

# Adam Smith on Sympathy, Equality, Liberty, Justice, Property Rights, Government...

Notes Edited by Heng-Fu Zou

November 2022

Adam Smith's *\*The Theory of Moral Sentiments\**, first published in 1759, stands as a profound exploration of the moral dimensions of human life, delving into the psychological and social mechanisms that underlie our capacity for moral judgment. Although Smith is widely celebrated for his later work, *\*The Wealth of Nations\**, which laid the groundwork for modern economics, it is often suggested that Smith himself considered *\*The Theory of Moral Sentiments\** to be the superior of his two major works. This earlier book critically examines the moral thinking of the time and seeks to explain how human beings, who begin life without inherent moral sentiments, come to develop a conscience and the ability to make moral judgments. Central to Smith's argument is the concept of "sympathy," which he defines as the capacity to understand and share the feelings of others, a process that he believes is fundamental to the formation of moral judgments.

Please notice: Smith, Adam (1790): *Theory of Moral Sentiments, or An Essay towards An Analysis of the Principles by which Men naturally judge concerning the Conduct and Character, first of their Neighbours, and afterwards of themselves, to which is added a Dissertation on the Origin of Languages*. Vol. I (Sixth ed.). London: A. Strahan; and T. Cadell in the Strand; and T. Creech and J. Bell & Co. at Edinburgh.

The *Theory of Moral Sentiments*: 6th Edition (1790) Consists of 7 parts:

Part I: Of the propriety of action

Part II: Of merit and demerit; or of the objects of reward and punishment

Part III: Of the foundations of our judgments concerning our own sentiments and conduct, and of the sense of duty.

Part IV: Of the effect of utility upon the sentiments of approbation.

Part V: Of the influence of custom and fashion upon the sentiments of moral approbation and disapprobation.

Part VI: Of the character of virtue Part VII: Of systems of moral philosophy

Smith's theory of sympathy is central to his understanding of how individuals develop moral sentiments. He begins by arguing that, contrary to the assumption that humans are primarily selfish, there exist "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." This

statement from the opening of *\*The Theory of Moral Sentiments\** sets the stage for Smith's exploration of sympathy as a natural human tendency. Sympathy, in Smith's view, is not merely a feeling of pity or compassion but a broader capacity to resonate with the emotions and experiences of others. This capacity allows individuals to connect with one another on a deeper level, forming the basis for mutual understanding and moral judgments.

One of the key ideas in Smith's work is the concept of the "mutual sympathy of sentiments." Smith argues that individuals, through their interactions with others, become aware of how their actions are perceived and judged by those around them. This awareness fosters a desire for what Smith calls "mutual sympathy of sentiments"—a state in which one's feelings and behaviors are in harmony with those of others. This desire for social harmony and approval is a powerful motivator that shapes individual behavior. Smith elaborates on this idea by explaining, "We endeavour to examine our own conduct as we imagine any other fair and impartial spectator would examine it. If, upon placing ourselves in his situation, we thoroughly enter into all the passions and motives which influenced it, we approve of it by sympathy with the approbation of this supposed equitable judge." In this passage, Smith introduces the concept of the "impartial spectator," a mental construct that individuals use to evaluate their own actions from the perspective of an objective observer. It is through this process of internalizing the judgments of others that people develop their moral sensibilities.

Smith's exploration of how moral conscience is formed is one of the most innovative aspects of *\*The Theory of Moral Sentiments\**. He argues that conscience is not an innate trait but rather a product of social interactions and the desire for mutual sympathy. As individuals navigate their social environments, they receive feedback—both real and imagined—on their behavior, which in turn shapes their understanding of what is considered right or wrong. Over time, these interactions lead to the formation of habits of behavior that are consistent with societal expectations. These habits eventually solidify into moral principles, which Smith identifies as the conscience. He describes this process in a particularly vivid passage: "When I endeavour to examine my own conduct, when I endeavour to pass sentence upon it, and either to approve or condemn it, it is evident that, in all such cases, I divide myself, as it were, into two persons; and that I, the examiner and judge, represent a different character from that other I, the person whose conduct is examined into and judged of." This quote illustrates Smith's idea of the internal dialogue that individuals engage in as they assess their own actions through the lens of the impartial spectator, leading to the development of a moral conscience.

Central to Smith's theory is the notion that moral sentiments arise from "dynamic and interactive social relationships." Smith posits that moral development is an ongoing process, one that depends heavily on continuous engagement with others. Through these interactions, individuals not only refine their moral judgments but also adjust their behavior to align more closely with the norms and expectations of their community. This idea is captured in Smith's observation that "Society... is the mirror in which man first sees himself, and

without which it would be impossible for him ever to form any just conception of what he himself is." Here, Smith underscores the importance of social feedback in the formation of self-awareness and moral understanding. It is through society—through the mirror it provides—that individuals come to understand themselves and develop the capacity for moral reasoning.

In summary, Adam Smith's *The Theory of Moral Sentiments*\* offers a profound and nuanced analysis of how individuals develop moral judgments through social interactions and the process of sympathy. By imagining themselves in the place of others and internalizing the judgments of an "impartial spectator," individuals learn to align their behavior with societal expectations, leading to the development of a conscience. This work, which Smith continued to revise throughout his life, provides a rich exploration of the human capacity for moral reasoning, rooted in the social nature of human beings. While *The Wealth of Nations*\* has overshadowed this earlier work in terms of influence, *The Theory of Moral Sentiments*\* remains a crucial text for understanding Smith's broader philosophical and moral vision.

[In *The Theory of Moral Sentiments*\* (1759), Adam Smith explores the nature of morality and the formation of moral judgments. This work, which Smith himself reportedly valued more highly than his later and more famous work *The Wealth of Nations*\*, delves into the psychological and social mechanisms by which individuals develop a sense of right and wrong. Smith's analysis in this book is centered on the concept of "sympathy," which plays a crucial role in how people understand and respond to the feelings and actions of others.

1. **Sympathy and Moral Judgments:** - **Sympathy as a Central Concept:** Smith's theory of sympathy is foundational to his understanding of moral sentiments. Sympathy, in Smith's usage, refers to the process by which individuals imaginatively project themselves into the situations of others and experience a form of fellow-feeling with them. This is not limited to feelings of pity or compassion but includes a broader capacity to resonate with the emotions, experiences, and judgments of others. - **Smith's Words on Sympathy:** Smith writes, "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" (*The Theory of Moral Sentiments*\*, Part I, Section I, Chapter I). This passage reflects Smith's belief that humans are naturally inclined to care about the well-being of others through the mechanism of sympathy.

2. **Mutual Sympathy of Sentiments:** - **Dynamic Social Interactions:** According to Smith, individuals are constantly engaged in social interactions where they observe the behaviors and reactions of others. Through this process, people become aware of how others judge their actions, and they begin to internalize these judgments. Smith suggests that individuals naturally desire the "mutual sympathy of sentiments," meaning that they seek to align their feelings and behaviors with those of others to achieve social harmony and approval. - **Smith on Social Approval:** Smith explains this process by stating, "We endeavour to examine our own conduct as we imagine any other fair and impartial

spectator would examine it. If, upon placing ourselves in his situation, we thoroughly enter into all the passions and motives which influenced it, we approve of it by sympathy with the approbation of this supposed equitable judge" (\*The Theory of Moral Sentiments\*, Part III, Chapter 1). Here, Smith describes how individuals come to form moral judgments by imagining the perspective of an "impartial spectator," an internalized version of the societal viewpoint.

3. **Conscience and Moral Development:** - **Formation of Conscience:** Smith argues that conscience is not an innate trait but rather develops over time through social interactions and the desire for mutual sympathy. As individuals receive feedback from others—whether real or imagined—they begin to understand the expectations of society and gradually form habits of behavior that align with these expectations. Over time, these habits solidify into principles that guide moral conduct, which Smith identifies as the conscience. - **Smith on Moral Development:** Smith articulates this process by saying, "When I endeavour to examine my own conduct, when I endeavour to pass sentence upon it, and either to approve or condemn it, it is evident that, in all such cases, I divide myself, as it were, into two persons; and that I, the examiner and judge, represent a different character from that other I, the person whose conduct is examined into and judged of" (\*The Theory of Moral Sentiments\*, Part III, Chapter 1). This quote illustrates Smith's concept of the internal dialogue between an individual's actions and the imagined judgment of society, which forms the basis of conscience.

4. **The Role of Social Relationships:** - **Interactive Relationships:** Smith emphasizes that moral sentiments arise from "dynamic and interactive social relationships." This means that moral development is an ongoing process that depends on continuous engagement with others. Through these interactions, individuals refine their moral judgments and adjust their behavior to align more closely with the norms and expectations of their community. - **Smith on Social Interactions:** Smith notes, "Society... is the mirror in which man first sees himself, and without which it would be impossible for him ever to form any just conception of what he himself is" (\*The Theory of Moral Sentiments\*, Part III, Chapter 2). This passage underscores the idea that self-awareness and moral judgment are deeply rooted in social interactions and the feedback we receive from others.

Thus, Adam Smith's \*The Theory of Moral Sentiments\* presents a sophisticated analysis of how moral judgments are formed through social interactions and the process of sympathy. Smith argues that our moral conscience develops over time as we seek to achieve mutual sympathy with others, internalizing their judgments and forming principles that guide our behavior. This work reflects Smith's deep interest in the psychological and social foundations of morality, offering insights that complement his later economic theories in \*The Wealth of Nations\*. While \*The Wealth of Nations\* is often considered Smith's most influential work, \*The Theory of Moral Sentiments\* provides a rich exploration of the human capacity for moral reasoning, grounded in the social nature of human beings.]

Smith departed from the "moral sense" tradition of Anthony Ashley-Cooper,

3rd Earl of Shaftesbury, Francis Hutcheson, and David Hume, as the principle of sympathy takes the place of that organ. "Sympathy" was the term Smith used for the feeling of these moral sentiments. It was the feeling of understanding the passions of others. It operated through a logic of mirroring, in which a spectator imaginatively reconstructed the experience of the person he watches:

"As we have no immediate experience of what other men feel, we can form no idea of the manner in which they are affected, but by conceiving what we ourselves should feel in the like situation. Though our brother is on the rack, as long as we ourselves are at our 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. Neither can that faculty help us to this any other way, than by representing to us what would be our own, if we were in his case. It is the impressions of our own senses only, not those of his, which our imaginations copy. By the imagination, we place ourselves in his situation ..."

However, Smith rejected the idea that Man was capable of forming moral judgements beyond a limited sphere of activity, again centered on his own self-interest:

"The administration of the great system of the universe ... the care of the universal happiness of all rational and sensible beings, is the business of God and not of man. To man is allotted a much humbler department, but one much more suitable to the weakness of his powers, and to the narrowness of his comprehension: the care of his own happiness, of that of his family, his friends, his country.... But though we are ... endowed with a very strong desire of those ends, it has been entrusted to the slow and uncertain determinations of our reason to find out the proper means of bringing them about. Nature has directed us to the greater part of these by original and immediate instincts. Hunger, thirst, the passion which unites the two sexes, and the dread of pain, prompt us to apply those means for their own sakes, and without any consideration of their tendency to those beneficent ends which the great Director of nature intended to produce by them"

"The rich only select from the heap what is most precious and agreeable. They consume little more than the poor, and in spite of their natural selfishness and rapacity, though they mean only their own conveniency, though the sole end which they propose from the labours of all the thousands whom they employ, be the gratification of their own vain and insatiable desires, they divide with the poor the produce of all their improvements. They are led by an invisible hand to make nearly the same distribution of the necessities of life, which would have been made, had the earth been divided into equal portions among all its inhabitants, and thus without intending it, without knowing it, advance the interest of the society, and afford means to the multiplication of the species."

In a published lecture, Vernon L. Smith further argued that Theory of Moral Sentiments and Wealth of Nations together encompassed:

"one behavioral axiom, 'the propensity to truck, barter, and exchange one thing for another,' where the objects of trade I will interpret to include not only goods, but also gifts, assistance, and favors out of sympathy ... whether

it is goods or favors that are exchanged, they bestow gains from trade that humans seek relentlessly in all social transactions. Thus, Adam Smith's single axiom, broadly interpreted ... is sufficient to characterize a major portion of the human social and cultural enterprise. It explains why human nature appears to be simultaneously self-regarding and other-regarding."

- Deirdre McCloskey argues that formal maximum-utility economics, which is grounded in neoclassical principles, cannot adequately explain the role of "sweet talk" in economic life.

"Sweet talk" refers to the rhetoric, persuasion, and interpersonal communication that influence economic interactions. McCloskey's point is that traditional economic models, which are primarily focused on individuals maximizing their utility based on given preferences and constraints, fail to capture the complex social dynamics that actually drive much of economic behavior.

1. **\*\*Limitations of Maximum-Utility Economics:\*\***

- **\*\*Rational Choice and Utility Maximization:\*\*** Traditional economic models, especially those rooted in neoclassical theory, rely on the assumption that individuals make decisions to maximize their utility, typically defined in terms of material wealth, consumption, or satisfaction derived from goods and services. These models are highly formalized and often involve mathematical equations that describe how rational agents respond to changes in prices, income, and other economic variables to optimize their utility.

- **\*\*Overlooking Communication and Persuasion:\*\*** McCloskey critiques these models for their inability to account for the subtleties of human communication—what she refers to as "sweet talk." In real economic life, much of what happens in markets and businesses is not just about cold calculations of costs and benefits but about how people interact, persuade, negotiate, and build relationships. This aspect of economic life involves rhetoric, trust, and mutual understanding, which are not easily quantifiable or reducible to utility maximization.

2. **\*\*The Role of "Sweet Talk" in Economics:\*\***

- **\*\*Importance of Persuasion:\*\*** McCloskey argues that "sweet talk" matters greatly because it is a fundamental part of how economic decisions are made and how markets function. Persuasion, negotiation, and communication are essential in forming agreements, building trust, and creating value in transactions. For example, a successful business deal often depends as much on the ability of the parties to communicate effectively and persuade each other as it does on the actual economic terms of the agreement.

- **\*\*Beyond Simple Transactions:\*\*** In many economic situations, the outcomes cannot be fully explained by price signals or utility maximization alone. The process of negotiation, the building of reputations, and the establishment of trust are all shaped by the way people talk to each other. This "sweet talk" can include everything from marketing and advertising to casual conversations between business partners. It helps to shape preferences, influence decisions, and create the social context within which economic activity occurs.

3. **\*\*Economic Behavior as a Social Process:\*\***

- **Economic Interactions as Social Interactions:** McCloskey emphasizes that economic behavior is inherently social, involving interactions between people who are not just isolated utility maximizers but social beings who communicate, persuade, and influence each other. This perspective challenges the view that economic outcomes can be fully understood by looking only at individual choices made in isolation from social and rhetorical contexts.

- **Rhetoric as Economic Action:** McCloskey suggests that rhetoric and communication are themselves forms of economic action. The way people speak, the arguments they make, and the narratives they construct all play a role in shaping economic outcomes. This view aligns with her broader humanomics approach, which integrates economic analysis with insights from literature, history, and philosophy to provide a more comprehensive understanding of how economies work.

4. **Implications for Economic Theory:**

- **Broadening the Scope of Economics:** McCloskey's critique implies that to fully understand economic behavior, economists need to go beyond the narrow focus on utility maximization and consider the broader social and rhetorical dimensions of economic life. This means paying attention to the ways in which people use language to influence others, build relationships, and create value.

- **Incorporating "Sweet Talk" into Economic Analysis:** McCloskey advocates for an economics that recognizes the importance of "sweet talk" and incorporates it into economic models and theories. This would involve a shift away from purely formalistic approaches to a more interdisciplinary perspective that acknowledges the role of rhetoric, culture, and social interaction in economic life.

Deirdre McCloskey's argument that formal maximum-utility economics cannot explain "sweet talk" highlights the limitations of traditional economic models in capturing the full complexity of economic behavior. "Sweet talk"—the rhetoric, persuasion, and interpersonal communication that permeate economic interactions—is essential for understanding how markets and businesses actually function. By focusing solely on utility maximization, neoclassical economics overlooks the social processes that are central to economic decision-making. McCloskey calls for a broader approach to economics, one that recognizes the importance of rhetoric and communication in shaping economic outcomes, and thereby offers a richer, more nuanced understanding of how economies operate.

- In *The Theory of Moral Sentiments*, Adam Smith articulates the concepts of liberty and justice as fundamental pillars of human society and the moral order.

He writes, "The man who acts according to the rules of perfect prudence, of strict justice, and of proper benevolence, may be said to be perfectly virtuous." This passage underscores Smith's belief that justice, liberty, and other moral virtues are deeply rooted in natural law and are indispensable for the functioning of a just and free society. For Smith, these virtues are not merely abstract principles but are essential guides for individual conduct and the maintenance of

social harmony. By adhering to the rules of justice and benevolence, individuals contribute to the stability and prosperity of society as a whole.

This emphasis on moral virtues carries over into Smith's later work, *\*The Wealth of Nations\**, where he explores the interplay between economic systems and moral principles. Although *\*The Wealth of Nations\** is often seen as a treatise on economics, Smith's underlying moral philosophy remains evident. He argues that economic liberty—the freedom for individuals to pursue their own interests within a framework of justice—is crucial for economic prosperity. Smith's "invisible hand" metaphor, often cited to justify free markets, is grounded in the belief that individuals, by pursuing their self-interest within the bounds of justice, inadvertently contribute to the common good. This connection between personal liberty and the public interest is a reflection of the moral framework Smith developed in *\*The Theory of Moral Sentiments\**.

In *\*The Wealth of Nations\**, Smith also discusses the role of justice in economic life, emphasizing that markets can only function effectively when they are underpinned by a strong legal system that enforces contracts and protects property rights. He writes, "Commerce and manufactures can seldom flourish long in any state which does not enjoy a regular administration of justice, in which the people do not feel themselves secure in the possession of their property, in which the faith of contracts is not supported by law..." This statement highlights Smith's view that economic activity depends on the rule of law and the protection of individual rights—principles that are deeply connected to the moral virtues he describes in his earlier work.

Deirdre McCloskey draws on these ideas in her interpretation of Smith, arguing that his economic thought cannot be separated from his ethical considerations. McCloskey emphasizes that Smith's vision of a prosperous society is one where economic activity is guided by the virtues of liberty, justice, and benevolence. She argues that these virtues are not just ancillary to economic success but are central to it. In her view, Smith's work demonstrates that a flourishing economy requires more than just efficient markets; it requires a moral foundation that respects the dignity and freedom of individuals.

McCloskey's interpretation highlights the continuity between Smith's moral philosophy in *\*The Theory of Moral Sentiments\** and his economic analysis in *\*The Wealth of Nations\**. For her, the core of Smith's thought lies in the idea that economic life is inextricably linked to moral life, and that the principles of liberty, justice, and benevolence are as important in the marketplace as they are in personal relationships. By integrating these moral principles into his analysis of economic systems, Smith provides a vision of a society where economic and ethical considerations are not in conflict but are mutually reinforcing.

- The relationship between Adam Smith's two major works, *\*The Theory of Moral Sentiments\** (1759) and *\*The Wealth of Nations\** (1776), has been the subject of extensive scholarly debate.

Some scholars have historically perceived a conflict between these two works, suggesting that they present incompatible views of human nature. *\*The Theory*



of *Moral Sentiments*\* emphasizes sympathy, where individuals are seen as seeking the approval of others and acting out of concern for the well-being of those around them. On the other hand, *The Wealth of Nations*\* is often interpreted as focusing on self-interest as the primary driver of economic behavior, with individuals pursuing their own advantage in the marketplace. This apparent tension has led some to argue that Smith's moral philosophy and his economic theory are fundamentally at odds.

However, in recent years, scholars have increasingly argued that there is no real contradiction between these two works. Instead, they suggest that Smith's writings on morality and economics reflect different aspects of the same underlying vision of human nature, with each work focusing on distinct but complementary dimensions of human behavior.

1. **The Theory of Moral Sentiments and Human Psychology:**

- **Sympathy and the Impartial Spectator:**

In *The Theory of Moral Sentiments*\*, Smith develops a theory of psychology centered around the concept of sympathy. Sympathy, in Smith's framework, involves the capacity to understand and share the feelings of others. This process is facilitated by the "impartial spectator," a mental construct that represents an objective observer whose judgment individuals seek to internalize. People are motivated by a natural desire to have others sympathize with their sentiments, which leads them to moderate their behavior to gain approval and avoid disapproval. This theory suggests that humans are inherently social beings who care about the opinions of others and who adjust their behavior accordingly to maintain social harmony.

- **Foundation for Human Society:** Smith's discussion of sympathy and the impartial spectator lays the groundwork for understanding the moral dimensions of human behavior. According to Smith, it is this desire for mutual sympathy of sentiments that enables individuals to live together in society, forming the basis for moral norms and ethical conduct. The emphasis on sympathy in *The Theory of Moral Sentiments*\* reflects Smith's belief in the importance of social relationships and the role of moral sentiments in guiding behavior.

2. **The Wealth of Nations and Economic Behavior:**

- **Self-Interest and Prudence:** In *The Wealth of Nations*\*, Smith shifts focus to the role of self-interest in economic behavior. Here, he famously argues that individuals, by pursuing their own self-interest in a competitive market, inadvertently contribute to the overall good of society through the mechanism of the "invisible hand." This principle suggests that when individuals seek to maximize their own gain, they contribute to the efficient allocation of resources, the production of goods and services, and the growth of wealth within society.

- **Virtue of Prudence:** Although *The Wealth of Nations*\* is often seen as prioritizing self-interest, it is important to recognize that Smith also discusses the virtue of prudence, which involves the careful and responsible management of one's own affairs. Prudence, in Smith's view, is not merely about self-interest but also about the practical wisdom necessary to navigate economic relationships in a way that balances personal gain with ethical considerations. Thus, the focus on self-interest in *The Wealth of Nations*\* can be seen as a specific

application of the broader moral principles discussed in *The Theory of Moral Sentiments*.

3. **Complementary Views of Human Nature:**

- **No Contradiction Between the Works:** Scholars who argue against the perceived conflict between Smith's two major works contend that they address different aspects of human nature, which vary depending on the context. *The Theory of Moral Sentiments* explores the psychological and social foundations of morality, emphasizing the role of sympathy and the impartial spectator in shaping ethical behavior. In contrast, *The Wealth of Nations* focuses on economic behavior, highlighting how self-interest, when guided by prudence and regulated by competition, can lead to socially beneficial outcomes.

- **Smith's Vision of Humanity:** These scholars suggest that Smith's works should be seen as parts of a unified vision of humanity and society. In *The Theory of Moral Sentiments*, Smith lays down the moral foundation of his vision, exploring how individuals develop a sense of right and wrong through social interactions. In *The Wealth of Nations*, he elaborates on how these moral principles apply in the economic sphere, where individuals engage in market activities guided by self-interest and prudence. The two works are thus complementary, with one focusing on the moral and psychological aspects of human nature and the other on its economic dimensions.

4. **Methodological Consistency:**

- **Newtonian Methodology:** James Otteson argues that both *The Theory of Moral Sentiments* and *The Wealth of Nations* share a methodological approach that is Newtonian in nature. Smith applies a "market model" to explain the creation and development of large-scale human social orders, including morality, economics, and language. This model suggests that complex social systems emerge from the interactions of individuals following their own interests, whether in the pursuit of moral approval or economic gain. Otteson's interpretation highlights the consistency in Smith's methodology across his works, suggesting that Smith views both morality and economics as emergent properties of human interaction within social systems.

- **Sympathy and Competition as Regulating Forces:** Other scholars, like Ekelund and Hebert, offer a nuanced view by observing that self-interest is present in both of Smith's works but is regulated by different mechanisms. In *The Theory of Moral Sentiments*, sympathy acts as the moral faculty that holds self-interest in check, ensuring that individuals do not act solely out of selfish motives but consider the well-being of others. In *The Wealth of Nations*, competition serves as the economic faculty that restrains self-interest, preventing any one individual or group from dominating the market and ensuring that the pursuit of self-interest leads to socially beneficial outcomes. This interpretation suggests that Smith's work presents a coherent view of human nature, where different aspects of behavior—moral and economic—are guided by complementary regulatory mechanisms.

The debate over the relationship between Adam Smith's *The Theory of Moral Sentiments* and *The Wealth of Nations* reflects broader questions about the compatibility of moral and economic thought. While some have seen

these works as presenting conflicting views of human nature—one focused on sympathy and the other on self-interest—recent scholarship has increasingly argued that there is no fundamental contradiction. Instead, these works are seen as addressing different aspects of human behavior, with *\*The Theory of Moral Sentiments\** laying the moral and psychological foundations for understanding human interactions, and *\*The Wealth of Nations\** applying these principles to the economic sphere. Both works, when viewed together, provide a comprehensive vision of how individuals navigate the complexities of social and economic life, guided by the virtues of sympathy, prudence, and justice. This interpretation aligns with the idea that Smith's work is methodologically consistent and that his insights into human nature are applicable across various domains of social life.

- The phrase "the liberal plan of equality, liberty, and justice" is found in *The Wealth of Nations*. Specifically, it is in Book IV, Chapter IX, titled "Of the Agricultural Systems, or of those Systems of Political Economy, which represent the Produce of Land, as either the sole or the principal Source of the Revenue and Wealth of every Country."

In this chapter, Smith contrasts the economic policies of his time with what he refers to as "the liberal plan" of economic governance, which he advocates. The full passage reads:

"All systems either of preference or of restraint, therefore, being thus completely taken away, the obvious and simple system of natural liberty establishes itself of its own accord. Every man, as long as he does not violate the laws of justice, is left perfectly free to pursue his own interest his own way, and to bring both his industry and capital into competition with those of any other man, or order of men. The sovereign is completely discharged from a duty, in the attempting to perform which he must always be exposed to innumerable delusions, and for the proper performance of which no human wisdom or knowledge could ever be sufficient; the duty of superintending the industry of private people, and of directing it towards the employments most suitable to the interest of the society. According to the system of natural liberty, the sovereign has only three duties to attend to; three duties of great importance, indeed, but plain and intelligible to common understandings: first, the duty of protecting the society from the violence and invasion of other independent societies; secondly, the duty of protecting, as far as possible, every member of the society from the injustice or oppression of every other member of it, or the duty of establishing an exact administration of justice; and, thirdly, the duty of erecting and maintaining certain public works and certain public institutions, which it can never be for the interest of any individual, or small number of individuals, to erect and maintain; because the profit could never repay the expense to any individual or small number of individuals, though it may frequently do much more than repay it to a great society."

This passage reflects Smith's endorsement of a liberal economic system grounded in the principles of equality, liberty, and justice, where individuals are free to

pursue their interests within the bounds of justice, and the government's role is limited to protecting these liberties and ensuring justice is administered fairly.

Adam Smith's declaration in 1776 of "the liberal plan of equality, liberty, and justice" reflects his broader vision for a society grounded in principles that promote both economic prosperity and social well-being. Smith, often celebrated as the father of modern economics, was deeply concerned with the moral and ethical dimensions of economic life, and his endorsement of equality, liberty, and justice speaks to his belief in a society where these values are upheld in various forms.

1. Social Equality: Equality of Opportunity: When Smith speaks of "equality," he is not advocating for absolute economic equality in terms of wealth distribution, but rather for social equality in the sense of providing equal opportunities for individuals to improve their circumstances. Smith believed that a well-functioning society should offer everyone the chance to succeed based on their abilities and efforts, without undue privileges or barriers imposed by birth, class, or government favoritism. Against Privilege and Monopolies: Smith's emphasis on equality can also be seen in his critique of monopolies, guilds, and other forms of economic privilege that benefited a select few at the expense of the general public. He argued that these institutions often entrenched social inequality by restricting access to markets and opportunities, thereby limiting social mobility.

2. Liberty of Enterprise: Economic Freedom: "Liberty" in Smith's liberal plan primarily refers to the freedom of individuals to engage in economic activities of their choosing, without undue interference from the government or other authorities. Smith championed the idea that individuals should be free to pursue their own economic interests—what he famously described as following their self-interest—within a framework of justice that protects the rights of others. Free Markets: Smith's endorsement of liberty is closely tied to his advocacy for free markets. He believed that when individuals are free to compete and trade in open markets, the overall wealth of society increases. This liberty of enterprise allows for innovation, efficient allocation of resources, and the ability for individuals to better their own conditions, which collectively contributes to the prosperity of the nation.

3. Equal Administration of Justice: Rule of Law: The "justice" in Smith's liberal plan emphasizes the importance of the rule of law and the equal administration of justice. Smith believed that for a society to function properly, laws must be applied equally to all individuals, regardless of their social or economic status. This means that justice should not favor the wealthy or powerful, but should be impartial and accessible to everyone. Protection of Rights: Smith also saw the equal administration of justice as essential for protecting property rights, contracts, and personal freedoms. A legal system that treats all citizens equally under the law is fundamental to ensuring that individuals can engage in economic activities without fear of arbitrary interference or injustice. This equal treatment under the law helps to maintain social order and trust in the economic system.

4. Integration of These Principles: A Liberal Society: Smith's vision of a

society based on equality, liberty, and justice is what he describes as the "liberal plan." This plan integrates these principles to create a society where individuals have the freedom to pursue their own economic interests, where opportunities are accessible to all, and where justice is administered fairly and equally. Smith believed that such a society would not only be morally superior but also more prosperous, as it allows individuals to contribute to the economy in ways that maximize their potential. A Foundation for Prosperity: By advocating for these principles, Smith was laying the groundwork for what he believed would be a prosperous and just society. His ideas would later influence the development of modern economic thought, particularly the emphasis on free markets, individual rights, and the importance of a fair legal system in supporting economic growth and social stability.

Adam Smith's endorsement of "the liberal plan of equality, liberty, and justice" in 1776 encapsulates his belief in a society where individuals are afforded equal opportunities, where they are free to engage in economic activities without unnecessary restrictions, and where the law is applied equally to all. These principles are not just economic guidelines but are deeply rooted in Smith's moral philosophy, which emphasizes the importance of fairness, freedom, and justice in creating a prosperous and harmonious society. Smith's vision remains influential in shaping modern liberal thought, particularly in its emphasis on the interplay between economic freedom, social equality, and the rule of law as foundational elements of a thriving society.

- Adam Smith's complex views on hierarchy, inequality, and civil government reveal his deep understanding of the tensions within society, particularly regarding wealth, property, and power.

While Smith is often celebrated as a founding figure in classical economics, his writings also show a profound concern for social justice, particularly in his opposition to slavery, colonialism, and the exploitation of the poor. The following explanation delves into these themes, clarifying Smith's opposition to hierarchy and inequality and providing support for his stances against slavery and the exploitation of the poor.

Smith also explained the relationship between growth of private property and civil government:

"Men may live together in society with some tolerable degree of security, though there is no civil magistrate to protect them from the injustice of those passions. But avarice and ambition in the rich, in the poor the hatred of labour and the love of present ease and enjoyment, are the passions which prompt to invade property, passions much more steady in their operation, and much more universal in their influence. Wherever there is great property there is great inequality. For one very rich man there must be at least five hundred poor, and the affluence of the few supposes the indigence of the many. The affluence of the rich excites the indignation of the poor, who are often both driven by want, and prompted by envy, to invade his possessions. It is only under the shelter of the civil magistrate that the owner of that valuable property, which is acquired by the labour of many years, or perhaps of many successive

generations, can sleep a single night in security. He is at all times surrounded by unknown enemies, whom, though he never provoked, he can never appease, and from whose injustice he can be protected only by the powerful arm of the civil magistrate continually held up to chastise it. The acquisition of valuable and extensive property, therefore, necessarily requires the establishment of civil government. Where there is no property, or at least none that exceeds the value of two or three days' labour, civil government is not so necessary. Civil government supposes a certain subordination. But as the necessity of civil government gradually grows up with the acquisition of valuable property, so the principal causes which naturally introduce subordination gradually grow up with the growth of that valuable property. (...) Men of inferior wealth combine to defend those of superior wealth in the possession of their property, in order that men of superior wealth may combine to defend them in the possession of theirs. All the inferior shepherds and herdsmen feel that the security of their own herds and flocks depends upon the security of those of the great shepherd or herdsman; that the maintenance of their lesser authority depends upon that of his greater authority, and that upon their subordination to him depends his power of keeping their inferiors in subordination to them. They constitute a sort of little nobility, who feel themselves interested to defend the property and to support the authority of their own little sovereign in order that he may be able to defend their property and to support their authority. Civil government, so far as it is instituted for the security of property, is in reality instituted for the defence of the rich against the poor, or of those who have some property against those who have none at all." (The Wealth of Nations, Book 5, Chapter 1, Part 2)

1. **\*\*Opposition to Hierarchy and Beliefs in Equality:\*\***

- **\*\*Smith's View on Intellectual Equality:\*\*** Adam Smith is noted for his belief that a common street porter was not intellectually inferior to a philosopher. This perspective underscores Smith's opposition to rigid social hierarchies that devalue the capacities and potential of ordinary people. In *\*The Wealth of Nations\**, Smith emphasizes that differences in status are often the result of social constructs rather than natural inequalities. His recognition of the intellectual potential in all people, regardless of their social position, challenges the idea that hierarchy is justified by inherent differences in ability or worth.

- **\*\*Critique of Scientific Elitism:\*\*** Smith also criticized the tendency to elevate science above common sense, arguing that public views should be considered in discussions of science and other technical subjects. This stance reflects his broader belief in the value of ordinary people's perspectives and experiences, which he saw as essential for a just and well-functioning society. By opposing the idea that only the educated elite could contribute meaningfully to discussions on important matters, Smith further undermines the justification for hierarchical structures based on intellectual elitism.

2. **\*\*Opposition to Slavery, Colonialism, and Empire:\*\***

- **\*\*Smith's Anti-Slavery Stance:\*\*** Smith was a vocal critic of slavery, which he viewed as not only morally wrong but also economically inefficient. He argued that free labor was more productive than slave labor and that slavery was

detrimental to both the enslaved and the enslavers. His opposition to slavery is part of his broader critique of systems that exploit and dehumanize individuals, reflecting his commitment to human dignity and equality.

- **Critique of Colonialism and Empire:** Smith was also critical of colonialism and the economic exploitation associated with it. He recognized that colonial empires were often maintained through violence and oppression, and that the wealth extracted from colonies was typically concentrated in the hands of a few, rather than benefiting society as a whole. Smith's opposition to empire is consistent with his broader concerns about the concentration of wealth and power, and the social inequalities that result from such systems.

3. **Advocacy for High Wages and Critique of Efforts to Suppress Them:**

- **Need for High Wages for the Poor:** Smith argued that high wages for workers were not only fair but also beneficial for the economy. He believed that when workers were paid well, they were more productive and contributed to greater economic prosperity. Smith opposed efforts by employers or the government to keep wages low, viewing such practices as exploitative and counterproductive. His advocacy for higher wages reflects his concern for the well-being of the poor and his recognition that economic policies should aim to improve the lives of all members of society, not just the wealthy.

- **Support for Fair Labor Practices:** Smith's emphasis on fair wages is part of his broader critique of economic systems that prioritize the interests of the rich over those of the working poor. He argued that when wages were kept artificially low, it not only harmed workers but also destabilized society by increasing inequality and social unrest.

4. **Relationship Between Property, Inequality, and Civil Government:**

- **Smith on Property and Inequality:** In the passage from *The Wealth of Nations*, Smith explains the relationship between the growth of private property and the establishment of civil government. He notes that where there is great property, there is great inequality. Smith recognizes that the accumulation of wealth by a few inevitably leads to the poverty of many, and this disparity creates social tensions. The rich, he argues, require the protection of civil government to secure their property from the envy and desperation of the poor.

- **Civil Government as a Defense of Property:** Smith points out that civil government, especially in its role of protecting property, often serves the interests of the wealthy more than those of the poor. He suggests that government is instituted primarily to defend the rich against the poor, a view that reflects his understanding of how economic inequalities shape social and political structures. This analysis shows Smith's awareness of the inherent power dynamics in society, where wealth often translates into political influence, leading to laws and policies that protect the interests of the wealthy at the expense of the less fortunate.

- **Critique of Wealth Concentration:** Smith's recognition of the need for government to protect property rights does not mean he supported the concentration of wealth. Rather, he acknowledged it as a reality that required careful management to prevent social unrest and maintain order. His obser-

variations about the relationship between wealth and power are a critique of the potential for economic systems to create and reinforce social hierarchies, leading to inequality and injustice.

- Adam Smith's outline of the proper roles and expenses of government in *"The Wealth of Nations"*, particularly in Book V, Chapter I, presents a nuanced view of the functions that a government should perform to support a thriving economy and society.

Contrary to the minimalist government often associated with laissez-faire economics, Smith recognized the need for a government to actively provide certain essential services and interventions that private markets alone could not efficiently deliver. This explanation delves into the details of Smith's recommendations, highlighting his understanding of the complex relationship between government and the economy.

1. **"Enforcing Contracts and Providing a Justice System:"** - **"Importance of Legal Framework:"** Smith emphasized the need for a robust legal framework to enforce contracts and provide a justice system. He believed that a well-functioning legal system was foundational to any market economy, as it ensured that agreements between individuals and businesses could be trusted and upheld. Without this enforcement, commerce would be undermined by uncertainty and potential breaches of trust, leading to economic inefficiency and instability. - **"Justice as a Public Good:"** The provision of justice is seen by Smith as a critical public good—something that benefits society as a whole and cannot be effectively provided by private entities. He recognized that the enforcement of laws and the protection of property rights are essential for maintaining social order and economic prosperity.

2. **"Granting Patents and Copyrights:"** - **"Encouraging Innovation:"** Smith supported the granting of patents and copyrights as a way to encourage invention and the development of new ideas. By providing inventors and creators with temporary monopolies on their innovations, patents and copyrights incentivize creativity and investment in research and development. Smith understood that without such protections, the creators of new ideas might be discouraged from bringing their innovations to market, as they would be unable to reap the rewards of their efforts in the face of immediate competition. - **"Balance between Innovation and Access:"** Smith's support for intellectual property rights reflects his broader belief in the importance of innovation for economic growth. However, he also recognized the need to balance these protections with the eventual diffusion of knowledge and ideas, which benefits society as a whole.

3. **"Providing Public Goods and Infrastructure:"** - **"Role of Government in Public Goods:"** Smith argued that the government should provide public goods, such as roads, bridges, canals, and harbors—services that are essential for economic activity but that private enterprises would not find profitable to provide. He noted that these goods are "of such a nature that the profit could never repay the expense to any individual," meaning that their benefits are widespread and cannot be easily captured by a single provider. - **"Infrastructure as a Foundation for Commerce:"** The provision of infrastructure is crucial



for enabling trade and commerce. Smith recognized that efficient transportation and communication networks are vital for economic development, as they reduce the costs of moving goods and services, thereby facilitating market expansion and economic growth.

4. **National Defense** - **Security as a Government Responsibility**: Smith considered national defense to be one of the primary responsibilities of the government. He argued that the protection of the nation from external threats is a public good that is essential for the security and stability of the state. Just as with the justice system, national defense is something that benefits all citizens and cannot be effectively provided by private actors.

5. **Regulating Banking** - **Importance of Financial Stability**: Smith recognized the importance of a stable financial system for the functioning of the economy. He supported government regulation of banking to ensure the stability and integrity of the financial system. Smith understood that without proper regulation, banking practices could become reckless, leading to financial crises that could destabilize the entire economy.

6. **Support for Education and Religious Competition** - **Public Subsidies for Education**: Smith supported partial public subsidies for elementary education, recognizing that an educated populace is crucial for the long-term prosperity and stability of society. He believed that basic education should be accessible to all, as it equips individuals with the skills necessary to participate effectively in the economy and civic life. - **Religious Competition**: Smith argued that competition among religious institutions would benefit society by preventing any single religious organization from becoming too powerful or oppressive. He believed that when religious institutions compete, they are more likely to focus on serving their congregations effectively, rather than on accumulating power and wealth.

7. **Local vs. Centralized Control of Public Works** - **Preference for Local Management**: Smith advocated for local rather than centralized control of public works, such as roads and bridges. He argued that local administration was better suited to manage these resources effectively, as local authorities are more directly accountable to the communities they serve and are likely to have a better understanding of local needs. - **Decentralization as a Principle**: Smith's preference for local control reflects his broader belief in the importance of decentralization and subsidiarity—principles that suggest decisions should be made at the most local level possible to ensure efficiency and responsiveness to the needs of the people.

8. **Supporting the Dignity of the Monarch** - **Symbolic Role of the Monarch**: Smith also discussed the importance of supporting the dignity of the monarch or chief magistrate, arguing that they should be provided for in a fashion that reflects their status. He believed that the splendor associated with the monarchy served a symbolic function, reinforcing the authority and stability of the state. This view is particularly notable given Smith's general skepticism of excessive government spending and ostentation. - **Monarch vs. Republic**: Smith even argued that monarchs should be provided for more lavishly than the magistrates of a republic because the public naturally expects more splendor in

a monarchy. This reflects Smith's understanding of the social and political functions of symbols and rituals in maintaining order and legitimacy.

9. **Retaliatory Tariffs:** - **Pragmatic Approach to Trade Policy:** While Smith generally advocated for free trade, he allowed for the possibility of retaliatory tariffs in certain circumstances. He argued that if a foreign market is crucial and can be regained through temporary protective measures, the long-term benefits of recovering that market would outweigh the short-term costs of higher prices on certain goods. This shows that Smith was not dogmatic in his economic views; he recognized that pragmatic considerations sometimes require temporary deviations from general principles like free trade.

Adam Smith's view of the role of government, as outlined in *The Wealth of Nations*, is more nuanced than the simplistic interpretation of him as a proponent of minimal government intervention. While he was a strong advocate of free markets and economic liberty, he also recognized the essential role that government must play in providing certain public goods, enforcing laws, and ensuring the stability and security necessary for markets to function. Smith understood that the government has a responsibility to support infrastructure, education, and even symbolic institutions like the monarchy, which contribute to the overall well-being and order of society. His careful delineation of government responsibilities reflects his belief that a well-ordered society requires a balance between market freedom and government intervention, ensuring that the benefits of economic growth are broadly shared and that the rights and dignity of all citizens are protected.

- Adam Smith is often celebrated as a foundational figure in free-market economics, but the characterization of him as a dogmatic supporter of laissez-faire policies is an oversimplification.

Economic historians like Jacob Viner and economists such as Daniel Klein and David Ricardo have pointed out that Smith's views on markets and government intervention were nuanced and complex. While Smith advocated for the benefits of free markets and what he called "natural liberty," he also recognized situations where government intervention was necessary and beneficial. This explanation will clarify and provide details on how Smith's economic thought reflects a more balanced approach than is sometimes assumed.

1. **Jacob Viner's Perspective:** - **Advocate of Free Markets but Not Laissez-Faire:** Jacob Viner, a prominent economic historian, acknowledged that Adam Smith was a strong advocate for free markets and limited government intervention—what Smith referred to as "natural liberty." This concept of natural liberty emphasizes the importance of allowing individuals to pursue their own economic interests with minimal interference, as this tends to lead to beneficial outcomes for society as a whole, through the mechanism often referred to as the "invisible hand." - **Not Dogmatically Laissez-Faire:** However, Viner and others have emphasized that Smith was not dogmatically committed to laissez-faire. Laissez-faire implies a total absence of government intervention in the economy, but Smith recognized that there are circumstances where government involvement is necessary to correct market failures, provide

public goods, and ensure the general welfare. Smith's approach was pragmatic rather than ideological, favoring free markets where they worked best but allowing for government action where it was justified.

2. **Daniel Klein's Analysis:** - **Smith as More Than a Free-Market Economist:** Daniel Klein argues that labeling Adam Smith simply as a "free-market economist" is too broad and somewhat misleading. Klein suggests that Smith's economic thought cannot be fully captured by the term "free-market economics" because Smith's views were more nuanced and multifaceted. He offers six characteristics central to what he calls the "Smithian" identity, which include not only support for free markets but also a concern for justice, the importance of moral sentiments, and the role of institutions in shaping economic behavior. - **The Need for a New Term:** Klein proposes that a new term or framework might be necessary to more accurately describe Smith's economic philosophy. This term would need to encompass Smith's broader concern for social and moral issues, his recognition of the limitations of markets, and his belief in the role of government in certain circumstances. Klein's analysis suggests that Smith's economic thought was deeply rooted in his moral philosophy, particularly as outlined in *The Theory of Moral Sentiments*, and was not solely focused on the mechanics of market transactions.

3. **David Ricardo's Clarifications:** - **Misunderstandings About Smith and Free Markets:** David Ricardo, an influential economist who followed Smith, worked to clarify some of the misunderstandings about Smith's thoughts on free markets. Ricardo pointed out that while Smith favored free markets in many cases, he was not an absolutist in his support for them. Smith's willingness to endorse certain government interventions, such as subsidies for infant industries and tariffs for national defense, demonstrates his pragmatic approach to economic policy. - **Support for Infant Industries:** Smith believed that government subsidies could be justified for newly formed or "infant" industries that were not yet strong enough to compete in the international market. He recognized that fledgling industries might need temporary protection or support until they matured and became competitive. However, Smith also expressed concern that once these industries became established, they might resist giving up government assistance, leading to inefficiencies and a reliance on protectionism that could harm the economy in the long run. - **Tariffs for National Defense:** Smith also supported the use of tariffs in certain situations, particularly when it came to national defense. For instance, he argued that if a domestic industry was crucial for national security, it might be justified to impose tariffs on imported goods to protect that industry. This was not a blanket endorsement of protectionism, but rather a recognition that strategic considerations sometimes necessitated deviations from strict free-market principles. - **Tariffs to Counteract Internal Taxes:** Additionally, Smith acknowledged that tariffs could be used to counteract internal taxes on the same goods. If a domestic product was subject to taxation, Smith argued that it would be reasonable to impose equivalent tariffs on imported goods to level the playing field and prevent domestic producers from being at a disadvantage.

Adam Smith's economic thought is often oversimplified as purely free-market

or laissez-faire, but a closer examination reveals a more nuanced perspective. While Smith strongly advocated for the benefits of free markets and limited government intervention, he also recognized the need for government involvement in certain areas, such as providing public goods, supporting infant industries, and ensuring national defense. Economists like Jacob Viner, Daniel Klein, and David Ricardo have highlighted these complexities, showing that Smith's ideas were pragmatic and context-dependent rather than dogmatically committed to free-market principles in all circumstances. Smith's approach to economics was deeply informed by his broader moral philosophy, making him a thinker who valued both economic efficiency and social justice. This balanced perspective is what makes Smith's work relevant and influential across a wide range of economic and social issues.

- Adam Smith, often hailed as the founder of free-market economics, has been widely celebrated by advocates of free-market policies for his contributions to economic theory, particularly through his seminal work, *"The Wealth of Nations"*.

This celebration is reflected in the establishment of various organizations named after him, such as the Adam Smith Institute in London and the U.S.-based Adam Smith Society, as well as cultural symbols like the "Adam Smith necktie." These institutions and symbols often use Smith's name to represent a commitment to free-market principles and limited government intervention.

1. **Smith as the Founder of Free-Market Economics:**

- **Widespread Influence:** Adam Smith is frequently credited with laying the intellectual foundations for modern free-market economics. His ideas have been embraced by a variety of institutions and societies around the world, which see Smith as a champion of economic freedom and minimal government intervention. The Adam Smith Institute in London, for example, is a prominent think tank that promotes policies aligned with free-market principles, drawing inspiration from Smith's work.

- **Cultural Impact:** The cultural impact of Smith's legacy is also evident in the symbolic use of his name and image. The "Adam Smith necktie," for instance, is worn by individuals to signify their support for free markets and their admiration for Smith's economic philosophy. This cultural symbolism underscores the enduring influence of Smith's ideas on modern economic thought.

2. **Alan Greenspan's Interpretation:**

- **Conceptual Clarity in Markets:** Former U.S. Federal Reserve Chairman Alan Greenspan has praised Adam Smith for bringing "conceptual clarity" to the complexities of market transactions. While Smith did not coin the term laissez-faire, Greenspan argues that Smith was instrumental in articulating the broader principles that underlie free-market economies. According to Greenspan, *"The Wealth of Nations"* is a landmark achievement in intellectual history, providing a comprehensive and coherent explanation of how markets function and why they tend to produce beneficial outcomes when left largely to operate on their own.

- **Intellectual Legacy:** Greenspan's admiration for Smith highlights the lasting relevance of *The Wealth of Nations* in understanding and managing modern economies. He sees Smith's work as foundational, not just for its time, but for contemporary economic policy and theory.

3. **Milton Friedman's Perspective:**

- **Relevance of Smith's Work:** Nobel laureate economist Milton Friedman, a leading figure in the free-market movement, argued that Adam Smith's ideas were more relevant in 1976, on the bicentennial of *The Wealth of Nations*, than they were even at the centennial in 1876. Friedman believed that Smith's insights into the functioning of markets and the dangers of government intervention were crucial for understanding and addressing the economic challenges of the 20th century. Friedman's view underscores the enduring applicability of Smith's principles in promoting economic freedom and efficiency.

4. **Critiques of the Overstatement of Smith's Support for Laissez-Faire:**

- **Herbert Stein's Critique:** Despite the widespread association of Smith with laissez-faire economics, some scholars argue that this association has been overstated. Economist Herbert Stein, for instance, cautioned against oversimplifying Smith's views by reducing them to a rigid doctrine of laissez-faire. Stein pointed out that while Smith was generally skeptical of government intervention, he was not dogmatic about it. Smith recognized that there were specific cases where government intervention could be justified if it produced net benefits and did not undermine the fundamentally free nature of the market system.

- **Smith's Pragmatic Approach:** Stein's interpretation of *The Wealth of Nations* suggests that Smith would have supported certain government interventions that are consistent with modern regulatory institutions, such as the Food and Drug Administration (FDA) or the Consumer Product Safety Commission (CPSC). Smith's pragmatic approach also extended to other areas, such as mandatory employer health benefits or environmental protections, where he might have seen a role for government to correct market failures or address issues that the market alone could not effectively manage.

- **Misrepresentation of Smith's Ideas:** Stein's critique extends to the use of the "Adam Smith necktie" as a symbol of unwavering support for free markets and limited government. He argues that this symbol misrepresents Smith's more nuanced views, which allowed for exceptions to the general rule of non-intervention when such exceptions were in the public interest. Smith's flexibility in policy recommendations shows that he was not an ideological purist, but rather a thinker who considered the practical implications of economic policy in specific contexts.

- George Stigler's recognition of one of Smith's key contributions to economic theory, particularly regarding how resources are allocated in a competitive market.

1. **Decline of Mercantilism and Rise of Free Trade:**

- **Mercantilism's Decline:** In the late 18th century, mercantilism, the dominant economic theory in Britain, began to lose favor among academics and policymakers. Mercantilism was characterized by the belief that a nation's

wealth and power were best served by accumulating precious metals like gold and silver and by maintaining a positive balance of trade (exporting more than importing). This often led to heavy government regulation of the economy, protectionist trade policies, and the belief that one nation's gain was another's loss.

- **Smith's Critique of Mercantilism:** Adam Smith, in his seminal work *The Wealth of Nations*, offered a powerful critique of mercantilism. He argued that wealth is not measured by the accumulation of gold and silver but by the productive capacity of a nation—specifically, the ability of its people to produce goods and services. Smith introduced the idea that individuals acting in their own self-interest, within a framework of competitive markets, would naturally lead to the efficient allocation of resources and the overall wealth of the nation. This was a radical departure from mercantilist thought, which focused on state control and regulation of the economy.

- **Embrace of Free Trade and Laissez-Faire:** As Smith's ideas gained traction, Britain began to move away from mercantilist policies and toward a more liberal economic model characterized by free trade and minimal government intervention in markets—what Smith referred to as "natural liberty." This shift was particularly evident during the Industrial Revolution, when Britain became a global leader in promoting free trade. The British Empire, with its extensive reach, spread these ideas around the world, establishing a broadly liberal economic model that emphasized open markets and relatively barrier-free domestic and international trade. This transition was instrumental in promoting economic growth and industrialization both in Britain and in many of its colonies.

## 2. **George Stigler's Interpretation of Smith's Proposition:**

- **The Most Important Substantive Proposition in Economics:** Nobel laureate economist George Stigler attributed to Adam Smith what he considered "the most important substantive proposition in all of economics." This proposition is that in a competitive market, the owners of resources—whether labor, land, or capital—will allocate them to their most profitable uses. This process of resource allocation leads to an equilibrium where, after adjusting for differences such as training, trust, hardship, and unemployment, the rate of return across all uses of resources tends to equalize.

- **Resource Allocation and Equilibrium:** Smith's insight is foundational to the concept of market equilibrium, where supply and demand balance each other, and prices reflect the true value of goods and services. In such a system, competition drives efficiency because resource owners are incentivized to use their resources in ways that yield the highest possible returns. This not only benefits individual resource owners but also leads to the optimal allocation of resources across the economy, maximizing overall wealth and productivity.

- **Impact on Economic Theory:** Stigler's recognition of this proposition underscores its fundamental importance in the field of economics. Smith's idea that competition leads to efficient resource allocation forms the basis of many subsequent developments in economic theory, including modern theories of supply and demand, market structure, and the role of incentives in economic decision-making. This proposition is a cornerstone of classical economics and

continues to influence contemporary economic thought.

- A key area of debate between classical and neoclassical economists regarding the interpretation of Adam Smith's seminal work, *An Inquiry into the Nature and Causes of the Wealth of Nations* (1776). The disagreement centers on what each school of thought considers to be the central message or most important contribution of Smith's work. This explanation delves into the nuances of this debate, clarifying the different emphases that classical and neoclassical economists place on Smith's ideas, particularly the concepts of the invisible hand and the division of labor.

#### 1. The Classical Economists' Emphasis:

**The Division of Labor Division of Labor as the Foundation of Wealth:** Classical economists, who include figures like David Ricardo and John Stuart Mill, tend to emphasize the very beginning of Smith's *Wealth of Nations*, where he attributes the growth of wealth and prosperity primarily to the division of labor. Smith famously opens the book by stating that the greatest improvements in the productive powers of labor, and hence the wealth of a nation, have been the result of the division of labor. By this, Smith means that when production processes are broken down into specialized tasks, productivity increases because workers become more skilled and efficient in their specific roles.

**Centrality of the Division of Labor:** For classical economists, the division of labor is the central organizing principle of Smith's economic thought. It explains how economies grow and prosper by increasing output per worker and allowing for greater efficiencies in production. Smith illustrates this concept with the famous example of a pin factory, where the division of labor allows workers to produce vastly more pins than they could if each worker had to make an entire pin on their own. Classical economists see this as the key insight that underpins the development of modern economies and the accumulation of wealth.

**Virtue of Prudence:** In addition to the division of labor, classical economists also focus on Smith's discussion of prudence, which he elaborates on as an important virtue in economic life. Prudence, for Smith, refers to the careful management of one's resources and affairs, particularly in the private sphere. This virtue is essential for the functioning of a market economy, as it guides individuals in making decisions that promote their own welfare and, indirectly, the welfare of society as a whole.

#### 2. The Neoclassical Economists' Emphasis:

**The Invisible Hand The Invisible Hand as a Guiding Concept:** Neoclassical economists, who emerged in the late 19th century, often emphasize the concept of the "invisible hand," which Smith mentions in *Wealth of Nations* in Book IV, Chapter II. The invisible hand is the idea that individuals pursuing their own self-interest in a competitive market unintentionally contribute to the overall good of society. According to this view, market forces, driven by individual actions, naturally allocate resources in a way that benefits society, even if that is not the intention of the individuals involved. **Centrality of Market Mechanisms:** For neoclassical economists, the invisible hand is a foundational concept that explains how free markets function without the need for central planning.

They argue that the invisible hand demonstrates the self-regulating nature of markets, where prices and quantities adjust in response to supply and demand, leading to efficient outcomes. Neoclassical economists often see this as Smith's most important contribution because it underpins modern theories of market equilibrium and the efficiency of competitive markets.

**Focus on Marginal Analysis:** Neoclassical economists are also known for their focus on marginal analysis—how individuals make decisions at the margin (e.g., considering the additional cost or benefit of a decision). They interpret the invisible hand as supporting the idea that individual decisions made at the margin, based on self-interest, aggregate to produce optimal outcomes for the economy as a whole.

### 3. The Broader Context:

#### Smith's Holistic Vision:

**Smith's Broader Economic Philosophy:** While the debate between classical and neoclassical economists often focuses on different aspects of Smith's work, it's important to recognize that Smith's economic philosophy is broader and more complex than either interpretation alone suggests. Smith was not solely concerned with the mechanics of the market; he was deeply interested in the moral and social implications of economic behavior. His earlier work, *The Theory of Moral Sentiments*, lays the groundwork for understanding how virtues like justice, prudence, and benevolence interact with economic life.

#### Plan to Elaborate on Justice:

The passage also mentions that it was Smith's plan to further elaborate on the virtue of justice in the third book. Justice, for Smith, is a fundamental virtue that underpins the legal and institutional framework necessary for markets to function. Without justice, the basic trust and cooperation required for economic transactions would be impossible. Smith's intention to focus on justice highlights his understanding that economic prosperity depends not just on market mechanisms but also on the ethical and institutional foundations of society.

#### Integration of Virtues and Economic Behavior:

Smith's emphasis on virtues such as prudence and justice indicates that he saw economic behavior as embedded in a broader social and moral context. This perspective contrasts with the more mechanistic interpretations of his work that focus narrowly on the invisible hand or the division of labor. Smith's holistic vision encompasses both the economic and the ethical dimensions of human life, recognizing that a thriving economy requires both efficient markets and a just society.

The disagreement between classical and neoclassical economists regarding the central message of Adam Smith's *Wealth of Nations* reflects the complexity and richness of his economic thought. Classical economists emphasize the division of labor as the primary driver of wealth and prosperity, seeing it as the cornerstone of Smith's economic theory. Neoclassical economists, on the other hand, focus on the concept of the invisible hand, viewing it as a key insight into how markets self-regulate through individual self-interest.

However, both interpretations capture only part of Smith's broader economic



and moral philosophy. Smith's work cannot be fully understood without recognizing the importance he placed on virtues like prudence and justice, and the institutional and social context in which economic activity occurs. His vision of economic life is one where markets, morality, and institutions are deeply interconnected, and where the wealth of nations is built not just on economic efficiency, but also on the ethical and social foundations that sustain it.

- Adam Smith famously used the metaphor of the "invisible hand" in two of his major works: *The Theory of Moral Sentiments* (1759) and *An Inquiry into the Nature and Causes of the Wealth of Nations* (1776). While the metaphor appears only a few times in his writings, it has become one of the most recognized concepts in economic thought, often symbolizing the self-regulating nature of markets. However, the contexts in which Smith uses the metaphor in these two books are different, reflecting broader themes in his moral philosophy and economic theory.

#### 1. The Invisible Hand in *The Theory of Moral Sentiments* (1759)

**Context and Use:** In *The Theory of Moral Sentiments*, Smith uses the invisible hand metaphor to describe how unintended social benefits arise from individuals' pursuit of their own interests. Here, Smith is focused on moral and social philosophy, examining how individuals' actions, motivated by self-interest, can lead to positive outcomes for society, even if that is not their primary intention. The relevant passage occurs in Part IV, Chapter 1, where Smith discusses the distribution of wealth. He observes that wealthy individuals, while seeking to satisfy their own desires and consumption, indirectly contribute to the welfare of society. Smith argues that, even though the rich aim to consume and enjoy their wealth, they are "led by an invisible hand" to distribute it in a way that benefits others, particularly through employment and consumption that supports the livelihoods of the poor. This distribution happens as a byproduct of the rich pursuing their own self-interest.

**Key Excerpt:**

Smith writes: "They are led by an invisible hand to make nearly the same distribution of the necessities of life, which would have been made, had the earth been divided into equal portions among all its inhabitants, and thus without intending it, without knowing it, advance the interest of the society, and afford means to the multiplication of the species."

**Interpretation:** In this context, the invisible hand represents the unintended social harmony that results from individuals pursuing their self-interest. It suggests that private vices (like selfishness) can lead to public benefits (like the distribution of resources). This usage reflects Smith's belief in the moral underpinnings of economic behavior and the complex, often unintentional ways in which individual actions can contribute to societal welfare.

#### 2. The Invisible Hand in *The Wealth of Nations* (1776)

**Context and Use:** In *The Wealth of Nations*, the invisible hand is employed in a more explicitly economic context. It appears in Book IV, Chapter II, within a discussion on national economic policy, particularly in relation to trade and domestic industry. "As every individual, therefore, endeavours as much as

he can both to employ his capital in the support of domestic industry, and so to direct that industry that its produce may be of the greatest value; every individual necessarily labours to render the annual revenue of the society as great as he can. He generally, indeed, neither intends to promote the public interest, nor knows how much he is promoting it. By preferring the support of domestic to that of foreign industry, he intends only his own security; and by directing that industry in such a manner as its produce may be of the greatest value, he intends only his own gain, and he is in this, as in many other cases, led by an invisible hand to promote an end which was no part of his intention. Nor is it always the worse for the society that it was no part of it. By pursuing his own interest he frequently promotes that of the society more effectually than when he really intends to promote it. I have never known much good done by those who affected to trade for the public good. It is an affectation, indeed, not very common among merchants, and very few words need be employed in dissuading them from it.”

“It is not from the benevolence of the butcher, the brewer, or the baker, that we expect our dinner, but from their regard to their own interest. We address ourselves, not to their humanity but to their self-love, and never talk to them of our own necessities but of their advantages.”

Smith argues against the mercantilist policies of the time, which emphasized state intervention to protect domestic industries and accumulate wealth through a favorable balance of trade. In this context, Smith uses the invisible hand to describe how individuals, by pursuing their own economic self-interest in a competitive market, unintentionally contribute to the overall economic welfare of the nation. He argues that when individuals seek to maximize their own profit, they are guided as if by an invisible hand to allocate resources in ways that are beneficial to the broader economy. This happens because, in a competitive market, the pursuit of profit leads to the efficient production and distribution of goods, which benefits society as a whole.

Interpretation: In *The Wealth of Nations*, the invisible hand metaphor emphasizes the self-regulating nature of markets. Smith is illustrating how, through the pursuit of self-interest, individuals contribute to economic efficiency and growth without needing to consciously aim for these broader societal benefits. The metaphor underscores Smith’s argument for limited government intervention, suggesting that free markets are capable of organizing economic activity in a way that maximizes societal welfare.

### 3. Comparative Analysis of the Invisible Hand in Both Works

#### Moral vs. Economic Context:

In *The Theory of Moral Sentiments*, the invisible hand is more closely tied to moral and social outcomes, illustrating how personal interests can align with public good in the context of wealth distribution and social harmony. The focus is on unintended moral consequences of individual behavior. In *The Wealth of Nations*, the invisible hand is used to explain economic processes, particularly how markets function efficiently when individuals act out of self-interest. The focus here is on the unintended economic benefits that arise from competitive market activities. Broad Implications:

Both uses of the invisible hand share the theme of unintended consequences—how individual actions, driven by self-interest, can lead to outcomes that benefit society as a whole. However, in *The Theory of Moral Sentiments*, the focus is on social and moral outcomes, whereas in *The Wealth of Nations*, the focus is on economic outcomes. These differing contexts highlight the breadth of Smith's thinking, where economic behavior is deeply intertwined with moral and social considerations. The invisible hand thus becomes a powerful metaphor for understanding the complex interdependencies between individual actions and societal outcomes, whether in the realm of morality or economics.

- Adam Smith's use of the term "invisible hand" across his works and the broader implications of his views on self-interest and human behavior.

These concepts are central to understanding Smith's moral philosophy and economic theory, as well as the interpretations of his legacy in modern economic thought. Let's break down and clarify the key points and quotes mentioned, providing detailed explanations of Smith's ideas.

#### 1. The Use of "Invisible Hand" Across Smith's Works: Origins in the "History of Astronomy":

Adam Smith first used the term "invisible hand" in an early work titled *The History of Astronomy*. In this context, he referred to "the invisible hand of Jupiter" to describe how ancient peoples attributed natural events they could not explain to the actions of the gods, particularly Jupiter. Here, the "invisible hand" metaphorically represents an unseen force that people believed controlled events beyond their understanding. In *The Theory of Moral Sentiments* (1759):

Smith uses the "invisible hand" in *The Theory of Moral Sentiments* to describe how individuals, while pursuing their self-interest, can unintentionally contribute to the public good. In this moral context, the invisible hand suggests that even selfish actions can result in socially beneficial outcomes, though this is not necessarily the actor's intention. This interpretation highlights Smith's belief in the complex interplay between self-interest and moral sentiments, where human actions are guided by both self-love and concern for others. In *The Wealth of Nations* (1776):

The most famous and frequently cited use of the "invisible hand" is found in *The Wealth of Nations*. Here, Smith describes how individuals, in pursuing their own economic self-interest, unintentionally contribute to the overall economic welfare of society. The passage in question argues that when individuals direct their capital to maximize their own profits—often by supporting domestic industry—they inadvertently promote the greater good of society, even if that was not their intention. This process occurs as if guided by an "invisible hand," a metaphor for the self-regulating nature of a free market.

#### 2. Interpretations of the Invisible Hand in *The Wealth of Nations*: Economic Self-Interest and Public Good:

The central message of the "invisible hand" in *The Wealth of Nations* is that individuals pursuing their own economic gain can unintentionally create beneficial outcomes for society as a whole. This concept is often interpreted as a foundational principle of free-market economics, where the decentralized

decisions of individuals lead to efficient resource allocation without the need for centralized planning. Smith's example of merchants preferring domestic industry over foreign trade illustrates this point. By seeking to secure their own interests, these individuals promote the overall economic health of the nation, as their investments support local industries, create jobs, and increase the national wealth.

#### Skepticism Toward Altruistic Trade:

Smith also expresses skepticism about those who claim to trade purely for the public good, suggesting that such affectations are rare among merchants and that pursuing self-interest tends to be more effective in promoting societal welfare. This reinforces his belief that markets function best when individuals act in their own self-interest rather than trying to orchestrate outcomes for the public good.

#### 3. Contrasting Views in The Theory of Moral Sentiments:

Human Nature and Benevolence: While *The Wealth of Nations* emphasizes the positive outcomes of self-interested behavior, *The Theory of Moral Sentiments* offers a more nuanced view of human nature. In this earlier work, Smith acknowledges that while self-interest is a powerful motivator, it is not the only principle guiding human behavior. He argues that people are also naturally inclined to care about the well-being of others, even if they do not directly benefit from it. This concern for others is driven by "sympathy" (or what we might today call empathy), which makes individuals derive pleasure from the happiness of others. The quote, "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," highlights Smith's belief that humans are not purely selfish creatures. Instead, they are capable of benevolence and altruism, motivated by moral sentiments that go beyond mere self-interest.

#### 4. Reconciling the Two Works: Smith's Dual Perspective on Human Behavior:

To fully understand Smith's thought, it's essential to reconcile the perspectives offered in *The Theory of Moral Sentiments* and *The Wealth of Nations*. Smith did not see these works as contradictory but as complementary. He believed that while self-interest drives much of economic behavior, it is moderated by moral sentiments, such as justice and benevolence, which are crucial for a functioning society. In the marketplace, self-interest might lead to efficient economic outcomes (as described by the invisible hand in *The Wealth of Nations*), but in social interactions, moral sentiments guide behavior in ways that promote social cohesion and mutual respect (as explored in *The Theory of Moral Sentiments*).

#### Impact on Economic and Moral Philosophy:

Smith's work suggests that a well-functioning society relies on a balance between self-interest and moral considerations. In the economic sphere, self-interest can lead to positive outcomes, but these outcomes are sustainable only within a framework of justice and fairness, where moral sentiments ensure that individuals do not act purely out of selfish motives at the expense of others. Con-

clusion: Adam Smith's use of the "invisible hand" metaphor across his works represents a central idea in his philosophy: the unintended social benefits of self-interested actions. In *The Wealth of Nations*, this metaphor illustrates how individuals, by pursuing their economic interests, contribute to the overall welfare of society, leading to efficient market outcomes. However, in *The Theory of Moral Sentiments*, Smith acknowledges that human behavior is not driven solely by self-interest but also by moral sentiments like sympathy and benevolence. These dual perspectives reflect Smith's broader understanding of human nature, where economic behavior is intertwined with moral and social considerations. Smith's insights continue to influence both economic theory and moral philosophy, reminding us that markets and societies thrive when self-interest is balanced by a concern for the well-being of others.