecting that liberty, prosperity and human happiness will take care of themselves.

In an underappreciated article, West (1979) argues that Stigler makes the mistake of not taking into account the various dimensions of politics, of which there are three: "the economics of the preconstitutional stage of society, the economics of constitution making, and the economics of postconstitutional politics" (West 1979:132). The problem, as West sees it, is that Stigler accuses Smith of having a naïve economics of postconstitutional politics when Smith was actually talking about the economics of constitution making. In this regard, Smith treated statesmen as *relatively* independent of the special-interest lobbying that characterizes politics today.

Paganelli (2006) takes a slightly different approach to Smith's defense of natural liberty. She argues that Smith was more concerned about reducing imperfections and creating a 'robust' system than he was about creating a perfect system. Therefore he favored liberty and markets where people motivated by self-interest naturally tend to help one another and have limited ability to do harm. That is important because there is an asymmetry between how much better off and how much worse off people can be made. People can be made significantly worse off but only marginally better off (TMS 45).

Smith worried that on top of this natural asymmetry, government officials have a much greater ability to do harm than to do good.

Some scholars attempt to take the middle ground between arguing that liberty was most important to Smith and that liberty was relatively unimportant to him. Viner (1927) catalogues the many exceptions to liberty in *The Wealth of Nations*. He calls Smith “the great eclectic” and praises him for promoting markets while also recognizing useful and important roles for government. But Viner ultimately puts Smith squarely in the pro-liberty camp. Muller (1995) makes the case that Smith was less pro-liberty than the traditional view but more pro-liberty than the revisionist view. Similarly, Kennedy (2005, 2008) argues that in light of these exceptions to liberty, and the clear mandates that Smith gives to the state, he cannot be totally laissez faire. Although he agrees that Smith did not solely advocate self-interest in markets (Kennedy 2008:162, 245-249), Kennedy argues contra Rothschild and Brubaker that natural liberty free from government intervention is important to Smith and that Smith recommends government intervention hesitantly.

But even Kennedy's position, for all its merit, fails to adequately address Stigler's question. He never resolves the tension between government intervention and natural liberty except to claim that “Utility, not principle, was [Smith's] stance” (Kennedy 2008:232)—as if utility was not itself a principle. But even assuming that Kennedy meant a particular principle, we are still not any closer to resolving the puzzle of how Smith thought about, and justified, government intervention.

And we have good reason to doubt that utility was Smith's principle. Buchanan says that modern interpreters of Smith often “overlook the noneconomic, or, more

generally, the nonutilitarian foundations for the ‘natural system of perfect liberty and justice’” (Buchanan 1979:123-124). He also argues that Smith weighed government intervention in terms of natural liberty and justice. Smith’s exceptions nearly all “coincide surprisingly with...a careful and sophisticated application of externality analysis” (Buchanan 1979:122). His exceptions to natural liberty were usually meant to prevent harm, such as party walls, bank note restrictions, and even aspects of education.

That scholars disagree over what Smith thought about government intervention is not surprising. Smith was a thoughtful, complex, and nuanced writer and anyone can find something in his works to support their position (Viner 1927:126; Brown 1994). In a letter to his publisher about revisions to TMS, he wrote: "I am a slow a very slow workman, who do and undo everything I write at least half a dozen times before I can be tolerably pleased with it" (Corr. 311). Yet the misconception that Smith looked favorably on government intervention and attributed altruistic motives to government actors does not come primarily from scholars taking Smith out of context. In *The Wealth of Nations* Smith claims that government should intervene in education, banking, national defense, and public works such as roads, canals, and harbors (WN 758-789, 324 & 437, 464 & 689, 723-731; see Viner 1927:220-231 and Kennedy 2008:247-248). Furthermore, Smith condemns greed and the selfish pursuit of profit at the expense of others (TMS 50, 150, 181; WN 62-63, 339, 350, 421). A reasonable case can be made that he thought government intervention could be benign. I argue, however, that such a case is mistaken.

### **4.3 Smith's Skepticism of Politics and Government Intervention**

Skepticism of politics is the exact opposite of viewing government as benevolent and benign. Demonstrating that Smith was skeptical of both the motives and the abilities of political actors will refute the misconception held by Stigler and others. The most revealing passages of Smith's skepticism of government can be found in TMS. He talks about how faction and fanaticism corrupt people's moral sentiments. He also describes justice and virtues in a particular way that generally defends liberty. His political skepticism fits well with his praise of liberty, justice, markets, and private enterprise. Furthermore, his understanding of self-interest implies that individuals are naturally the best judges and caretakers of themselves, their families, and their communities (TMS 82, 219, 227; WN 343, 540).

In TMS, Smith builds much of his system of morals on the idea of an impartial spectator who judges our feelings, actions, and motivations. By considering his views, people moderate their passions, uphold propriety, and act in a more controlled and socially beneficial manner. Faction and fanaticism, however, distort or corrupt our idea of an impartial spectator. Smith writes that, "Of all the corrupters of moral sentiments, therefore, faction and fanaticism have always been by far the greatest" (TMS 156). After dividing into factions, people begin to imagine that the impartial spectator is like their fellow partisans who are not, in fact, impartial. Fanaticism for a cause, by stoking people's passions, will increase self-deception where people ignore or discount the views of an impartial spectator. As I argued in the previous chapter, the level of context will make the problem of faction and fanaticism more or less severe.

Political issues fall in the highest context where these problems are most severe. That is why faction and fanaticism are two major hallmarks of politics. Political decision-making creates divisive interests which stoke people's passions (fanaticism) and promotes party ideology and partiality (faction). How could Smith not be concerned about politics when it naturally involves faction and fanaticism, which in turn promote corruption, self-deception, and arrogance? Indeed, he is concerned about the corruption in politics and how the political system tends to attract ruthless and corrupt leaders (TMS 155-156, 233).

The moral corruption caused by faction and fanaticism can be seen most clearly in “the furious zealots” and their political leaders. People caught up in faction and fanaticism tend to reject anyone advocating moderation, patience, or compromise. Men of sober judgment, rare as they are, will not be respected or influential in such an environment:

In a nation distracted by faction, there are, no doubt, always a few, though commonly but a very few, who preserve their judgment untainted by the general contagion. They seldom amount to more than, here and there, a solitary individual, without any influence, excluded, by his own candour, from the confidence of either party, and who, though he may be one of the wisest, is necessarily, upon that very account, one of the most insignificant men in society. All such people are held in contempt and derision, frequently in detestation, by the furious zealots of both parties. (TMS 155)

Besides relegating wise and prudent men to the sidelines, faction promotes “party-men” who are ideologically extreme and unwilling to compromise. Not only that, the party-man suspects anyone who does not have views as extreme as his own:

A true party-man hates and despises candour; and, in reality, there is no vice which could so effectually disqualify him for the trade of party-man as that single virtue. The real, revered, and impartial spectator, therefore, is, upon no occasion, at a greater distance than amidst the violence and rage of contending parties. (TMS 155-156)

Smith describes the impartial spectator as being at a great distance from those who are part of contending parties. And since people's sense of morality comes from considering the views of the impartial spectator, their moral sentiments are less reliable.

Besides leaders being unwilling to compromise and despising candor, political power tends to attract men motivated by ambition with few inhibitions or scruples:

Candidates for fortune too frequently abandon the paths of virtue...In many governments the candidates for the highest stations are above the law; and, if they can attain the object of their ambition, they have no fear of being called to account for the means by which they acquired it. They often endeavour, therefore, not only by fraud and falsehood, the ordinary and vulgar arts of intrigue and cabal; but sometimes by the perpetration of the most enormous crimes. (TMS 64-65)

Although Smith's accusation of politicians committing "enormous crimes" may not fit most politicians, it certainly fits some. Richard Nixon comes to mind but there are certainly many others (Rod Blagojevich, Kwame Kilpatrick, etc.). Smith's description of ambition in politics is similar to Hayek's argument about "why the worst get on top" (2007 [1944]: 157-170). In the game of politics the most ruthless individuals, like Stalin, Hitler, or Mao, tend to become the rulers.

In one of the most famous passages in *The Theory of Moral Sentiments*, Smith writes about the man of system who imagines that he can implement his plans and schemes without regard for the interests or opposition of others:

The man of system, on the contrary, is apt to be very wise in his own conceit; and is often so enamoured with the supposed beauty of his own ideal plan of government, that he cannot suffer the smallest deviation from any part of it. He goes on to establish it completely and in all its parts without any regard either to the great interests, or to the strong prejudices which may oppose it. He seems to imagine that he can arrange the different members of a great society with as much ease as the hand

arranges the different pieces upon the chess-board. He does not consider that the pieces upon the chess-board have no other principle of motion besides that which the hand impresses upon them; but that, in the great chess-board of human society, every single piece has a principle of motion of its own, altogether different from that which the legislature might chuse to impress upon it. If those two principles coincide and act in the same direction, the game of human society will go on easily and harmoniously, and is very likely to be happy and successful. If they are opposite or different, the game will go on miserably, and the society must be at all times in the highest degree of disorder. (233-234)

The man of system exists in a political context. He wants to impose his own system on other people using the coercive power of government. For the reasons expressed above, these men of system are the natural product of the fanaticism in political factions. But Smith says that this natural product of politics will cause the game of society to go on “miserably” and “in the highest degree of disorder” if it opposes people's goals. What better example of moral corruption and non-altruistic motives in politics can there be?

The men of system and party leaders are so convinced of the merits of their ideal system that they are willing to overturn existing institutions and commit the most enormous violations of propriety and justice to implement it. Smith says that:

[T]hough management and persuasion are always the easiest and the safest instruments of government, as force and violence are the worst and most dangerous, yet such, it seems, is the natural insolence of man, that he almost always disdains to use the good instrument, except when he cannot or dare not use the bad one. (WN 799)

Such passages reveal Smith's doubts, and even distaste, for politics, not his naiveté.

Besides his concern about moral corruption in politics, Smith also generally opposed collective action because of the poor incentives and knowledge that bureaucrats have. Bureaucrats face the same incentive problem as the Oxford professors of Smith's time did. In cases where a teacher is prohibited from receiving fees directly from his

students, “His interest is, in this case set as directly in opposition to his duty as it is possible to set it” (WN 760). So much so, in fact, that at Oxford “the greater part of the publick professors have...given up altogether even the pretence of teaching” (WN 761). The problem, according to Smith, is that “what those lectures shall be, must still depend upon the diligence of the teacher; and that diligence is likely to be proportioned to the motives which he has for exerting it” (WN 761). But because the professors are not compensated based upon how well they teach their students, they have little motivation to work hard at it and do a good job.

Bureaucrats in government are in much the same position when it comes to helping the poor or maintaining public goods. Smith writes:

It is the highest impertinence and presumption, therefore, in kings and ministers, to pretend to watch over the economy of private people, and to restrain their expense either by sumptuary laws, or by prohibiting the importation of foreign luxuries. They are themselves always, and without exception, the greatest spendthrifts in the society. Let them look well after their own expence, and they may safely trust private people with theirs.  
(WN 346)

Personal responsibility, with both the means and knowledge of providing for the weak or indigent, is found in the exchange and interests of individual citizens, not government officials.

As I highlighted in the last chapter, Smith was a strong advocate of decentralization for the same reason of aligning incentives and improving knowledge and accountability. He argued that toll roads, harbors, and canals should be funded and run as locally as possible. The streets of London were better paved and lit because of local control rather than being provided by the national government. Smith's advocacy of



primary schools also follows this pattern of decentralization and incentive compatibility. He suggests that schools be set up and funded by local parishes. And they should charge students a modest fee which forms a significant part of the teacher's salary to keep him accountable for providing useful services. It was also a matter of justice for Smith that those who benefit from some publicly-provided good, like roads or schools, also bear a significant portion of the cost as well.

Smith's broader notions of justice, beyond simply having those who benefit from publicly provided goods pay for them, also support his political skepticism. In TMS he describes several types of justice: commutative, distributive, and estimative. But Smith argues that commutative justice is the most important and necessary for society:

We are said to do justice to our neighbour when we abstain from doing him a positive harm, and do not directly hurt him, either in his person, or in his estate, or in his reputation. This is that justice which I have treated of above, the observance of which may be extorted by force, and the violation of which exposes to punishment...the word coincides with what Aristotle and the Schoolmen call commutative justice. (TMS 269)

Commutative justice is largely negative. It involves abstaining from directly harming another in his person or his property. That means that "We may often fulfill all the rules of justice by sitting still and doing nothing" (TMS 82). Commutative justice also entails fulfilling contracts and following through on one's business or legal obligations.

The rules of commutative justice, such as not stealing another's property or harming him, are crucial because justice:

is the main pillar that upholds the whole edifice. If it is removed, the great, the immense fabric of human society, that fabric which to raise and support seems in this world, if I may say so, to have been the peculiar and darling care of Nature, must in a moment crumble into atoms. (TMS 86)

He calls commutative justice the pillar on which society rests. Such a stance casts a troubling shadow over political policies that are justified on the merits of social responsibility or cost-benefit analysis, yet violate commutative justice. Although benevolence is good and important, it is not as essential as justice: “Beneficence, therefore, is less essential to the existence of society than justice. Society may subsist, though not in the most comfortable state, without beneficence; but the prevalence of injustice must utterly destroy it” (TMS 86). Smith prioritizes justice over beneficence for a reason. He would not advocate policies that violate justice at the drop of a hat or because the benefits outweigh the costs. That is necessary but by no means sufficient.

Those who know TMS might object that the demands of commutative justice apply to private citizens, not to governments. That is to say, it applies in the relationship between equals, but not in the relationship between the superior and the inferior. Yet the primary role of government is to protect its citizens from injustice. This important passage has been used by Left Smithians to show that Smith was not opposed to government intervention in principle. But it should be noted that only exceptional cases warrant the government to go beyond the maxim of commutative justice:

A superior may, indeed, sometimes, with universal approbation, oblige those under his jurisdiction to behave, in this respect, with a certain degree of propriety to one another. The laws of all civilized nations oblige parents to maintain their children, and children to maintain their parents, and impose upon men other duties of beneficence. The civil magistrate is entrusted with the power not only of preserving the public peace by restraining injustice, but of promoting the prosperity of the commonwealth, by establishing good discipline, and by discouraging every sort of vice and impropriety; he may prescribe rules, therefore, which not only prohibit mutual injuries among fellow-citizens, but command mutual good offices to a certain degree. When the sovereign commands what is merely indifferent, and what, antecedent to his orders,

might have been omitted without any blame, it becomes not only blamable but punishable to disobey him. When he commands, therefore, what, antecedent to any such order, could not have been omitted without the greatest blame, it surely becomes much more punishable to be wanting in obedience. Of all the duties of a law-giver, however, this, perhaps, is that which it requires the greatest delicacy and reserve to execute with propriety and judgment. To neglect it altogether exposes the commonwealth to many gross disorders and shocking enormities, and to push it too far is destructive of all liberty, security, and justice. (TMS 81)

That passage is hard to interpret because on the one hand, Smith says that civil magistrates can "prescribe rules" that "command mutual good offices" above and beyond simply respecting others' person and property. These rules that go beyond commutative justice can even receive "universal approbation." This hardly sounds like someone who wants a minimalist night watchman state; or even like someone who is highly suspicious of the motives and efficacy of government action. On the other hand, Smith introduces a number of qualifications and warnings too.

He says the superior may "sometimes" make these rules. That a superior can command certain "good offices" beyond commutative justice "to some degree." And what is most important for our purposes, Smith says that these rules require the highest degree of "delicacy and reserve" to implement. To push them too far will undermine the very pillar of society: commutative justice, resulting in the destruction of "liberty, security, and justice." Given these qualifications, I think Smith is suggesting that there may be good cause for a government to violate the rights of its citizens on some occasions.

So to answer Stigler's first question: Smith did not doubt self-interest in political actors. He was talking about ideal government policy, which many people were unaware

of at the time. Politicians are not automatons and can choose to act against their economic interests. But, as Stigler justly notes, relying primarily on people's beneficence to act against their economic interests day after day is bound to leave one disappointed. Smith recognized this, and he despaired of ever getting his total system of free trade implemented because of the mercantile interests blocking it.

But why, then, would Smith advocate any government interventions given his political skepticism? Even though commutative justice, that pillar of society, is critically important, so are prosperity and morality. Smith understood that there are tradeoffs and that sometimes governments may be justified in intervening in order to promote morality or prosperity. But such intervention should be limited because it can destroy "liberty, security, and justice." Government intervention, beyond the enforcement of commutative justice, cannot be justified simply on the grounds that it expresses the General Will of the people. Smith puts a high burden of proof on government policy that contravenes liberty. That burden of proof forms the heart of Smith's presumption of liberty, the larger the intervention, the greater the burden of proof.

#### **4.4 A Presumption of Liberty**

Obviously I am not the first to note or argue that liberty was important to Adam Smith. Besides all of the classical liberal contributors to the traditional view, Kennedy (2008:146) has written that Smith "favored liberty, pure and simple" while Otteson (2002:279) suggests that the system of liberty was Smith's "ultimate preference." The term "presumption of liberty" has been identified and discussed by Viner (1927), Clark (2010), Klein & Clark (2010), and Klein (2012). Smith's presumption of liberty flows

naturally from his skepticism of politics and government intervention. He often explicitly argues that men should be left free from the coercion of others and the coercion of government. Despite the exceptions to liberty I have highlighted in the previous sections, Smith has several striking passages defending it.

In one passage Smith writes about a "simple system of natural liberty" that is both natural and productive. It allows men (and women) to make their own decisions about how to use their labor and their capital. They can freely compete with one another and pursue their own interests. He says that:

All systems of preference or restraint, therefore, being thus completely taken away, the obvious and simple system of natural liberty establishes itself of its own accord. Every man, as long as he does not violate the laws of justice, is left perfectly free to pursue his own interest his own way, and to bring both his industry and capital into competition with those of any other man, or order of men. The sovereign is completely discharged from a duty, in the attempting to perform which he must always be exposed to innumerable delusions, and for the proper performance of which no human wisdom or knowledge could ever be sufficient. (WN 687)

Not only is this system of liberty natural and self-establishing, it also relieves government of duties that the government could rarely do well. The sovereign would "be exposed to innumerable delusions" if he tried to decide how other people should deploy their capital and their labor.

In a similar vein, Smith has been quoted by Dugald Stewart as having written: "Little else is requisite to carry a state to the highest degree of opulence from the lowest barbarism, but peace, easy taxes, and a tolerable administration of justice; all the rest being brought about by the natural course of things" (EPS 322.25). Keeping the peace and easy taxes are important for individuals to form plans and be willing to take risks in

committing their labor and capital to production. But notice Smith's emphasis on justice again. Justice, particularly commutative justice, figures prominently in both of Smith's published works as well as in the notes we have of his lectures and in his correspondence. Liberty is the positive flip side of commutative justice. Where people refrain from harming others or taking others' stuff (commutative justice), those other people have the liberty to do with their lives and their property as they see fit.

Jeffrey Young (2005) presents an interesting alternative argument for how we should interpret Smith's many exceptions to perfect liberty. He argues that Smith had competing goals in mind that had to be weighed against each other. First, commutative justice should be the default state of affairs as it is the "pillar" of civil society. Departures from, or violations of, commutative justice are exceptions rather than the norm. But two other important goals Smith used to decide whether government intervention was warranted or not were: "distributive equity" and "public utility." He uses these two considerations to explain the harsh punishment for a sentinel who falls asleep on his watch, for restrictions on the rate of interest and the issuance of banknotes, and for the provision of education. Young's arguments are not entirely at odds with direct versus overall liberty or with the idea that Smith presumed liberty. But he does not emphasize Smith's commitment to liberty enough.

Because men have a natural "propensity to truck, barter, and exchange one thing for another," they will naturally trade with one another and cooperate in order to promote prosperity and human wellbeing (WN 25). The enforcement of commutative justice allows them to do so. Smith repeatedly attacks government interference in citizens' lives

because it reduces their liberty and destroys their systems of exchange. He condemns the parish laws for how they harm the poor and lead to bribery and corruption (WN 152-157). He describes *The Wealth of Nations* as "the very violent attack I had made upon the whole commercial system of Great Britain" (Corr. 251). He explains at length why various apprenticeship laws harm consumers as well as those who would like to enter the protected profession but are unable to given these government restrictions (WN 135-140). And, of course, he condemned most every form of tariff or bounty in international trade.

The principle of natural liberty could not have left Smith indifferent to whether government engaged in one activity or another. So Kennedy's description of Smith viewing public policy pragmatically seems to miss an important part of the story:

Smith's legacy, however, leaves room for an extension of state-funded and possibly state-managed interventions, such as in health expenditures that he ever so lightly touched upon (WN 787-8). Smith in all such discussions would ask today's generations to answer 'To what ends are your proposed extensions of state funding aimed?' and 'could they be undertaken or managed a different way by private organisations?' The Smithian guiding measure, as always, would be 'what worked' and not abstract 'principle'...not whether it expanded or contracted the boundaries between private versus public sectors. (Kennedy 2008:250)

Was Smith concerned about practicality? Yes. Was he concerned about human well-being? Most assuredly. Does that mean that he would advocate a government program as long as it benefited more people than it harmed and was not something that could be done by private individuals? I doubt it. The burden of proof for government intervention is more demanding than that.

Even the oft quoted section about conspiratorial merchants plotting against the public demonstrates Smith's presumption of liberty:

People of the same trade seldom meet together, even for merriment and diversion, but the conversation ends in a conspiracy against the publick, or in some contrivance to raise prices. It is impossible indeed to prevent such meetings, by any law which either could be executed, or would be consistent with liberty and justice. But though the law cannot hinder people of the same trade from sometimes assembling together, it ought to do nothing to facilitate such assemblies; much less to render them necessary...A regulation which enables those of the same trade to tax themselves in order to provide for their poor, their sick, their widows, and orphans, by giving them a common interest to manage, renders such assemblies necessary. (WN 145)

Here we have Smith talking about the "conspiracy" of businessmen of the same trade to raise prices. Yet he says that the government should not regulate these businesses—even for the laudable end of helping them care for their poor, sick, widows, and orphans!

Why? Because such regulation gives these businessmen a reason to meet together. The regulation can promote moral corruption by encouraging faction among merchants, tradesmen, or business owners. Those factions reinforce the political process by creating special interests that will lobby to restrain trade.

Liberty mattered a great deal to Smith and he did not treat violations of it lightly. It is a mistake to believe that he was diffident about government intervention. He makes clear that even justified government intervention still violates his ideal system of liberty (WN 324). But since Smith had a presumption of liberty, rather than an inviolable rule, he was willing to accept government interventions that satisfied a high burden of proof. Classical liberals and modern liberals may disagree in their assessment of whether any particular intervention meets Smith's burden of proof without denying that, at least for Smith, there was a burden of proof to be met. Yet there is a big difference between allowing governments, particularly local ones, to punish parents who do not take care of



their children or perform other basic duties, and the national government instituting mandatory retirement or medical transfer programs.

#### **4.5 What About Exceptions to Liberty? Squaring the Circle**

That Smith recommended government policies beyond the simple protection of negative liberty and the enforcement of commutative justice is beyond dispute. Viner (1927) and Kennedy (2005, 2008) have both documented extensive exceptions to what they call *laissez faire*, or the system of complete individual liberty and minimal government. Viner argues that although “Adam Smith was not a doctrinaire advocate of *laissez faire*,” he had a “strong presumption” against government intervention (Viner 1927:231, 219). Smith, therefore, should still be read as a proponent of liberty. Kennedy, on the other hand, suggests that although liberty was important to Smith, he would still support any government policy where the benefits outweigh the costs, no matter by how little, and where private citizens could not be expected to take care of the issue. The following analysis attempts to elaborate Smith's principles rather than attribute his exceptions to liberty, as Viner does, to “eclecticism.”

Kennedy, in his arguments against Smith supporting *laissez faire*, discusses three major exceptions to liberty in *The Wealth of Nations*: banking, education, and restrictions on trade (Kennedy 2008:162-165, 233-235, 190-195). In banking, Smith recommends limitations on issuing low-denomination currency to prevent fraud and restrictions on usury to prevent credit rationing (not unlike Stiglitz and Weiss 1981). For education, he claims that Smith argues that government should subsidize, and even impose, basic levels

of education. Finally, Smith promotes restraint of trade in circumstances of emergency (prohibiting corn exportation) or national defense (Navigation Acts).

A system of natural liberty does not mean that there is no role for positive or proactive government. All of these policies can be justified either in that they promote public order, maintain civil society, or simply accommodate the status quo. Governments can do more than provide for national defense and the protection of individual rights. But they need to justify their policies with regard to public order, civil society, or accommodating the status quo. That justification requires more than a material cost-benefit analysis. It also needs a strong public interest component that justifies the violation of justice.

The navigation acts, for example, violate liberty and reduce prosperity. But they strengthen national defense. Providing education for the public may prevent them from violating justice individually or collectively in the future. It also contributes to the well-being, and perhaps even the productivity, of society. But Smith is careful to point out why there should not be a national education system. Finally, Smith defends banking regulations, usury laws, and restrictions on exporting corn in times of emergency as means to prevent greater injustice from occurring due to abuses by private parties. Classical liberals may disagree with whether these policies do what Smith suggests they do (e. g. Bentham's (2008) criticism of Smith for supporting usury laws); yet his reasoning for why these restrictions of liberty would remain valid.

Another point that Left Smithians frequently make is that Smith cannot be a staunch advocate of free markets because of his low opinion of merchants and

businessmen. Sowell claims that “no one was more scathing in his denunciations of businessmen than Adam Smith – not even Karl Marx” (Sowell 1979:3). Smith talks about “the mean rapacity, the monopolizing spirit of merchants and manufacturers” and the “spirit of monopoly” that led to protectionist policies that harm the poor and protect wealthy businessmen (WN 493).

But to think that Smith’s scathing criticisms of merchants and manufacturers is evidence of his skepticism that markets should be left free and unhindered by government interventions is to make a simple but crucial mistake: conflating pro-market with pro-business. One can be pro-market without being pro-business; and Smith is a good example. Attacking the traditional view by pointing out Smith’s criticisms of merchants and businessmen is a red herring. What matters is freedom from government restraint.

Another question we should ask is: if Smith was such a supporter of natural liberty, why did he not support a laissez faire system of total natural liberty with minimal government intervention in its entirety as some of his counterparts in France did? The answer is twofold. First, Smith genuinely thought that self-interest in markets could lead to bad outcomes in some circumstances because of human imperfection. There are several corrupters of people’s moral sentiments, as I explained in the previous chapter. Smith understood that markets depend upon trust, civility, and some level of virtue, as well as upon the legal and cultural rules of the game. In legal matters government has an important, and at times proactive, role to play. The second reason Smith would not advocate laissez faire, even if he believed it to be correct, was his intellectual humility.

In TMS Smith criticizes the “man of system” and the fundamentalist for their unwillingness to compromise, their selfishness, and their pride. Kennedy argues that Smith was not a man of system. He was ever the compromiser—trying to persuade people by degrees rather than simply hammering them with his arguments. Smith also seemed to be concerned about his reputation. Near the end of his life he writes to his publisher about how he is not sure whether he will be able to finish any new works before dying. Smith then says, “the best thing, I think, I can do is leave those [works] I have already published in the best and most perfect state behind me” (Corr. 311). Another example of Smith's concern with his reputation was his unwillingness to publish Hume's controversial *Dialogues Concerning Natural Religion* (Corr. 194-196).

Smith also modifies a story Hume told him about asking Charon to let Hume live a few more years until he could see “the churches shut up, and the Clergy sent about their business” (Corr. 204). Smith conveys instead that Hume wanted to live until he could see “the downfall of some of the prevailing systems of superstition” (Corr. 219). So it is not a large stretch to think that propriety, which Smith praises so highly, would not allow him to argue stridently for complete *laissez faire*, even if he had been entirely in favor of it.

Yet it seems implausible that Smith supported perfect *laissez faire*, even in private. McCloskey (2008) argues that Smith was a “virtue ethicist”—meaning that he thought morality consisted of the interaction and tradeoffs between many virtues. That is consistent with Smith's criticism of Epicurus (and others) for engaging in a certain propensity to reduce all morality or action down to a single principle (TMS 299.14). No single virtue could monopolize or trump the rest. Similarly, no principle of political

economy could claim unchallenged preeminence in any and every situation: “One of the chief attractions of Adam Smith as a philosopher is the fact that he generally eschews universal, exceptionless claims” (Otteson 2008:304). Even the “sacred inviolable” right of property would have to give way before compelling public needs and dangers. But this does not mean that liberty was unimportant to Smith, or even that it was less important than any other principle (e. g. prosperity, morality, peace, equality, etc.).

Smith’s many exceptions to the total system of natural liberty can be understood within his broader philosophy. He hated arrogance and fanaticism. So we could hardly expect him to write a defense of completely free markets, even if he believed that they promoted the prosperity and moral order of society. A letter from Dupont de Nemours captures part of the reason for modesty in advocating natural liberty:

I hope you will forgive the deficiencies of my work that are not unknown to me and some of which were voluntarily committed....If we announce...that it is useless and dangerous to give specific encouragement to firms and the export of their products, we would neither be read nor heard, but in addition we would risk having sound Principles denounced...and we would prolong by a decade ignorance and its deadly effects. By assaulting their eyes with a bright light, we would reconstitute their blindness. (Prasch and Warin 2009:69)

Smith no doubt had similar sentiments. In TMS he says that the man of public spirit must accommodate himself even to "the habits and prejudices of the people" he governs (TMS 233). Smith's recommendations of government intervention should be viewed in light of his presumption of liberty. Beyond protecting property and commutative justice, government interventions were always exceptions to natural liberty, not substitutes for it. The exceptions bear the burden of proof. They must justify both their economic inefficiency and their risks to society.

Smith observed that political decision-making corrupts our moral judgments and creates conflicting interests. Therefore he distrusted partisan politics. The moral costs of politicizing social affairs in TMS go hand in hand with the economic costs of government intervention in WN. Both angles of analysis suggest that Smith had a strong presumption of liberty. Although Smith was certainly not a dogmatic advocate of laissez faire, his arguments demonstrate that liberty as a general rule will promote human happiness better than not upholding such a rule will.

#### **4.6 Conclusion**

Those who claim that Smith thought politicians were benevolent and that government intervention could often be benign have misunderstood him on these issues. Stigler's claim that Smith naively ignored self-interest among political actors is untenable. Despite allowing that the "man of public spirit" might promote the general welfare through trinkets of state, Smith had significant skepticism of politicians' motivations, knowledge, and abilities to interfere productively in markets. That skepticism fits with his presumption of liberty. Despite both his skepticism and presumption of liberty, Smith did not advocate a system of complete laissez faire. In many cases his advocacy of government intervention seems puzzling. Yet understanding that Smith was not an ideologue, and that he valued principles besides liberty, helps explain most of these exceptions.

Smith's advocacy of free markets is even more striking given his understanding of human weakness and the pitfalls of commercial society on people's intelligence and virtue. But Smith saw the benefits, both material and moral, of allowing individuals to

pursue honest income. Most Left Smithians miss the heart of Smith's defense of the poor. He thought freedom from government restraint and government-protected privilege was far more important for helping the poor than trying to give them subsidized education or free healthcare. Removing government and its favored interests will allow the poor to naturally better their own condition.

Smith was also interested in many ideals beyond narrow material self-interest, such as virtue, justice, praiseworthiness, sympathy, and self-command. Commercial societies and free markets channel most people's behavior, whatever the motivation, towards advancing universal benevolence. The invisible hand, although only mentioned once in TMS and once in WN, remains both a powerful metaphor and an important description of how liberty benefits society. Smith's message to politicians was that they should understand their interests and the interests of society properly. He did not expect them to be more other-regarding than average citizens. He asked only that they see how unjust and destructive mercantilism was as opposed to the simple system of natural liberty.

## CHAPTER FIVE: CONCLUSION

I hope that you have gained some useful insight into Smith's moral and political philosophy after plowing through this dissertation. As you can see, Smith is not your run of the mill economist, or philosopher for that matter. The interdisciplinary nature of his work and thought is quite striking. Smith was trying to develop a science of man just as Newton developed the science of physics. Rather than recapitulating all the arguments made in the preceding chapters, I want to leave the reader with a few general observations about Smith and about the general classical liberal interpretation of his work.

Although I am thoroughly convinced that Smith was an advocate of freedom, I should acknowledge that there are other ways to interpret him. Unfortunately even a hundred pages is far too short a space to give the other side its due—I hardly feel like I have given my own side a fair summary! There are many aspects to the revisionist narrative, some of which are quite interesting and compelling. The arguments made here are not meant to persuade the reader to ignore Left Smithian scholarship. Instead they are meant to 1) give the reader a flavor of how Smith talked (hence the extensive quotations); 2) to warn the reader that the depiction of the traditional view given by Left Smithians is often a straw man or caricature; and 3) to make my case that all of Smith's ideas, his praise of liberty, his condemnation of government, and his advocacy of certain government policies, fit best under a framework of always presuming liberty and putting the burden of proof on those who want more government intervention.



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