

Introduction to Adam Smith

(from the Adam Smith Institute)

The Theory of Moral Sentiments

written: 1759

Main themes of the book

The Theory Of Moral Sentiments was a real scientific breakthrough. It shows that our moral ideas and actions are a product of our very nature as social creatures. It argues that this social psychology is a better guide to moral action than is reason. It identifies the basic rules of prudence and justice that are needed for society to survive, and explains the additional, beneficent, actions that enable it to flourish.

Self-interest and sympathy. As individuals, we have a natural tendency to look after ourselves. That is merely prudence. And yet as social creatures, explains Smith, we are also endowed with a natural sympathy – today we would say empathy – towards others. When we see others distressed or happy, we feel for them – albeit less strongly. Likewise, others seek our empathy and feel for us. When their feelings are particularly strong, empathy prompts them to restrain their emotions so as to bring them into line with our, less intense reactions. Gradually, as we grow from childhood to adulthood, we each learn what is and is not acceptable to other people. Morality stems from our social nature.

Justice and beneficence. So does justice. Though we are self-interested, we again have to work out how to live alongside others without doing them harm. That is an essential minimum for the survival of society. If people go further and do positive good – beneficence – we welcome it, but cannot demand such action as we demand justice.

Virtue. Prudence, justice, and beneficence are important. However, the ideal must be that any impartial person, real or imaginary – what Smith calls an impartial spectator – would fully empathise with our emotions and actions. That requires self-command, and in this lies true virtue.

The Argument of the Book

Morality, says Smith, is not something we have to calculate. It is natural, built into us as social beings. When we see people happy or sad, we feel happy or sad too. We derive pleasure when people do things we approve of, and distress when we believe they are doing harm.

Of course, we do not feel others' emotions as strongly as they do. And through our natural empathy with others, we learn that an excess of anger, or grief, or other emotions distresses them. So we try to curb our emotions to bring them into line with those of others. In fact, we aim to temper them to the point where any typical, disinterested person – an impartial spectator, says Smith – would empathise with us.

Likewise, when we show concern for other people, we know that an impartial spectator would approve, and we take pleasure from it. The impartial spectator is only imaginary, but still guides us: and through experience we gradually build up a system of behavioural rules – morality.

Punishments and rewards have an important social function. We approve and reward acts that benefit society, and disapprove and punish acts that harm it. Nature has equipped us with appetites and aversions that promote the continued existence of our species and our society. It is almost as if an invisible hand were guiding what we do.

Justice. For society to survive, there must be rules to prevent its individual members harming each other. As Smith comments, it is possible for a society of robbers and murderers to exist – but only insofar as they abstain from robbing and murdering each other. These are the rules we call justice.

If people do not help others when they could, or fail to return a good deed, we may call them uncharitable or ungrateful. But we do not punish people to force them to do good: only for acts of real or intended harm. We force them only to obey the rules of justice, because society could not otherwise survive.

Conscience. But nature has given us something even more immediate than punishment, namely our own self-criticism. We are impartial spectators, not only of other people's actions, thanks to conscience. It is nature's way of reminding us that other people are important too.

Moral rules. In the process of making such judgements on a countless number of actions, we gradually formulate rules of conduct. We do not then have to think out each new situation afresh: we now have moral standards to guide us.

This constancy is beneficial to the social order. By following our conscience, we end up, surely but unintentionally, promoting the happiness of mankind. Human laws, with their punishments and rewards, may aim at the same results; but they can never be as consistent, immediate, or effective as conscience and the rules of morality engineered by nature.

Virtues. Smith ends *The Theory Of Moral Sentiments* by defining the character of a truly virtuous person. Such a person, he suggests, would embody the qualities of prudence, justice, beneficence and self-command.

Prudence moderates the individual's excesses and as such is important for society. It is respectable, if not endearing. Justice limits the harm we do to others. It is essential for the continuation of social life. Beneficence improves social life by prompting us to promote the happiness of others. It cannot be demanded from anyone, but it is always appreciated.

And self-command moderates our passions and reins in our destructive actions. Freedom and nature, Smith concludes, are a surer guide to the creation of a harmonious, functioning society than the supposed reason of philosophers and visionaries.

The Theory of Moral Sentiments: Excerpts from the Book

- *The Theory of Moral Sentiments* begins with the following assertion:
 - *How selfish soever man may be supposed, there are evidently some principles in his nature, which interest him in the fortunes of others, and render their happiness necessary to him, though he derives nothing from it, except the pleasure of seeing it. Of this kind is pity or compassion, the emotion we feel for the misery of others, when we either see it, or are made to conceive it in a very lively manner. That we often derive sorrow from the sorrows of others, is a matter of fact too obvious to require any instances to prove it; for this sentiment, like all the other original passions of human nature, is by no means confined to the virtuous or the humane, though they perhaps may feel it with the most exquisite sensibility. The greatest ruffian, the most hardened violator of the laws of society, is not altogether without it.*
- "Sympathy" was the term Smith used for the feeling of these moral sentiments. It was the feeling with 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.*

The book's broad themes

The first theme in *The Wealth of Nations* is that regulations on commerce are ill-founded and counter-productive. The prevailing view was that gold and silver was wealth, and that countries should boost exports and resist imports in order to maximize this metal wealth. Smith's radical insight was that a nation's wealth is really the stream of goods and services that it creates. Today, we would call it gross national product. And the way to maximise it, he argued, was not to restrict the nation's productive capacity, but to set it free.

Another central theme is that this productive capacity rests on the division of labour and the accumulation of capital that it makes possible. Huge efficiencies can be gained by breaking production down into many small tasks, each undertaken by specialist hands. This leaves producers with a surplus that they can exchange with others, or use to invest in new and even more efficient labour-saving machinery.

Smith's third theme is that a country's future income depends upon this capital accumulation. The more that is invested in better productive processes, the more wealth will be created in the future. But if people are going to build up their capital, they must be confident that it will be secure from theft. The countries that prosper are those that grow their capital, manage it well, and protect it.

A fourth theme is that this system is automatic. Where things are scarce, people are prepared to pay more for them: there is more profit in supplying them, so producers invest more capital to produce them. Where there is a glut, prices and profits are low, producers switch their capital and enterprise elsewhere. Industry thus remains focused on the nation's most important needs, without the need for central direction.

But the system is automatic only when there is free trade and competition. When governments grant subsidies or monopolies to favoured producers, or shelter them behind tariff walls, they can charge higher prices. The poor suffer most from this, facing higher costs for the necessities that they rely on.

A further theme of *The Wealth Of Nations* is that competition and free exchange are under threat from the monopolies, tax preferences, controls, and other privileges that producers extract from the government authorities.

For all these reasons, Smith believes that government itself must be limited. Its core functions are maintaining defence, keeping order, building infrastructure and promoting education. It should keep the market economy open and free, and not act in ways that distort it.

Production and exchange

The Wealth Of Nations begins with Smith explaining production and exchange, and their contribution to national income. Using the example of a pin factory, Smith shows how specialisation can boost human productivity enormously. By specialising, people can use their talents, or acquire skill. And they can employ labour-saving machinery to boost production. Then they exchange those specialist products, spreading the benefits of specialisation across the whole population.

How far and how fast the benefit spreads depends on how wide and efficient is the market. Often, employers try to rig markets in their own interests, and call on governments to help them. But the best interests of ordinary people are served if policymakers avoid such interventions and promote open competition.

The accumulation of capital

Smith goes on to say that building up capital is an essential condition for economic progress. By saving some of what we produce instead of immediately consuming it, we can invest in new, dedicated, labour-saving equipment. The more we invest, the more efficient our production becomes. It is a virtuous circle.

Thanks to this growth of capital, prosperity becomes an expanding pie: everyone becomes richer. But capital can be lost, through mistakes, or theft, or profligate government spending. Governments should aim to allow people to build up capital in the confidence that they will enjoy its fruits, and should be aware that their own taxation and spending will eat into the nation's productive capital.

Economic policy

Just as individuals gain from specialisation, says Smith, so do nations. There is no point trying to grow grapes in Scotland, when they grow so plentifully in France. Countries should do what they are best at, and trade their products. Restrictions on international trade inevitably make both sides poorer. Legislators think too much of themselves when they believe that by intervening, they can direct production better than the market can.

The role of government

Smith is critical of government and officialdom, but is no champion of laissez-faire. He believes that the market economy he has described can function and deliver its benefits only when its rules are observed – when property is secure and contracts are honoured. The maintenance of justice and the rule of law is therefore vital.

So is defence. If our property can be stolen by a foreign power, we are no better off than if our own neighbours steal it. And Smith sees a role for education and public works too, insofar as these collective projects make it easier for trade and markets to operate.

Where tax has to be raised for these purposes, it should be raised in proportion to people's

ability to pay, it should be at set rates rather than arbitrary, it should be easy to pay, and it should aim to have minimal side effects. Governments should avoid taxing capital, which is essential to the nation's productivity. Since most of their spending is for current consumption, they should also avoid building up large debts, which draw capital away from future production.

The Wealth Of Nations today

Smith's world was very different to ours, of course, before the Industrial Revolution changed everything. Yet, by showing how the freedom and security to work, trade, save and invest promotes our prosperity, without the need for a directing authority, *The Wealth Of Nations* still leaves us with a powerful set of solutions to the worst economic problems that the world can throw at us. The free economy is an adaptable and flexible system, which can withstand the shock of the new, and cope with whatever the future brings.

The Wealth of Nations: excerpts from the book

- **Of the Division of Labor:**
 - *Division of labor has caused a greater increase in production than any other factor. This diversification is greatest for nations with more industry and improvement, and is responsible for "universal opulence" in those countries. Agriculture is less amenable than industry to division of labor; hence, rich nations are not so far ahead of poor nations in agriculture as in industry.*
- **Of the Principle which gives Occasion to the Division of Labour:**
 - *Division of labour arises not from innate wisdom, but from humans' propensity to barter. The apparent difference in natural talents between people is a result of specialisation, rather than any innate cause.*
- **That the Division of Labor is Limited by the Extent of the Market:**
 - *Limited opportunity for exchange discourages division of labor. Because "water-carriage" extends the market, division of labor, with its improvements, comes earliest to cities near waterways. Civilization began around the highly navigable Mediterranean Sea...*
- **Of the Origin and Use of Money:**
 - *With division of labour, the produce of one's own labour can fill only a small part of one's needs. Different commodities have served as a common medium of exchange, but all nations have finally settled on metals, which are durable and divisible, for this purpose. Before coinage, people had to weigh and assay with each exchange, or risk "the grossest frauds and impositions." Thus nations began stamping metal, on one side only, to ascertain purity, or on all sides, to stipulate purity and amount. The quantity of real metal in coins has diminished, due to the "avarice and injustice of princes and sovereign states," enabling them to pay their debts in appearance only, and to the defraudment of creditors.*