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Dissolving the Chimera of the ‘Adam Smith Problem’

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Abstract

In *The Wealth of Nations*, Adam Smith set out his influential theory that societies achieve prosperity by securing the freedom of individuals to pursue their own end by the means they choose within a framework of rules of justice. In his earlier work *The Theory of Moral Sentiments*, Smith developed his thesis about the origins of our moral sentiments and the emergence of rules of justice. The so-called ‘Adam Smith Problem’ concerns the perceived inconsistency between Smith’s defence of self-interest in the *Wealth of Nations* and his emphasis of sympathy as the origin of moral sentiments in the earlier work. The existence of the ‘Adam Smith Problem’ has been contested by many writers. The present author provides a number of new arguments to demonstrate the illusory nature of the problem by revisiting the key elements Smith’s moral theory. The author argues that the problem dissolves when the role of justice in providing the conditions of free trade is understood. Smith’s tirade against wealth worship is explained as part of his defence of justice and not a condemnation of wealth accumulation. According to this reading, the *Theory of Moral Sentiments* is a powerful statement of the moral basis of capitalism.

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Adam Smith is best known for his book *An Inquiry into the Nature and Causes of the Wealth of Nations* (WN) published in 1776. It set out the philosophy and the principles of markets and free trade and stands as the most influential book in the history of economic thought. Smith's other great work *The Theory of Moral Sentiments* (TMS) published in 1759 is less well known outside philosophical circles. Yet, it is one of the most important treatises in moral philosophy written in the English language. It also provides crucial insights into Smith's views of human nature and human knowledge that formed the basis of his economic theory. TMS reveals Smith's views on the three principal aspects of morality: justice, beneficence and temperance or prudence. Some scholars see a contradiction in the central themes of TMS and the *Wealth of Nations*. They claim that Smith's emphasis on sympathy or fellow feeling in TMS contradicts his later thesis that the wealth of nations is increased by the pursuit of individual self-interest. As many Smith scholars have since shown, this problem arises from a misreading of TMS, particular Smith's notions of sympathy and self-interest. This theory, often called the 'Adam Smith Problem', originated here in Germany and it is fitting that we gather in Berlin to lay it to rest.

Smith's method

In TMS, Smith investigated the nature and formation of moral sentiments, in particular how individuals think and behave towards one another. Smith approached his subject in the empiricist tradition of the Scottish Enlightenment. The chief obstacle to scientific examination of human sentiments is that while we can explore our own mind, we cannot look into the mind of others. Smith's response was to make logical deductions from the impressions created in our minds by the actions and reactions of persons in their daily lives. He concluded that while persons pursue self-interest, they are also endowed with sympathy

towards their fellows. This fellow feeling far from inhibiting the pursuit of self-interest makes it more realisable in the world in which we find ourselves. In the *Wealth of Nations*, Smith took a similar empirical approach to the study of economic processes and found that the wealth of nations is promoted not by sovereign direction but by the liberty of persons to seek their self-advancement. As he put it in the much quoted epigram, 'It is not from the benevolence of the butcher, the brewer, or the baker, that we expect our dinner, but from their regard to their own interest'. (WN I.2.2)

The central problem in moral philosophy is how we distinguish right and wrong conduct. Many people derive moral guidance from the teachings of their faith. The problem with this is, (as the later schoolmen realised) people differ in their faith and even within a theistic faith individuals may have different understandings of what their Deity wills. Smith, like Grotius, Hobbes, Pufendorf, Locke, Hutcheson and Hume sought a basis for moral judgment that relied not on revelation but on what we know of the human nature and the human condition.

The social contract theorists like Hobbes and Locke built their moral theories from notions of natural rights possessed by the individual in the state of nature. (Hobbes, 1651/1991: 91; Locke, 1689/1960: 341-42) These arise from man's natural desire for self-preservation. The right to physical integrity, self-ownership, property and liberty are essential for self-preservation. In addition, human beings unlike some other species can survive only in groups. Hence every person's rights must be delimited to allow similar rights to every other person. The moral law arises out of these necessities. Political authority is established by common consent to secure these rights that in the state of nature are precarious.

Adam Smith in contrast takes an evolutionary view of human morality. Smith together with Hume, Ferguson, Savigny and Burke, belong to a group of intellectuals that Sir

Fredrick Pollock called the 'Darwinians before Darwin'. (Pollock, 1890/1972: 41-42) They were so-called because their insights into the evolution of human institutions including social customs and morals predated Darwin and are thought to have sowed in Darwin's mind, the seeds that grew into the theory concerning the biological evolution of species by the process of natural selection. The starting point of moral discourse for both Hume and Smith are the instincts or 'original passions' of man. These are qualities that are hardwired in human beings. Current evolutionary psychology offers explanations of how these instincts may have become ingrained in the human psyche. Smith, Hume and other evolutionist thinkers in the eighteenth century did not have the benefit of discoveries in biological and psychological evolution or in post-Mendelian genetics. Yet these discoveries have only re-enforced Smith's initial premise that human beings are psychologically endowed with certain instincts or original passions.

Sympathy in TMS and its relation to the *Wealth of Nations*

A key misunderstanding that continues to feed the false notion of the 'Adam Smith Problem' relates to Smith's idea of sympathy. (Griswold, 1990: 260) Smith began TMS by asserting that one of the original passions of a human being is sympathy or fellow feeling. Smith's close friend David Hume in *An Enquiry into the Principles of Morals*, had earlier argued against the notion that every benevolent feeling arises in the ultimate analysis out of self-love. (Appendix II: Of self-love) Smith argued that 'How selfish soever man may be supposed, there are evidently some principles in his nature, which interest him in the fortune of others, and render their happiness necessary to him, though he derives nothing from it except the pleasure of seeing it.' (TMS I.i.1.1)

Smith, following Hume, maintained that all we know are what we gather from that which occurs in our own minds. (Compare Hume: ‘... nothing is ever present to the mind but perceptions’ *Treatise IV.2*). It is impossible for us to know directly the mind and therefore the feelings of another person.

Though our brother is upon the rack, as long as we ourselves are at ease, our senses will never inform us of what he suffers. They never did, and never can, carry us beyond our own person, and it is by the imagination only that we can form any conception of what are his sensations’. (*TMS I.i.1.2*)

Smith’s ‘sympathy’ has been widely misunderstood as pity or compassion. On the contrary, sympathy is the tendency to empathise with both the misfortunes and the fortunes of others. Smith makes this perfectly clear.

Pity and compassion are words appropriated to signify our fellow-feeling with the sorrow of others. Sympathy, though its meaning was, perhaps, originally the same, may now, however, without much impropriety, be made use of to denote our fellow-feeling with any passion whatever. (*TMS I.i.1.5*)

Fellow feeling is whatever analogous passion or emotion that springs in the mind of an observer who observes another person’s outward expression of inner feelings. Thus, it is not only pain and sorrow but also the joy of others that evokes fellow feeling. ‘Our joy for the deliverance of those heroes of tragedy or romance who interest us, is as sincere as our grief for their distress, and our fellow feeling with their misery is not more real than that with their happiness.’ (*TMS I.i.1.3*)

Smith argues that it is easier for a person to identify with a person’s joy than with his grief. He reasons that a person who is not affected by envy can painlessly identify with the

good fortune of another. 'But it is painful to go along with grief and we always enter into it with reluctance'. (*TMS* I.iii.1.9) This is, for Smith, the origin of ambition and the distinction of rank, which in an unintended way, serves the ends of stability and order of society. (Khalil, 2000: 58-59) What is the purpose of all the 'toil and bustle' in this world when the wages of the meanest labourer can supply the necessities of life? 'Do they imagine that their stomach is better, or their sleep sounder, in a palace than in a cottage?' (*TMS*: I. iii.2.1) Smith of course was aware that some labourers of his time did not earn a living wage. Smith's point was that a person who has the necessities of life will nevertheless seek fame and fortune because of the positive sympathy that he attracts from others. This is at first sight a flawed argument. What a person considers the necessities of life changes according to that person's condition and what is available. The caveman saw no need for the motorcar or the refrigerator. When I was a law student, I saw no need for a personal computer, as it did not exist. My own law students today regard a portable computer (and many other audio-visual devices) as indispensable to their well-being. Smith's point though has a core of important truth. Most persons by nature seek constantly to better their lives beyond what is needed for a reasonably comfortable lifestyle and this is in part because they value sympathy in the form of the admiration of others. The connection of this insight to the central message of the *Wealth of Nations* should not be missed. People by nature are not satisfied with what they have. A society of persons satisfied with the bare necessities of life may be stable but will be economically stagnant and unable to adapt to a changing world. It is the instinct for incessant pursuit of material improvement under favourable conditions that leads to the exponential creation of the wealth of nations. Smith observed that nations which allowed individuals to pursue their self-interest grew in wealth while those that didn't fell into poverty. The liberty to pursue self-interest, as we know, cannot be absolute. The absolute liberty of one is achieved only at the expense of the liberty of others. Hence, liberty can be sustained only if

restrained by the rules of justice. Smith saw dangers to justice from two sources – the ambitions of rulers and the corruption of society owing to the adulation of wealth and power.

Smith's diatribe on the worship of wealth and power

Smith was aware that the human tendency to applaud wealth and despise penury, while being a significant factor of social stability and a driver of industry, poses its own dangers. His tirade against the glorification of wealth and the unscrupulous pursuit of power in the final chapter of Part I fuels the continuing illusion of the 'Adam Smith Problem'. Yet, it is a much misunderstood fragment of Smith's treatise. It reads more like an impassioned sermon than a philosophical tract. The influence of Stoic virtue on Smith's thinking is strongly evident in this chapter. (Raphael and MacFie 1982) Some of its passages are difficult but not impossible to reconcile. The chapter has two themes. In the first part, Smith laments the common tendency to venerate wealth and look down on poverty. In the second part he condemns the corruption of princes and men of political ambition who gain power and status by intrigue, deception and crime. However, the chapter contains a positive message about the persistence of justice and virtue in the vast majority of people that explains how conditions for free trade and industry are maintained in nations that grow in wealth.

Nowhere in this chapter does Smith condemn the accumulation of wealth. His complaint is that the mindless adulation of wealth and the relegation of virtue and wisdom may corrupt society. He was condemning a form of wealth worship that had no regard to how wealth is gained. 'It is scarce agreeable to good morals, or even to good language, perhaps, to say, that mere wealth and greatness, abstracted from merit and virtue, deserve our respect.' (TMS I.iii.3.4) In Smith's theory, although we have original passions, moral sentiments are

shaped by the attitudes of people. Hence ‘this disposition to admire, and almost to worship, the rich and the powerful, and to despise, or, at least, to neglect persons of poor and mean condition, though necessary both to establish and to maintain the distinction of ranks and the order of society, is, at the same time, the great and most universal cause of the corruption of our moral sentiments’ (*TMS* I.iii.3.1) How does admiration lead to corruption? Blind admiration of the wealthy and the great tends to make people overlook or excuse their misdeeds. This in turn subverts the rules of justice on which the social order rests.

The yearning for the respect and admiration of mankind is universal among us. There are two roads that lead to this goal: ‘the one, by the study of wisdom and the practice of virtue; the other, by the acquisition of wealth and greatness’. (*TMS* I.iii.3.2) Smith does not say that these are mutually exclusive paths but thinks that the latter road attracts persons because ‘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’. (*Ibid*) He further warns that the respect for wisdom and virtue and the respect for wealth and greatness though no doubt different, ‘in the general air of the countenance, they seem to be so very nearly the same, that inattentive observers are very apt to mistake the one for the other’. (*Ibid*) Smith may well have been describing today’s celebrity culture of a segment of society that is spellbound by the lives of the rich and famous.

Whereas virtue and justice are undermined internally by the blind admiration of wealth and greatness, in some societies, their rulers also destroy them externally. This is the second theme of the chapter. It is about the perennial problem of absolute power that allows rulers to bend the law to their own momentary will. Smith writes:

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, by murder and assassination, by rebellion and civil war, to supplant and destroy those who oppose or stand in the way of their greatness. (*TMS* I.iii.3.6)

This is a criticism of a form of government that in Smith's time was no longer the feature of the British polity. It is a condemnation of absolute monarchy and oligarchy more typical of Versailles than St James. Rulers who assume arbitrary power by foul means hope that they can win respect by their future actions and grandeur of office and they are assisted in this effort by the sycophants and courtiers, 'the insolent and insignificant flatterers who commonly figure the most in such corrupted societies'. (Ibid) Smith thinks, wishfully in my view, that evil rulers will be punished by perpetually tortured conscience. (*TMS* I.iii.3.8) History shows little evidence of that.

So, what kind of society can withstand the internal and external pressures on justice, the indispensable condition for trade and industry? Clearly it is one where rulers lack arbitrary powers and they, like the citizens, are subject to the rules of justice. Thus, external constitutional constraints of the type that evolved in 18th century England and in the American Colonies are desirable. The 'middling and inferior stations of life' provide the bulwark against internal corruption of justice and virtue.

In all the middling and inferior professions, real and solid professional abilities, joined to prudent, just, firm, and temperate conduct, can very seldom fail of success. Abilities will even sometimes prevail where the conduct is by no means correct. Either habitual imprudence, however, or injustice, or weakness, or profligacy, will always cloud, and sometimes depress altogether, the most splendid professional

abilities. Men in the inferior and middling stations of life, besides, can never be great enough to be above the law, which must generally overawe them into some sort of respect for, at least, the more important rules of justice. The success of such people, too, almost always depends upon the favour and good opinion of their neighbours and equals; and without a tolerably regular conduct these can very seldom be obtained. The good old proverb, therefore, That honesty is the best policy, holds, in such situations, almost always perfectly true. In such situations, therefore, we may generally expect a considerable degree of virtue; and, fortunately for the good morals of society, these are the situations of by far the greater part of mankind. (*TMS* I.iii.3.5)

Smith was echoing an opinion prevalent then as now that the middle and lower middle classes held the key to the stability and prosperity of societies. Rules of justice are firm when middle classes form a critical mass. These classes have most to gain by the rule of law. They are property owners engaged in productive occupations. They need the protection of the fundamental rules that protect liberty and property and uphold bargains. They have no power to elevate themselves above the law. What are these rules of justice and how do they emerge?

Justice – the moral foundation of trade

The message of the *Wealth of Nations* is that trade is the means to national prosperity. Trade is the antithesis of robbery, whether by individuals or by the state. Where there is no security of person and property and no sanctity of contract, there will be little trade. These things are secured by the rules of justice. *TMS* offers a theory of how these rules are possible and how they are formed. Smith's starting point, as already discussed' is the original passions of man, of which sympathy or fellow feeling is the most important for the generation of rules of justice. How does sympathy coagulate into rules of justice?

Smith initially distinguished between two types of moral judgment. The first is the judgment of the *propriety or impropriety* of a person's passions in responding to events. Assume that A steals B's wallet containing a small sum of money. B is properly upset and resentful. However, if B reacts with excessive grief as if he has lost his entire fortune, his behaviour may be judged by others to be improper. Or else, if B is boastful of some achievement or good fortune, his reaction will be judged by others to be improper. The second type of moral judgment relates to the *merits and demerits* of actions. This is the judgement about the proper reward or punishment for an act.

How should judgments about propriety or just deserts be made? Smith argues that moral judgment is that made from the point of view of the impartial spectator. Why the impartial spectator? Smith's argument proceeds as follows. Sympathy or fellow feeling is a universal instinct. A person can have sympathy for another only if the person can imagine the feelings of the other. (Griswold, 1999: 339-41) We cannot get into the mind of another. So we imagine his feelings by the way we ourselves would feel in his situation. 'To approve or disapprove, therefore, of the opinions of others is acknowledged, by every body, to mean no more than to observe the agreement or disagreement with our own'. (*TMS* I.i.3.2) Assume that W sees A stealing B's wallet. W has sympathy for B because W knows that he will feel the same way if he was the victim. Likewise W can sympathise with B's anger. However, a person can never fully associate with the feelings of another. W's resentment of A's act is likely to be somewhat weaker than B's own resentment of it. Hence overreaction will not meet with W's approval. The aggrieved person therefore is advised to attune his passion to the level of an impartial spectator if he is to gain his sympathy. 'He can only hope to obtain this [sympathy] by lowering his passion to that pitch, in which the spectators are capable of going along with him'. (*TMS* I.i.4.7) Thus moral judgment about propriety and impropriety

of an action is that of the impartial spectator who has no particular positive or negative relation to the parties directly involved. Likewise proper judgment about reward or punishment for the act of theft is that of the impartial spectator. B may feel that A deserves life imprisonment but he will not find much sympathy for this from the impartial spectator.

There are of course instances when the judgment of the impartial spectator within us is overruled by the real spectators without. We may think in good conscience that we have done the right thing only to be shocked by the disapproval of our peers.

But in this and in some other cases, the man within seems sometimes, as it were, astonished and confounded by the vehemence and clamour of the man without. The violence and loudness, with which blame is sometimes poured out upon us, seems to stupefy and benumb our natural sense of praise-worthiness and blame-worthiness; and the judgments of the man within, though not, perhaps, absolutely altered or perverted, are, however, so much shaken in the steadiness and firmness of their decision, that their natural effect, in securing the tranquillity of the mind, is frequently in a great measure destroyed. We scarce dare to absolve ourselves, when all our brethren appear loudly to condemn us. The supposed impartial spectator of our conduct seems to give his opinion in our favour with fear and hesitation; when that of all the real spectators, when that of all those with whose eyes and from whose station he endeavours to consider it, is unanimously and violently against us. In such cases, this demigod within the breast appears, like the demigods of the poets, though partly of immortal, yet partly too of mortal extraction. When his judgments are steadily and firmly directed by the sense of praise-worthiness and blame-worthiness, he seems to act suitably to his divine extraction: But when he suffers himself to be astonished and confounded by the judgments of ignorant and weak man, he discovers his connexion

with mortality, and appears to act suitably, rather to the human, than to the divine, part of his origin. (*TMS* III.2.32)

Our judgments about right and wrong are thus edited by public opinion. Where public opinion fails to overrule our conscience, ‘the only effectual consolation of humbled and afflicted man lies in an appeal to a still higher tribunal, to that of the all-seeing Judge of the world, whose eye can never be deceived, and whose judgments can never be perverted’. (*TMS* III.2.33) These passages again demonstrate Smith’s empiricist and evolutionary method. Moral sentiments are drawn not from mystical sources but from attitudes of interacting self-interested persons. We may in good conscience defy the judgments of fellow men and women but it is they and not the all-seeing Judge that determine morals on earth.

In Part I of the book, Smith discusses at great length the degrees of different passions that are consistent with propriety. Smith identifies passions that arise from the appetites of the body or sensory factors (hunger, sexual urge, pain), from imagination (romantic love), unsocial passions (hatred and resentment), social passions (generosity, kindness,) selfish passions (self-centred grief and joy). The impartial spectator will draw the line of propriety at different points in relation to different passions. Two categories of passions are particularly significant in Smith’s moral system. First, a person who controls the passions that arise from bodily appetite displays the virtue of *temperance* for which he gains public approbation. Second, a person who is kind, generous and helpful engages in the virtue of *beneficence*. Whereas temperance is mainly about self-control and does not directly concern others, the effects of *beneficence* like those of *justice* extend to others.

Parts II and III of *TMS* contain Smith’s most important contribution to moral philosophy from the classical liberal standpoint. They deal with the two main ‘outward’ moralities: justice and beneficence. Sympathy is the origin of the ideas of beneficence and of

justice. The absence of beneficence or of the sense of justice in a person evokes disapprobation. However it is only unjust conduct that inspires the stronger feeling of resentment and leads to the demand for retribution. This is a critical distinction. Beneficence involves positive action whereas justice is concerned with the breach of negatively expressed prohibitions. That one should show charity to a victim of misfortune is a principle of beneficence. That one should not steal another's property is a rule of justice. Smith rejected the notion of social justice. He wrote: 'Beneficence is always free, it cannot be extorted by force, the mere want of it exposes to no punishment; because the mere want of beneficence tends to do no real positive evil'. (*TMS* II.ii.1.3) A person could be just without being beneficent. 'We may often fulfil all the rules of justice by sitting still and doing nothing'. (*TMS* II.ii.1.9)

Formation of the rules of justice

According to Smith, the sense of justice is also rooted in sympathy. The impartial spectator identifies with the pain of the victim of violence and approves of his desire for punishment though not to the same extent as the victim desires. How does the sense of justice, which is hardwired in us, give rise to rules of justice? The answer is found in another aspect of human nature – the tendency to self-deceit. As previously mentioned, Smith had an evolutionary view of the emergence of social order. Rules arise because our sense of justice fails us when we most need it. This is when we have to judge our own actions. We cannot stop and make reasoned judgments before every action not only because we often act on the spur of the moment but also because our judgments are coloured by our own passions. If we reflect upon our actions afterwards, we are prone to forgive ourselves. This flaw in our nature is overcome by other instincts that allow us to identify the proper rule of conduct. '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'. (*TMS* III.4.7) The coincidence of these individual perceptions leads to the crystallisation of rules of just conduct. Rules were not originally established by a designer with prescience but grew through the accumulation of experience. Smith wrote:

It is thus that the general rules of morality are formed. They are ultimately founded upon experience of what, in particular instances, our moral faculties, our natural sense of merit and propriety, approve, or disapprove of. We do not originally approve or condemn particular actions; because, upon examination, they appear to be agreeable or inconsistent with a certain general rule. The general rule, on the contrary, is formed, by finding from experience, that all actions of a certain kind, or circumstanced in a certain manner, are approved or disapproved of. (*TMS* III.4.8)

This is the quintessential evolutionary argument. However, the persistence of general rules involves another element. Rules of justice exist because most people observe them voluntarily most of the time. The element of observance is supplied by the virtue of self-command – the virtue that Smith considers to be the fountain of all other virtues. Knowledge of the rules of conduct alone will not secure their observance. Self-interest seduces people to violate the rules that they know and approve. It is self-command that suppresses our immediate temptations and directs us to the observance of the rules of justice. (*TMS* VI.iii.4) The importance of self-command reveals again the profound influence of Stoic philosophy particularly of Epictetus and Marcus Aurelius. (Raphael and MacFie, 1982)

Smith's account of the emergence of rules is consistent with modern game theory that attributes the evolution of cooperation to the dominance of the 'tit for tat' strategy. (Axelrod, 1984) According to Smith, it is the anticipation of disapproval or 'tit for tat' that leads us to

form the rules of proper conduct. The rules so formed have no author. They are what Ferguson famously called 'the result human action, but not the execution of any human design'. (Ferguson, 1767/1966: 122) Not every grown rule will turn out to be just. Local custom and fashion may enhance or negate justice. When local custom accords with the natural principles of right and wrong 'they heighten the delicacy of our sentiments, and increase our abhorrence of everything which approaches to evil'. (*TMS* V.2.2) Smith however was acutely aware that localised traditions could often be destructive of morality as they are 'capable of establishing, as lawful and blameless, particular actions, which shock the plainest principles of right and wrong'. (*TMS* V.2.14) He gives as a particularly barbaric example, the custom of infanticide in Greek cities that even Plato and Aristotle failed to condemn. (*TMS* V.2.15)

The limited role of government in relation to moral sentiments

Smith considered that of the two outward moralities of justice and beneficence, justice was the more fundamental to society. The state, he believed has a clear role in the administration of justice. The moral rules of justice are for the most part recognised as legal obligations that in the last resort, the state has a responsibility to enforce. However, Smith did not see a major role for the state in the determination of the rules of justice because they are formed spontaneously through the conversation of mankind. Part VI of the book reveals Smith's thoughts on government. As a Whig, he believed in limited government. He condemned the notion that a ruler knows best what is good for people and that a central plan of government can take care of all aspects of social life. The man of system 'is apt to be very wise in his own conceit' and fails to realise 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 choose to impose upon it'. (*TMS* VI 2.17) Society will be harmonious and successful when the legislature's laws coincide with the expectations of the community and when they do not they lead to misery and disorder. Smith regarded society as a spontaneous order that cannot be micro-managed by a central government. He thought that established powers and privileges and the great orders of society should be tolerated even if they are abusive in some measure. We should try to moderate things that we cannot annihilate without great violence. Likewise we must not try to establish the best system of laws but only the best that people can bear. (*TMS* VI.2.16) Smith's harshest words were reserved for the sovereign prince who erects 'his own judgment into the supreme standard of right and wrong'. (*TMS* VI.2.18)

Smith also cautions against state attempts to promote beneficence. He argues that although the absence of beneficence excites disapprobation, attempts to extort it would be even more improper. He wrote: '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* II.ii.1.8) Smith realised that while beneficence is highly desirable, it couldn't be exacted without jeopardising the more fundamental morality that is justice.

Though Nature, therefore, exhorts mankind to acts of beneficence, by the pleasing consciousness of deserved reward, she has not thought it necessary to guard and enforce the practice of it by the terrors of merited punishment in case it should be neglected. It is the ornament which embellishes, not the foundation which supports the building, and which it was, therefore, sufficient to recommend, but by no means necessary to impose. Justice, on the contrary, 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* II.ii.3.4)

Smith's warning is current as shown by modern research on institutional decay caused by the perverse incentives and moral hazards of the modern state welfare systems. (Becker 1981; Murray 1984; Yankelovich 1994) While both justice and beneficence form the moral capital of society, the state is effective only in the promotion of justice. Beneficence can only be promoted by 'advice and persuasion'. (*TMS* II.ii.1.7) The subordination of beneficence to justice is a key to understanding the harmony of the *Theory of Moral Sentiments* and *The Wealth of Nations*. Smith was clearly and rightly concerned about intemperance and indifference towards poverty in his time. Yet, he saw that the progress of nations is served not by coerced beneficence but the steady observance of the rules of justice that secure the conditions for trade and industry, the means to the wealth of the nations.

Concluding thoughts

In *TMS*, Smith maintains that human beings by nature have the instinct of sympathy or fellow feeling. In the *Wealth of Nations* Smith demonstrates that self-interest is the ultimate cause of the wealth of nations and that a system of free trade is the best path to prosperity. The German economist August Oncken perceived the 'Adam Smith Problem' and more recently it has been a fashionable theme in Smith scholarship. As argued in this essay, the 'Adam Smith Problem' is not a real problem for the following four reasons.

First, Smith in *TMS* was very clear about the primacy of self-interest over sympathy. He wrote: '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 any other person'. (II.i.2.1) *Second*, sympathy and self-interest are not inconsistent. What saves man from the Hobbesian state of nature (a state of war that pits every person against every other person) is the instinct of sympathy. A person can relate to another's misery as well as his joy. This capacity, far from obstructing our individual interests, actually advances them. Without social harmony our gains will be short lived. Our own lives as well as those of our relatives and descendants will be in constant jeopardy. Moreover, as Paganelli points out self-interest plays a positive role in the development of virtues and the enforcement of moral rules. (Paganelli, 2008: 369-70) *Third*, trade is impossible without stable rules that protect life, liberty and property. Try to imagine a system of commerce where robbers rule the highways and pirates rule the high seas or, where traders routinely break their contracts. Trade is impossible without the rules of justice and rules of justice are impossible without sympathy. *Fourth*, sympathy fuels self interest. Let us not forget that Smith's idea of sympathy includes the propensity to applaud the success and fortune of others. People not only extend sympathy but also desire sympathy. Smith thought that people aspire to riches and fame beyond what is necessary for a comfortable life because they yearn for the adulation of others. It is sympathy in this broader Smithian sense that drives the nation to greater prosperity. Smith may have oversimplified the reasons for personal ambition, but his reasoning shows the fictitious nature of the 'Adam Smith Problem'.

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