



University of Richmond UR Scholarship Repository

Jepson School of Leadership Studies articles, book chapters and other publications

Jepson School of Leadership Studies

2009

Adam Smith and the Place of Faction

Sandra J. Peart

University of Richmond, speart@richmond.edu

David M. Levy

Follow this and additional works at: <http://scholarship.richmond.edu/jepson-faculty-publications>

 Part of the [Economic History Commons](#), and the [Political Economy Commons](#)

Recommended Citation

Peart, Sandra J., and David M. Levy. *Elgar Companion to Adam Smith*. Edited by Jeffrey T. Young. Cheltenham: Edward Elgar, 2009. 335-45.

This Book Chapter is brought to you for free and open access by the Jepson School of Leadership Studies at UR Scholarship Repository. It has been accepted for inclusion in Jepson School of Leadership Studies articles, book chapters and other publications by an authorized administrator of UR Scholarship Repository. For more information, please contact scholarshiprepository@richmond.edu.

18 Adam Smith and the place of faction

*David M. Levy and Sandra J. Peart**

Introduction

If we know only one characteristic of Adam Smith's work, it must be the emphasis on individualism. At the same time, Smith warned us about 'faction', how it is that the 'masters of men' are everywhere and always in combination to the detriment of those outside the faction. In fact, groups play a significant role in Smith's two great works. The problem of factions is a longstanding one in political philosophy, so it might be instructive to see what Smith, who has a reputation of an anti-political philosopher (Cropsey, 1963 [1987], p. 635), makes of groups with unitary goals. In what follows, we examine the nature and role of 'factions' in Smith. The question of interest is how Smith moved from a recognition and appreciation of cooperative behavior, to the realization that cooperation might produce deleterious results, as in the case of employers, 'masters of men'. We shall argue that, for Smith, cooperation is a natural outcome for men who come together desiring approbation; deleterious outcomes are the result not so much of the actions or sentiments of men as the institutions that frame their actions. And, if the outcomes are deleterious, this is a sign that the institutions are in need of reform.

Smith used many words to describe groups with unitary goals. Some appear in only one of his great books. 'Cabal' is found only in the *Theory of Moral Sentiments* (TMS); 'corporation' and 'monopoly', often used to describe a group that controls a market, are used only in the *Wealth of Nations* (WN).¹ Smith used 'combination' to describe a group of people many times in the WN but only once in TMS. The word 'faction' is used often in both TMS and WN and so this is the word we use to mean groups in Smith with unitary goals.

Factions raise two important questions, the answers to which provide insight into how Smith justifies institutional reform. First, how does Smith come to believe that small groups have the ability to function with unitary goals? How does a monopoly, a group of unrelated agents with a special privilege, hold together? If they function effectively then how do these small groups fit into an explanation of the encompassing society comprised of individual actors and their judgments (for example, Morrow, 1923, p. 40)? Second, what judgment does Smith make about factions? It is in the context of faction that we find the seeming paradox of virtuous (vicious) behavior of individuals combined with deleterious (beneficent) consequences. This paradox, we argue, is central to Smith's justification of reform: when virtuous action produces deleterious outcomes, the institution that framed the action itself is judged to be deleterious, in need of reform.

Our approach to faction focuses on Smith's account of the interrelation between social distance and small group cohesion. We make the case that social distance is not necessarily constant in Smith's system. As social distance shrinks, sympathy becomes more habitual and the affection we have for others increases (Peart and Levy, 2005b). Factions reduce social distance, and this gives them power and makes them dangerous. By modifying social distance, they create a disconnect between behavior of which we approve

(cooperation) and consequences of which we disapprove. It is in this context that we find virtuous behavior with deleterious consequences. The identification of 'corruption' with faction is emphasized in Young (1997, pp. 157–8). We take the additional step of connecting the identification to the conclusion that the institution that allows corrupt actions to flourish is in need of reform.

Economists will be familiar with the argument that, when self-interested behavior does not produce good social consequences, there is a problem with the institution. Rosenberg's 1960 'Some institutional aspects of the *Wealth of Nations*' located Smith in this argumentative enterprise. Rosenberg presupposed that Smith participates in the larger utilitarian tradition in which the social consequence of action is all-important. Bittermann's two-part article (Bittermann, 1940) is perhaps the most careful statement of this reading.

As scholars from other disciplines have taken an interest in Smith, a range of interpretations of his normative framework has emerged. Indeed, reading Smith's system in terms of an ethic of virtue has become important (for example, Fleischacker, 2004). This non-economic approach leaves open the question of whether Smith's attention to the virtue of people's behavior (virtue ethics) can be linked to considerations of the happiness of nations (utilitarianism). Cropsey, a student of economics before he turned to political philosophy, gives us the helpful clue to reading Smith: 'The question, What is virtue? is never distinct from the question, What deserves approbation? Approbation and disapprobation are bestowed upon actions' (Cropsey, 1963 [1987], p. 636).

To this, we would add that people also approve and disapprove of consequences. Indeed, in what follows we focus on the context in which the approval of the action and disapproval of the consequences takes place. We do not find this paradoxical; rather, that the judgment is formed by a person suggests a failure of what Rawls (1971) called 'reflective equilibrium'. If a person looks at an action and consequence and approves of the action but disapproves of the consequence, then there is something at fault with the institution in which the action has occurred. We refer to this as reflective disequilibrium. If a person's judgment about the action and consequences is carefully calculated, then because human nature can be assumed to be a fixed quality (Peart and Levy, 2005b), blame for the deleterious consequences must rest on the institutional framework that governs the action.

We address two examples of factions in some detail below. The first case is one in which social distance is influenced by regulation. This speaks to the question of how factions are held together. It also relates to the discussion of Smith among the Justices of the US Supreme Court in a recent case. Secondly, if factions are so powerful, what might destroy them? Here, we argue that while factions are robust against external enemies, they are vulnerable to the character flaws ('corruption') which are encouraged by the indulgence that accompanies reduced social distance (Paganelli, 2007). In this light, we reread Smith's account of the passing of the feudal lords, where Smith reports that corruption eventually resulted in good consequences. This is what we mean by institutions being out of reflective equilibrium. Before turning to these examples in some detail, however, we begin with the role of 'place' and social distance.

Place and social distance

The inevitability of some forms of social distance, exemplified by parents and children or country and citizen, led Smith to criticize the doctrine of the Stoic philosophers he

so admired (Levy and Peart, 2008b). In a Stoic system, social distance is a part of the concept of place, which along with time, void and sayables, comprise the four incorporeals. For the Stoics, since only body moves body, an incorporeal such as place has no (justifiable) motivational impact. As Smith quotes Epictetus, the Stoics held that we should lament no more nor less for the death of our child than for the death of any other child.² Smith sought to modify Stoicism by taking some types of social distance as inevitable. In his system, place thus attains motivational force and becomes corporeal. The inevitable types of social distance are given both motivational and normative weight and are described by the term 'natural' (Waterman, 2002).

Some reductions in social distance are the result of historical events. In such contexts, social distance shrinks and the moral constraints upon behavior are attenuated: parents, for instance, may indulge, while more distant acquaintances subject children to more stern moral judgment. Factions indulge the misbehavior of those inside the group. For Smith, the faction presents the greatest danger to civil order because it violates all moral constraints toward those outside the group.³ Even peaceful factions distinguish sharply between approved behavior toward those inside and those outside the group.⁴

Social distance can also be influenced by policy. One example of importance to the economics of anti-trust law is how the tacit collusion of employers creates a group in which masters see themselves as closer to each other than to those they employ. Although the motivational impact of these artificial forms of social distance is real enough, the normative claims are suspect. In the context of faction Smith is cosmopolitan, identifying the well-being of the workers with the happiness of the nation (for example, Levy, 1995; Rothschild, 2001; Fleischacker, 2004; Peart and Levy, 2005a, 2005b; Schliesser, 2008). Beyond the majoritarianism that underscores this identification, Smith stressed that the norms internal to factions have the consequence of suppressing the 'great stoical maxim', the no-harm principle.⁵ Judgments of actions are particularly interesting in the case of factions because virtuous actions of faction members, that is, actions that would be worthy of praise, can have evil consequences and vicious actions can have good consequences.

Smith singles out religious factions for particular attention because these cause us to doubt whether religious doctrine supports the imperatives of impartial justice. This casts doubt on the very stability of the larger society, so, not surprisingly, religious factions have received some attention (for example, Levy, 1978; Anderson, 1988; Brubaker, 2006; Levy and Peart, 2008b). But most factions are not of this nature, and so we focus on how factions serve to reduce social distance among actors.

Monopoly as unitary actor

Gordon Tullock once began an article with the claim that every sentence in the *Wealth of Nations* would eventually launch a book. The book in evidence, Adolf Berle and Gardiner Means's *Modern Corporation and Private Property* (1932 [1991]), became the subject of 75-year debate in economics.⁶ 'Faction' appears in Smith's stimulating sentence. The opposing sides of the Berle and Means debate agree on little save that factions have no behavioral role to play for Adam Smith.⁷

Smith describes a monopoly in much the same way he would describe a faction, as a group characterized by a willingness to use violence to attain its interests:

To expect, indeed, that the freedom of trade should ever be entirely restored in Great Britain is as absurd as to expect that an Oceana or Utopia should ever be established in it. Not only the prejudices of the public, but what is much more unconquerable, the private interests of many individuals, irresistibly oppose it. Were the officers of the army to oppose with the same zeal and unanimity any reduction in the numbers of forces with which master manufacturers set themselves against every law that is likely to increase the number of their rivals in the home-market; were the former to animate their soldiers in the same manner as the latter enflame their workmen to attack with violence and outrage the proposers of any such regulation, to attempt to reduce the army would be as dangerous as it has now become to attempt to diminish in any respect the monopoly which our manufacturers have obtained against us. This monopoly has so much increased the number of some particular tribes of them that, like an overgrown standing army, they have become formidable to the government, and upon many occasions intimidate the legislature. (WN IV.ii.43)

Smith discusses the costs and benefits of monopoly in terms of a smaller group, which benefits at the expense of a larger group: 'It is thus that the single advantage which the monopoly procures to a single order of men is in many different ways hurtful to the general interest of the country' (WN IV.vii.148).

According to Smith, 'country gentlemen and farmers', not being 'subject to the wretched spirit of monopoly', share knowledge and information willingly (WN IV.ii.21). Social distance is influenced by physical distance:

Country gentlemen and farmers, dispersed in different parts of the country, cannot so easily combine as merchants and manufacturers, who, being collected into towns, and accustomed to that exclusive corporation spirit which prevails in them, naturally endeavour to obtain against all their countrymen the same exclusive privilege which they generally possess against the inhabitants of their respective towns. They accordingly seem to have been the original inventors of those restraints upon the importation of foreign goods which secure to them the monopoly of the home-market. It was probably in imitation of them, and to put themselves upon a level with those who, they found, were disposed to oppress them, that the country gentlemen and farmers of Great Britain in so far forgot the generosity which is natural to their station as to demand the exclusive privilege of supplying their countrymen with corn and butcher's-meat. They did not perhaps take time to consider how much less their interest could be affected by the freedom of trade than that of the people whose example they followed. (WN IV.ii.21)

Indeed, Smith defends a temporary monopoly in terms of a risk-bearing reciprocity between different parts of society:

When a company of merchants undertake, at their own risk and expence, to establish a new trade with some remote and barbarous nation, it may not be unreasonable to incorporate them into a joint stock company, and to grant them, in case of their success, a monopoly of the trade for a certain number of years. It is the easiest and most natural way in which the state can recompense them for hazarding a dangerous and expensive experiment, of which the public is afterwards to reap the benefit. A temporary monopoly of this kind may be vindicated upon the same principles upon which a like monopoly of a new machine is granted to its inventor, and that of a new book to its author. (WN V.i.119)

The temporary monopoly is a prize in a game that is open to all. We now turn to the world of special privilege.

Monopoly and social distance

The case of *Bell Atlantic v. Twombly* (550 US 2007) is noteworthy (Levy and Peart, 2008a), because Justice Stevens quoted the first sentence of this paragraph from the *Wealth of Nations*:

People of the same trade seldom meet together, even for merriment and diversion, but the conversation ends in a conspiracy against the public, 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. (WN I.x.82)

As the argument unfolds in the *Wealth of Nations*, Smith takes pains to explain how the connections mandated by regulation can change the social distance of people within a trade. Before the regulation they might be strangers, but not afterwards:

A regulation which obliges all those of the same trade in a particular town to enter their names and places of abode in a public register, facilitates such assemblies. It connects individuals who might never otherwise be known to one another, and gives every man of the trade a direction where to find every other man of it. (WN I.x.83)

Regulation builds a community among the tradesmen: ‘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 I.x.84). All of this takes place in the dimension of social distance. Then Smith offers an explanation in terms of the enforcement of agreement:

An incorporation not only renders them necessary, but makes the act of the majority binding upon the whole. In a free trade an effectual combination cannot be established but by the unanimous consent of every single trader, and it cannot last longer than every single trader continues of the same mind. The majority of a corporation can enact a bye-law with proper penalties, which will limit the competition more effectually and more durably than any voluntary combination whatever. (WN I.x.85)

In *Bell Atlantic v Twombly* Justice Stevens quoted a ‘curious statement’ to the effect that ‘encroaching on a fellow incumbent’s territory “might be a good way to turn a quick dollar but that doesn’t make it right”’ (Levy and Peart, 2008a). Supposing Smith did in fact see cooperative behavior as some sort of norm, how was cooperation (or collusion) enforced in his system? Today, economists might answer the latter question by presuming a punishment system is in force with repeated interactions. Expected pay-offs to cheating alter with repetition, making it no longer profitable to renege on cooperative agreements. All is handled in terms of expected monetary rewards. ‘Right’ actions are determined by the highest expected pay-off. We suggest that Smith thought otherwise.

When ‘right’ is wrong

Consider first cooperative behavior among the masters. Cooperation can of course be good for society. But when small groups cooperate at the expense of large groups, a problem that greatly troubled Smith, the outcome is less happy. That Smith believed the masters were ‘always and everywhere’ in a combination is readily apparent in the *Wealth*

of Nations. There, he considered the problem of wage determination in various societies, supposing a group bargaining situation with masters pitted against workmen. The combination of masters is, he wrote, ‘the natural state of things’:

We rarely hear, it has been said, of the combinations of masters, though frequently of those of workmen. But whoever imagines, upon this account, that masters rarely combine, is as ignorant of the world as of the subject. Masters are always and every where in a sort of tacit, but constant and uniform combination, not to raise the wages of labour above their actual rate. *To violate this combination is every where a most unpopular action, and a sort of reproach to a master among his neighbours and equals.* We seldom, indeed, hear of this combination, because it is the usual, and one may say, the natural state of things which nobody ever hears of. (WN I.xiii.13, emphasis added)

The problem of small groups exploiting large ones is precisely the problem of factions. In the paragraph above, we emphasize that masters regard one another as ‘neighbours and equals’. Social distance among faction members has shrunk as a result of regulation.

The question that follows is how is the faction maintained when there may be monetary rewards to cheating? Smith’s answer was that rewards accrue in two incommensurate dimensions, money and approbation, and people like both money and approbation. People interact using language. These interactions yield two sets of rewards: money, and approbation, which is carried by language. Approbation results from following a norm of reciprocity (from not cheating on agreed-upon actions); disapprobation results from violating it (from cheating). Thus, the rewards to cooperation are augmented by the approbation that results when a person follows the group norm. For individuals who desire both approbation and income, cooperation satisfies what we have called ‘katalactic rationality’ (Peart and Levy, 2005b).

This provides the solution to Justice Stevens’s puzzle. While a master might earn a bit more money if he were to deviate from his agreement with the masters, he would suffer their disapproval and be shunned by the group to which he belongs. So, the masters who cooperate are rewarded by the approval of their equals; their conduct would be approved, that is, said to be ‘right’. Of course, when we take the larger group into account, this ‘right’ conduct might well be bad for society as a whole. The problem of factions is that the cooperation of the small group occurs at the expense of a larger group.

In Smith’s account, it is unclear whether the combination of masters will succeed or not. What we do know is that the masters have a considerable advantage in his view because they are fewer and richer than the workmen (WN I.xiii.12). At the same time, combinations might not survive growth in the demand for labor. In America, Smith finds that the continual increase in the demand for labor makes employer collusion impossible so that the condition of the working class improves dramatically.

This raises the obvious question. If the workers’ condition improves but that of the masters deteriorates, is society better or worse off? One way to decide is to count those helped and those harmed and to appeal to the reader as impartial spectator:

Is this improvement in the circumstances of the lower ranks of the people to be regarded as an advantage or as an inconveniency to the society? The answer seems at first sight abundantly plain. Servants, labourers and workmen of different kinds, make up the far greater part of every great political society. But what improves the circumstances of the greater part can never be regarded as an inconveniency to the whole. No society can surely be flourishing and happy, of

which the far greater part of the members are poor and miserable. It is but equity, besides, that they who feed, cloath and lodge the whole body of the people, should have such a share of the produce of their own labour as to be themselves tolerably well fed, cloathed and lodged. (WN I.xiii.35)

Smith goes on to emphasize the importance of economic growth for the well-being of the children of the poor (WN I.xiii.36) and the influence of children on judgment.

'All for ourselves and nothing for other people'

How do we destroy a faction that has deleterious consequences? Smith is clear that factions are the testing ground for leadership.⁸ He credits the factional violence of the ancient world with the creation of the stoicism as a philosophy of life (Levy and Peart, 2008b). Once the faction has succeeded in disposing of its enemies, it tends to indulge. From indulgence, selfishness follows. The masters of mankind are the most selfish of all humans. But selfishness makes a faction vulnerable. The greatest example, in Smith's telling, is the downfall of the feudal lords. Feudalism was a stable system, save for the selfishness fostered by intra-faction indulgence.

For Smith, dining together is one way to reduce social distance. Sharing a meal reduces physical distance and helps establish a connection among the diners. The stability of the feudal society depended upon an institutional set-up in which hierarchy reduced social distance. Commercial society reduced hierarchy at the same time as social distance widened. The social distance of the feudal lords and men collapsed relative to what Smith's readers would have known because the lords had no other way to spend their income than hospitality. We quote at length:

In a country which has neither foreign commerce, nor any of the finer manufactures, a great proprietor, having nothing for which he can exchange the greater part of the produce of his lands which is over and above the maintenance of the cultivators, consumes the whole in rustic hospitality at home. If this surplus produce is sufficient to maintain a hundred or a thousand men, he can make use of it in no other way than by maintaining a hundred or a thousand men. He is at all times, therefore, surrounded with a multitude of retainers and dependants, who, having no equivalent to give in return for their maintenance, but being fed entirely by his bounty, must obey him, for the same reason that soldiers must obey the prince who pays them.

Smith paints an unforgettable picture of the 'rustic hospitality' of the feudal era:

Before the extension of commerce and manufacture in Europe, the hospitality of the rich, and the great, from the sovereign down to the smallest baron, exceeded everything which in the present times we can easily form a notion of. Westminster Hall was the dining-room of William Rufus, and might frequently, perhaps, not be too large for his company. It was reckoned a piece of magnificence in Thomas Becket that he strewed the floor of his hall with clean hay or rushes in the season, in order that the knights and squires who could not get seats might not spoil their fine clothes when they sat down on the floor to eat their dinner. The great Earl of Warwick is said to have entertained every day at his different manors thirty thousand people, and though the number here may have been exaggerated, it must, however, have been very great to admit of such exaggeration. It seems to be common in all nations to whom commerce and manufactures are little known. (WN III.iv.5)

Their expenditure on hospitality was the basis of their power.

What brought an end to this state of things? The faction was robust against outside attack:

The introduction of the feudal law, so far from extending, may be regarded as an attempt to moderate the authority of the great allodial lords . . . But though this institution necessarily tended to strengthen the authority of the king, and to weaken that of the great proprietors, it could not do either sufficiently for establishing order and good government among the inhabitants of the country, because it could not alter sufficiently that state of property and manners from which the disorders arose. The authority of government still continued to be, as before, too weak in the head and too strong in the inferior members, and the excessive strength of the inferior members was the cause of the weakness of the head. After the institution of feudal subordination, the king was as incapable of restraining the violence of the great lords as before. (WN III.iv.9)

It was, however, vulnerable against betrayal from within. The feudal system survived only as long as the social distance between master and man was constricted. The emergence of new commodities in the marketplace changed this by appealing to the vanity of the lords:

But what all the violence of the feudal institutions could never have effected, the silent and insensible operation of foreign commerce and manufactures gradually brought about. These gradually furnished the great proprietors with something for which they could exchange the whole surplus produce of their lands, and which they could consume themselves without sharing it either with tenants or retainers. 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, they exchanged the maintenance, or what is the same thing, the price of the maintenance of a thousand men for a year, and with it the whole weight and authority which it could give them. The buckles, however, were to be all their own, and no other human creature was to have any share of them; whereas in the more ancient method of expence they must have shared with at least a thousand people. With the judges that were to determine the preference this difference was perfectly decisive; and thus, for the gratification of the most childish, the meanest, and the most sordid of all vanities, they gradually bartered their whole power and authority. (WN III.iv.10)

The excesses that resulted served to undermine the feudal system, producing a public 'revolution' in happiness:

A revolution of the greatest importance to the public happiness was in this manner brought about by two different orders of people who had not the least intention to serve the public. To gratify the most childish vanity was the sole motive of the great proprietors. The merchants and artificers, much less ridiculous, acted merely from a view to their own interest, and in pursuit of their own pedlar principle of turning a penny wherever a penny was to be got. Neither of them had either knowledge or foresight of that great revolution which the folly of the one, and the industry of the other, was gradually bringing about. (WN III.iv.17)

Conclusion

The spectator who approves of 'right' action and disapproves of deleterious consequences on the happiness of people will learn from Smith that there is something disturbing about a faction. When 'virtuous' action has dreadful consequences, the institution governing the action has failed.

The reflective disequilibrium in Smith results when judgments concerning actions conflict with judgments about consequences. It is important to reiterate that Smith's framework attends to both actions and consequences. Failing to take account of both actions and consequences strips away the possibility of a reflective disequilibrium, with the further consequence that we fail to see how Smith's argument for institutional reform unfolds.

Suppose the spectator concludes that an institutional change is praiseworthy. Does that in and of itself provide motivational force? Smith granted motivational force to moral philosophy in general and to Stoicism in particular. The cosmopolitanism which Stoicism teaches speaks to our conscience:

The judgments of the man within the breast, however, might be a good deal affected by those reasonings, and that great inmate might be taught by them to attempt to overawe all our private, partial, and selfish affections into a more or less perfect tranquillity. To direct the judgments of this inmate is the great purpose of all systems of morality. That the Stoical philosophy had very great influence upon the character and conduct of its followers, cannot be doubted; and that though it might sometimes incite them to unnecessary violence, its general tendency was to animate them to actions of the most heroic magnanimity and most extensive benevolence. (TMS VII.ii.51)

At the same time, Smith is pessimistic about the possibility of reform, whether free inland trade (WN IV.ii.43) or the possibility of a peaceful end to slavery (WN III.ii.10). His ideas about reform seem to have been more powerful than he himself believed they would be (Peart and Levy, 2007).

Notes

- * We are grateful to Jeffrey Young for the invitation to contribute to the volume. We would like to thank the Pierre F. and Enid Goodrich Foundation for their support.
1. Here are two examples among many: 'the oppression of the poor must establish the monopoly of the rich, who, by engrossing the whole trade to themselves, will be able to make very large profits' (WN I.ix.15); 'To give the monopoly of the home-market to the produce of domestic industry, in any particular art or manufacture, is in some measure to direct private people in what manner they ought to employ their capitals, and must, in almost all cases, be either a useless or a hurtful regulation' (WN IV.ii.11).
 2. 'When our neighbour', says Epictetus, 'loses his wife, or his son, there is nobody who is not sensible that this is a human calamity, a natural event altogether according to the ordinary course of things; but, when the same thing happens to ourselves, then we cry out, as if we had suffered the most dreadful misfortune. We ought, however, to remember how we were affected when this accident happened to another, and such as we were in his case, such ought we to be in our own' (TMS III.i.53).
 3. 'The animosity of hostile factions, whether civil or ecclesiastical, is often still more furious than that of hostile nations; and their conduct towards one another is often still more atrocious. What may be called the laws of faction have often been laid down by grave authors with still less regard to the rules of justice than what are called the laws of nations. The most ferocious patriot never stated it as a serious question, Whether faith ought to be kept with public enemies? – Whether faith ought to be kept with rebels? Whether faith ought to be kept with heretics? are questions which have been often furiously agitated by celebrated doctors both civil and ecclesiastical. It is needless to observe, I presume, that both rebels and heretics are those unlucky persons, who, when things have come to a certain degree of violence, have the misfortune to be of the weaker party' (TMS III.i.85).
 4. Thus, Smith singles out one group of scholars that he thinks is exempt from faction: 'Mathematicians and natural philosophers, from their independency upon the public opinion, have little temptation to form themselves into factions and cabals, either for the support of their own reputation, or for the depression of that of their rivals. They are almost always men of the most amiable simplicity of manners, who live in good harmony with one another, are the friends of one another's reputation, enter into no intrigue in order to secure the public applause, but are pleased when their works are approved of, without being either much vexed or very angry when they are neglected' (TMS III.i.29).

5. 'One individual must never prefer himself so much even to any other individual, as to hurt or injure that other, in order to benefit himself, though the benefit to the one should be much greater than the hurt or injury to the other . . . There is no commonly honest man . . . who does not inwardly feel the truth of that great stoical maxim, that for one man to deprive another unjustly of any thing, or unjustly to promote his own advantage by the loss or disadvantage of another, is more contrary to nature, than death, than poverty, than pain, than all the misfortunes which can affect him, either in his body, or in his external circumstances' (TMS III.i.48).
6. Tullock (1969, p. 287): 'One of the more immutable of the immutable economic laws is that every sentence in the *Wealth of Nations* will eventually become a book.'
7. 'The trade of a joint stock company is always managed by a court of directors. This court, indeed, is frequently subject, in many respects, to the control of a general court of proprietors. But the greater part of those proprietors seldom pretend to understand anything of the business of the company, and when the *spirit of faction happens not to prevail among them*, give themselves no trouble about it, but receive contentedly such half-yearly or yearly dividend as the directors think proper to make to them' (WN V.i.107) (emphasis added). Smith is cited as the authority who supposes factions carry no behavioral consequence in Berle and Means (1932, pp. 303–4). The resulting Smith–Berle–Means theory of the corporation is named by Tullock (1969, p. 287), defended by Galbraith (1979 [2002], pp. 156–7) and attacked by Stigler and Friedland (1983, p. 240). Others who quote the sentence and have supposed factions have no impact include Rosenberg (1960, p. 562), Anderson and Tollison (1982, p. 1241) and Radner (1992, p. 1405). A factional theory of corporate governance is sketched by Hayek (1960 [1967]) and elaborated upon by Morck and Steier (2005).
8. 'Under the boisterous and stormy sky of war and faction, of public tumult and confusion, the sturdy severity of self-command prospers the most, and can be the most successfully cultivated. But, in such situations, the strongest suggestions of humanity must frequently be stifled or neglected; and every such neglect necessarily tends to weaken the principle of humanity' (TMS III.i.79).

References

- Anderson, Gary M. (1988), 'Mr. Smith and the preachers: the economics of religion in the *Wealth of Nations*', *Journal of Political Economy*, **96**, 1066–88.
- Anderson, Gary M. and Robert D. Tollison (1982), 'Adam Smith's analysis of joint-stock companies', *Journal of Political Economy*, **90**, 1237–56.
- Berle, Adolf A. and Gardiner C. Means (1932), *Modern Corporation and Private Property*; reprinted (1991), New York: Transaction Publishers.
- Bittermann, Henry J. (1940), 'Adam Smith's empiricism and the law of nature', *Journal of Political Economy*, **48**, 487–520, 703–34.
- Brubaker, Lauren (2006), 'Does the "wisdom of Nature" need help?' in Leonidas Montes and Eric Schliesser (eds), *New Voices on Adam Smith*, New York: Routledge, pp. 277–315.
- Cropsey, Joseph (1963), 'Adam Smith 1723–1790', in Leo Strauss and Joseph Cropsey (eds) (1987), *History of Political Philosophy*, Chicago, IL: University of Chicago Press, pp. 635–58.
- Fleischacker, Samuel (2004), *On Adam Smith's Wealth of Nations: A Philosophical Companion*, Princeton, NJ: Princeton University Press.
- Hayek, F.A. (1960), 'The corporation in a democratic society: in whose interest ought it to and will it be run?' in F.A. Hayek (1967), *Studies in Philosophy, Politics and Economics*, Chicago, IL: University of Chicago Press, pp. 300–312.
- Galbraith, John Kenneth (1979), 'The founding faith: Adam Smith's *Wealth of Nations*', in John Kenneth Galbraith (2002), *The Essential Galbraith*, New York: Houghton Mifflin, pp. 153–68.
- Levy, David M. (1978), 'Adam Smith, "the law of nature", and contractual society', *Journal of the History of Ideas*, **39**, 665–74.
- Levy, David M. (1995), 'The partial spectator in the *Wealth of Nations*: a robust utilitarianism', *European Journal of the History of Economic Thought*, **2**, 299–326.
- Levy, David M. and Sandra J. Peart (2008a), 'Adam Smith, collusion and "right" at the Supreme Court', *Supreme Court Economic Review*, **16**, 159–63.
- Levy, David M. and Sandra J. Peart (2008b), 'The Evil of Independence: Stoic Sources for Adam Smith', *Adam Smith Review*, **4**, Autumn, 57–87.
- Morck, Randall K. and Lloyd Steier (2005), 'A global history of corporate governance: an introduction', in Randall Morck (ed.), *A History of Corporate Governance around the World: Family Business Groups to Professional Managers*, National Bureau of Economic Research Conference Report, Chicago, IL: University of Chicago Press, pp. 1–64.
- Morrow, Glenn R. (1923), *The Ethical and Economic Theories of Adam Smith: A Study in the Social Philosophy of the Eighteenth Century*, Cornell Studies in Philosophy, New York: Longmans, Green.

- Paganelli, Maria Pia (2007), 'Distance in Adam Smith: the moralizing function of commerce in the *Theory of Moral Sentiments*', presented at the Summer Institute for the Preservation of the History of Economics, Fairfax, VA.
- Peart, Sandra J. and David M. Levy (2005a), 'A discipline without sympathy: from median well-being to mean well-being', *Canadian Journal of Economics*, **38**, 937–54.
- Peart, Sandra J. and David M. Levy (2005b), *The 'Vanity of the Philosopher': From Hierarchy to Equality in Post-Classical Economics*, Ann Arbor, MI: University of Michigan Press.
- Peart, Sandra J. and David M. Levy (2007), 'Adam Smith on leadership, equity, and the distinction of ranks', Presented at the International Leadership Association, Vancouver.
- Radner, Roy (1992), 'Hierarchy: the economics of managing', *Journal of Economic Literature*, **30**, 1382–1415.
- Rawls, John (1971), *A Theory of Justice*, Cambridge, MA: Harvard University Press.
- Rosenberg, Nathan (1960), 'Some institutional aspects of the *Wealth of Nations*', *Journal of Political Economy*, **68**, 557–70.
- Rothschild, Emma (2001), *Economic Sentiments: Adam Smith, Condorcet, and the Enlightenment*, Cambridge, MA: Harvard University Press.
- Schliesser, Eric (2008), 'The measure of real price: Adam Smith's science of equity', in Sandra J. Peart and David M. Levy (eds), *The Street Porter and the Philosopher: Conversations on Analytical Egalitarianism*, Ann Arbor, MI: University of Michigan Press, pp. 228–36.
- Stigler, George J. and Claire Friedland (1983), 'The literature of economics: the case of Berle and Means', *Journal of Law and Economics*, **26**, 237–68.
- Smith, Adam (1759), *The Theory of Moral Sentiments*, 6th edn (2002), <http://www.econlib.org/library/Smith/smMS.html>, TMS.
- Smith, Adam (1776), *An Inquiry into the Nature and Causes of the Wealth of Nations*, Edwin Cannan (ed.), <http://www.econlib.org/library/Smith/smWN.html>, WN.
- Tullock, Gordon (1969), 'The new theory of corporations', in Erich W. Streissler (ed.), *Roads to Freedom: Essays in Honour of Friedrich A. Von Hayek*, London: Routledge, pp. 287–308.
- Waterman, A.M.C. (2002), 'Economics as theology: Adam Smith's *Wealth of Nations*', *Southern Economic Journal*, **68**, 907–21.
- Young, Jeffrey T. (1997), *Economics as a Moral Science: The Political Economy of Adam Smith*, Cheltenham, UK and Lyme, NH, USA: Edward Elgar.