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Hanh Do

April 15, 2013

The Myth of Self-Interest in Modern Scholarship and the Roles of the Actor-Spectator and
Invisible Hand Models in the Works of Adam Smith

by

Hanh Do

Dr. Kevin Corrigan
Adviser

Interdisciplinary Studies

Dr. Kevin Corrigan
Adviser

Dr. Andrew Francis
Committee Member

Dr. Peter Wakefield
Committee Member

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Hanh Do

Dr. Kevin Corrigan

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An abstract of
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of Emory University in partial fulfillment
of the requirements of the degree of
Bachelor of Arts with Honors

Interdisciplinary Studies

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Abstract

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The legacy of Adam Smith has largely been composed of Smith's contributions to the development of economics as a discipline. Because of this great contribution, his moral philosophy has unfortunately been neglected in recent times in favor of other Scottish philosophers such as David Hume, whereas Smith has been relegated to being remembered simply as an economist. However, Smith was a true renaissance man, and upon digging deeper into his philosophical system, we can discover a valuable and sophisticated explanation of human behavior that subsequently serves as the basis for his economic system. The Actor-Spectator Model found in his first and more favored work, *The Theory of Moral Sentiments*, allows the reader to more clearly understand the axioms of human behavior upon which Smith bases the common theme of the search for equilibrium that we see in *The Wealth of Nations* and in particular, in his Invisible Hand metaphor. In showing how these two works are related, we can see that it was not only Smith's economics that played a role in the development of Hegel's Idealism and Marx's Communism, but his moral philosophy as well.

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Acknowledgements

My sincerest gratitude is owed to my adviser, Dr. Kevin Corrigan, for his encouragement from the conception of this project to the very end—it could not have been completed were it not for his brilliant counsel and kindest support. I would also like to thank Dr. Andrew Francis for his interest and encouragement in this project since the beginning as well, and Dr. Peter Wakefield for his guidance and constant support throughout my time in the IDS department.

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I. Introduction

The ideas of the Scottish Enlightenment undoubtedly transformed history unlike any other movement experienced by mankind. With philosophers like Francis Hutcheson, David Hume, and Adam Smith leading the way, classical liberalism was developed and spread like wildfire throughout the western world. Most notably, the ideas of Adam Smith advocated the prominence of liberty within commerce and governments, which he achieved by effectively incorporating the new scientific mindset into his views about human nature. With the advent of the scientific method, Smith essentially created an entire discipline that seriously undertook to explain the natural occurrences that appeared to be transforming the very society in which he lived and that the world had known for thousands of years. But if Smith is to be credited with the dramatic rise in the standard of living of people all throughout the world with the rise of capitalism, is he not also to be credited for the Great Depression of the 1930s, and more recently, even the Great Recession of 2008? Is not his system based on self-interest a principal cause that led to these devastating occurrences? If we are to find a balanced answer to these questions, it is necessary to re-examine the fundamental structure of Smith's moral philosophy which, in fact, sets the stage for his great work on economics, *The Wealth of Nations*. In doing so, this paper will show how Smith's development of moral philosophy has made, somewhat ironically, a frequently misinterpreted contribution to the Enlightenment that is often overlooked. It will also argue that this changes the way we need to determine and evaluate the beginnings of economics as a discipline and its subsequent impact on history.

While the circumstances surrounding the founding of the discipline are generally well defined, economics still has a major flaw which causes hard scientists to take the discipline less seriously: namely, it has no generally accepted and comprehensive theory that allows us to

achieve objectives which the majority of people want to see achieved (Mills 1). Although it is true that much of the world has seen vast improvements in people's standards of living since the discipline's inception and application of its theories, why is there still poverty and uncertainty? Why can we not we maintain full employment, low inflation, and a steady growth rate all the time?

It is these questions of economic uncertainty that allowed Karl Marx over half a century later to adopt a philosophy hostile to capitalism and Smith's economic philosophy. However, although there are many differences between the two, Marx would not have been able to build his own economic theories without the foundations that Smith initially laid out. Moreover, the philosophy of G.W.F. Hegel undoubtedly had the most evident impact on Marx's philosophy, but what is much less recognized is the impact that Smith's philosophy had on Hegel. This thesis will outline Smith's economic philosophy, the basis of which is composed of his Actor-Spectator and Invisible Hand models, with the purpose of showing how his economics is based on his much lesser known system of moral philosophy. It will then be shown how Smith's philosophical system has had a significant impact on the thoughts of Marx and Hegel, an influence that is commonly overlooked when examining Smith's legacy.

II. Historical Context

In order to properly examine the development of Smith's ideas throughout time, it is accordingly necessary to place Smith within the context of ideas that influenced him. In particular, a drastically different exchange of ideas was taking place during the 17th and 18th centuries, a movement which is known as the Enlightenment. This period is characterized by a substantial philosophical, cultural, intellectual, and social movement that took place in Western

Europe, namely, Great Britain, France, and Germany, among others, and subsequently spread throughout the world, including North America, where Enlightenment thinkers greatly influenced the founding fathers of the United States. In the period directly preceding the Enlightenment, there was an unquestioning devotion to the power and knowledge of the Church, which was tied to the fact that there was no division between church and state at that time. The development of the ability to think scientifically and systematically enabled a person to be autonomous and, therefore, free, without the need to rely on any religion or religious institutions to explain natural occurrences or how one should act¹. A new definition of freedom emerged—freedom from religion to do what one pleased, in the name of science.

A direct consequence of the advances of the Enlightenment was the Industrial Revolution. This more material revolution took place in the late 1800s, beginning with the invention of the steam engine. This led to the development of a factory system which helped to mechanize the manufacturing process and speed production exponentially (Ross 5). As a result, the rapid accumulation of capital was made possible for some entrepreneurs, and the desire for more wealth led to investments in even more factories, as well as to the employment of more people than had ever been previously possible. The increased number of jobs available to the general population led to stability for families, a much more attractive prospect than the often unpredictable patterns of life that farming families faced in more rural communities. Consequently, a mass migration ensued of workers coming in from the countryside and forming towns and communities that led to the development of cities. Transactions were taking place

¹ “Smith...takes it as his task to free us from repressive institutions, especially religious institutions. What he polemically calls ‘superstition’ is frequently subjected to attack, and he provides a compelling analysis of religion as a political problem...” (Griswold 10).

faster and more often than ever before (Ross 7). A new system of human behavior was begging to be explained. This is the environment in which we find Adam Smith.

III. Literature Review

The primary texts that are the focus of this paper include the major works of Adam Smith, G.W.F. Hegel, and Karl Marx. In order to explore the connections between Smith's philosophical and economic systems, this paper will focus primarily on his *Theory of Moral Sentiments* and *Wealth of Nations*, published in 1759 and 1776, respectively. Although it is not necessary to read his first work before reading *Wealth of Nations*, the first enables the reader to see what Smith had in mind in regard to the underpinnings of the social interactions that are at the heart of economics. In fact, part of my overall argument is that a selective reading of *Wealth of Nations*, without a proper understanding of *Theory of Moral Sentiments*, leads to a one-sided, if not simply mistaken interpretation of Smith's thought in general and of his economics, in particular. The passages that are to be closely analyzed are those that articulate or pertain to the Actor-Spectator and Invisible Hand models.

In order to gain insight into how Smith developed his ideas, it is necessary to review his biography to discover how he was educated, who influenced him, and what specific experiences had the greatest impact on the development of his ideas. The first comprehensive biography of Adam Smith was conducted by John Rae in 1895, entitled *Life of Adam Smith*. It provides detailed anecdotes of Smith's time at university and in his lecturing and teaching positions, as well as accounts of his travels and correspondences with contemporaries. Ian Simpson Ross builds upon the work of Rae (*The Life of Adam Smith*, 1995), and his is the most thorough biography of Smith to date. Ross puts more emphasis than Rae on what might have influenced

Smith, such as his early educational experiences and correspondences with fellow philosophers such as David Hume and Francis Hutcheson. Ross's work is also much more thorough in its discussion of *Theory of Moral Sentiments* and *Wealth of Nations*, in terms of the context surrounding their composition as well as Smith's intentions and meanings for and in the works.

To gain a critical understanding of Smith and his Actor-Spectator Model and Invisible Hand theory, a broader secondary literature is necessary. There has been considerable secondary work done by scholars who refute the popularized notion that the Invisible Hand is simply a tool to promote selfishness. Among these, William Grampp's article "What Did Smith Mean by the Invisible Hand?" (2000), Patricia Werhane's *Adam Smith and His Legacy for Modern Capitalism* (1991), and Jack Russell Weinstein's *On Adam Smith* (2000), have emphasized that there has been a common misinterpretation by scholars and laymen alike as to Smith's most plausible meaning behind his famous metaphor. They all claim (though in different ways) that it was not self-interest that Smith was promoting, and they try to refute the common caricature of a Smith who advocated egotism as the primary motive behind human action. Rather, they argue that it is benevolence that Smith valued, and ultimately, a sense of justice and equality among all.

Other authors that help to provide critical analysis of Smith's works include D.D. Raphael (*Adam Smith*, 1985), who briefly details Smith's biography and the "Adam Smith Problem", focusing on Smith's economics and its impact on socialism. Some connections between Smith and Marx can be found near the end of the book and do indeed suggest that Smith might be interpreted as having planted some of the beginnings of Marx's thoughts on the exploitation of labor. Charles Griswold also provides a thorough exposition of *Theory of Moral Sentiments*, beginning with a solid foundation in the Enlightenment and tracing Smith's development of thought throughout various passages of the text. In addition, Jerry Evensky

(*Adam Smith's Moral Philosophy*, 2005), William Letwin (*The Origins of Scientific Economics*, 1963), and Jacob Viner ("Adam Smith and Laissez-Faire," 1927) provide critical analyses of Smith's economic ideas and moral philosophy.

In examining Smith's influence on Hegel, the texts to be examined include Hegel's *Phenomenology of Spirit* (1807), arguably his most influential work, primarily focusing on the section of "Self-Consciousness," where Hegel develops his famous Master-Slave Dialectic. Also, evidence of Smith's economic influence and the Invisible Hand metaphor can be found in Hegel's *Philosophy of Right* (1821). This work outlines his conceptions of social, political, moral, and legal philosophy, and what Hegel considers to be abstract right, morality, and ethical life.

In assessing Marx, this thesis focuses on the *Communist Manifesto* (1848) and the *Economic and Philosophical Manuscripts of 1844*. The first text was co-written with Friedrich Engels and was first published in German with the hope of spreading the ideas of communism throughout the world. It briefly outlines the beliefs of the Communist party at the time, and influences of Smith and Hegel are evident throughout. The second work consists of a series of manuscripts written by Marx in 1844 but published posthumously in 1927. In these, Marx writes about his theory of alienation and provides critiques of both Smith and Hegel, quoting heavily passages from both. A valuable secondary source that outlines Smith's influence on Marx is Paul H. Douglas's essay titled "Smith's Theory of Value and Distribution (1928)", in which the two theories of value are closely compared, passage by passage.

By employing and evaluating these primary texts by Smith, Hegel, and Marx, I will be able to analyze the context of the major ideas of these authors, with the expectation that their contexts will allow me to trace more closely the influence that Smith's ideas had on these other

prominent thinkers. The secondary texts help to clarify passages and offer various interpretations from which evidence can be extracted to develop my own analysis for my goal to trace and, in some measure, articulate the far-reaching influence of Adam Smith.

IV. Adam Smith: Biography and Influences

Smith lived directly in the thick of a historic transformation of thought and human society. His strong early educational background must be given strong credit for the development of his philosophical thought. Born in 1723 in Kirkcaldy, Scotland, Smith grew up without a father, although his family was relatively well-to-do and respected. He had a close relationship with his mother, who encouraged him to become a distinguished scholar and enrolled him in one of the most prestigious secondary schools of Scotland at that time (Rae 25). This encouragement led him to develop solid skills in rhetoric, Latin, mathematics, and history as a young boy. He entered the University of Glasgow at age 14 (26).

This move to Glasgow further helped to build the foundations upon which Smith's observational technique was developed. By moving across Scotland from Kirkcaldy in the East to Glasgow in the West, Smith was able to witness a rapidly growing economy that was thriving as a result of trade across the Atlantic with North America and the Caribbean (Ross 43). It was here that he was able to witness the practice of free trade and the extent to which mercantilism could damage the well-being of the state. Concurrently, Smith also witnessed the growing trend of the British kingdom's imperialist reaches, building colonies and importing slaves from Africa to work in them (Ross 44). This did not sit well by any means for Smith, who would repudiate such horrible practices in *Wealth of Nations*², among other works.

² See WN III.ii.10 and IV.vii.76-77

At the University of Glasgow, Smith studied under the moral philosopher Francis Hutcheson. Hutcheson, and Smith as a result, sought to emulate the methods that were first revolutionized by such scientists as Isaac Newton, Francis Bacon, and the philosopher John Locke, all of whom were among the first to approach problems in nature empirically and methodologically (Ross 20). Smith greatly admired Newton and appreciated his discovery of gravity with its innovative process to describe natural phenomena. This admiration was so great, that in Smith's lectures addressing his writing method of *The Theory of Moral Sentiments*, he claimed that he sought to emulate the Newtonian method in describing his moral philosophy (Griswold 52). He claimed that it was significantly more satisfying than the more prevalent Aristotelian method, and it is worth quoting his thoughts on the distinction between the two:

[In moral or natural philosophy we may] either like Aristotle go over the Different branches in the order they happen to cast up to us, giving a principle commonly a new one for every phaenomenon; or in the manner of Sir Isaac Newton we may lay down certain principles known or proved in the beginning, from whence we account for the severall Phenomena, connecting all 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 Moralls or Naturall philosophy etc., is vastly more ingenious and for that reason more engaging than the other.

(Lectures 145-6)

This passage demonstrates his desire for a general scientific plan of action behind the logic of his moral philosophy, and the roots of his preference for explaining phenomena on the basis of cause and effect is evident. Certainly his love of this Newtonian method, coupled with the changing

environment of his new Glasgow surroundings led him to develop his passions for liberty and reason (Griswold 65).

Smith's ideas on political economy were further developed when he enrolled at the University of Oxford in 1740, where he was quickly disappointed with the atmosphere of teaching at the school. In *The Wealth of Nations*, Smith comments on the stifling predisposition of his Oxford teachers: "In the University of Oxford, the greater part of the public professors have, for these many years, given up altogether even the pretense of teaching" (Smith V.ii.2.2). Ross (68) concludes that the development of Smith's ideas on competition leading to market efficiency stemmed from his experience at Oxford; its system of education lacked any sort of academic competition, and in addition, it rewarded its teachers greatly for little work.

Returning to Scotland before his term at Oxford was officially dismissed, Smith took up teaching in Edinburgh. Here, he met the preeminent philosopher and historian David Hume, with whom Smith was to have an enduring and mutually influential friendship (Ross 32). This influence is clear when one examines Smith's theory of the practice of theorizing. For Smith, it is all about how the imagination and our emotions of surprise and wonder are able to interact to generate our succession of thoughts. This succession can be considered as a type of system, called an "imaginary machine," which helps us to deduce cause and effect from natural phenomena. This is reminiscent of Hume's discussion on the "universe of imagination."³ These

³ From David Hume's *A Treatise on Human Nature* (1739), "Belief or assent, which always attends the memory and senses, is nothing but the vivacity of those perceptions they present; and that this alone distinguishes them from the imagination. To believe is in this case to feel an immediate impression of the senses, or a repetition of that impression in the memory. 'Tis merely the force and liveliness of the perception, which constitutes the first act of the judgment, and lays the foundation of that reasoning, when we trace the relation of cause and effect" (I.iii.86).

philosophical systems should be judged, Smith says, not in terms of their predictive power, but rather, for their coherence and ability to soothe our imaginations. Additionally, both of these Scottish philosophers believed the development of morality to be a natural, social reaction and rejected the notion that it is a result of rationality. Coupled with his reverence for Newton's scientific method and his theoretical stance influenced by Hume, Smith published a history of astronomy, in addition to some writings on the history of physics since, as we have seen above, Smith greatly revered this approach to achieving philosophical answers: “[Newton proposed] so familiar a principle of connection, which completely removed all the difficulties the imagination had hitherto felt in attending to them [the movement of the Planets]” (Evensky 45). This imaginary machine is what offers guidance through the “labyrinths of philosophical history.”

Essentially, Smith believed that a persuasive story should be based on a few simple principles, and it should be comprehensive, coherent, and beautiful, reflecting the harmony and elegance of the design in nature (Campbell ix). It is on this point that we see the largest divergence of Smith from his predecessors as well as from other Enlightenment contemporaries. His entire approach to examining natural phenomena by describing their systems using a scientific method is part of what defines his legacy (Griswold 37). He did not wish to follow the tendency of the hedonists, as he specifically mentions Epicurus in *Theory of Moral Sentiments*: “By running up all the different virtues too to this one species of propriety, Epicurus indulged in

Also from Hume's *Treatise*, a potential source of influence for Smith's discussion on division of labor and Invisible Hand theory is discernible: “When every individual person labours a-part, and only for himself, his force is too small to execute any considerable work; his labour being employed in supplying all his different necessities, he never attains a perfection in any particular art; and as his force and success are not at all times equal, the least failure in either of these particulars must be attended with inevitable ruin and misery. Society provides a remedy for these three inconveniences. By the conjunction of forces, our power is augmented: By the partition of employments, our ability encreases: And by mutual succour we are less exposed to fortune and accidents. It is by this additional force, ability, and security, that society becomes advantageous” (II.ii.3).

a propensity, which is natural to all men, but which philosophers in particular are apt to cultivate with a peculiar fondness, as the great means of displaying their ingenuity, the propensity to account for all appearances from as few principles as possible” (TMS VII.ii.2.14).

This tendency to account for all of reality from a few principles was precisely the method that Smith hoped to counter by using the Newtonian method. He believed (as did his good friend Hume) that the typical proclivity of moral philosophers for using one part of reality and applying it to the whole in order to understand it inevitably distorts our experience of each other and the world. This tends to hide the rich variety of humans and of the world. Smith did not necessarily believe this was an erroneous thing to do, but he thought it was a mistake not to understand that these approaches were merely speculative exercises, and should not be taken too seriously or seen as the ultimate truth of reality. Ultimately, it is out of a sense of pride that this tendency exists among moral philosophers, rather than as the result of reason (Rae 67).

Even though Smith fully agreed with David Hume on this point of the problem of moral philosophy’s tendency towards reductionism, he ultimately disagreed with the notion of morality of which Hume, as well as Shaftesbury and Hutcheson, were proponents. These latter three philosophers believed that humans developed their morality through an innate sense, which they were inclined to call a “sixth sense.” Smith dismissed this notion by arguing that “[m]oral sense hitherto had been neither named nor perceived by ordinary moral actors” (TMS VII.iii.3.15). This innate moral sense had never before existed in the English language until recently and was therefore merely a philosopher’s construction. If this were to be the governing principle of human nature, Smith argues, why has it been only recently taken notice of? It is on these grounds that Smith rejects the notion of an innate moral sense and devotes his writings on moral

philosophy to expanding instead upon the role and notion of sympathy as a part of the development of human morality.

V. The Theory of Moral Sentiments

Published in 1759, *The Theory of Moral Sentiments* was declared by Smith to be his most superior effort, even more so than his legacy, *The Wealth of Nations* (Rae 436, Ross 177). The reason, perhaps, is because it lays out the moral philosophy that was to serve as the basis of economics, with its most critical central axiom that allows all other theories and mechanisms to exist and be built upon as a result. Without this moral philosophy acting as the spine of his most famous text, economics would have no legitimacy as far as where the principles came from that Smith uses to make his claims. Consequently, although many economists are able to read *Wealth of Nations* without having read Smith's moral philosophy, they are missing a very important element concerning what he means by natural harmony as well as how these two works relate to each other. (Many readers, not fully understanding the ultimate implications within *Theory of Moral Sentiments*, believe there to be contradictory messages portrayed by Smith with regard to what motivates human action, as we shall see below.) As noted above, Smith hoped to emulate Newton's scientific method in laying out his moral philosophy in this book, and not just for other scholars and academics, but to laymen as well. Perhaps this is the reason why this book garnered Smith popular acclaim and recognition in Great Britain, going into its sixth printing by the time of his death in 1790 (Ross 194).

a. On the Notion of Selfishness

The very way in which the text of *Theory of Moral Sentiments* begins indicates that there exists a fundamental disagreement about the notion of human selfishness: “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” (TMS I.i.1.1). Smith does not make clear in this opening passage exactly who is doing the supposing. In one sense, this may be obvious, given Smith’s background and the nature of those who influenced him. His disagreements with the aims of the hedonists such as Epicurus come to mind, as well as the “state of nature” theory of Thomas Hobbes and the “self-love” theory of Mandeville. In another sense, it can be supposed that it is a common sentiment among humans that we are all selfish; we see it everywhere, in each other, and in ourselves. We dislike the thought of ourselves behaving selfishly, and so when we recognize it in others, we tend to see them in a negative light. This negative presupposition that all men are selfish is perhaps another tendency that Smith is addressing in his own society, and it sets the scene for him to shed a new light on this using his system of moral philosophy.

Although this opening sentence indicates that Smith is about to counter the popularized notion that every man is selfish, he acknowledges that there is a selfish element in our nature, particularly when he is among strangers: “[Men,] though naturally sympathetic, feel so little for another, with whom they have no particular connexion, in comparison of what they feel for themselves that without a constraining sense of justice they would like wild beasts be at all times ready to attack one another” (TMS II.ii.3.4). Smith addresses Hobbes’s notion of man’s “state of nature” with his comparison to wild beasts, but he differs on the interpretation of this behavior. Rather than attributing this tendency to the lack of a state with laws and society, Smith argues

that it is the sense of justice that develops from morality that enables us to live a peaceful existence. In this way, he emphasizes his disagreement with the notion that the sole driving force of human behavior is self-interest, although we undoubtedly have elements of selfishness within us at all times. The key is the ability to recognize this innate trait of selfishness in man but not to attribute all aspects of human behavior to it.

Accordingly, if we examine the above passages carefully, the most significant explanation for the common misinterpretation of Smith's views on self-interest can be attributed to the tendency for contemporary society to neglect the *Theory of Moral Sentiments* as the basis of Smith's economic thoughts. This is perhaps the key mistake that has permitted these misconceptions about Smith's ideas to flourish. Therefore, it is vital to re-examine why Smith himself believed that this work was his more superior effort. And during his lifetime, it was completely understandable why he should think so; *The Theory of Moral Sentiments* was immensely popular at the time, which might come as a surprise to those who only know Smith by his more famous *Wealth of Nations*. One possible justification for why his moral philosophy has been tossed aside in modern times is because he has been overshadowed by other great Enlightenment thinkers, such as Hobbes, Shaftesbury, Hutcheson, and Hume, all of whom developed a moral philosophical system in a much stronger and larger framework than Smith had done in his own writings (Werhane 8).

This unfortunate overshadowing of his moral philosophical system has perhaps led to the development of the popular notion that Smith regarded selfishness as not only a necessary trait amongst members of a functioning and prosperous society, but also as a moral virtue as well by inadvertently leading to a benevolent society. However, accepting this view would wholly contradict his earlier ideas. It is true that modern economics today employs a basic model which

assumes that firms work to maximize their profits, while consumers aim to maximize their utility, and these assumptions have traces of Smith's influence. However, Smith argued that the thought of utility in the formation of an individual's moral judgment has only a subordinate role (Raphael 38). That is, we do not decide our actions and make judgments as to what is right and wrong based on our utility functions. Rather, we naturally rely on the general rules of morality, established by judgments made collectively by society. It is through morality that we are able to achieve utility, and in this sense, the exact opposite of the popular interpretation of Smith can be seen. We must think of others and how they will react to our behavior in order to achieve our own happiness. This is what guides our behavior—a mechanism that has been described by Smith in terms of an Actor-Spectator Model.

Although Smith has been frequently misinterpreted, when one reads his works, it becomes clear that he was perhaps partially responsible, as he was not completely consistent with his definitions and classifications. For instance, in *Theory of Moral Sentiments*, he defines the word sympathy as the key force of developing morality within a society, but he also uses it in its usual meaning of compassion, fellow feeling, and empathy. Other such examples exist within *Wealth of Nations*, most notably within the section describing the nature of the value of labor—the value of labor comes from several different sources⁴, according to Smith, and this is perhaps a weakness that Marx exploited in his writings on labor over half a century later. Therefore it can often be difficult to gain a deeper of understanding of Smith and his moral philosophy because of his inconsistent language; however, a close reading of the texts can allow a reader to in some measure to differentiate his discordant terminologies and understand what he fundamentally conveys.

⁴ See *Wealth of Nations* I.v.1, I.v.2, I.v.7

Thus, a superficial understanding of *Theory of Moral Sentiments* leads to the common yet erroneous supposition that there exists a major incongruence between Smith's work on moral philosophy and his work on economics. How could it be that the same person who advocated that we must think of others before ourselves in determining our behavior also believe that acting in one's own self-interest is what is best for society? It seems that the role of sympathy had simply disappeared in his discussion on economics, which is very odd since it had occupied such a prominent central position previously. Such a conundrum is called the "Adam Smith Problem," which was propagated not only because of Smith's imperfect usage of his own definitions of terms (Raphael 88), but also, in my view, because of the neglect of many to see the real connections between his moral and economic philosophies.

Instead of changing his mind on the subject, as some have suggested, Smith was merely dealing with "two divisions of a single subject...the sympathetic and the selfish parts of human nature," and amazingly, these two divisions actually allowed him to explain in large part the motives that drive our motives to action (Raphael 88). Nevertheless, it is important to identify what Smith actually believed was moral, and virtuous. Although Smith did not repudiate self-interest for being an adverse motive, he did not exactly promote it as a highly moral trait either. This point can be argued further, but more importantly, it is clear that Smith believed the trait that should be regarded as even more important on the scale of morality is self-command, and that this trait, when practiced and mastered, involves the sacrifice of immediate pleasure for long-term happiness. Other traits that are more highly regarded than self-interest include a sense

of duty and a regard for justice.⁵ And so to attribute a high regard of the morality of self-interest to Smith would be to neglect all of the other traits that he highly regarded.

b. The Actor-Spectator Model

After his acknowledgment of a fundamental disagreement on the role of human selfishness in determining our behavior, Smith goes on to describe the very element that counteracts this popular belief. That is, he begins his description of the Actor-Spectator model and outlines the role that sympathy plays in our conduct.

...Though our brother is upon the rack, as long as we ourselves are at our ease, our senses will never inform us of what he suffers...By the imagination we place ourselves in his situation, we conceive ourselves enduring all the same torments, we enter as it were into his body, and become in some measure the same person with him, and thence form some idea of his sensations...His agonies, when they are thus brought home to ourselves, when we have thus adopted and made them our own, begin at last to affect us, and we then tremble and shudder at the thought of what he feels. For as to be in pain or distress of any kind excites the most excessive sorrow, so to conceive or to imagine that we are in it, excites some degree of the same emotion, in proportion to the vivacity or dullness of the conception. (TMS I.i.1.2)

⁵ “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. But the most perfect knowledge of those rules will not alone enable him to act in this manner: his own passions are very apt to mislead him; sometimes to drive him and sometimes to seduce him to violate all the rules which he himself, in all his sober and cool hours, approves of. The most perfect knowledge, if it is not supported by the most perfect self-command, will not always enable him to do his duty” (TMS VI.iii.1).

Although the emotions of others are reflected back onto us, we are still self-interested beings. But in this reflection, there is nonetheless a sense of shared universality, an awareness of our ability to commiserate with one another. This is the real basis for what is necessary for civil society, in Smith's view, by contrast to Hobbes's view that we need a social contract.

We, as spectators, witness other people suffering, the actors, and are able to feel emotions similar to theirs, though in a smaller proportion. This phenomenon, as Smith says, is made possible by our ability to imagine ourselves in the place of others. Therefore, the role of imagination is the key to this mechanism. It is the "means by which we change places" (TMS I.i.1.3) with another. However, we are never able to fully feel these passions to the same degree as the actor, since we are only observing the emotions rather than actually experiencing them. If I am observing a grieving person, I will no doubt feel for the person, but undoubtedly, my feelings of grief will be considerably less severe than the person who is doing the grieving. This distinction is particularly essential, for in imagining the actor's feelings in a particular moment, the spectator is concurrently evaluating the appropriateness of his or her response to the situation.

This notion of the spectator acting as a judge is an essential element to understanding how the Actor-Spectator model serves as the basis for Smith's economics work. The Spectator acts as a critic in the situation where the Actor is grieving. He or she deems whether or not the actor's response is congruous given the nature of the event. The Actor is sympathetically judged in light of a reasonable standard developed over time governing how individuals may be expected to behave or respond in this or that sort of situation. The Spectator is able to judge because he does not have the same emotional investment in the situation as the Actor or "sufferer" does, and therefore can be relatively detached and critical. This is vital because the

Actor always feels that his emotions are justified, since he is feeling them firsthand himself. Prejudice is therefore generated by his own emotions. Accordingly, the Spectator can serve as the requisite impartial element as a result. Whether we regard a passion as good or bad depends on our ability to sympathize with it. Sentiments are moral or virtuous when they are approved by the Spectator, and therefore, the “theory of moral sentiments” is a theory of the spectator’s approval or disapproval of the emotions.

As a result, a kind of mechanism emerges that is involved in the search for approval between the Actor and Spectator. As a grieving friend approaches you in her search for sympathy and condolences, you must adjust your previously placid demeanor to match hers. This process of adjustment is ongoing; the friendship would most likely not last very long if the adjustment ceased to take place. It is upon this basis of sympathy that Smith makes the argument that humans tend to follow laws and maintain order, rather than the desire for peace and to escape a state of nature full of egoists. We think of others and their judgments on our behavior when we decide how to act. We gain something from a sense of commiseration and understanding. This continual search for mutual sympathy is also, I maintain, the key axiom behind the notion of the search for equilibrium that takes place in the market mechanism of economics.

VI. The Wealth of Nations

Although *The Wealth of Nations* was not thought by Smith to be his most momentous achievement, it is certainly thought of as such by most people who hear Smith’s name today. It has indeed established his legacy, and is widely seen as his most important contribution to the development of modern economics as a discipline. Published (perhaps fittingly) in 1776, *An*

Inquiry into the Nature and Causes of the Wealth of Nations is Smith's magnum opus. The main purpose of the work was not to develop the science of economics. However, it certainly helped pave the way for such a development. Rather, Smith's intention was to convince the laymen of Great Britain to argue against the practice of mercantilism that was rampant at the time.

a. Smith's Intention for the Work

Mercantilism was the system imposed by Britain on its colonies which enabled merchants and the government to form a coalition, with the goal of increasing their wealth at the expense of other empires. This included a system of regulations, trade barriers, and subsidies to domestic industries. The British government was principally concerned with maximizing its exports and minimizing its imports in order to produce trade surpluses that would lead to an influx of gold and silver to London. A portion of this gold and silver was collected through duties and taxes, and the remaining bullion was allotted for the merchants to keep. This helped to fund the British Navy, which was among the most powerful in the world at the time, and allowed it to colonize other places, making available even more new markets to exploit through the use of mercantilism.

Smith was highly critical of this practice. The amount of control that the British government possessed appeared dangerous to him, and the practice of importing slaves from Africa Smith saw as highly immoral. Despite the obvious immorality, the practice was so rampant that the following passage by Smith discussing the possibility of free trade in Great Britain could be taken to mean that he had hardly any hope of succeeding: "To expect that freedom of trade should ever be entirely restored in Great Britain is as absurd as to expect that an Oceana or Utopia should ever be established in it. Not only the prejudices of the public, but,

what is much more unconquerable, the private interests of many individuals, irresistibly oppose it” (WN IV.ii.5.1). Nevertheless, Smith attempted to persuade the laymen rather than the politicians and special interest groups of the importance of free trade, in the hope that a wide enough range of people would argue for the sake of society rather than small groups for their own individual gains.

In approaching the rhetoric of his argument against mercantilism, rather than justifying these criticisms against the British government on the basis of moral grounds, Smith used his Newtonian method once again to describe the phenomena he was witnessing and identify the general set of principles that helped to clarify the seeming chaos of market transactions (Griswold 89). In doing so, Smith was able to denounce the economic inefficiency of mercantilism, imperialism, and slavery. He was proven to be correct after the independence of the United States of America was gained, which soon demonstrated that political control was not necessary for prosperity.

In refuting mercantilism, Smith uses Book IV to describe four main presumptions upon which the British mercantilist system is based. First, mercantilists were proponents of the idea that wealth consists of money, namely, gold or silver, so much so that they did not even consider the possibility that land or natural resources could increase a nation’s wealth. Second, they assumed (much as Karl Marx did) that all the wealth in the world was limited, a set and constant amount. In other words, the world is a zero-sum game in which the presence of a rich person creates a poor person, and so the concept of real economic growth was not even feasible for the mercantilists. Third, the only way a country is able to protect its assets is to somehow annex wealth from another country. And building on the third assumption, the fourth is that wealth is to be taken from others through exporting more and importing less. The only way one sector of

the economy is able to grow is at the cost or sacrifice of another (WN IV.vii.2). Smith clearly and methodically refutes all of these notions by developing his economic ideas from the previous books and by offering his own outline of the proper role of government based on a few simple principles.⁶

In discussing all of the faults of mercantilism, Smith discusses the role of merchants and manufacturers with a surprising tone of disapproval⁷, especially given that he has historically been popularized as an avid proponent of the self-interested actions of these economic players. In particular, he criticizes mercantilism as a “repressive and inefficient system” of political economy. But in many of these attacks, he is highly critical of the role that business people and business practices play in creating an economically stagnant environment. He even goes so far as to call them the “principal architects” of the mercantile system. The primary reason for this is because of the way mercantilism favors certain narrow interests that are pushed by merchants and also because it encourages monopolies. If this is true of business people, how could it be expected that such devious people and their practices would do any better in an unregulated environment, as Smith recommends?

The answer lies in Smith’s outline of the principles of a laissez-faire economy and the economic liberty that is possible as a result. Within a mercantilist system, special favors are the basis of laws and regulations, whereas Smith advocated doing away with such an easily

⁶ For an excellent and concise outline of Smith’s economic ideas refuting mercantilism, see Werhane, specifically pages 156-168.

⁷ For example, in the chapter discussing combinations, Smith observes that “[o]ur merchants and master-manufacturers complain much of the bad effects of high wages in raising the price, and thereby lessening the sale of their goods both at home and abroad. They say nothing concerning the bad effects of high profits. They are silent with regard to the pernicious effects of their own gains. They complain only of those of other people” (WN I.ix.24). Additionally, Smith argues that although the interests of landowners and laborers are “strictly and inseparably connected with the general interest of society,” the interests of merchants are “always in some respects different from, and even opposite to, that of the public” (WN, I.XI.1). Also see WN I.vi.5.

manipulated system and proposed treating everyone fairly in the name of justice in a free market system. Such a system would remove both special privileges and encourage independent self-improvement, one in which “the law ought always to trust people with the care of their own interest” (WN IV.v.ii.16). This system would also allow for elements of the natural order to endure.

The ideal political economy would emulate economic liberty in three ways: such a system reflects natural order, is less unjust, and is the most efficient: “The natural effort of every individual to better his own condition...is so powerful a principle, that it is alone...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” (WN IV.v.ii.17). Thus, a free market is more likely not only to produce economic prosperity, but also to be in the public interest as well (Werhane 162).

Although Smith saw an ideal economy as one that promoted natural liberty for all, he was far from a utopian in his regard for a free market system, and, certainly, he did not view such a system as without its flaws. Many have interpreted Smith as having predicted the decline of capitalism with no measures to prevent this decline from occurring. This sentiment is partly true, and evidence for Smith’s pessimism can be seen in his discussion of the detrimental effects a system which depends on the division of labor in manufacturing has on the minds of its workers:

The man whose whole life is spent in performing a few simple operations, of which the effects are perhaps always the same, or very nearly the same, has no occasion to exert his understanding or to exercise his invention in finding out expedients for removing difficulties which never occur. He naturally loses, therefore, the habit of such exertion, and generally becomes as stupid and ignorant

as it is possible for a human creature to become. The torpor of his mind renders him not only incapable of relishing or bearing a part in any rational conversation, but of conceiving any generous, noble, or tender sentiment, and consequently of forming any just judgment concerning many even of the ordinary duties of private life. Of the great and extensive interests of his country he is altogether incapable of judging...But in every improved and civilized society this is the state into which the labouring poor, that is, the great body of the people, must necessarily fall, unless government takes some pains to prevent it. (WN V.i.178)

Not only does Smith discuss the potential erosion of the sharpness of a worker's mind as a result of performing repetitive tasks, but he also foreshadows the potential for workers to become so ignorant that they can no longer judge what is best for themselves, let alone for their own country. He has thus been characterized as one who predicted the demise of not only capitalism, but democracy as well (Viner 154). However, those who have interpreted Smith as not having a solution for this potential problem, such as Karl Marx and Raphael (1985), tend to forget the importance that he placed on the role of education. In fact, Smith clearly declares the two main roles of government as providing education and public works (Alvey 92). He himself benefited from the early education schools that were provided in Scotland for him as a young boy, and as a result, believed that such a system, expanded, would help people not only keep their minds sharp and prevent the disastrous results that division of labor seems to cause, but also help develop their imagination (Ross 201). If we go back to the Actor-Spectator Model and the importance Smith placed on the role of imagination in a peaceful and moral society, we can see clearly that this element seems to be at the root of what Smith required a government to provide in an ideal, or at least better, society.

b. Introduction to Economics

In reading *The Wealth of Nations*, one is struck by the realization that the definitions and explanations of the phenomena that Smith was witnessing for the first time in the 18th century are still plausible in the contemporary world and that they continue to be used to explain the same phenomena today. It soon becomes very clear why this book has been such a central work in the development of the discipline of economics for this reason. For instance, Smith opens his book with a discussion of the major reasons why some nations are wealthier than others. It is not because of their lucky possession of many natural resources. Rather, it is their ability to utilize the productive powers of the division of labor. In this exposition, we are exposed to the great impact Smith's observations of his industrialized surroundings had on him; he uses the example of the making of a pin in a factory to explain why this is so: each worker has the ability to focus on one particular aspect of the pin's production, and, in doing so, is able to save time that would have been spent switching operations; in this way each worker is also more capable of improving his dexterity. Lastly, Smith argues that men are much more likely to discover and invent new and more efficient techniques in manufacturing when they are able to focus on one particular aspect of the pin-making operation than overseeing the entire process. It is natural, Smith asserts, "that some one or other of those who are employed in each particular branch of labour should soon find out easier and readier methods of performing their own particular work, whenever the nature of it admits of such improvement" (WN I.i.6).

The rest of the work follows the same sort of logic in establishing explanations for the rapidly changing phenomena that were occurring as a result of the industrialization of Great Britain. And a large part of the success of the industrial revolution, Smith argues, is attributable

to the division of labor. In addition to the assertion that the division of labor serves as the basis of the wealth of nations, Smith's descriptions of many other economic concepts are still highly accurate and relevant today. For instance, his discussion of the purpose of money, real and nominal value, inflation, profits of stock, rent, capital, the rise of cities and towns, the causes and effects of war and public debts, all are still described in a very similar manner in today's introductory economic courses and texts.⁸

c. The Invisible Hand

Undoubtedly, the one idea that Smith is most often remembered for is his notion of the Invisible Hand. It is remarkable that this is the case, however, since the phrase, "Invisible Hand," is mentioned only once each in *Theory of Moral Sentiments* and *Wealth of Nations*, and is only referenced again in the former work⁹. While Smith did not waste too many words on the concept, the metaphor is unmistakably present, however, throughout each of these works. But because Smith did not explicitly explain his precise definition, he has been misinterpreted by the many scholars analyzing and interpreting the metaphor, and this misinterpretation has been perpetuated throughout classrooms and common knowledge. The following assessment by the economist George Stigler sums up quite well the general popular, albeit misguided, opinion: "The *Wealth of Nations* is a stupendous palace erected upon the granite of self-interest" (Stigler, 1971).

⁸Just one out of many examples, Smith describes the process of equilibrium price: "The natural price, therefore, is, as it were, the central price, to which the prices of all commodities are continually gravitating. Different accidents may sometimes keep them suspended a good deal above it, and sometimes force them down even somewhat below it. But whatever may be the obstacles which hinder them from settling in this centre of repose and continuance, they are constantly tending towards it" (WN I.vii.15).

⁹For Invisible Hand references, see TMS IV.i.10, WN IV.ii.9, and TMS I.iii.29. It is also mentioned once in Smith's *History of Astronomy*.

As is true for much of the work, Smith was not the first to discover the economic concepts he writes about in this text. Rather, he added much to the ideas of the French economic philosophers led by Francois Quesnay and, more impressively, he was able to combine Locke's idea of natural economic laws with mechanistic explanations that could help to build a credible case for a hands-off economic and political system (Letwin 223). The greatest example of this masterful linking is in Smith's famed passage on the Invisible Hand. In addition to re-articulating previously discovered economic notions and mechanistic explanations of natural laws, the ultimate source of the thinking behind this metaphor is based on the Stoic doctrine of harmoniously unfolding nature, a doctrine¹⁰ that Smith took seriously as a result of his boyhood education (Ross 21)¹¹.

A significant concept that is expressed by the Invisible Hand metaphor is that which explains Smith's labor theory of value, which is responsible for the prices of commodities, rents, wages, and profits. Such a concept is still used today in economic analyses to determine these "natural rates." It is called equilibrium. Once the market clearing condition of equilibrium is reached, prices, wages, rents, and more values reach their "natural" levels. This is traditionally only achievable when the market is not tampered with by any special interests or government interventions. This is what the Invisible Hand is trying to guide the market towards and on what Smith bases the explanations of all of his economic analyses on.

¹⁰ See footnote 11

¹¹ "In his maturity Smith saw the school years as crucial for the formation of character. He painted a picture of early childhood as a time of overwhelming emotions...At school, Smith believed...the boy wishes to be well regarded by his equals and not to be scorned or hated. The basic drive of self-protection teaches him to attain his wishes by controlling his anger and other passions, to the extent that this wins the approval of those equals. Thus, the boy enters the 'great school of self-command'...to be sure, this is the outlook of the Stoic moralists" (Ross 21-22).

Although Smith's powerful passage arguing for laissez-faire economics is tenable, there are some faults in his argument that have paved the way for plenty of criticism. In this particular passage where Smith argues that merchants will prefer home markets to foreign markets, the reason he gives is because they prefer to do business where they know the laws and because they prefer to keep their capital close at hand (so that it is more liquid, in a modern economic sense). Perhaps the most significantly detrimental fault with the Invisible Hand metaphor involves a curious oversight by Smith of not an uncommon circumstance in this situation. What Smith neglects to address, as Letwin points out, is the condition when the rate of return on capital in foreign markets is much higher than that in the domestic market (Letwin 224). And if merchants were to act solely based on their private interests, they would no doubt diminish the economic well-being of their home country by taking their business to outside markets.

Despite some technical gaps in the metaphor, the basic functionality behind this mechanism is ingeniously effective in explaining economic behavior. It should be interpreted as simply a rhetorical device, rather than an all-encompassing interpreter of natural economic phenomena, as it is often viewed. This literary assessment of the Invisible Hand is pertinent especially given Smith's extensive background and expertise in rhetoric. He attempted to explain something unseen to laymen and scholars alike in the best, most effective way he knew how—by means of a literary device.

Certainly, numerous scholars, such as Patricia Werhane (1991), William Grampp (2000), and Jack Weinstein (2000), strongly argue against the common misperception that Smith supported the notion that individual selfishness leads to the greater good. They insist that a frequent error that readers commit when reading Smith is the interpretation of the Invisible Hand as an *explanatory* variable in economic affairs, rather than as a *result* of such affairs. Werhane

goes into considerable detail as to why this is not the case: she outlines five specific factors that allow the Invisible Hand to function and thrive, and she goes so far as to say that without these factors in play, it does not even exist (105). First, there is a need for natural liberty, or the absence of constraints on market operations. Second, natural liberty should function in the framework of justice, where such a framework allows for fair play and protection from others. Third, there is a need for self-restraint, or an internal sense of prudence. Fourth, there should be competition among equal parties, with no one having any particular advantages or restrictive policies that favor one group over another. And finally, coordination and cooperation are the final necessary driving forces. Without these five factors, the Invisible Hand could not operate.

Weinstein makes the connection further with the *Theory of Moral Sentiments*. He claims that since sympathy is a natural tendency, individuals are compelled to care for others. Therefore, this insures that individuals naturally place morality before their own self-interest. This explains why we prefer to follow laws even if breaking them would benefit us more. And this lies at the heart of Smith's message in his lectures on jurisprudence—the Impartial Spectator of the *Theory of Moral Sentiments* is closer to the laws of justice that he describes in *Wealth of Nations* (and not directly parallel to the Invisible Hand, as Macfie (1971) insists). Weinstein goes on to say that because identity is a product of sympathy, self-interest could not exist without a sympathetic understanding of others (65). Self-interest, and the Invisible Hand, is the *consequence*, not the cause, of a just and efficient political economy.

It is in the chapter on trade that Smith calls to mind the image of an invisible hand to help develop his argument against mercantilism. The strongest point that Smith desired to make in this book is helped along by this metaphor. In the passage directly preceding the mention of the famous metaphor, Smith is making the case for why free trade is superior to mercantilism. He

argues that it will always be the case, if profits are equal or even slightly less in the home country, that merchants will prefer the markets of his native land rather than a foreign one. The main reasons for this include the advantage of the merchant always having his capital nearby. The separation from his capital is a huge incentive to avoid foreign trade. Also, the merchant knows the laws of his home country far better than a foreign one. In the case where he must seek redress for any bad trades, he knows what rules to follow and the possible consequences of any actions he or his trade partner must face.¹² This discussion then leads to the metaphor that encapsulates this notion of a self-regulating force guiding merchants to prefer home trade:

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. (WN IV.i.2)

¹² “Thus, upon equal or nearly equal profits, every wholesale merchant naturally prefers the home-trade to the foreign trade of consumption, and the foreign trade of consumption to the carrying trade. In the home-trade his capital is never so long out of his sight as it frequently is in the foreign trade of consumption. He can know better the character and situation of the persons whom he trusts, and if he should happen to be deceived, he knows better the laws of the country from which he must seek redress” (WN IV.ii.6).

The “labours” of a merchant inevitably lead to the best possible outcome for society when he is left to choose of his own accord where to employ his capital, regardless of whether he intended such a benevolent outcome or not. The mechanism that makes this manifestation possible is what Smith refers to as the Invisible Hand. It is the appearance of altruistic results that are unintentional, simply by allowing the players in a market act in their own self-interest.

This mechanism is prevalent throughout the entire book, including at the very beginning. Referring back to his discussion on the division of labor, it is now clear after reading about this metaphor the role that the Invisible Hand has in the prosperity of each worker focusing on one specialty: “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” (WN I.ii.2). In this statement, Smith is recognizing the importance of the role of recognizing the needs of others in order to maintain a prosperous and benevolent society. We must feel sympathetic towards others in order to understand how to meet these needs, and as a result, we can cater our actions to fulfill them. Traces of the mechanism of the Actor-Spectator model are evident here, and it is to this that we can compare the Invisible Hand metaphor. In doing so, we are able to see where its origins lie.

In *Wealth of Nations*, the Invisible Hand is used to reflect the paradox that a self-interested individual unintentionally helps to maximize the wealth of society. In *Theory of Moral Sentiments*, the metaphor takes on a slightly different meaning than what is more popularly interpreted from *Wealth of Nations*:

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. (TMS, IV.I.10)

In this particular section of *Theory of Moral Sentiments*, Smith is describing the phenomenon of how a landlord with extensive fields can consume hardly more than the “meanest peasant” is able to, and this leads him to articulate how there exists a natural inclination for the rich to distribute their wealth to the poor. In the above passage, he attempts to persuade the reader that the rich, although naturally selfish, do not consume much more than anyone else; they simply operate in the name of their own convenience and employ others in the process, unintentionally dividing their “produce” amongst those they employ and beyond. In contrast to *Wealth of Nations*, Smith focuses more on the equality that is possible as a result of the operation of the Invisible Hand, which was perhaps due to the strong influence of Rousseau and Mandeville (Weinstein 62). Just as the use of the metaphor had its obvious weaknesses in the *Wealth of Nations*, such is the case in this context as well. This notion may seem particularly difficult to believe, since throughout much of history there have always been instances of divisions between the rich and the poor. Weinstein defends this passage by placing a greater emphasis on Smith’s choice of the phrase “necessities of life” (Weinstein 65). He asserts that Smith is not saying the rich are led by an invisible hand to distribute their wealth or luxuries equally among them, but

rather they are led to distribute jobs and income—the fundamental requirements for survival in society. In fact, Smith does not deny that there are inequalities, and that there are far more poor people than rich people in a society: “...wherever there is great property, there is great inequality. For one very rich man, there must be at least five hundred poor...” (WN V.i.2).

If this is the case, then this begs the question of exactly how applicable the Invisible Hand metaphor is not only to the study of economics, but to reality as well. Does the metaphor also enable us to better understand the mechanism underlying how the world works by explaining natural phenomena? And if Smith merely collected, ordered, and better articulated already discovered economic principles, why should he receive so much credit for the founding of an entire discipline?¹³ These criticisms miss the entire point of why models exist. Models *represent* reality, or an aspect of reality. They are not meant to perfectly imitate every component of the truth. In representing only certain aspects, we are able to understand parts of it or gather a basic understanding of the whole. We use a model’s equilibrium to see what happens when certain elements are changed. We use it to generate hypotheses and then test those hypotheses. This is the principle behind the scientific method, a method widely used by Newton, whom Smith greatly admired and attempted to emulate (Griswold 34). And the very nature of this method involves the testing and re-testing of hypotheses to try and reach some type of conclusion that will bring us closer to the truth. What Smith did was not search for a model of the truth or a single cause or consequence of a system. Rather, he mastered unwieldy material and then put the material into a system subject to a small number of coherent principles, which

¹³ In fact, one famous economist, Joseph Schumpeter, felt so strongly that Smith deserved no credit for the discovery of the economic discipline, he was so compelled to write in his *History of Economic Analysis* (1954), that no matter what Smith “actually learned or failed to learn from predecessors, the fact is that the *Wealth of Nations* does not contain a single analytic idea, principle, or method that was entirely new in 1776.” While Schumpeter praised Smith for his work, he nevertheless asserted that Smith made no contribution to pure economic theory with it.

we can now test against hypotheses that either support or disprove his assumptions. Thus, we should not judge the model of the Invisible Hand for its truth on some absolute scale but rather on its ability to logically summarize a system which was previously cumbersome and not clearly understood at the time, (a task in which he succeeded most famously) and whose consequences can therefore be tested or retested. Therefore, the Invisible Hand is neither a cause nor a consequence of a system (as Werhane and Weinstein suppose) but an integral holistic feature of the system itself.¹⁴

VII. The Influence of the Actor-Spectator Model

a. The Common Theme of Self-Regulation

If we return to the notion of the Actor-Spectator model, it is evident how it can act as a sort of regulator for human behavior. It serves as a continual guide, with the Spectator as the judge constantly adjusting his emotions and behaviors to match those of the Actor. In this way, the Actor-Spectator model is a self-regulating mechanism that relies on the imagination to operate, and as an unintended consequence, it leads us to maintain a just and orderly law-abiding society. In imagining what others might think of our behavior, we are able to adapt our behaviors to gain their approval. Smith argues that in the same way that our first moral

¹⁴ Ironically, this is not entirely unlike the *Logos* of Heraclitus or the Stoics, which incorporates passivities in the system and regulates them, not as some external, adventitious force, but as an integral part of the model itself, constantly calibrating ever-changing variables. From Heraclitus: “The hidden harmony is better than the visible” (Fr.47); “Unite whole and part, agreement and disagreement, accordant and discordant; from all comes one, and from one all” (Fr.59); and from Marcus Aurelius: “The Universal Substance is docile and ductile; and the Reason [Logos] that controls it has no motive in itself to do wrong. For it hath no wrongness and doeth no wrong, nor is anything harmed by it. But all things come into being and fulfill their purpose as it directs” (VI, 1, pg.130-131); “... What soul, then, has skill and knowledge? Even that which knoweth beginning and end, and the reason [logos] that informs all Substance, and governs the Whole from ordered cycle to cycle through all eternity” (V, 21, pg. 124-125).

criticisms are made against the characters and conduct of others, and on the basis of how each of these affects us, we also learn that people make criticisms against our own selves with equal frankness. This makes us anxious to know if they approve or disapprove of our emotions and behaviors, whether we are “agreeable” or not.

Not only is the Actor-Spectator model a regulating force between members of a society, it also is able to regulate in a more self-contained way as well—that is, by regulating the emotions within a single person. It can be seen how this model functions within an individual when Smith speaks of the development of our “moral self-consciousness.” Such a self-consciousness requires an internalization of the Actor-Spectator model, that I “divide myself in two persons” (TMS III.i.4). In doing so, I am able to act as both the Actor and Spectator. It can be said that all of us have passions and desires, such as “fear and anger...the love of ease, of pleasure, of applause, and of many other selfish gratifications” (TMS VI.iii.1.3). The perfectly virtuous man is the one who can exert enough self-command to restrain these emotions and act in accordance with “perfect prudence, of strict justice, and of proper benevolence.” Most men, however, are constantly engaged in a struggle of their self-command over these passions; however, when they are in control, there emerges a beauty and harmony that deserve “a certain degree of esteem and admiration.”

b. From Smith to Hegel

There have been several works that attempt to trace how the influence of Smith’s *Wealth of Nations* and his resulting legacy of economic liberalism impacted Hegel’s philosophical writings (Lukacs 1948, Waszek 1988). In particular, these works agree that there is clear evidence as to Hegel’s agreement with Smith’s treatment of the division of labor and the role it

plays in a nation's economy. Maker (1987) discusses how "with the division of labor, the ability of individuals to satisfy their particular needs and desires requires that they be concerned about the needs and desires for others; for only in satisfying some want of others can they acquire the means to satisfy their own (8). Essentially, the modern market economy requires interdependence of its players in order to function. Socialization and the role of education are highly emphasized by both Smith and Hegel in order for a free and just society to flourish.

Although the evidence for the economic impact of Smith on Hegel has been brought to light, the scholarship on how his moral philosophy played a role is lacking. Angelica Nuzzo (2010) notes that this has caused many readers of both to believe that Smith's economic ideas were the dominant sources of influence in Hegel's writings. She articulates the frequent oversight clearly: "That the development of the structures of civil society also makes room for a type of morality that deeply resonates with Smith's moral theory—with his idea of sympathy and the impartial spectator—and that such morality sustains the articulation of the economic activity of civil society are two points curiously but consistently missed by interpreters" (Nuzzo 38). The evidence for this, Nuzzo argues, is primarily to be found within Hegel's *Philosophy of Right*, particularly in the sections on "Ethical Life" and "Morality". Nuzzo interprets Hegel as having made the claim that no theory of morality is valid outside of the context of social life and its institutions (42), and outside of this standpoint, it is not possible for notions such as duty, justice, virtue, and equality to have any meaning—otherwise, they are simply abstract concepts. It is only "in light of specific human needs and feelings, and as part of a broader notion of culture," that we attribute meaning to these concepts (43).

We are thus able to see the similarities between Hegel's and Smith's notions of morality and the role that a societal context plays in its formation. It is not possible to have morality, and

the duty, justice, virtue, and equality that come with morality, without society. Morality is formed within the context of human “needs and feelings,” which can be compared to the way a spectator forms his behavior within the context of the actor’s needs and feelings: “Action becomes possible only when subjective conscience is recognized and validated as an internal standpoint within the system of duties and principles that animates ethical life thereby becoming ‘ethical disposition’ (44). This “ethical disposition” can be compared to an individual’s morality formed by the internalized actor-spectator model. By splitting oneself into two, both the Actor and the Spectator, one is able to impartially judge one’s own actions and determine if it would be acceptable to others outside of oneself.¹⁵

Furthermore, once the notions of duty, justice, virtue, and equality have gained meaning in light of an ethical sphere, Hegel discusses a mechanism that is more closely related to that underlying metaphor of Smith’s *Wealth of Nations*:

In fulfilling his duty the individual must at the same time in some way attain his own interest and satisfaction or settle his account. Out of his position in the state, a right must accrue to him whereby the universal concern becomes his own particular concern. Particular interests should in truth not be set aside or, indeed, suppressed; instead, they should be harmonized with the universal, so that both they and the universal are upheld. The individual, so far as his duties are

¹⁵ “Conscience is the expression of the absolute title of subjective self-consciousness to know in itself and from within itself what is right and obligatory, to give recognition only to what it thus knows as good, and at the same time to maintain that whatever in this way it knows and wills is in truth right and obligatory...Conscience is therefore subject to the judgment of its *truth* or untruth, and when it appeals only *to itself* for a decision, it is directly at variance with what it wishes to be, namely the rule for a mode of conduct which is rational, valid and for itself, and universal. For this reason, the state cannot give recognition to conscience in its distinctive form as *subjective knowing*, any more than science can grant validity to subjective opinion, assertion, and the appeal to a subjective opinion” (PR §137).

concerned, is a subject; but as a member of *civil society* he finds that in fulfilling his duties he gains protection of his person and property, regard for his particular welfare, the satisfaction of his substantial being, the consciousness and feeling of himself as a member of the whole; and, insofar as he fulfills his duties by performing tasks and services for the *state*, the state itself is upheld and preserved.

(PR § 261)

This passage suggests that Hegel was indeed influenced by Smith's Invisible Hand metaphor, insofar as it emphasizes that the individual citizen possesses his own particular interests which should not be "set aside" or "suppressed," but rather, to echo Smith's favored concept of natural coordination, "they should be harmonized with the universal." However, in this passage, Hegel takes this relationship to a slightly different harmony by requiring the citizen to fulfill his duty of performing tasks and services for the state. By simultaneously regarding his own interests while actively performing public duties, the "state is upheld and preserved." The mechanism in which this works is such that the individual has aligned his self-interests with those of the universal, and therefore they are not incongruous. This is not unlike how an individual acting in his own self-interest of the Invisible Hand metaphor unintentionally is benevolent towards society.

In an even more striking comparison between the two philosophers, the similarities between this internalization of Smith's Actor-Spectator model and the influential Master-Slave Dialectic of Hegel can be usefully articulated. In particular, when Smith moves his Actor-Spectator model to an internalization of the mechanism, he is describing precisely the same reflexive mechanism used in the Master-Slave Dialectic in the emergence of self-consciousness. In Hegel's version of the relationship, there is a "master" and a "slave" who serves the master. The master is regularly acknowledged by the slave in the form of the latter fulfilling every desire

of the former. In this way, he is able to feel immediate satisfaction from the goods and services provided by the slave. Meanwhile, however, the slave is working obstinately to fulfill these desires, and in this process of working, he eventually recognizes himself (as described by Hegel in the lordship/bondsman relationship): “through work...the bondsman [slave] becomes conscious of what he truly is” (PS § 321). The slave is able to realize self-consciousness through work; he works, and therefore he is a slave. The master, on the other hand, is merely reliant on the work of the slave. His self-consciousness depends on the existence of the slave (“Self-consciousness exists in and for itself when...it so exists for another; that is, it exists only in being acknowledged”), whereas the slave’s self-consciousness depends on his work. The master must rely on another while the slave must only rely on his work. As the slave comes to recognize himself to be the “essential being,” he consequently becomes the master, and the roles are reversed. Each wants “to become certain of *itself* as the essential being,” and the struggle for dominance ensues (Arthur 2005).

This relationship turns into a never-ending cycle of the struggle for dominance, much like the notion of the search for mutual sympathy as well as the internal struggle over the passions in Smith’s Actor-Spectator model. In Hegel’s dialectic, the self can become conscious of itself only through the mediation of another self-consciousness. In Smith’s model, we develop our morality, and therefore our humanity, through the social interactions that help to dictate our behaviors and emotions. It can be seen that the internalization of the Master-Slave Dialectic utilizes the same notion of an exceedingly appealing incentive for once an individual is able to gain control over his or her passions; in this way, Hegel insists, we become free: “Through work...the bondsman becomes conscious of what he truly is....Work is desire held in check, fleetingness staved off; in other words, work forms and shapes the thing” (PS § 195).

This new definition of freedom is what is later heavily utilized by Karl Marx in his philosophy, as well as the more discernable and well-known connection between Hegel's dialectic and Marx's Proletariat versus Bourgeoisie dynamic, both of which can trace their origins back to the same material as can be found in Smith's moral philosophy.

VIII. Smith's Influence on Marx

Despite the painstaking intricacies and abundant quantitative details that Smith employs in outlining his economic system, there are undoubtedly some contradictions within his explanations and definitions that many readers may find perplexing. As remarked by American politician and economist Paul H. Douglas (1926), the most notable and significant contradiction is in regard to Smith's contributions to the theory of value and distribution, to be discussed below. It is this contradiction in particular, Douglas asserts, that has helped to divert the English Classical School of economics for nearly a century, paving the road for the rise of socialism and communism as a result (80). Certainly, this played a defining role in the formulation of Marx's thoughts on economics.

a. Smith's Contradictory Labor Theory of Value

In Book 1, Chapter IV of *Wealth of Nations*, Smith begins his attempt to answer the question of what determines the ratio at which commodities are exchanged, calling into mind the water/diamond paradox first brought up by the likes of Locke and Hutcheson: "Nothing is more useful than water: but it will purchase scarce any thing; scarce any thing can be had in exchange for it. A diamond, on the contrary, has scarce any value in use; but a very great quantity of other goods may frequently be had in exchange for it. A diamond, on the contrary, has scarce any

value in use; but a very great quantity of other goods may frequently be had in exchange for it” (WN I.iv.13). Smith draws the conclusion that a commodity’s utility does not equal its value; in fact, they are independent of each other with no apparent relation between the two. Therefore, we should compare the exchange ratios of individual units, not whole classes of commodities, in order to determine their value.

Douglas points out a key omission of Smith’s analysis: marginal utility and the role that scarcity plays in determining a commodity’s marginal utility. That is, a diamond is worth more than a gallon of water, even though the water is infinitely more useful, because the former is far less abundant. As is now common knowledge, the additional utility of a commodity decreases as more units are obtained (if you already possess a pencil, an extra pencil will be worth less to you than to someone with no pencil at all; an extra unit of diamond is worth more than an extra unit of water because the water is plentiful). And according to Douglas, this failure to recognize the importance of comparing *marginal* utilities versus *total* utilities is the fatal error that Smith commits in his evaluation. A possible explanation for why Smith failed to consider scarcity is because of his “moralistic sense”. Douglas elaborates: “In his thrifty Scotch manner with its opposition to ostentation as almost sinful he concluded that diamonds had ‘scarce any value in use.’ But, of course...economic values are not necessarily moral values” (80). It is intriguing to consider that Smith’s morality may have played a significant role in this destructive economic oversight.

By rejecting the notion that utility determines a commodity’s value, Smith turns to labor to answer the initial question at hand. Here lies the most prominent point at which Smith and Marx’s economic systems intersect. Smith concludes, as did Marx, that labor serves as both the measure and source of value. The contradiction that Smith makes in his analysis, however,

serves as a substantial source of material from which Marx draws to elaborate on the flaws of capitalism and ultimately to develop his theory of alienation.

As Smith attempts to explain value, he defines two different and contradictory theories, within the same chapter, which is a very perplexing challenge for the reader trying to clearly understand what Smith believes value to be. The first is the *labor-cost theory*, in which an item's value is determined by the amount of labor units required to produce it, which can best be summed up in the following passages:

“The real price of everything, what everything really costs to the man who wants to acquire it, is the toil and trouble of acquiring it” (WN I.V.2).

“At all times and places that is dear which it is difficult to come at, or which it costs much labor to acquire; and that cheap which is to be had easily or with very little labour” (WN I.V.7).

“That money or those goods....contain the value of a certain quantity of labour which we exchange for what is supposed, at the time to contain the value of an equal quantity” (WN I.V.2).

In other words, if a pencil requires 1 labor unit to produce, that pencil should be able to be used to purchase another good that also requires 1 labor unit to produce. This, however, neglects to factor in the practice of deducting rent and profits from the prices of the goods, and is less applicable to modern, complex economies. Smith's second theory makes this illogicality obvious. He defines the *labor-command theory* as value being determined by the amount of labor units that can be purchased by it, as defined below:

“The value of any commodity therefore, to the person who possesses it, and who means not to use it or consume it himself, but to exchange it for other

commodities, is equal to the quantity of labour which it enables him to purchase or command” (WN I.V.1).

“Its value to those who possess it and want to exchange it for some new productions, is precisely equal to the quantity of labour which it can enable them to purchase or command” (WN I.V.2).

In the study of modern economics, it is clear why the two theories are contradictory, but Smith most likely did not perceive it as such at the time. Later economists following in the footsteps of Smith, such as David Ricardo, would struggle to explain exactly what Smith meant¹⁶, while others would simply reject his theories of value completely. It was Karl Marx, however, who used this contradiction to develop his own theory of value. He not only revived Smith’s definitions of value, but also built on them and elaborated them to the point that the defining characteristic of Marx’s economic system can be distinctively traced from Smith’s unrealized confusion between labor-cost and labor-command (Douglas 91). Although modern economists scoff at Marx’s value theory, he was one of the few who was able to clearly articulate why Smith’s theories were contradictory, and exploited this inconsistency into his own economic philosophical system; Douglas goes so far as to say it is the fault of Smith that led to the ultimate failure of Marx to properly define value (95).

¹⁶ Evidence of David Ricardo’s frustration can be seen in a letter to fellow economist John Ramsey McCulloch in 1819: “I am not satisfied with the explanation I have given of the principles which regulate value. I wish a more able pen would undertake it.” He also wrote in 1820: “I sometimes think that if I were to write the chapter on value again which is in my book, I should acknowledge that the relative value of commodities was regulated by two causes instead of by one, namely, by the relative quantity of labour necessary to produce the commodities in question, and by the rate of profit for the time that the capital remained dormant, and until the commodities were brought to market. Perhaps I should find the difficulties nearly as great in this view of the subject as in that which I have adopted” (Wood 12).

Further evidence of Smith's influence on Marx's labor theory is suggested by Ernest Mandel (1971), who claims that "[t]he 'law of value' is but Marx's version of Adam Smith's 'invisible hand'". Mandel explains that this law operates "behind the backs of all people," determining all aspects of the economy, also regulating "the distribution of society's labour potential and of society's non-living productive resources between different branches of production". The main difference, however, is that Marx believed this 'invisible hand' would not lead to benevolence or economic well-being. Rather, he believed the opposite to be true. Because the distinctive component of Smith's Invisible Hand is not simply that an invisible force is working without any individual's intention, but that this also leads to an optimal, benevolent outcome, Mandel's comparison does not appear to be quite as analogous as he suggests. However, the influence is clear; Marx seems to have acknowledged the existence of some invisible force that plays a role in the economy, but he undoubtedly had suspicions as to its outcomes.

b. A Similar View on Workers' Wages and Merchants

In addition to building on Smith's labor theories of value, Marx heavily utilized other passages from Book 1 of *Wealth of Nations* as well, with the bulk of the first two chapters of his *Economic and Philosophical Manuscripts of 1844* consisting of passages from this work. If one reads Chapter 6 of Book 1 with Marx's theory of alienation in mind, it is striking how consistent the two philosophers' thoughts on wages are:

As soon as stock has accumulated in the hands of particular persons, some of them will naturally employ it in setting to work industrious people whom they will supply with materials and subsistence in order to make a profit by the sale of

their work, or by what their labour adds to the value of the materials. In exchanging the complete manufacture....something must be given for the profits of the undertaker of the work who hazards his stock in this adventure. The value which the workmen add to the materials, therefore, resolves itself in this case into two parts, of which the one pays their wages, the other the profits of their employer upon the whole stock of materials and wages which he advanced. (WN I.VI.5)

In summary, the worker indeed adds value to a commodity, but the value is divided into two parts: one for his wages and the other for his employer. The worker therefore does not receive the entirety of the wages he earns¹⁷. This is a key concept in Marx's development of his theory of alienation in his *Manuscripts of 1844*. The worker's activity does not fully belong to him, and therefore he is alienated from it. His estranged labor belongs to the capitalist in the form of private property: "*Private property* is thus the product, the result, the necessary consequence, of *alienated labor*, of the external relation of the worker to nature and to himself" (Manuscripts 117).

Another notable similarity between Marx and Smith is their shared apparent distaste for merchants. This is especially surprising considering Smith is popularly known as expounding upon the unintended benevolence of merchants. But the key word is *unintended*. Smith most likely did not personally dislike merchants; he formed much of his early opinions on transactions and business by socializing with the merchants near his port town of Kirkcaldy as a young man

¹⁷ It is also worth noting that Smith advocated for something of a minimum wage, declaring that: "A man must always live by his work, and his wages must at least be sufficient to maintain him. They must even upon most occasions be somewhat more; otherwise it would be impossible for him to bring up a family, and the race of such workmen could not last beyond the first generation" (WN I.VIII.15).

(Rae 45). Rather, he probably realized that any political or business actions they took were for their own good rather than the good of society, even when they proclaimed that it was for the latter, and it was not their fault, but just a result of an innate propensity to create wealth and accumulate power. As a result, Smith writes extensively in a cautious tone about how a society should view merchants, because they always have their own special interests at play:

“The particular interest of the dealers in any particular branch of trade or manufactures is always in some respects different from, and frequently even in sharp opposition to, that of the public. To widen the market and to narrow the sellers’ competition is always in the interest of the dealer. This is a class of people whose interest is never exactly the same as that of society, a class of people who have generally an interest to deceive and to oppress the public, and who accordingly have, upon many occasions, both deceived and oppressed it. (WN I.XI.264).

“Our merchants and master-manufacturers complain much of the bad effects of high wages in raising the price, and thereby lessening the sale of their goods both at home and abroad. They say nothing concerning the bad effects of high profits. They are silent with regard to the pernicious effects of their own gains. They complain only of those of other people” (WN I.IX.24).

Smith even attributes blame to merchants for creating and perpetuating the very system that he is writing his book in strong argument against, mercantilism, because of their special interests: “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” (WN IV.II.9).

In this distaste for merchants and their acts of combination to form monopolies, Smith is joined by Marx: the following two passages are remarkably similar:

“The capitalist can live longer without the worker than can the worker without the capitalist. Combination among the capitalists is customary and effective; workers’ combination is prohibited and painful in its consequences for them” (Manuscripts 65).

“We have no acts of parliament against combining to lower the price of work; but many against combining to raise it. In all such disputes the masters can hold out much longer. A landlord, a farmer, a master manufacturer, or merchant, though they did not employ a single workman, could generally live a year or two upon the stocks which they have already acquired. Many workmen could not subsist a week, few could subsist a month, and scarce any a year without employment. In the long-run the workman may be as necessary to his master as his master is to him, but the necessity is not so immediate” (WN I.VIII.12).

The similarities between Marx and Smith, who are so often regarded as polar opposites, are readily apparent when one simply compares these two texts. They agreed on many things, but their conflicting economic systems are centered around different ways to achieve their goals. It was through the weaknesses of Smith’s outline that Marx was able to attack the capitalist system, using its own characteristics as described by Smith as a weapon against it. By attacking the system that seemed to create poverty and hardship using its own words, Marx was ultimately able to pave the way for communism to take hold and flourish around the world.

IX. Conclusion

The influence of Adam Smith is much more far-reaching than is commonly thought when one examines the texts of G.W.F. Hegel and Karl Marx, the fathers of modern Idealism and Communism, respectively. Because of the force of his unprecedented theory of how individuals relate to the whole economy, Smith's moral philosophy has unfortunately been largely overshadowed by his economics and, as a result, he has generally been viewed solely as an economist. Consequently, a common misinterpretation of his thoughts on economics has been popularized among not only scholars but students of economics. That Smith was a proponent of selfishness and a completely laissez-faire government has been a widely popular interpretation of Smith's Invisible Hand metaphor, an interpretation that is not sufficiently supported by the contexts of either his economics work or his earlier text on moral philosophy. In order to gain a more accurate understanding of Smith's economics and his resulting influence on Hegel and Marx, it is necessary to understand that sympathy and benevolence, in fact, play crucial roles in determining human behavior according to Smith, and that this does not contradict the message of *Wealth of Nations*, but rather provides a foundation upon which the Invisible Hand metaphor and the Actor-Spectator model can be better understood.

In refuting the idea that selfishness determines human behavior, Smith produced a model in *Theory of Moral Sentiments* based on the notion that social interaction is the sole determinant of how we behave as well as of how we develop morality and a sense of justice. The Actor-Spectator model was a product of the Enlightenment, utilizing the style of Newton's scientific method, based on a few coherent principles rather than speculations or rationalizations. This approach differed greatly from some of Smith's philosophical predecessors as well as from his contemporaries and should be given more prominence when we come to assess his legacy. In

Smith's ethical system, we find that we have to rely on others to develop morality; we are not born with an innate moral sense. Our ability to sympathize with others, therefore, is an important precondition for our development of morality, for it dictates our behavior based on the approval or disapproval by the other. And we can internalize this ability to be our own impartial spectator. This mechanism, then, shares similar characteristics with Hegel's Master-Slave dialectic, both involve the recognition of the other and of mutual self-awareness in order to achieve self-consciousness. This suggests a rather substantial connection between the two that has been glossed over in the literature and should be more seriously considered. Given that Hegel is often considered an intellectual forefather of Idealism (and even sometimes Fascism), it is absolutely fascinating that ideas from Smith can be seen to be fundamental in the development of two different systems of economy.

Building upon the notion that human behavior is based on sympathy, Smith developed his framework for political economy. In *Wealth of Nations*, he undoubtedly helped to establish the development of the entire discipline of economics. With the rise of trade and colonialism in Great Britain, Smith's *Wealth of Nations* was exactly what was necessary to help the nation and the world understand the underpinnings of what was taking place around them. Before Smith, there were many fragmented and seemingly unrelated theories that tried to explain individual components of the economy's behavior, but he was the first to clearly articulate the unifying principle and to provide an overarching model of how a post-Industrial Revolution society was better for the overall well-being of the community, a community composed of individuals pursuing their own ends rather than an all-powerful government deciding what was best for the country as a whole. This economic model, captured in the Invisible Hand metaphor, is what Smith is best known for today. However, it is important not to mistake Smith's position for one

advocating an anarchic state where every man is for himself. In determining Smith's meaning, we must take the importance he gave to sympathy into account. A person, in endeavoring to satisfy his own needs, must consider the needs of others to attain what he desires. An unintended benevolence occurs that benefits the entire society as a result.

These notions introduced in *Wealth of Nations* had an immense influence for economists and philosophers alike. Notably among them, Karl Marx carefully studied Smith's economic writings and conspicuously introduced his labor theory of value into his own economic writings. It can also be said that Marx's "law of value" parallels Smith's Invisible Hand metaphor insofar as it objectively operates without the agents' awareness, determining the production and exchange of commodities. These similarities between the two are frequently overlooked, but the striking comparisons are worth pointing out more forcefully. What is more commonly recognized is that Marx took very seriously the many criticisms Smith leveled against merchants. In refuting mercantilism, Smith was highly critical of the special interests that those with more capital were able to obtain from the government, and of the ways in which capitalism could have negative effects on laborers. But rather than view these as fatal flaws of capitalism, Smith believed instead that the population should be educated to be wary of merchants invoking favors from the government as well as to develop a sense of imagination and sympathy. By contrast, Marx took these criticisms to be strong evidence that the system simply exploited workers and needed to be abolished.

The primary weakness of this thesis involves the time constraint of the writing and research period, which have precluded me from thoroughly reading the entirety of the texts of G.W.F. Hegel. For his *Phenomenology of Spirit* and *Philosophy of Right*, close readings of particular sections were supplemented heavily with interpretations by secondary sources. The

difficulty and length of Hegel's works unfortunately require much more time to conduct an adequate analysis of the extent of his incorporation of Smith's influence. In addition, Marx's extensive composition on economics, *Das Kapital*, is a primary source that perhaps could have provided a vast source of valuable material to determine other resonance with and influences from Smith, but it has not been included in the research material for this thesis, simply because of time and space constraints. Written in 1867, this substantial work was meant as a direct response to the ideas proposed by Smith in *Wealth of Nations*, as well as by other classical economists. Further development of this thesis would include a close reading of this text and a detailed analysis of the traces of Smith's philosophy and economics it contains.

In conclusion, although the role of Adam Smith is highly regarded in the development of modern economics, his moral philosophy has been thoroughly forgotten in today's examination of the discipline's history. Perhaps worse, when his name is mentioned, the first thought that tends to come to mind is his advocacy of laissez-faire markets and his praise of selfishness. The irony behind these popular conceptions is that his entire moral philosophy was dedicated to dispelling the notion that humans only act on the basis of their own desires and pleasures, and to advocating that markets needed to be examined for their practical implications rather than set free under all circumstances. Sympathy, not selfishness, is the key to understanding human behavior. And if we forget this key pivot of Smith's legacy, we turn into the hedonists of whom he was critical, and this leads ultimately to a reductionist and distorted view of reality.

Furthermore, the influence of Smith, of course, goes far beyond the philosophies of Hegel and Marx. As the "father of economics", he has played a significant role in the thought of such prominent economists as David Ricardo, Thomas Malthus, John Baptiste Say, Amartya Sen, Friedrich Hayek, Milton Friedman, and John Maynard Keynes, to name but a few. As Letwin

concludes in his *Origins of Scientific Economics*, “[i]t was Smith who taught Bastiat to speak of the ‘social mechanism’, Cairnes to analyse Ricardo’s work as an exercise in mechanistic explanation, and Jevons to describe the science of economics as the ‘mechanics of self-interest’”(225). Smith provided for them a systematic work outlining the theory of production and distribution, theory of capital, history of economic development, and the theory of economic policy, with the upmost clarity and organization, features that were unprecedented in his time. He was able to join his Actor-Spectator model based on sympathy with the Invisible Hand model based on self-interest to create his own legacy of benevolent capitalism in which “benevolence is a virtue peripheral to economic exchanges” (Werhane 180), which would not be possible if not for a fair and just society in which all players are in principle equal. He recognized the potential evils of the system he outlined, but he proposed a solution of increased education to encourage a strong imagination and maintain an ethical and just society, rather than to abolish the system completely as Marx proposed. Indeed, the need for a strong moral education is the key to maintaining a fair, just, and prosperous capitalist society. The more popular conception of Smith’s work is an unfortunate misinterpretation that has led to the dismissal and unbalanced appraisal of his strong influence on history. In articulating a more nuanced assessment of Smith’s influence upon these two later philosophers, therefore, this thesis has uncovered new insights into their thoughts and has shown in a more balanced way, first, how history and society has been affected by these interrelated thinkers, and, second, how two ideologies, Idealism and Communism, emerged from the same material to which they claim to be adamantly opposed.

X. Bibliography

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