RECONFIGURING THE "ADAM SMITH PROBLEM"

James B. Sauer

Comparisons of *Theory of Moral Sentiments* (TMS) and *The Wealth of Nations* (WN) have given rise to a problem about the apparent contradiction between Smith's emphasis in TMS on moral empathy as a fundamental human motivation and the central role that self-interest plays in WN.¹ The "Adam Smith problem," however, is not a lack of ethical unity between WM and TMS but rather Smith's metaphysical dualism that breaks the link between his subjectivist view of human motivation in TMS and his objectivist understanding of the normative operation of economy in WN that does not allow him to integrate his ethical and economic perspectives.² This reconfiguration of the problem allows us to take seriously Smith's view that WN and TMS were two parts of a single project, and yet, grasp why that project did not cash out as he expected.³

Smith's views on ethics, justice, and economics are developed in his Lectures on Jurisprudence,4 TMS, and WN5 that were part of a larger 18th century debate about private interests and public goods that framed one of the principal ethical concerns of the day.6 In TMS, Smith rejects the moral egoism of Hobbes and Mandeville7 to argue that a natural moral sense of reciprocity and benevolence provides a sounder basis for the public good than Hutchinson's notion of natural affection that "seeks the greatest happiness for the greatest number."8 Human beings are, on Smith's account, naturally (innately) directed to a social good and justice that cannot be reduced to mere utility. So in TMS, Smith maintains that what makes society work is not generosity but justice—"that main pillar that upholds the whole edifice." Securing justice is the work of government. So in WN Smith argues that political economy is the science of government concerned with the guarantee of fair play, legal control of corruption, and the provision of sufficient revenue for the State to carry out essential, if limited, functions. 10 Political economy, on Smith's account, is essentially ethical.¹¹

We see even more clearly how ethics is a constitutive theme of WN by Smith's address of the problem of the national debt. Smith was aware of the economic transformations of his age: the financial burden of debt from Queen Anne's War, a rapid increase of capital due to industrialization, and the monetary changes from promissory notes to bank bills after 1759 that brought new mobility to financial and commercial markets. Smith was a vocal critic of the monopoly that the Bank of England maintained

over the national finances because of its restraint on free exchange.¹³ On Smith's account, the economy, which he understood as the production of wealth, is the key to national health; national health is a key to prosperity. Prosperity is the basis of a just social order. Thus, economizing—or wealth production—is the basis of social order and social order is the ground of justice.

In WN, Smith rejects many aspects of mercantile economics and defends money circulation beyond internal national limits as analogous to the process of communication.¹⁴ Smith built this argument on a consistent comparison between corporeality and economy. As "circulation" maintains the physical body, so money circulation maintains the economy.¹⁵

Underlying this argument is Smith's view that material corporeality provides a suitable analogy for explaining social interaction, and social interaction is the basis of social ethics (i.e., justice) or the "public good." Smith developed these views in his systematic consideration of language in his lectures on rhetoric and literature given between 1748-1751¹⁶ and several major treatises written between 1755 and 1761.¹⁷ In these works, Smith uses the metaphor of the body to explain the nature of language and its relation to human communities producing a social good.

This metaphor carries over into TMS and WN in a slightly different though still central form. For example, a central thesis of TMS is that humans have a moral sense that is similar and complementary to the bodily senses. Smith's argument is that nature leads every person from infancy to preserve the body's health. Self-preservation includes not only the material conditions of health but also the social. Smith links this natural desire for bodily health to the virtue of propriety and so relates ethics to economics. He concludes, personal happiness and bodily health are dependent on freedom of debt. From the health of the body, Smith deduces the wealth of nations, economy being the prototypical case of social embodiment.

In WN, Smith used the same reasoning to relate the body, language, and economy. For example, personal interaction and economic activities are analogous to "the commerce" of language; the division of labor includes manual dexterity and performance²³ while the nominal price of commodities is equated to the amount of labor needed for its production which, in turn, is measured in terms of bodily exhaustion.²⁴

For Smith corporeality (embodiment) is subject to the laws of nature. Such natural laws hold in astronomy, physics, ethics, and economics because there is a parallel between heavenly, earthly, and human bodies.²⁵ This idea appears in his early texts,²⁶ then in TMS, in his *Lectures on Rhetoric and*

Belles Lettres, and slightly differently in WN.²⁷ Thus, corporeality and the sound functioning of the body is a consistent image that Smith used to explain sociality, community health, and the social good.

Smith uses this argument from embodiment in TMS to derive the categorical ethical conclusion: "Every man," as the Stoics used to say, "is first and principally recommended to his own care." The economic version of this precept in WN is: "The principle which prompts to save is the desire of bettering our condition, a desire which, though generally calm and dispassionate, comes with us from the womb." Thus, Smith regards self-preservation, caring, and saving as interrelated even if he does not adequately differentiate the moral difference between biological survival (maintaining existence) and the improvement of material well-being (increasing wealth). Though the metaphors are not accurate, they show a clear connection in Smith's thinking between his moral philosophy and economic theory.

In TMS Smith uses the quintessential social activity of game playing to argue that the pleasure of competition is the pleasure of playing well.³⁰ The emphasis on competing and bettering one's stake by fair play and skill does not imply that Smith uncritically accepts the control of self-interest as is usually argued. On the contrary, Smith incorporates the Stoic notion of sympatheia as the methodological foundation of his ethics. 31 For example, in the "race for wealth," he argues that a man "may run as hard as he can, and strain every nerve and every muscle in order to outstrip all his competitors; but if he should jostle or throw down any of them, the indulgence of the spectator is entirely at an end. It is a violation of fair play which they cannot admit of."32 There is, on Smith's account, a natural limit to self-interest. There is a judge who watches the game; players cannot calculate everything; they will be stopped unexpectedly.³³ In his famous passage about the limits of the human stomach, Smith develops another argument that self-interest is naturally self-limiting.³⁴ Earlier in the same passage, Smith affirmed that it is a principle of nature for humans to take pleasure in the fortune (interest) of others.35

Through these various arguments, Smith affirms that there is a *natural* limit to self-interest. Empirically, we have an interest in persons around us and in concrete facts more than in abstract values.³⁶ We do not have duties for alien interests that do not affect us, but our self-interest is limited by the interest of others who cannot be used to achieve our own ends.³⁷ Thus, on Smith's account, self-interest includes an interest in just outcomes that is not circumscribed by what is merely beneficial or advantageous to oneself. Thus in a variety of ways, Smith affirms that in the concrete functioning

of social schemes, the principal of which is economy, human beings are mutually interdependent. The "public good" rests on this foundation of social interdependence rather than individual acts of virtue. These moves, however, do not, as Smith realized, solve the problem of injustice occasioned by competitive self-interest because injustice seems to be as much a part of the natural order as sympathy, reciprocity, and benevolence.³⁸

The inherent tension between social competition (economic activity) and justice (ethics) is adjudicated by the appeal to the body and the inclusion of some body in the picture. This is clear in TMS where Smith postulates the presence of the "impartial spectator" who watches and rewards or punishes a person who knows through moral sense that she needs public approval: a "precise and distinct measure can be found nowhere but in the sympathetic feelings of the impartial and well-informed spectator."³⁹

Again, the linguistic role-taking provides the metaphor to explain the meaning of the "impartial spectator." "When I endeavor to examine my own conduct... I divide myself into two persons... The first is the judge, the second is the person to be judged of." In other words, one makes judgments about one's self-conduct or possible courses of action through an imaginative replay of internalized intersubjective experience.

Thus, Smith does not side with a selfish economic interest. He opposes the calculative rationality advocated by Hobbes and Mandeville, saying that one can be deceived even when one strictly follows one's interests. 41 On the basis of this argument, Smith proposes the more modest principle of prudence as a counter to calculative rationality.

Smith's discussions of prudence can be read in a similar way when he affirms that one's "own interest is connected with the prosperity of society." Self-interest includes the wider interests of community. "Man, according to the Stoics, ought to regard himself, not as something separated and detached, but as a citizen of the world, a member of a vast commonwealth of nature. To the interest of this great community, he ought at all times to be willing that his own little interest should be sacrificed." While there is no overriding moral principle to sacrifice one's interests, it is nonetheless a prudent *practice*. Justice, the public expression of the ethical, is the practice of harmonious living with others. Thus, he writes "the end of justice is to hinder one from hurting one's neighbours." This prescription is not as passive45 as it might seem because human beings are constitutively social. We have a natural inclination to intercourse with others. This natural sociality is a social embodiment that is analogous to physical embodiment. As one develops rules for bodily practices like speaking, writing, or eating,

so social interaction is governed by rules—or conventions—for "playing well." Thus, he writes, "the rules of justice may be compared to the rules of grammar." Such rules enable one of communicate successfully, must be shared, and provide the structure required for linguistic interaction.

This social embodiment, for Smith, is concrete not abstract. Sociality originates in a spontaneous embodied intersubjectivity of reciprocal social relations. Forms of interaction yield rules of interacting—a mutual expectation—that is in itself a social good that exceeds or transcends the particular goods of self-interest. Smith's move here is a decidedly pragmatic turn. However, his "pragmatic turn" remained an unfulfilled promise because of the "metaphysical detour" that substantially reverses his insights about the immanent normative structure of human interaction. This metaphysical detour was driven by an effort to limit a Hobbesian calculative rationality and implicit moral conventionalism. Smith realized that an appeal to body and language does not guarantee a mediation of ethics and economics free of instrumentalization. Something else is still necessary.

In TMS self-interest is under the supervision of an impartial spectator which can be redefined in pragmatic terms of intersubjective solicitude and care. When this does not work, on what basis can one appeal an unethical or unjust act? In Smith's view, we can only appeal to God, the almighty legislator of society, who complements the "impartial spectator," with a final judgment. So, Smith affirms, we ought to accept whatever is the outcome of the game of life "with equal indifference and security." Thus, the virtue of prudence is supplanted by providential judgment that champions those left without recourse. What lies beyond human reach is left to a Deity whose omnipresent body is revealed in nature. Following a common line of Enlightenment thinking about the natural order, Smith views God's body as extended into nature.

Smith's notion follows the Stoic concept of a metaphysical body.⁵¹ The presence of this Deity is found in the concrete landscape of the earth and in the natural operation of the universe. So it is not surprising that Smith arrives at an "invisible hand" as the mediation between ethics and economics. Some have argued that the "invisible hand" is only a metaphor for the ideal of the impartial spectator. However, Smith is so consistent in his use of theological language that one suspects that the invisible hand is a reference to God's provident activity.

The inconsistency between TMS and WN lies here: in TMS there is an "impartial spectator," while in WN "the impartial spectator" is substituted for the "invisible hand." However, both the "impartial spectator" and the

"invisible hand" are grounded on the same natural theology. That natural theology is the bridge from ethics to economics is clear in Smith's *Lectures on Jurisprudence*. In this text, the "invisible hand" complements "impartiality" to provide the internal organization of commercial society and to lead the rich to share profit with the poor. This "hand" is often present in *The History of Astronomy*, in TMS, and in WN.⁵² In each case God is the first body, the transcendent presence, that erupts in reality to bring order to the universe, to control selfishness with sympathy and propriety, and to promote public welfare and to regulate economy.⁵³

Although TMS describes virtues in three non-theological categories (prudence, benevolence and justice, and self-control) and relates them to the impartial spectator or judge in society (the man without), it is the all-wise Author of Nature that has "taught man to respect the sentiments and judgments of his brethren" and "rendered [man] the immediate judge of mankind."⁵⁴ Human beings must obey the rules established by the divine because the laws of nature express divine will. Thus, Smith reimports an older metaphysical version of the natural law and forces it over his notion of the "natural operation" of intersubjective solicitude.⁵⁵

However, this move yields a double disjunction. First, Smith abandons his pragmatic argument that self-interest is regulated by intersubjective relations to postulate a regulative ideal of divine transcendence. Second, he starts with a material description of divinity and ends in a metaphysical abstraction of divine justice regulating human affairs. If this is correct, then the "Adam Smith problem" is not an ethical discontinuity between TMS and WN (the standard account), but the gap between a concrete intersubjectivity exhibited in body and language that mediates between ethics and economics and the metaphysical sublation of the concrete operations of ethics and economy by abstract transcendence.

Different accounts of the body mark Smith's social analysis, but despite his emphasis on the body, the theological notion of providence remained. This "metaphysical detour" was not a move from one book to another, but is a persistent perspective that runs through the whole of Smith's work that he does not resolve.

There is little question that Smith consistently tried to neutralize self-interest. In all likelihood, he realized that a sole emphasis on embodied intersubjectivity was compatible with self-interest.⁵⁶ Recognizing the bind that he was in and not fully trusting his insights about the normative relations of intersubjectivity, Smith turned to natural theology to provide additional support. Indeed, he showed that

intersubjectivity does not solve the problem of calculative self-interest without a transcendent reference. So he argued,

Some speculative physicians seem to have imagined that the health of the human body could be preserved only by a certain precise regimen of diet and exercise [Quesnai] seems not to have considered that in the political body, the natural effort which every man is continually making to better his own condition, is a principle of preservation capable of preventing and correcting, in many respects, the bad effects of political economy, in some degree, both partial and oppressive. ⁵⁷

Yet.

such a political economy . . . is not always capable of stopping altogether the natural progress of a nation towards wealth and prosperity, and still less of making it go backwards. If a nation could not prosper without the enjoyment of perfect liberty and perfect justice, there is not in the world a nation which could ever have prospered. In the political body, however, the wisdom of nature has fortunately made ample provision for remedying many of the bad effects on the folly and injustice of man; in the same manner as it has done in the natural body, for remedying those of his sloth and intemperance.⁵⁸

Smith questions the physiocratic insistence on external regulators of economy and is not willing to give up his view that there is an immanent, organic regulation of social and economic relationships. However, he does not want to leave the order of society entirely in the hands of strategic rationality. He reaffirms a "natural" moral sense and the need for a metaphysical entity (wisdom of nature) that does the double duty of limiting self-interest and offering a guarantee for justice when immanently generated norms of conduct fail to moderate self-interest.

In summary, if the argument that embodied intersubjectivity provides a key to the unity of Smith's ethical method in TMS and WN holds, then the "Adam Smith problem" needs to be reconfigured. There is a common methodological background to TMS and WN. Smith uses this framework to try to ground ethics and economy on a common foundation. His position in both books is consistent. In the end though, he begs the question by assuming an "invisible hand" and abstracting from the concrete human body in interaction with others. The real "Adam Smith problem" is the lack of a middle term that relates the metaphysical dualism of religious subjectivism to economic materialism.

NOTES

- ¹ See D.D. Raphael and A.L. Macfie, "Introduction," in *Adam Smith: The Theory of Moral Sentiments* (Indianapolis: Liberty Fund 1984) 20-25 for a history of this problem.
- ² Raphael and Macfie argue that the Adam Smith problem is a pseudo-problem based on ignorance and misunderstanding (20). This is a dismissive generalization. There is a problem; it is just not located where traditional scholarship has tried to place it.
- ³ In spite of the disjuncture many see in Smith's work, Smith conceived his work as a unity. There is very little doubt that Smith saw his work as philosophical and that TMS and WN were two parts of a proposed three-part work dealing with moral psychology (TMS), economy (WN), and politics. The third volume on politics and government promised in TM was never written. See Raphael and Macfie, 24.
- ⁴ The so-called "Glasgow Lectures" discovered in 1896 by E. Cannan and published as Lectures on Justice, Police, Revenue and Arms, delivered in the University of Glasgow by Adam Smith, reported by a student in 1763.
 - ⁵ TMS III.5.12-13: WN VII.iv.34-36.
- ⁶ Albert O. Hirschman, *The Passions and the Interests: Arguments for Capitalism before Its Triumph* (Princeton: Princeton UP, 1977) sketches the origin and outline of this debate. Smith's address of the problem was occasioned on the social meaning of commerce that started with the financial revolution of 1690 that restructured the British economy. See J.G.A. Pocock, *Virtue, Commerce and History* (Cambridge: Cambridge UP, 1985) 108. Also see Roy Porter, "The Pursuit of Wealth," in *The Creation of the Modern World* (New York: W.W. Norton, 2000) 396.
- ⁷ THS VII.ii.46-13 (against Mandeville) and VII.iii.1-9 (against Hobbes). The history of this debate on private vices and public benefits is an interesting story in itself. It is initiated by Shaftesbury who reacted against Hobbes' view of the inevitable egoism of human beings to stress a moral sentiment of sympathy based on common sense [Characteristicks of Men, Manners, Opinions and Times (Indianapolis: Bobbs Merrill, 1964) 336]. Mandeville, against Shaftesbury, in the Fable of the Bees argues that self-interest leads to public benefits. Hutchinson follows Shaftesbury to argue that moral action is motivated by the disinterested feeling of benevolence that aims at producing happiness and minimizing unhappiness. Morality, on this account, is a calculative rationality that seeks to produce the greatest happiness over unhappiness.
 - 8 TMS VII.ii.3-6
 - 9 TMS II, i.3.
- ¹⁰ For example limiting usurious rates of interest, adjudicating conflicts, and providing national security.
 - ¹¹ Or a "moral science" following the 18th century University syllabus.
- 12 Other "flashpoints" of the 18th century economic transformation were the deregulation of the grain market, the enclosure acts, and the privatization of property replacing usufruct. Along with those was the replacement of the "moral economy" (the just price, the proper reward for labor, work as a humanizing activity, etc.) by the new "political economy" (markets, money, division of labor,

- efficiency, etc.). These shifts are interesting and critical to understanding moral discourse in the 18th century as the "new science of human nature" (see David Hume, *Enquiry Concerning Human Understanding* 1:1. See James B. Sauer, "Ethics and Economics: Foundations for a Transdisciplinary Dialogue," in *Ethics and Economics*, ed. Masudul Alam Chouhry (Yorkshire, England, Barmarick Press, 1995) 5-91.
- ¹³ Curiously, the Bank, founded 1696, was a private company despite its name until 1826. For Smith's account of the operation of the bank, see WN II.ii.79-85, V.iii.10-11. For his criticism of its operation and effect on economy, see WN IV.vii.c.89-94.
 - ¹⁴ WN V.iii.9-68.
- ¹⁵ Smith probably took this metaphor from Daniel Dafoe whose popular tracts on economy enjoyed wide circulation in England and France or the French physiocrats. See, Daniel Dafoe, *Bill of Commerce*, (London, 1713); *Mercator or Commerce Retrieved*, (Tooke and Barber: London, 1713).
 - 16 Lectures on Rhetoric and Belles Lettres, ed. J.C. Bryce, (Indianapolis: Liberty Fund, 1984).
- ¹⁷ In A Dictionary of the English Language by Samuel Johnson (1755), "Of the Affinity between certain English and Italian verses" (1782), and in Considerations Concerning the First Formation of Languages (1761); the latter found in the Liberty Fund edition of Lectures on Rhetoric.
- ¹⁸ The nomenclature "moral sense" is Smith's own and was carried forward in philosophy; however, the term is more appropriately described as a "social sense."
 - 19 TMS VI.i.1.
- ²⁰ The move does not make sense in the 20th century. However, in the 18th century "propriety" and "property" were identical. Pocock, TMS VI.i.1, notes the words were both homonymous and synonymous. Thus, propriety (what is appropriate) was an ethical virtue; property (as a fundable) was an economic value. 18th century political discourse was a working out of the relationship of virtue and value. It is interesting to note that in the late 18th century "value" and "the good" became synonymous and essentially interchangeable in ethical discourse, not, however, without confusion.
 - ²¹ TMS Liii.1.7; VLi.12-15.
- ²² This position is similar to, but not imitative of, a similar position developed by the French physiocrats with whom Smith was familiar. Smith, unlike the physiocrats, however, had a very keen appreciation for the social basis of economy based on social cooperation and the division of labor.
 - ²³ WN I.1.5-8.
 - ²⁴ WN I.v.2, II.iii.1.
 - ²⁵ Physics 1 [EPS 106].
 - ²⁶ Astronomy IV.1, IV.2,7. Physics 1; Logic 1 [EPS 54-58, 106, 118].

- ²⁷ TMS VII.ii.I.37, Lectures ii.V.18-20 and WN V.i.f.24.
- ²⁸ TMS VI.ii.I.1. In this passage it is obvious that Smith links the moral sense to a "pleasure-pain" principle based on to the physiological foundation of corporeality.
 - 29 WN II.iii.28: IV.v.b.16, 43.
- ³⁰ "Human life, Stoics appear to have considered, as a game of great skill; . . . In such games, the stake is commonly a trifle, and the whole pleasure of the game arises from playing well, from playing fairly, and playing skillfully." TMS VII.II.i.24.
 - 31 TMS vi.ii.1.i.
 - 32 TMS ILILir.76.
- ³³ In TMS III.ii.12 et. al., Smith characterizes God as the "All-seeing Judge," and he avers human beings act under the "Eye of God." Such passages are striking for their notion of God's watchfulness and guarantee of ultimate justice amid the injustice of self-interested action of human beings. The relation of God, the impartial spectator, the operation of the invisible hand, and justice will become important later.
 - 34 TMS IV.i.10.
 - 35 TMS 1.1.1.
 - ³⁶ TMS VI.ii.I.2-18; LJ(A) vi.100; LJ(B) 236-240; WN I.v.7.
 - ³⁷ Letter to Elliot in Correspondence 40. TMS II.ii.3.6; III.3.2-3.
- ³⁸ Just as lying is a linguistic phenomenon. Communication requires a certain degree of faithfulness of one's word and trust in reciprocity of linguistic roles. However, one can "take advantage" of communicational reciprocity to "bend" language to one's end as in lying. While non-linguistic animals can deceive, they cannot lie.
 - ³⁹ TMS VII.II.i.259.
 - 40 TMS III.i.6; III.iii.1-3.
 - ⁴¹ TMS VII.iv.27; WN V.
 - 42 TMS II.ii.3.6.
 - 43 TMS III.3.10; II.2.6.
 - 44 TMS III.vi.10.
- ⁴⁵ Roy Porter, *The Creation of the Modern World*, 394 follows a line of argument that Smith's social ethics are passive that begins, as far as I can determine, with Pocock. This is a necessary reading given the view that Smith's ethics are a decisive, albeit unintentional, break with civic humanism. This interpretation, however, is circular. While Smith does affirm that we may at time fulfill the rules

of justice by sitting still and doing nothing, it does not follow that the demands of justice are fulfilled exclusively by passive obedience to civil law.

- 46 TMS VI.2.1.19.
- 47 TMS 3.vi.11.
- 48 TMS Liji 2.9.
- 49 TMS Lii.3.4.
- ⁵⁰ See, among many examples, William Paley, *Natural Theology*, I and Richard Dawkins, *The Blind Watchmaker* (London: Longmans, 1986); Roy Porter, *Creation of the Modern Mind*, 295-296. God's extension into nature is an essential assumption of mechanistic Newtonian science. One can view Smith's economics as an effort to identify the mechanisms of the social order controlled by market fluctuations. See Sauer. *Ethics and Economics*.
 - ⁵¹ Physics 11 [EPS 116].
- ⁵² HA III.2, TMS IV.i.9-10, WN I.xi.c.7, IV.ii.9. The first instance of the "invisible hand" appears in *Astronomy*.
 - 53 HA IV. TMS IV.i.11, WN Lxi.c.7.
 - 54 TMS III.2.31-32
- ⁵⁵ I would argue, but cannot do so here, that this move is a "holdover" of the 17th century rivalry of metaphysical versions of the natural law as an unrestrained presence in Calvinist theology that dominated the Scottish Universities and civic philosophy or civic humanism that attributed the natural law to convention that shaped much of the contemporary political discourse of the coffee houses, newspapers, and pamphlets.
 - ⁵⁶ As in Hobbes' De Corpore.
 - 57 WN IV.
 - 58 WN IV.ix.28.