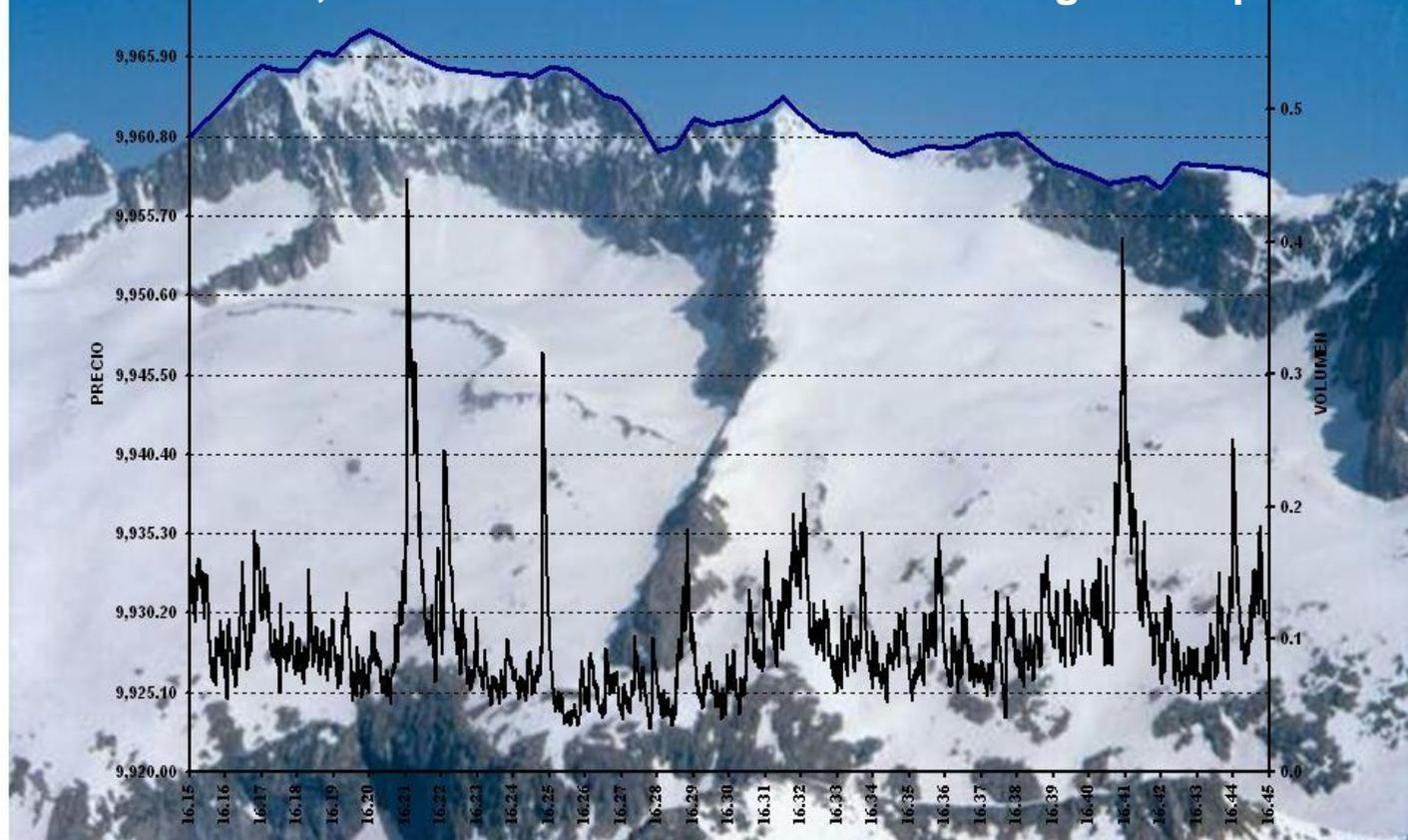


Economics, Finance and Mathematics from a high standpoint



Adam Smith's System of Natural Liberty and the gravitational force of the Self-interest socially understood

Fabio Monsalve
Universidad de Castilla-La Mancha

© de los textos: sus autores.

© de la edición: Departamento de Análisis Económico y Finanzas.

Autores:

Fabio Monsalve (Fabio.Monsalve@uclm.es)

Edita:

Departamento de Análisis Económico y Finanzas de la UCLM

Teléfono: 34 967 599 200. Extensión 2143

<http://www.uclm.es/dep/daef/>

Depósito Legal: AB-351-2009

ISSN: 1989-4856

**15th ANNUAL CONFERENCE OF THE EUROPEAN
SOCIETY FOR THE HISTORY OF ECONOMIC
THOUGHT (ESHET), Istanbul, 2011**

**Adam Smith's System of Natural Liberty and the
gravitational force of the Self-interest socially
understood**

Fabio Monsalve¹

Adam Smith's concept of invisible hand has become the hinge of the whole modern free market economic system; individual's self-interest gets a better and more efficient allocation of resources than the Estate (setting aside some punctual markets failures). Nevertheless, Smith's vision of competence differs greatly from modern one in considering the man's intrinsically sociable and virtuous nature encapsulated in the concept of empathy. Society would benefit when human behaviour is driven by the virtues of justice, prudence and benevolence, the three main pillars of the system of natural liberty. This holistic vision has been reduced to the single Self-interest driven force by mainstream economics. Common interpretation of invisible hand underlines that "It is not from the benevolence of the butcher, the brewer, or the baker, that we expect or dinner, but from their regard to their own interest"; Nevertheless, if the butcher, the brewer or the baker behave dishonestly and cheats their customers the system will not survive. No one could trust in anyone and social life would become a permanent struggle.

Adam Smith's comprehensive vision of the social universe could be better grasp if we approach from a Newtonian-mechanical point of view and states the "self-interest-socially-understood" –self-interest shaped by the relations with others and the virtuous behaviour- as the gravitational force of the system of natural liberty, the system which Smith identified as the most perfect.

¹ Professor of Economics. Faculty of Economics and Business Administration. Castilla-La Mancha University. Fabio.Monsalve@uclm.es.

"That distorted image of Smith [as an uncomplicated champion of pure market-based capitalism], which has been the source of so much abuse of Smith's ideas, would solidify in the century after Smith's death, and it came to be canonized in the twentieth century, It remains the standard understanding of Smith today in mainstream economic textbooks and daily newspapers" (Sen)

1. Introduction

It is impressive the flood of books and articles, from distant (or maybe not so distant) disciplines as Philosophy or Economy which has been published about Adam Smith and his intellectual legacy in the very last decades. And increasing every year! But what is seems to be more surprising is the controversial interpretations of the two authorial works published by the author: *The Theory of Moral Sentiments* (TMS) and *An Inquiry into the Nature and Causes of the Wealth of Nations* (WN). From the prophet-of-capitalism to the virtue-ethicist; from the enlightened moral philosopher to the merely free-market economist; from the "pro" to "anti" State regulations; from the "pro" to "anti" worker proclivity; from the vision of a benevolent human society to the buccaneer competitive one. How could it be possible so controversial readings? One possible answer is Sen's assertion that "popularity of *quoting* Smith seems to far exceed that of *reading* him" (Sen, 2010, p. 52). Other explanation (not contradictory with Sen's one) could be that scholars usually read Smith from a philosophical and economical perspective which has been taken for granted, in such way that they focus on the reading which best fit with their preconception and not with which Smith in fact said. For instance, the last decades rereading of Smith considering the authorial and, also, the non-authorial works has challenged some well-established interpretations as "Smith-the-prophet-of-capitalism" and has proved that Smith ambitious intellectual project benefited from a comprehensive approach. As Tribe states "the Adam Smith that emerges from this careful attention to the context and reception of his writings is certainly a different figure from that routinely encountered by economists accustomed to treat the 'invisible hand' as a metaphor for the price mechanism, rather than an allusion to the manner in which self-interest and sociability combine to render commercial society virtuous and prosperous" (Tribe, 1999, p. 627). Let's sum up the two major controversies or, in my opinion, the two versions of the same controversy.

First one arose in the mid nineteenth century when German Scholars dealt with the one-side approach, moral and economical, of the two major works of Adam Smith. The sympathy of the TMS was considered to be incompatible with the self-interest of the WN as the motor of social order. The apparent contradiction between the agent

motivation and socio-economical outcome of the two major books was elevated to the status of “Das Adam Smith Problem” and was sorted out considering either that Smith was confuse and incoherent or that he changed his mind between the writing of the two books. Although this interpretation is no longer predominant and “the current consensus is that there is no inconsistency between the suppositions concerning human motivation, or motives to actions, in Adam Smith’s two great works” (Brown, 2009, p. 52), references to “Das Adam Smith Problem” remain recurrent in literature.

A second controversy is a more subtle elaboration of the first one. The relevant point is not the conflict between moral and self-interest but the prevalence of each one. As Stigler -the economist who has made the biggest effort to associate Smith with the free-market- claims “in situations where self-interest and ethical values with wide verbal allegiance are in conflict. Much of the time, most of the time in fact, the self-interested theory (as I interpreted it on Smithian lines) will win” (Stigler, 1981, p. 176). This Smith-market interpretation has been challenged in the last decades by an increasing number of scholars. “Smith believed that people were sometimes, but not always, influenced by self-interest, and that their self-interest was fulfilled sometimes, but not always, by money and goods” (Rothschild & Sen, 2006, p. 362). The question remains open and there is not a definitive and consensual interpretation.² Nevertheless, “abuses of Adam Smith are at least as prevalent today as the uses of his balanced argument for supporting a society with multiple institutions in which the market would play its part, without being hostile to the important roles of other institutions, including those of the state” (Sen, 2011, p. 258).

This paper is inserted in this second interpretation, which holds that Smith would benefit from a comprehensive reading and a holistic treatment. Hence, I will proceed to present the Adam Smith’s system of natural liberty from a Newtonian perspective, highlighting the mechanical dimension of the society in order to prove that the moral component of this system is not merely an addendum to the so-called gravitational force of self-interest but an intrinsic element of the force itself. *My thesis is that self-interest could not be the gravitational force of the system of natural liberty unless it was channelled in the proper direction by the virtuous man.* Hence we should substitute the

² Even, inside the Chicago tradition there are two contrasting interpretations: the “Chicago Smith” (harmony as the outcome of utilitarian self-interested) and the ‘Kircaldy Smith’ (possibility of conflicted relations between individuals and society) (Evensky, 2005).

“self-interest” by the “self-interest-socially-understood” as the gravitational force of the harmonious and perfect Smithian system of natural liberty.

2. Newton and the mechanical vision of the universe

Newton's influence on Adam Smith has been widely acknowledged. Two of the outstanding aspects of this influence are the philosophical methodology and the mechanical conception of the universe.

Smith's natural philosophy was clearly under the influence of the Newtonian specific inductive-deductive methodology in which “propositions are deduced from the phenomena and are made general by induction” (Newton, 1999 [1687], p. 943). This method differs greatly from the deductive French rationalism, where axioms are self-evidently true by introspection. On the contrary, in the distinctively Scottish methodology, phenomena are favoured over abstractions. Montes accurately summarizes this epistemology stating that “if there are no deviations our conclusions will stand, but if disruptions from phenomena do appear, we should simply enhance the pursuit of scientific truth through reiterative analysis that will successively lead to a new synthesis” and concludes that this vision “entails a notion of an open system, a permanent motivation for seeking truth and an emphasis of the method of resolution above composition” (2008, p. 572; 562).³ In the social arena, this methodology confers great importance to analytical history as a way of discover regularities and causal explanations which allows to settled some principles (Dow, 2009, pp. 104-106). In Adam Smith's words:

In the manner of Sir Isaac Newton we may lay down certain principles known or proved in the beginning, from whence we count for the several Phenomena, connecting al together by the same Chain. This latter which we may call the Newtonian method is undoubtedly the most Philosophical, and in every science whether of Morals or Natural Philosophy, etc... is vastly more ingenious and for that reason more engaging than the other [Aristotle's]. (LRBL, p. 38)

The second, and more relevant influence to the purpose of this paper, was the Smith's profound insight that the economy had a natural order, and it was self-governed in in a similar way as the physical world was self-governed; it is to say a Newtonian vision of

³ Some resemblances seem to appear with the Popperian epistemology as a sort of proto-falsifiability or proto-refutability approach to the knowledge of Nature in the Newton-Smith methodology.

the social universe as an orderly system, a great and perfect "immense machine" (Schabas, 2003).

Human society, when we contemplate it in a certain abstract and philosophical light, appears like a great, an immense machine, whose regular and harmonious movements produce a thousand agreeable effects. (TMS, p. 288)

The natural consequence of this vision is that a refined and enlightened reason could unravel the mysteries of those regular and harmonious movements. When the philosopher first meet with an unexplained phenomena arises some sense of unease and all what is being sought by the philosopher is the tranquillity of mind which is only reached when a satisfactory explanation has been found. And that is the specific task of the philosophy which,

by representing the invisible chains which bind together all these disjointed objects, endeavours to introduce order into this chaos of jarring and discordant appearances, to allay this tumult of the imagination, and to restore it, when it surveys the great revolutions of the universe, to that tone of tranquillity and composure, which is both most agreeable in itself, and most suitable to its nature. (EPS. HA., S.II)

The perfection of this immense social machine is also evident in the harmony between the natural principles which promotes social organization and the recommendations of a refined and enlightened reason which, at the end, is just a reflection of the wisdom of God.

When by natural principles we are lead to advance those ends, which a refined and enlightened reason would recommend to us, we are very apt to impute to that reason, as to their different cause, the sentiments and actions by which we advance those ends, and to imagine that to be the wisdom of man, which in reality is the wisdom of God. Upon a superficial view, this cause seems sufficient to produce the effects which are ascribed to it; and the system of human nature seems to be more simple and agreeable when all its different operations are in this manner deduced from a single principle. (TMS, p. 79)

A more subtle characteristic of Smith's works could be discerned in the previous passages: The aesthetical and rhetorical dimension. The harmony of the system

causes agreeable feelings in the man who contemplated it. As Dow has nicely pointed out: "How far a theory was accepted depended on what appealed to the audience of the time, in particular what seemed both plausible and aesthetically appealing" (Dow, 2009, p. 106). It seems that the recurrent references to harmony, perfection, agreeableness, the admirably adjustment between means and ends... was not only an accurate description of the social universe but also a rhetorical artifice to persuade the eventual readers of the goodness of the system of natural liberty. The recurrent references among the enlightened thinkers to the watch metaphor to explain the wonders of the functioning of the universe should be interpreted from this rhetorical point of view.

The wheels of the watch are all admirably adjusted to the end for which it was made, the pointing of the hour. All their various motions conspire in the nicest manner to produce this effect. If they were endowed with a desire and intention to produce it, they could not do it better. (TMS, p. 78).

The final and definitive argument in this strategy of persuasion was to show the system as the blueprint of the "wisdom of God"

The Idea of that divine Being, whose benevolence and wisdom have, from all eternity, contrived and conducted the immense machine of the universe, so as at all times to produce the greatest possible quantity of happiness, is certainly of all the object of human contemplation by far the most sublime. (TMS, p. 214)

Doubtless, the strength of Smith's vision of economy, and extensively of society, was rooted in the power of this mechanical universe metaphor; not only in the explanatory-descriptive dimension but also in the aesthetic-persuasive one.

3. The system of natural liberty

Smith's approach to the social system was a teleological one. The "system of natural liberty" or "the liberal plan of equality, liberty and justice" was envisaged by Smith as the perfect natural system and the final stage to be reached by the historical social systems, once the obstacles has been removed. In Smiths' own words:

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. (WN, p. 533)

Although the purpose of this passage was to justify the limits of the sovereign (“the only three duties to attend to”), it encapsulates the Smithian vision of the social universe. In this quotation Smith draws the three hinges of the natural and –“establishes itself of its own accord”- social universe. These three elements are the “laws of justice”, the freedom “to pursue his own interest” and, the fair-play or moral behaviour implicit in the Smithian notion of “competition” which is accurately depicted in the TMS.

Every man is, no doubt, by nature, first and principally recommended to his own care; and as he is fitter to take care of himself than of any other person, it is fit and right that it should be so. Every man, therefore, is much more deeply interested in whatever immediately concerns himself, than in what concerns any other man... In the race for wealth, and honours, and preferments, he 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 juggle, or throw down any of them, the indulgence of the spectators is entirely at an end. It is a violation of *fair play*, which they cannot admit of. (TMS, pp. 74-75, emphasis added)

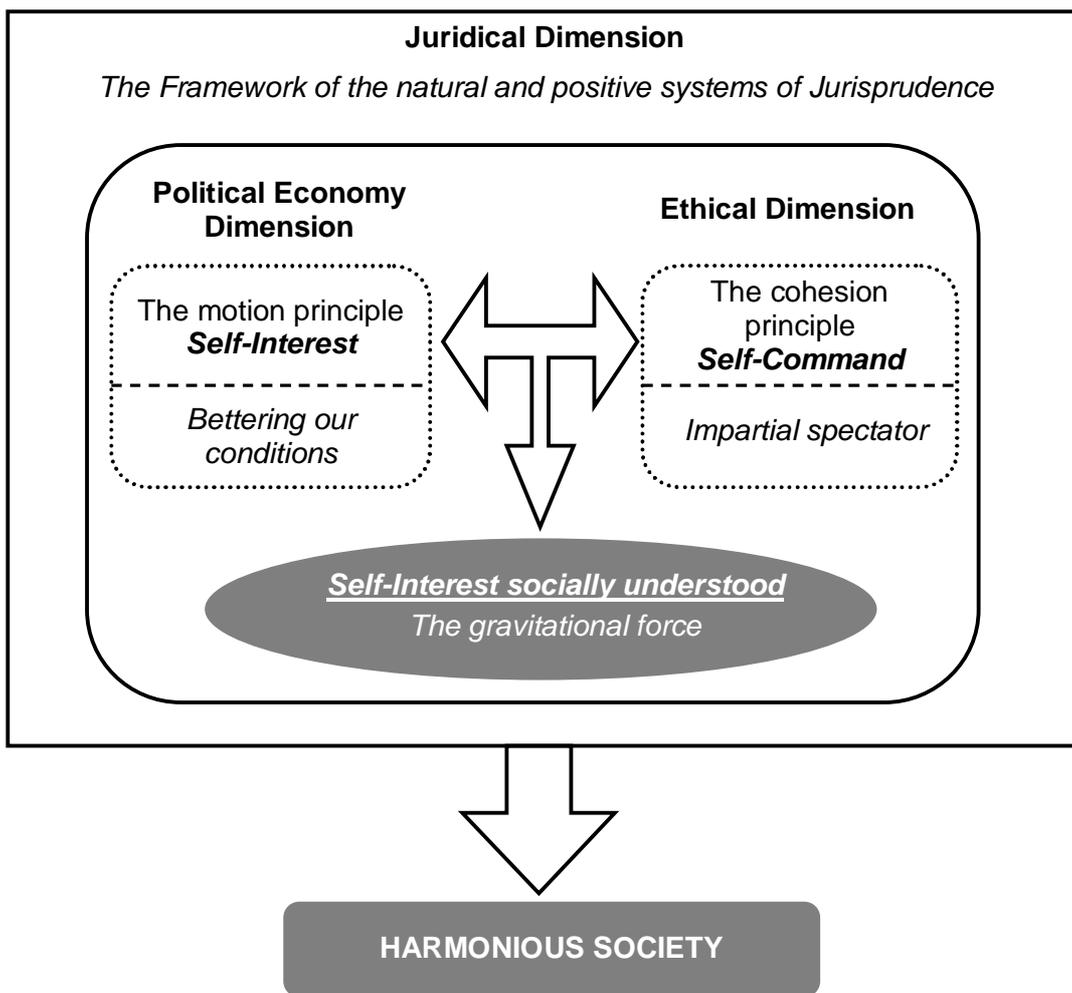
Upon these three pillars is erected the big intellectual blueprint of Smith to draw a comprehensive picture of the working of the social “immense machine”. He had the intention to write a thick book of each one but, as it is well-known, only two of the three could be accomplished in his lifetime. Although, in the last passage of the TMS Smith announced a further discourse “to give an account of the general principles of law and government” the task was never completed and the drafts were burnt following his own last will's instructions.

Adam Smith envisages the “system of natural liberty” as the unintended result of human behaviour. Nature impresses some passions and motivation in human beings which constitutes an inner force with a tremendous auto-organizational power. Nature itself promotes economic and social organization among human beings forwarding, at the end, the outcome of a harmonic society, provided that the interfering obstacles, as government unfruitful regulations or corporations conspiracies... were removed.

Frequently the gravity force of the Newtonian system has been equalized to the self-interest motivation in the Smithian one. I shall argue that the self-interest is not enough to warrant the perfect functioning of the social machine, even considering the juridical

framework and the subsequent constraints in the human behaviour. Only when the moral dimension and the supreme virtue of the self-command are internalized in the scheme and the self-interest is substitute by the self-interest-socially-understood the harmonious outcome is finally reachable. Figure 1 summarized graphically the relations between the three elements of the system of natural liberty. Following epigraphs are devoted to explain this scheme.

Figure 1. The hinges in the sytem of natural liberty



3.1. The Juridical Dimension.

Justice was the one of the three virtues in which any society must rest. This virtue, nevertheless, stands in a very different position in the Smith's system of natural liberty scheme by some reasons. First of all, it has a negative orientation which only "hinders us from hurting our neighbour". Meanwhile the other virtues require a pro-active attitude of human beings, "We may often fulfil all the rules of justice by sitting still and

doing nothing” (TMS, p. 73). Secondly, the violation of other virtues moves the impartial spectator to disapproval and disappointment, but the violation of justice moves to resentment, and even more, to the positive support for punishment (TMS, II.2.1). Thirdly, the general principles of justice admit few exceptions or modifications, meanwhile the general rules of all other virtues... necessarily would admit of many exceptions, and required so many modifications” (TMS, p. 155). Finally, the virtue of justice is considered by Smith as

...the main pillar that upholds the whole edifice. If it is removed, the great, the immense fabric of human society, that fabric which to raise and support seems in this world, if I may say so, to have been the peculiar and darling care of Nature, must in a moment crumble into atoms. (TMS, p. 78)

This passage encapsulates the comprehensive vision of the mechanical system of natural liberty. Nature has implanted in the human beings some compelling passions which ruled their behaviour and, doing so, promotes the economic and social organization. The perfection of system of natural liberty has taken into account the enforcement of the observation of justice and “Nature has implanted in the human breasts that consciousness of illdesert, those terrors of merited punishment which attend upon its violation, as the great safeguards of the association of mankind, to protect the weak, to curb the violent, and to chastise the guilty” (TMS, p. 78). Nevertheless, a system of law is required to preserve the public peace.

Adam Smith's analysis of jurisprudence is depicted from a triple perspective. First, the normative one; in this perspective Smith refers to “the general principles which ought to run through and be the foundation of the laws of all nations” (TMS, p. 313). Second, the positive one; in this perspective Smith refers to the existing legal system in the nation to enforce the practice of justice. Third, the historical one; the systems of positive law should be analysed considering the particular character of the people or of the territory. As Lieberman has stated “the critical, normative argument served to identify institutionalized failures of ‘natural justice’ whereas the historical material served to illuminate the explanatory contexts for this failure.” (Lieberman, 2006, p. 228)

Another outstanding aspect related to the virtue of the justice is the “virtuous circle” between the harmony and opulence of the society and the efficiency of the legal system. The impartiality of judicial institutions leads to the legal and political improvement which leads to the economic improvement which leads to further improvement in legal and political institutions (Rothschild & Sen, 2006, p. 336).

3.2. The Political Economy Dimension

The first and main interest of mankind is to overcome the survival problem. "The preservation and healthful state of the body seem to be the objects which Nature first recommends to the care of every individual" (TMS, p. 191). That is the reason why Nature has implemented a "certain propensity in human nature... to truck, barter, and exchange one thing for another" which results in the necessary division of labour and, as a consequence, the living in society.

if we examine, I say, all these things [referring all kind of commodities available in the market place], and consider what a variety of labour is employed about each of them, we shall be sensible that without the assistance and co-operation of many thousands, the very meanest person in a civilized country could not be provided, even according to, what we very falsely imagine, the easy and simple manner in which he is commonly accommodated. (WN, p. 14)

Therefore, the division of labour and the living in society makes easy, in Smith's opinion, to provide the necessities and "the wages of the meanest labourer can supply them". Hence, once the survival problem has been sorted out which is the true interest of human beings, "for what purpose is all the toil and bustle of this world? What is the end of avarice and ambition, of the pursuit of wealth, of power, and preheminance? ... What are the advantages which we propose by that great purpose of human life which we call bettering our condition" The answer of Smith is categorical. The true desire of human beings is "To be observed, to be attended to, to be taken notice of with sympathy, complacency, and approbation" (TMS, pp. 44-45). This purpose could be achieved pursuing wisdom and virtue but "upon coming into the world... we frequently see the respectful attentions of the world more strongly directed towards the rich and the great, that towards the wise and virtuous." (TMS, p. 54).

The great geniality of Adam Smith was to consider that the self-interest or the human attitude enforces, for merely egotistical motivations promotes, as an unintended consequence, the harmonic organization of the economic and social systems. The following passages encapsulate that breaking idea.

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 advantage. (WN, p. 16)

The natural effort of every individual to better his own condition, when suffered to exert itself with freedom and security is so powerful a principle that it is alone, and without any assistance, not only capable of carrying on the society to wealth and prosperity, but of surmounting a hundred impertinent obstructions with which the folly of human laws too often incumbers its operations; though the effect of these obstructions is always more or less either to encroach upon its freedom, or to diminish its security. (WN, p. 418)

It is not surprising that the “preheminance” of the wealth over the wisdom and virtue and the organizational effects of the “better-his-own-condition” have led the mainstream economics to elevate the Self-interest to the status of the “canonical interpretation” and to identify the WN with “a stupendous palace erected upon the granite of self-interest” (Stigler, 1971, p. 265). Stigler provided us with two main arguments to that free-market and merely-egotistical interpretation. First one, the altruistic dimension has also egotistical connotations and “honesty pays”. “Economic transactions are usually conducted on a high level of candor or responsibility because it is in the interest of the parties to behave honourably in repetitive transactions” (Stigler, 1981, pp. 174-175).⁴ The second one has been already quoted in the introduction, in the case of conflict between self-interest and ethical values “the self-interest theory will win”. Stigler consider that there is also room for altruism as a strong motivation in human behaviour but only “within the family and towards close friends and diminishes with the social distance of the person” All of that drives Stigler to conclude that “Man is eternally an utility-maximizer, in his home, in his office –be it public or private- in his church, in his scientific work, in short everywhere.” (1981, pp. 175-176 188)

Considering the blueprint of Adam Smith depiction of the system of natural liberty, this interpretation is true; but not totally true. It is just a narrow interpretation (unconnected to others) of the self-interest. Adam Smith was aware that human beings motivations and passions were egotistic but not only.

How selfish soever man may be supposed, there are evidently some principles in his nature, which interest him in the fortune of others, and

⁴ That could be viewed as unethical and the “person who behave honestly because it is remunerative is simply an amoral calculator” (Stigler, 1981, p. 175) This way of thinking will drive us into an endless circular reasoning; which is not Stigler’s point.

render their happiness necessary to him, though he derives nothing from it except the pleasure of seeing it. (TMS, p. 3)

The virtuous behaviour played also its role. It is neither true that private vices drives directly to public benefits nor do that individuals take account of others' people's situation only when it benefited them, as the famous Mandeville's fable states. As Tribe has pointed out "the Smithian conception of self-interest is not an injunction to act egoistically and without moral scruple, safe in the knowledge that by doing so the public good would somehow or other result; it is embedded within a framework of social reciprocity that allows for the formation of moral judgement." (Tribe, 1999, p. 621)

Smiths were aware of the paradox and complexity of the notion of the self-interest. On the one hand, the functional dimension; this dimension promotes the economic efficiency allocating the resources to the most efficient uses. On the other hand, the dysfunctional dimension linked with the pure egotistical component of the human beings. As Bhanu highlights "the paradox is that the very motive, self-interest, that allows that system to produce the beneficial consequences it does, constantly threatens to undermine it." (2006, p. 257) That could be the reason to publish a major revision of the TMS fourteen years after the WN, with a new part devoted to "the character of the virtue". If the self-interest is going to be the only gravitational force in the system of natural liberty, as some scholars read in the WN; Why Smith worked so hard in this new version if everything was already set in the WN? Is not a risky interpretation, to think that Smith really wished not to be misunderstood and to emphasises the true necessity of a virtuous behaviour to the outcome of a harmonic society.

To summarize, the dual dimension of human motivations, egotistical and altruistic, and the benefits of being aware of others is ubiquitous in Smith's works and should not be neglected.

3.3. The Ethical Dimension

From the seven primary virtues in the western tradition Smith considered three to be particularly worth admired, one of the three theological, namely "love" reinterpreted by Smith as "benevolence" and, two of the fourth cardinal or pagan, namely, prudence and justice (McCloskey, 2008, pp. 50-51). The practice of this virtues promotes the happiness both at the individual level an also the community one. In Smith's own words in the conclusion of the part devoted to the "Character of virtue"

Concern our own happiness recommends to us the virtue of prudence: concern for that of other people, the virtues of justice and beneficence; of which, the one restrains us from hurting, the other prompts us to promote that happiness. Independent of any regard either to what are, or to what ought to be, or to what upon a certain condition would be, the sentiments of other people, the first of those three virtues is originally recommended to us by our selfish, the other two by our benevolent affections. (TMS, p. 246)

Again, the trilogy of the key-elements of the system of natural liberty is easily recognizable. The man who acts according to the rules of these three virtues “may be said to be perfectly virtuous”. Nevertheless, the simple fact of the knowledge of the rules is not enough to promote the virtuous behaviour; sometimes “his own passions are very apt to mislead him” and an additional support is required. This support is provided by “the most perfect self-command” which is elevated to the status of the master virtue and could be set, reformulating famous Stigler’s’ statement, as “the granite upon which the palace of the TMS or the moral dimension of human behaviour has been erected”. Smith’s balanced approaching to the classical virtues and the emphasis in the cultivation of all of them for the virtuous man “puts hum solidly in the older tradition of virtue ethics” and makes him to be “the last of the former virtue ethicist. Smith puts Plato (in parts), Aristotle, the Stoics, and in shadowy form the schoolman into the traditions of ‘propriety’ as against prudence-for-self of love-for others.” (McCloskey, 2008, pp. 58-60)

The master virtue of self-command is the hinge which enables men to act following the rules “of perfect prudence, of strict justice, and of proper benevolence” (TMS, p. 215). But what really means self-command? What is in need of command? Is there any relation between self-command and self-interest? Strictly speaking self-command mean command over the self and what is in the need of command are the passions. But command the passions could be a really difficult task. Hence human beings are in need of help and that help is provided by Nature in the device of the impartial spectator and the sympathetic fellow-feelings.

The opening chapter of the TMS is devoted to the concept of sympathy, term which notion seems to best fit with the actual “empathy”. Smith gives a great importance to that concept because the ability to form moral judgements begins with people being able to empathize with each other; without empathy the moral sentiments became impossible. In Smith’s words

... By the imagination we place ourselves in his situations... we enter as it were into his body, and become in some measure the same person with him, and thence form some ideas of his sensations, and even feel something which, though weaker in degree, is not altogether unlike them. (TMS, pp. 4-5)

As Broadie Holds the devise of “placing ourselves in his situations” does not imply *to be in the situation* of the agent but *to be the agent in that situation*; hence it would be more appropriate to think of sympathy as and adverbial modification in the sense that the spectator has the feeling “sympathetically” (2006, p. 164).

Empathy works in two directions from the point of view of every actor. First of all, as we have seen, placing ourselves in other’s situation to feel as the other; second of all, the agent concerned tries to moderate his behaviour (self-control) so that the spectators may more easily empathize with them. Obviously, these two sentiments will never be unisons but they “have such a correspondence with one another, as is sufficient for the harmony of society”. This concord is provided, again, by nature.

In order to produce this concord, as nature teaches the spectators to assume the circumstances of the person principally concerned, so she teaches this last in some measure to assume those of the spectators (TMS, p. 17)

Another relevant characteristic of the empathy is the agreeableness. “Nothing pleases us more than to observe in other man a fellowfeeling with all the emotions of our own breast”. Smith explicitly disagrees with those who are fond of deducing the fellowfeeling sentiments from just an utilitarian or egotistical standpoint; those who, conscious of the own weakness, considered the fellow-feeling sentiments like a reciprocal insurance against the adversity. That interpretation does not fit very well with the empathy because “but the pleasure and the pain are always felt so instantaneously, and often upon such frivolous occasions, that it seems evident that neither of them can be derived from any such self-interested consideration.” (TMS, p. 9)

Empathy provides human beings with the ability to have fellow-feeling sentiments and to form moral judgments about other’s behaviours, but how our own behaviour is shaped and constrain to be empathized? The answer is given in the form of the device of the impartial spectator, an ideal product of our imagination but which became a real inner force that substantially shapes our daily actions. Following Broadie, this impartial spectator “is constructed by a process of internalisation of such outer people, using

them as mirrors to reflect ourselves as we seek imagines of the proper action to take.” (2006, p. 182)

This impartial spectator is labelled in different forms in the TMS: “reason”, “conscience”, “the man within”, “the inhabitant of the breast”, “the great judge of hearts”; different labels which helps to grasp the true meaning. The impartial spectator plays a definitive judging role in the moral scheme of Smith. In fact, it becomes more relevant than the external judge or court and a more powerful motivation.

But though man has, in this manner, been rendered the immediate judge of mankind, ha has been rendered so only in the first instance; and an appeal lies from his sentence to a much higher tribunal, to the tribunal of their own consciences, to that of the supposed impartial and well-informed spectator, to that of the man within the breast, the great judge and arbiter of their conduct... The jurisdiction of the man without is founded altogether in the desire of actual praise, and in the aversion to actual blame. The jurisdiction of the man within is founded altogether in the desire of praise-worthiness, and in the aversion to blame-worthiness (TMS, p. 115)

In that sense the impartial spectator becomes the great judge which led us to act looking for the “praise-worthiness”, the real purpose of “all the toil and bustle of this world”. The impartial spectator enforces us to modify our sentiments and behaviour to make more easily empathized with by the other spectators; and in doing so, led us to act in a virtuous way which will have benefits for the public good and will contribute to the feasibility of an harmonic society. In other words, the impartial spectator is the master which commands the self-command, the inner force which constrains the egotistical passions and, in doing so, transform the “self-interest” in the most perfect and beneficial for the community “self-interest-socially-understood”. This concept encapsulates the two tensions which should be channelled in the proper direction by the prudence and benevolence, the master virtues of the WN and TMS respectively.

3.4. The outcome of an harmonious society

As we have seen in the previous sections the inner forces impresses by Nature in human beings plus the justice administration will removed the obstacles and will enforce the historical positive political economy system of the different nations to reach the most perfect system of natural liberty. The immense machine of the social universe will function in such an harmonic and autonomous way that, “according to the system

of natural liberty”, State could be reduced to the three known duties of “protecting the society from violence and invasion of other independent societies”, “protecting... every member of the society from the injustice or oppression of other member” and “erecting and maintaining certain public works and certain public institutions”. (WN, p. 534)

This minimum duty reflects the Smith's suspicion of the honesty of politicians because most of the times they govern in favour of particular, not general, interests. For instance “We have no acts of parliament against combining to lower the price of work; but many against combining to raise it” (WN, p. 56) or the law allows the “masters to combine together to reduce the wages of their workmen” but in the contrary combination of the workmen to not accept a certain wage the “law would punish them very severely” (WN, pp. 115-116). It could be said that the awareness of Smith against government is not to the political concept itself but to the materialization in the historical political systems and in the incarnation of real governments which hardly act for the benefit of the common good, but for their own interests.

Smith is even more suspicious of the behaviour of merchants and manufacturers, which are always looking for corporation laws in order to get the benefits of some monopoly against the interest of citizenship.

The interest of the dealers, however, in any particular branch of trade or manufactures, is always in some respects different, an even opposite to, that of the public. To widen the market and to narrow the competition is always the interests of the dealers... The proposal of any new law or regulation of commerce which come from this order ought always to be listened to with great precaution, and ought never to be adopted till after having been long and carefully examined, not only with the most scrupulous, but with the most suspicious attention. It comes from an order of men whose interests is never exactly the same with that of the public, who have generally an interest to deceive and even to oppress the public, and who accordingly have, upon many occasions, both deceived and oppressed it. (WN, p. 200)

Moreover, sometimes the own landlords, farmers, and labourers of the country which suffer this laws and paid higher prices are easily persuaded by the “clamour and sophistry of merchants and manufacturers” that “the private interest of a part, and of a subordinate part of the society, is the general interest of the whole” (WN, p. 105). In

fact, as substantial part of the WN is a merciless diatribe against the mercantilism and the practices which limit the freedom and the competence.

People of the same trade seldom meet together, ever for merriment and diversion, but the conversation ends in a conspiracy against the public, or in some contrivance to raise prices (WN, p. 105-106).

That is the reason why Smiths claims for the intervention of government, notwithstanding the suspicion of politician, to remove the unjust laws against the public welfare. For instance

Where there is an exclusive corporation, it may perhaps be proper to regulate the Price of the necessary of life. But where there is none, the competition will regulate it much better than any assize. (WN, p. 116)

The ideal three-duties-states could only be settled in the ideal system of natural liberty. In the meanwhile, the government should ensure that the natural liberty and justice is enforced. The positive and real world envisages by Smith is not a perfect system with isolated and equal individuals but a world of markets inequalities where individuals and groups are judged by their wealth and power. The increasing complexity of society requires an instrumental role of the government; the statesman can contributed to the progress of humankind while the reinforcement of institutions, laws and the overcome of the destructive impact of the mercantile system and the particular interest. (Evensky, 2009)

On the other hand, a good government is necessary to the opulence and prosperity of all the members of the society.

It is the great multiplication of the productions of all the different arts, in consequence of the division of labour, which occasions *in a well-governed society*, that universal opulence which extends itself to the lowest ranks of the people (WN, p. 13)

The teleological system of natural liberty envisages by Smith does not require an omnipresent government, as we have seen, but neither the active presence of God. In that sense the enlightened Smith tries to liberate human affairs from the transcendent dimension, to disconnect the social universe from the Demiurge

And hence it is, that to feel much for others and little for ourselves, that to restrain our selfish, and to indulge our benevolent affections, constitutes the perfection of human nature; and can alone produce among mankind that

harmony of sentiments and passions in which consist their whole grace and propriety. As to love our neighbour as we love ourselves is the great law of Christianity, so it is the great precept of nature to love ourselves only as we love our neighbour, or what comes to the same thing, as our neighbour is capable of loving us" (TMS, p. 19)

This does not imply to deny the existence of God or an atheistic explanation of Nature; but to emphasize the autonomous functioning of the social, and also physical, universe, the rhetorical true purpose of Smith.

4. Concluding remarks

The Smithian system of natural liberty is a palace erected upon three main pillars: the virtue of justice, in both personal and institutional dimensions; the virtue of prudence, that restrain the desire of bettering our condition; and the virtue of benevolence, which sympathetically take account of other's people feelings. These three virtues has been impressed by Nature in the human beings to promote social organization and, when there is no further historical obstacles, the human society "appears like a great and immense machine whose regular and harmonious movements produce a thousand agreeable effects". The order of this Smithian social universe is perfect in the same fashion as the order in the Newtonian physical universe is.

Justice, temperance and benevolence shape the command of the self by the impartial spectator. This Self-command channeled the behavior in the proper direction and turns the egotistical "self-interest" in the more socially beneficial "self-interest-socially-understood". As a three parts system, if only one hinge is removed the system will lose his congruence and, more likely, the rest of the elements will not fit well each other and the outcome will not be as harmonious as it should.

The palace erected by Smith was not only upon the granite of self-interest. As the present financial crisis has clearly demonstrated the buccaneer capitalism, coherent with the rational self-interest, dos not enforce a harmonious outcome. If the virtuous behaviour lacked, the institutional framework should keep an eye in the whole system, because when the "clamour and sophistry" of the modern merchants and manufacturers -namely the financial sharks in the present crisis- claims from deregulations the proposal should be "always to be listened to with great precaution" and "not only with the most scrupulous, but with the most suspicious attention". The neoclassical homo oeconomicus, as an utility-maximizer, only think in their own interest

and do not realize that "no society can surely be flourishing and happy, of which the far greater part of the members is poor and miserable." (WN, p. 66)

This is the legacy which mainstream economics and the apostles of the free-market recurrent neglect when they read Smith's works.

5. References

- Bhanu Mehta, P. (2006). Self-Interest and Other Interests. In K. Haakonssen (Ed.), *The Cambridge Companion to Adam Smith*. Cambridge: Cambridge University Press.
- Broadie, A. (2006). Sympathy and the Impartial Spectator. In K. Haakonssen (Ed.), *The Cambridge Companion to Adam Smith*. Cambridge: Cambridge University Press.
- Brown, V. (2009). *Agency and discourse: revisiting the Adam Smith problem*. Cheltenham: Edward Elgar.
- Dow, S. C. (2009). *Smith's philosophy and economic methodology*. Cheltenham: Edward Elgar.
- Evensky, J. (2005). "Chicago Smith" versus "Kirkaldy Smith". [Article]. *History of Political Economy*, 37(2), 197-203.
- Evensky, J. (2009). The moral philosophical frame of Adam Smith's economic thought. In J. T. Young (Ed.), *Elgar Companion To Adam Smith* (pp. 112-132). Cheltenham: Edward Elgar.
- Lieberman, D. (2006). Adam Smith on Justice, Rights, and Law. In K. Haakonssen (Ed.), *The Cambridge Companion to Adam Smith*. Cambridge: Cambridge University Press.
- McCloskey, D. (2008). Adam Smith, the Last of the Former Virtue Ethicists. *History of Political Economy*, 40(1), 43-71.
- Montes, L. (2008). Newton's real influence on Adam Smith and its context. *Cambridge Journal of Economics*, 32(4), 555-576.
- Newton, I. S. (1999 [1687]). *The Principia : mathematical principles of natural philosophy*. Berkeley, Calif. ; London: University of California Press.
- Rothschild, E., & Sen, A. (2006). Adam Smith's Economics. In K. Haakonssen (Ed.), *The Cambridge Companion to Adam Smith*. Cambridge: Cambridge University Press.
- Schabas, M. (2003). Adam Smith's Debts to Nature. [Article]. *History of Political Economy*, 35, 262-281.
- Sen, A. (2010). Adam Smith and the contemporary world. *Erasmus Journal for Philosophy and Economics*, 3(1), 50-67.
- Sen, A. (2011). Uses and Abuses of Adam Smith. *History of Political Economy*, 43(2), 257-271.
- Smith, A. (1982 [1795]). *Essays on Philosophical Subjects*. (Vol. Vol. III). Indianapolis: Liberty Fund.

- Smith, A. (1985 [1762-3]). *Lectures On Rhetoric and Belles Lettres*. Indianapolis: Liberty Fund.
- Smith, A. (2007 [1776]). *An inquiry into the nature and causes of the wealth of nations* (Edited by Sálvio M. Soares. MetaLibri, 2007 ed.): Metalibri Digital Library.
- Smith, A. (2007 [1790]). *The theory of moral sentiments* (Edited by Sálvio M. Soares. MetaLibri, 2007 ed.).
- Stigler, G. J. (1971). Smith's Travels on the Ship of State. [Article]. *History of Political Economy*, 3(2), 265-277.
- Stigler, G. J. (1981). *Economics or ethics?* (Vol. 2). Salt Lake City: University of Utah Press.
- Tribe, K. (1999). Adam Smith: Critical Theorist? [Article]. *Journal of Economic Literature*, 37(2), 609.