

# Adam Smith's Marketplace of Life

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## Introduction

The Scottish Enlightenment has received a great deal of scholarly attention over the past few decades, and Adam Smith's work in particular has seen increasing interest.<sup>1</sup> This interest in Smith has been not only from economists but also from political scientists, historians, sociologists, and English professors—but, curiously enough, not philosophers. With only a few notable exceptions (and most of these fairly recent), philosophers have tended to pay little attention to Smith, perhaps believing that anything philosophically interesting Smith might have had to say was probably already said by Hume—and no doubt better. But even putting to one side the influential historical role Smith's work has played, it turns out upon examination that Smith is a surprisingly sophisticated philosopher in his own right, his moral philosophy in particular displaying an impressive subtlety and penetration. Smith hence merits and deserves more attention from philosophers today. This book is one step toward fulfilling that obligation.

Smith's *The Theory of Moral Sentiments* (TMS) is one of the great works in the history of moral philosophy, and although study of it has formed a central part of this recent scholarship, what is still required is a sustained examination of the book's overall argument, of the model it proposes to account for the growth and development of human institutions, and of the relation this model bears to Smith's other principal

<sup>1</sup> In just the last few years, several major studies have appeared, including Brown (1994), Fitzgibbons (1995), Griswold (1999), and Muller (1993).

works. That is what this I propose to do here. I begin by offering a systematic examination and evaluation of TMS as a philosophical work. In the process, I present and build a case for a novel interpretation of Smith's project in TMS, and I then indicate how on my interpretation this project links up with Smith's other work, including in particular his *An Inquiry into the Nature and Causes of the Wealth of Nations* (WN) and an early essay on the origin of languages, suggesting a way to understand these central parts of Smith's corpus as successive steps in a single project. I should note at the outset, however, that the examination of those latter works is not intended to be systematic or complete; it is introduced rather to supplement and illuminate the examination of TMS and the model it proposes. I shall also be less concerned to establish or trace historical precedent or influence, or to situate Smith and his work in his historical or cultural context. I have occasion to discuss a handful of other thinkers—Hume foremost among them, for obvious reasons—but only when the comparison or contrast is instructive in getting at Smith's view; similarly, historical events in or around Smith's lifetime are introduced, but only when they help us understand Smith's argument. Smith wrote TMS as a work of philosophy—not of economics, history, or literature—and it should stand or fall on its merits as such. I think that it largely withstands philosophical scrutiny and that it enables a new, and plausible, understanding of parts of Smith's larger scholarly project. I hope to show not only that TMS deserves to be part of the canon of great eighteenth-century moral philosophy, but also that Smith's work reveals that he was a keener and more systematic social philosopher than he might at first blush seem to be.

### The Recurring “Adam Smith Problem”

In the century after Smith's death, such a number of scholars noted and commented on a particular issue regarding his writings that it became known as the “Adam Smith Problem.” The problem was this: how could the same person who wrote *The Theory of Moral Sentiments*, which apparently established a natural “sympathy” as the cement of human society, go on to write *The Wealth of Nations*, which seemed to argue that economic policy should be predicated on the assumption that people are fundamentally self-interested? The problem became quite celebrated, with a number of commentators arguing that the

pictures of human nature presented in the two books were simply inconsistent. The explanation usually offered for the inconsistency was that Smith changed his mind in the years between the time *TMS* was first published (1759) and the time *WN* was published (1776), probably during the period of the middle 1760s, when he spent time with and came under the influence of a group of free-trade-oriented thinkers in France known as the Physiocrats.

Around the beginning of the twentieth century, however, the scholarly tide turned. August Oncken, Edwin Cannan, John Rae, and a few others argued that the problem those previous commentators pressed was based on several confusions. First, in his two books Smith was discussing two different arenas of human life—moral relations and economic relations—and hence he understandably ascribed different motivations to people in those two different arenas. Smith was not giving two exhaustively independent descriptions of human nature and proper human motivation in the two books, but only describing parts of human nature and motivation in each; that meant the books were not at odds, but, rather, complementary. Second, Smith's examination in *TMS* includes an extended discussion of the virtue of prudence and its proper role in a virtuous person's life; since prudence is a self-regarding virtue, this shows that Smith was well aware, already in *TMS*, of the important role of self-interest in some areas of human life. Hence the introduction of self-interest in *WN* is not a novelty in Smith and does not indicate a change of mind. Third and finally, Smith did not in any case argue in *TMS* that sympathy for others was a motive to action. The sympathy of which Smith speaks in *TMS* is rather a "concord" or "harmony" of sentiments between an agent and a spectator to the agent's conduct. Our desire for what Smith terms a "mutual sympathy of sentiments" is indeed a natural human motive to act, but Smithian sympathy itself is not a desire, passion, or motive and hence cannot conflict with other motives to act. After these clarifications are made, it turns out, these later scholars argued, that there was no Adam Smith Problem at all. With only a handful of exceptions, this issue today is generally regarded by Smith scholars as settled in favor of Smith's consistency. Knud Haakonssen, for example, dismisses the topic altogether by calling it an "old hobby-horse."<sup>2</sup>

<sup>2</sup> Haakonssen (1981), 197.

Yet at the risk of riding the old hobby-horse again, I would like to suggest that the Adam Smith Problem has not yet been resolved adequately. I agree with twentieth-century scholars that a proper understanding of Smith's project in both TMS and WN, but in TMS particularly, resolves the alleged problem, but I do not think that any of them has yet provided an account that adequately addresses the most challenging aspects of the problem.

The Familiarity Principle, the Market,  
and Unintended Systems of Order

I shall argue that both of Smith's great works reveal that he was conscious of a fundamental characteristic of human nature, a characteristic Smith laid out, examined, and defended in TMS and then presumed and applied in WN. The characteristic is this: the natural interest that people have in the fortunes of others is informed and modulated by the knowledge they have of one another. The degree to which I can understand and therefore sympathize with your motives and your actions depends on the degree to which I know what your circumstances, passions, and interests are and whether I judge your motives and actions to be proper in light of them. We know more about the people we encounter in some situations than we know about the people we encounter in others, and our judgments of them reflect our level of familiarity in each case. It turns out that in cases dealing with strangers or near strangers we approve of behavior predominantly motivated by self-interest—as long as it is in accordance with justice, which Smith thinks prescribes the rules of behavior necessary for the survival of any community. In cases dealing with acquaintances, friends, or family members, however, we approve of behavior that not only accords with justice but that also reflects an ascending level of benevolence and hence a descending level of self-interest. Smith argues in TMS not only that the benevolence we naturally feel toward others varies directly with our level of familiarity with them—the more familiar, the more benevolent; and vice-versa—but also that it is morally proper that our behavior toward others should be motivated in this way. I call the combination of these two claims Smith's "familiarity principle."

But how exactly do we determine what motivations are proper in each case? The fact that our judgments of others are affected by our

familiarity with them, in conjunction with certain other assumptions about human nature (which will have to be sorted out), leads, according to Smith, to people judging their own and others' behavior from the standpoint of an impartial spectator. Smith argues that people have access only to their own experience; experience is essentially private. Yet they have an innate desire that Smith calls the desire for "mutual sympathy of sentiments." People take pleasure when they recognize that their own sentiments correspond with those of other people, Smith thinks, and this desire for mutual sympathy impels them to find some means to bridge the gap that results from the privacy of their respective bodies of experience. To understand the sentiments of another person, to bridge this gap, Smith thinks that we imaginatively change places with this "person principally concerned," and that we imagine what we would feel if we were in his shoes. We then judge whether our imagined sentiments are commensurate with the actual sentiments of this person. The spectator bases his moral judgment of the actor and the actor's behavior on whether his own sentiments correspond with those of the actor: when a concord or "sympathy" between their sentiments occurs, the spectator renders a favorable judgment; when a discord or "antipathy" occurs, the spectator renders an unfavorable judgment. But the judgments of spectators are often partial and biased as a result of their limited knowledge of the agents' situations, their lack of first-hand knowledge of the agents' actual sentiments, and perhaps also to their reluctance, for whatever reason, to consider the agent's situation in its full detail. Since we are all at various times both spectators and actors, however, each of us has known the unpleasantness of not having his sentiments "echoed" in others. Thus the continuing desire for mutual sympathy pressures us to devise a tool that will not only help us to temper our own sentiments so that they correspond with those who are spectators of our conduct but also help us to engage those spectators' sentiments to correspond with our own. This tool, Smith thinks, is the impartial spectator.

Employment of the impartial spectator as the basis of our judgments of one another leads for Smith to the establishment of an unintended system of moral order reflecting our basic social motivations—the desire for mutual sympathy and the drive to better our condition in life. The desire for mutual sympathy results, by way of what I call the "impartial spectator procedure," in the gradual establishment of the



general rules of morality. These rules act as a formal order or structure of the system of moral judging that emerges completely unintentionally, but nevertheless inexorably, as a result of everyone's employing the impartial spectator procedure and modifying his judgments and behavior in terms of it. It turns out that the impartial spectator procedure is itself informed by a continual exchange of information among the people who have contact with one another regarding their sentiments and their judgments of people's sentiments; the established and accepted rules of morality reflect the ever-changing but nevertheless orderly general consensus among these people as to what behavior is proper and what is improper. The other basic motivation, the drive to better our condition in life, leads people to coordinate their respective pursuits by means of economic markets. In this case, it is these marketplaces of exchange that constitute an unintentional yet orderly structure for interactions. By buying and selling certain products at certain prices, people communicate to each other their interests and desires, and the markets that emerge are merely the result of individuals bartering and trucking for their own mutual advantage.

Smith's central idea, which I think is also his most important, is that an unintended, or "spontaneous,"<sup>3</sup> order emerges from people acting on these two basic, natural drives, an order that they did not consciously intend to create but that nevertheless unfolds on its own and serves both to strengthen the interpersonal bonds and increase the wealth of the community. The tool that enables the unintended order to emerge is the impartial spectator, and my contention is that, for Smith, the general rules of morality and the general rules and regulations of economic markets are analogous in the sense that they develop, change, and are sustained by the interactions and mutual exchanges of information among the people of the relevant communities as they strive to satisfy their interests in cooperation with one another. Smith thinks that the rules and protocols that flow from these exchanges then become gradually internalized in each individual. Thus the unintended orders of morality and of economic markets

<sup>3</sup> I prefer the term "unintended order" to the more familiar "spontaneous order" because the former conveys that the system of order was not anyone's intentional design without suggesting, as "spontaneous" might, that there is no way to account for the creation of the system.

are self-regulating because each individual disciplines his own actions according to this internalized impartial spectator, which he consults when judging his own behavior. This personal internal spectator is then what we refer to as our “conscience.” On this interpretation of Smith, the various motives and behaviors of people in all areas of life result from their using the impartial spectator procedure to guide them, modulated by their familiarity with the people with whom they interact in various situations. Thus the people Smith describes in TMS and WN, far from operating on the basis of fundamentally inconsistent natures, turn out on examination to have a single and constant nature that reflects their natural desires for mutual sympathy and a better condition in life. In TMS, Smith focuses his attention on the desire for mutual sympathy and the unintended order to which it leads, namely, the general rules of morality; in WN, he concentrates on the desire for better conditions in life and the unintended order to which it leads, namely, economic markets.

But I shall argue that Smith’s general notion of a market forms the background for the conceptions of human interactions he describes in both TMS and WN. Indeed, I think the concept of a market explains the development of all human social customs and institutions for Smith. The overarching unintended order is that set out in TMS, but it manifests itself in various areas of community life in terms of unintended suborders. The exchange of goods of production—the marketplace—is one such suborder, a particularly important one because it covers perhaps the greatest range of human interactions among all the suborders (second only to the overall order of morality). Other suborders might be, for example, the accepted and commonly endorsed rules of behavior that govern academic professors in their interactions with one another, professional athletes in their interactions with one another, subscribers to particular religious faiths in their interactions with one another, and so on. In all the various cases, the proper codes of motivation and behavior are determined by the impartial spectator procedure, but only as it is informed by the actual spectator’s knowledge of the particular situation and the people involved, and as it is prompted by the two basic human desires. The particular suborder in which one is interacting with others sets the parameters for the impartial spectator procedure, and the result of the procedure will be heavily influenced by how well one knows the people

with whom one is interacting. The codes of behavior obtaining in the various suborders can then be understood, I argue, in terms of Smith's conception of a market—unintended orders that naturally emerge from the free, everyday interactions of people with one another as they strive to satisfy their interests.

### Plan of the Work

My study begins with an explication of the central elements of Smith's moral theory. Each of the first two chapters is divided into two sections, representing what I take to be the four central parts of Smith's moral theory. In the first section of Chapter 1, I examine Smith's notion of sympathy and the technical way in which he uses that term. I lay out the role sympathy plays in Smith's theory, including the role he thinks it plays in passing moral judgments. Smith's conception of human sympathy is not the same as that of Hume, although the two are sometimes conflated; I take some time in this section to specify in what ways Smith's conception is unique. In the second section, I lay out what I call Smith's "impartial spectator procedure," that is, the process by which we arrive at moral judgments. In this section, I discuss in detail the nature of Smith's "impartial spectator," including the controversial issue of whether the impartial spectator represents a perfect ideal or whether he represents any informed, but impartial, person. I argue that he represents the latter. I also discuss the role considerations of utility play in the passing of Smithian moral judgments, again taking care to distinguish Smith's view from that of Hume—in part because Smith takes pride in the belief that his view corrects and is superior to Hume's on this count. In the first section of Chapter 2, I look at Smith's explanation of the human conscience, or the inner voice we all have that seems somehow to know right from wrong. In this connection, I have occasion to discuss how Smith thinks that the "general rules of morality" come to be formed and whence they derive their authority over us. I show how on Smith's analysis the conscience is an internalization of the impartial spectator and of the general rules by which the impartial spectator procedure functions. Chapter 2 concludes with a discussion of Smith's general conception of human nature and, in particular, those fundamental characteristics that Smith believes not only enable us to form and maintain civil society but also drive us to develop and maintain moral standards.

In Chapter 3, I introduce what I call the “marketplace of morality,” or the mechanism that, according to my reading of Smith, regulates and forms the basis of our moral judgments. I argue that a principal goal Smith had in TMS is to explain how during their lifetimes human beings go from a state of utter amorality as infants to adults with a sophisticated—if often largely unconscious—system of moral principles that both enables them to pass judgment on an impressive array of situations and behaviors and provides extensive common ground between them and the other members of their communities. In this chapter, I trace Smith’s discussion of this natural development of moral standards and moral judgments, as well as his discussion of the development and internalization of the impartial spectator’s viewpoint, and I draw out the underlying conceptual structure of Smith’s account, which I identify as a market model. I then look at some passages in Hume that suggest something like the notion of unintended order that Smith develops later to see what debt, if any, Smith owes to Hume on this count and what differences there are between them. I close the chapter by identifying and briefly addressing some potential problems with the market model.

In Chapters 4 and 5, I address the Adam Smith Problem. I first argue that the problem is not so easily dismissed as some twentieth-century scholars have supposed. To support my position, I look closely at several passages from TMS and WN. I lay out in detail the conception of moral virtue that Smith develops in TMS, including in particular his conception of the motives that are at work in the morally virtuous person. Smith’s conclusion is that moral propriety resides in balancing four principal virtues in one’s life: justice, benevolence, prudence, and self-command. I also call attention to the criticisms Smith offers in TMS of Bernard Mandeville and his “licentious system” of morality, where Smith argues that a moral system is licentious if it holds that all human action is, or—worse yet—ought to be, governed solely by self-interest. I then examine the picture of human motivation that Smith gives in WN, which seems decidedly different from the picture he gave in TMS. My conclusion is that the nineteenth-century critics were on to something, at least as regards the apparent tension between Smith’s two accounts of human motivation. I then look at some important treatments of Smith’s moral philosophy that defend Smith’s consistency, and I show why the reasons for their dismissal of the problem are unsatisfactory. In Chapter 5, I turn to explore the extent to which I believe the problem

can indeed be resolved, given the examination and interpretation of Smith's moral theory offered in Chapters 1–4. I argue that on my interpretation of Smith all important questions about the consistency of the two books are answered: the books are fundamentally consistent insofar as they both develop and utilize Smith's market model for understanding human social institutions, and insofar as the familiarity principle laid out in TMS explains why people acting in economic markets would and should behave the way WN describes.

Chapter 6 addresses the question of whether Smith's theory of moral sentiments is purely descriptive, or whether it is normative as well. The concern here is whether standards of moral judgments, if they are formed in the manner Smith describes, allow for any measure of objectivity. Can they be called transcendentally right—or are they relative to the time or place in which they “unintentionally” developed? Are they inherently or intrinsically right—or are they merely (contingently) efficient? I ask whether Smith sees his theory generally as merely descriptive, or whether he sees our natural moral sentiments as having an ultimate justification beyond the mere fact of their existence. That Smith's theory is descriptive seems indisputable. It is an extended depiction of the process by which mankind make moral judgments—what we would today perhaps consider an exercise in moral psychology. Indeed, in one place Smith explicitly states that he is not concerned with matters of right, but rather with matters of fact.<sup>4</sup> This has led some commentators to argue that Smith is not a moral philosopher at all, but rather what we might call a social scientist. On the other hand, there is a significant amount of discussion in TMS that sounds suspiciously like Smith telling us how people ought to act and how people ought to judge others, not just how they actually and in fact do these things. On the basis of such passages, other scholars have argued that Smith's theory of moral sentiments is normative as well as descriptive. I agree with the latter scholars.

In Chapter 6, I show how the normativity arises as a result of Smith's belief that our moral sentiments, when properly ordered, are natural, and that as such they are part of God's grand benevolent design, which ultimately aims at promoting human happiness. On examination, it turns out that the impartial spectator, the tool that regulates our

<sup>4</sup> TMS, 77, §10.

interactions with one another, tends, as it operates in the marketplace of morality, to produce an equilibrium that is reflective of the natural and tranquil state of mind that Smith thinks constitutes true human happiness, the state in which God intends us to be. Building on the discussion in Chapter 2, I here lay out the full complement of desires, instincts, and inclinations Smith thinks human beings naturally have. It turns out that the happiness Smith thinks we are thus naturally designed to achieve, combined with the natural limitations of the human intellect he thinks we have, enable us to understand Smith's intriguing discussion in TMS of the "man of system," which otherwise seems out of place. The conclusion I draw is that the normativity of Smith's theory is in the form of a hypothetical imperative: given the way you are constructed, if you want to be truly happy, here is what you should do. In this connection I again have occasion to make recourse to Hume, and to look at the way in which he thinks moral judgments are ultimately legitimated. I look at his use of utility and compare it to Smith's treatment, resuming a discussion that was left incomplete in Chapter 1. It will be seen that Smithian utility operates in a way far different from the way in which Humean utility operates: for Smith, unlike for Hume, considerations of utility are not what immediately prompt moral judgments, though utility does play a role—if an unconscious one—in the unintentional process of evolutionary selection of moral standards. I show how Smith's theory in this way conforms to a structure that allows utility to be the ultimate foundation for moral judgments and can thus provide the means to bridge a gap that Hume seems to leave unbridged, namely, that between the individual's private utility and the development of general rules of conduct necessary for the survival and flourishing of communities or society at large. Smith gives us a way to understand how individuals could come to endorse rules that conduce to the overall utility of their communities but that on occasion are adverse to their own individual utility. I then conclude this chapter by showing that for Smith what is in our nature was put there intentionally by God, from which emerges in TMS another level of normativity, beyond the hypothetical imperative: you should obey the long-standing moral rules of your community because in the last analysis they manifest the will of God.

In Chapter 7, I strengthen the case for my "marketplace" interpretation of Smith's moral theory by showing that the same model is

present both in his early essay on the origin of languages and in his other principal work, *The Wealth of Nations*. I also find evidence of this model elsewhere in Smith's corpus, leading me to suggest the larger claim that on Smith's view the market model he developed in TMS correctly describes the creation, growth, development, and maintenance of human institutions generally. I here make explicit the formal elements of this model as they are found in TMS, WN, and the essay on languages.

Finally, after a brief summation of the central parts of my interpretation of TMS and my account of Smith's central goals in it, I close my study by making several reflections on Smith's theory. I first make two general observations about the theory. The first relates to an aspect of the Adam Smith Problem: I suggest that the way markets work according to the argument of WN could be shown to enable the growth and extension of natural benevolence out of actions that are initially prompted only by self-interest. Hence, contrary to what one might have expected, according to Smith's account, allowing the extension of self-interested behavior (within, as always, the bounds of justice) in economic markets can actually lead to an extension of natural affection for and benevolence toward others—indeed, perhaps more so than in other types of economic arrangements. The second observation is connected with what I think is an important failing of Smith's theory as he presents it, namely, its handling of the phenomenon of moral deviancy. Smith has no explicit discussion of this phenomenon, which is a serious omission; nevertheless, there is some material in Smith on which, I argue, a plausible "Smithian" explanation of them can be constructed. I next cite and discuss some intriguing and suggestive recent sociological evidence that tends to support parts of Smith's conception of human nature—and hence, perhaps, his market model for understanding morality and other human social institutions. Finally, I close the book by arguing that Smith's moral theory puts him in the first tier of Scottish Enlightenment thinkers, and I indicate what I think still remain as the most promising parts of Smith's theory.