

# Adam Smith on Moral Judgment: Why People Tend to Make Better Judgments within Liberal Institutions

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## Abstract

In *The Theory of Moral Sentiments* Adam Smith explores how sympathy, propriety, and spectators help human beings form moral judgments that promote social harmony. Following Smith's progression through three levels of context explicated in Part IV, Ch. 1 of TMS—trinkets, private life, and political life—I explore how the prevalence of moral corruption depends significantly on the level of context. Moving from clearly defined contexts to more general and abstract contexts worsens our moral judgment. That, in turn, suggests that devolving power, authority, and decision-making to lower levels of context will generally improve moral judgment. Unsurprisingly, Smith's work includes many examples advocating such devolution, from local financing and governance of public works to “the liberal plan” in general which allows people to act “of their own accord.” I conclude that in addition to their economic benefits, Smith advocates liberal institutions as a means of improving our impartiality and our moral judgment.

Keywords: Adam Smith, Impartial Spectator, Sympathy, Judgment, Politics, Utility, *The Theory of Moral Sentiments*

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## 1. Introduction

This paper contributes to the conversation between “Left Smithians” and “Right Smithians” about how large a role Adam Smith assigned to government programs and public policy in order to promote flourishing societies (see Rothschild 1992; Mueller 2014; Fleischacker 2015). This conversation has ranged from topics like the status of the poor (Martin 2015) to effects of the division of labor to the character of business people, of the wealthy, and of the politician (Hanley 2009), to how far we can rely on Smith’s invisible hand to lead people to engage in activity that benefits society (Viner 1927; Coase 1976; Rothschild 1994, 2001; Kennedy 2009).

Here I show that Smith suspected that ordering our affairs centrally and politically would generally worsen people’s moral judgments. In *The Theory of Moral Sentiments* (TMS), Smith develops an elaborate account of ethics and the process of forming moral judgments. The idea of imagining an external judge of our behavior was a common idea in moral philosophy in Smith’s time (see Hutcheson 2007, 32, 49 for examples, or Anthony Ashley Cooper (Lord Shaftsbury) 2001 on the conscience). An impartial spectator may approve or disapprove of our actions and motives. Smith’s uses of the impartial spectator vary from an ordinary human spectator to God or a godlike spectator (Mueller 2016; Klein et al. 2018). Smith argues that one’s knowledge and proximity to actual impartial spectators is critical to forming good moral judgments. He applies this idea extensively within the *Wealth of Nations* when he recommends local governance, decentralization, and free association in markets over centralizing or politicizing social issues.

According to Smith, impartiality provides a standard external to oneself and one’s interests by which to judge people’s motives and actions. People form standards of propriety, virtue, and justice, and they judge their own and others’ behavior, by appealing consciously or

unconsciously to supposed impartial spectators. This is what Haakonssen (1989) calls the “impartial spectator procedure.” Each person has his or her own "man within the breast" who tries to render judgments and make decisions according to the example or the dictates of an ideal impartial spectator. But if the internal spectator is partial, rather than impartial, the “man within the breast” can cause us to choose the wrong standard for serving universal benevolence and promoting social harmony

People constantly moderate their passions and restrain their destructive impulses because of the external disapproval of their peers as well as the internal disapproval they experience from the ideal impartial spectator. Virtues that reduce or moderate our own passions to what an impartial spectator can accept Smith calls "the great, the awful and respectable" virtues of "self-denial" and of "self-government" (TMS 23). Those virtues that rouse our emotions to sympathize with the passions of others he calls "soft," "gentle," and "amiable" (TMS 23, 242). They correct our deficiency of emotion or fellow-feeling. On the whole, Smith observes, the respectable and amiable virtues bring about a remarkable degree of social harmony.

Jacob Viner, for example, has suggested that the impartial spectator along with the other mechanisms in TMS present "an unqualified doctrine of a harmonious order of nature, under divine guidance, which promotes the welfare of man through the operation of his individual propensities" (Viner 1927:206). Yet the mechanisms of the impartial spectator and the man within the breast do not work perfectly. Crimes are still committed. People frequently act unethically and violate standards of propriety and justice. Democratic governments sometimes create institutionalized injustice and inequality. What is going on in these aberrations? Are the actors ill-informed? Is their man within the breast sick or on vacation? Do they have a wrong

impartial spectator in view? Do they ignore the impartial spectator? Smith essentially answers, “yes.”

There are many causes of moral corruption in TMS: “false notions of religion, overrating the difference between one permanent situation and another, want of reserve, [a] disposition to admire the rich and powerful, the pursuit of place or status, pleasure in groundless applause, and the impartial spectator being at a great distance” (Klein 2016). Understanding some of these causes, as well as explaining the importance of utility in moral approval, sheds light on how Smith thinks about the uses and limits of government institutions relative to liberal market institutions. Smith expositis numerous, though not necessarily distinct or separate, ways our moral sentiments can be corrupted. Ultimately, the problem arises from a disconnect between our man within the breast and the perfect or ideal impartial spectator (see Klein et al. 2018). As I will argue later, our institutional framework, liberal or collectivist, centralized or decentralized, coercive or voluntary, can affect the magnitude and frequency of that disconnect.

Smith argues we can deceive ourselves either by repressing our man within the breast or by receiving an inaccurate judgment from him due to the influence of our passions. Faction or fanaticism can lead us to think that a partial spectator represents an impartial spectator. Another cause of moral corruption is that people tend to value wealth and greatness too highly: “The great mob of mankind are the admirers and worshippers, and, what may seem more extraordinary, most frequently the disinterested admirers and worshippers, of wealth and greatness” (TMS 62). Our tendency to sympathize too much with the rich leads us to render false or blameworthy judgments. We see the virtues of wealth but turn a blind eye to its vices. When we look at the rich, “Even their vices and follies are fashionable” (TMS 64). This corruption is also the source

of ambition and avarice as people seek to be applauded based upon their visible wealth and greatness rather than upon their character (TMS 50).

Not only do we sympathize with the rich and powerful too easily, because we admire their material condition, we are likely, Smith claims, to overlook virtue among the poor because we are offended by their material condition. We tend to denigrate the poor, if we notice them at all, and cast aspersions on their manner of living. Therefore, people often neglect virtuous and admirable behavior in the poor and esteem the often worthless behavior of the rich and the powerful too highly. Smith notes how rubbing elbows, so to speak, with ordinary people, not simply with the rich and powerful, helps constrain these tendencies (TMS 63).

The presence of a partial, rather than an impartial, spectator can corrupt our moral sentiments. Our man within the breast can appeal to the wrong standard for serving universal benevolence and promoting social harmony. Faction and fanaticism lead us to surround ourselves with partial spectators. Faction and fanaticism are also two of the hallmarks of politics because political decision-making creates divisive interests, which stoke people's passions (fanaticism), and promote parties (faction) (see Levy & Peart 2009 or Mueller 2014:6-7).

The old adage about bad company corrupting one's morals fits Smith's claim that the "propriety of our moral sentiments is never so apt to be corrupted, as when the indulgent and partial spectator is at hand, while the indifferent and impartial one is at a great distance" (TMS 154). Throughout TMS, Smith emphasizes the importance of taste and propriety in how we form moral judgments. But our tastes and our sense of what constitutes propriety develop largely through social interaction. Hence, those we spend time with affect not only our own character, but also our tastes, our sense of propriety, and therefore our moral judgment:

The man who associates chiefly with the wise and the virtuous, though he may not himself become either wise or virtuous, cannot

help conceiving a certain respect at least for wisdom and virtue; and the man who associates chiefly with the profligate and dissolute, must soon lose, at least, all his original abhorrence of profligacy and dissolution of manners." (TMS 224)

There is at least one more meaning to "bad company" besides those with poor character or manners. The company could also be "bad" in light of helping one achieve propriety. The "indulgent sympathy" of our "intimate friends" may give approval, or at least acceptance, to our ventings of anger or outpourings of grief when an impartial spectator would not (TMS 154). They overdo the amiable virtues at the expense of the respectable virtues. Smith recommends an "assembly of strangers," to moderate our passions instead of the indulgent presence of friends and family (TMS 23; see also 145.23, 153-4.38).

People's moral sentiments are also frequently corrupted by self-deception. Smith says that "self-deceit, this fatal weakness of mankind, is the source of half the disorders of human life" (TMS 158). Self-deception causes us to act in ways that we may not even realize are wrong at the time. Perhaps there are no impartial spectators nearby to provide us with a meaningful standard. But we can act badly even when a real or actual impartial spectator is at hand because our man within the breast gives us a false report: "The violence and injustice of our own selfish passions are sometimes sufficient to induce the man within the breast to make a report very different from what the real circumstances of the case are capable of authorising" (TMS 157).

Rather than appeal to an impartial spectator in every circumstance, which takes time, effort, and reflection, people learn formal and informal rules through years of observation and feedback:

Our continual observations upon the conduct of others, insensibly lead us to form to ourselves certain general rules concerning what is fit and proper either to be done or to be avoided. . . . We thus naturally lay down to ourselves a general rule. . . . Those general rules of conduct, when they have been fixed in our mind by habitual reflection, are of great use in correcting the misrepresentations of self-

love concerning what is fit and proper to be done in our particular situation. (TMS 159-160)

These rules offer clarity in moments of passion. They can restrain or even correct errors in the report we receive from the man within the breast. And these rules suffuse society with formal and informal, spoken and unspoken, ways of conducting ourselves. They inhere in traditions and social mores.

Smith's moral theory describes how we treat and judge other people: neighbors, friends, strangers, our children, our employers, our customers, etc. But it also explains how we judge particular organizations, traditions, and projects, how we evaluate governments, systems of philosophy, fashion, beauty, virtue, and vice. The breadth of the impartial-spectator procedure is impressive, yet the success of its application varies by the context in which one evaluates his or her surroundings.

In chapter one of Part IV of TMS, Smith moves methodically through three moments or levels of context, from concrete to abstract and from small to large, which I will call “lower” to “higher” levels :

*1<sup>st</sup> Level of Context: Trinkets* (paragraphs 4-6, p. 180)

*2<sup>nd</sup> Level of Context: Private life* (paragraphs 8-10, pp. 181-185)

*3<sup>rd</sup> Level of Context: Political life* (paragraph 11, pp. 185-187)

Interestingly, the two longest paragraphs (by word count) in TMS appear in this chapter. The longest, paragraph eight, describes the poor man’s son and his pursuit of wealth and greatness. The second longest paragraph, eleven, describes the man of public spirit and government in light of utility. Although the length of the paragraphs themselves does not tell us anything specific, it signals the careful reader to pay closer attention. Matson (forthcoming) argues, for example, that

this section of TMS and these particular paragraphs engage in pedagogical dialectic, which the reader can understand only through careful reflection.

One can easily imagine this was Smith's intention, given that he was a careful and meticulous writer. In a letter to his publisher two years before he died, Smith wrote about how he had several incomplete works that he did not expect to finish. Instead, he wrote, "the best thing, I think, I can do is leave those [works] I have already published in the best and most perfect state behind me. I am a slow a very slow workman, *who do and undo everything I write at least half a dozen of times before I can be tolerably pleased with it*" (Corr. 311, emphasis added). This carefulness and constant revision also motivate and explain this paper's close textual analysis of the parallel examples in Part IV of TMS.

Trinkets, the lowest level of context, represent everyday personal experience as people make decisions. What kind of phone or clothing do I buy? What do I eat? What kind of entertainment should I choose? We can easily ask: What are other people doing? What aspects of their actions, feelings, or motivations strike a chord in us? How would another impartial person view these situations?

Smith then announces the next two moments: "the most serious and important pursuits of both private and public life" (181.7). The second level of context involves weightier decisions regarding selfhood or identity such as career choices and projects, personal habits or character, as well as customs and traditions. Judgment at this level requires more reflection because the phenomena are more complex and abstract. They require that we think about multiple, often competing, values and effects—but ones that we still experience directly.

Moving to the third level of context, public life, we have to judge systems and ideas that we do not experience directly. Our lack of experience means that we have little sympathy to



guide us in determining whether the system is good or bad. Direct personal sympathy becomes less trustworthy and relevant. Judging macrocosms involves weighing the beauty, fitness, and beneficial effects of broad systems of politics, morals, history, philosophy, or economics. We have to identify the various parts of the system and how they work together before we can judge whether or not they serve universal benevolence and should receive our approval or blame. This highest level of context is the most abstract, philosophical, and impersonal. Because many of these broad systems are incompatible with each other, accepting one usually means rejecting all the others—creating unavoidable factions—which can then generate fanaticism and lead us to form moral judgments according to the views of actual *partial* spectators.

Our moral sentiments are more prone to partiality at this highest level of context because there is no clear, or even unclear, impartial spectator for us to appeal to. Only God stands entirely outside these systems and can survey them with an intelligent and impartial eye. Every other person we could appeal to will have a much less informed view of the situation and will not be as impartial. If we do not have direct access to God's thoughts on the topic at hand, our man within the breast has to construct an impartial spectator based upon our own experience and circumstances. Yet without the check and the input of real impartial spectators, it is easy to become fanatical and to construct a partial spectator. There can be no final appeal to experience or to the "data" to determine which presuppositions or "pre-analytic cognitive" frameworks are true (Schumpeter 1987 [1954]; Sowell 2007 [1987]; Mueller 2013).

In the following section, I will dive into textual analysis of Part IV of TMS and Smith's parallel accounts of trinkets, private life, and public life. I interpret Smith's argument to be that people's moral judgments are more likely to be corrupted and skewed at higher, more abstract levels of context. The third section will show how such an interpretation is deeply consistent

with Smith's broader advocacy of the simple system of natural liberty and his skepticism of government power. Section four concludes that governmentalizing social affairs increases the likelihood of corrupt moral judgment.

## 2. Smith's Three Contexts for Moral Judgment

In Part IV.1 of TMS, "*Of the beauty which the appearance of UTILITY bestows upon all the productions of art, and of the extensive influence of this species of Beauty*," Smith proceeds through three different levels of context (TMS 179), as I have briefly noted. By utility Smith means usefulness rather than the modern economic notion of satisfaction, enjoyment, or pleasure. The key to understanding Smith's parallel examples is to see the distinction between the practical concrete usefulness of an object in one's life and the imagined aptness or fitness of that object towards accomplishing some purpose. Smith writes:

But that this fitness, this happy contrivance of any production of art, should often be more valued, than the very end for which it was intended; and that *the exact adjustment of the means for attaining any conveniency or pleasure, should frequently be more regarded, than that very conveniency or pleasure, in the attainment of which their whole merit would seem to consist*, has not, so far as I know, been taken notice of by any body. That this however is very frequently the case, may be observed in a thousand instances, both in *the most frivolous and in the most important concerns of human life*. (TMS 179-180; emphasis added)

We admire or enjoy objects not only for their salient benefits ("ends"), such as knowing the time of day from our watch, but often even more because of their beauty or aptness, how they fit within a broader order, or the propriety of having them. Thus "we sometimes seem to value the means more than the end." (TMS 185).

Table 1 creates a schematic of the three levels of context Smith develops in Part IV. It describes the situations and the experiences of individuals in these contexts. The table also notes the examples Smith uses and how our moral judgment works in each situation.

**Table 1: Characteristics of Different Levels of Context**

<u>Level of context</u>	<u>Individual's experience</u>	<u>Impartial Spectator</u>	<u>Examples</u>	<u>How we judge</u>	<u>Quality of our moral sentiments and our judgments</u>
<b>1<sup>st</sup> Level</b>  <i>Trinkets</i>  Everyday interactions	<b>Primarily Direct</b>  Judging <i>microcosms</i> ; such as a dispute between two people	Concrete, actual impartial spectators	Trinkets  Minor disputes or decisions	“Habituated to sympathize”  Sympathy “more precise and determinate”	People judge well because of:  - Extensive practice and experience  - Accurate knowledge  - Presence of many actual impartial spectators
<b>2<sup>nd</sup> Level</b>  <i>Private Life</i>  Lifestyles, habits, careers; institutions, traditions	<b>Direct and Indirect</b>  Judging the merits of behavior <i>and</i> whether it promotes universal benevolence	More abstract impartial spectator but still tied to actual impartial spectators	Ambition of the poor man's son  Palace vs. Prison	Aptness of an action towards its end.  How indirect effects contribute to universal benevolence	People judge less well because:  - Indirect effects warrant less sympathy  - They need to construct an abstract impartial spectator from fewer actual examples
<b>3<sup>rd</sup> Level</b>  <i>Political Life</i>  Public Policy  Philosophical Systems	<b>Primarily Indirect</b>  Judging whether <i>macrocosms</i> promote universal benevolence	Constructed impartial spectator drawn from exemplars and experience, not actual impartial spectators	Opulence of a nation  System of Government	Appeal to a “constructed” impartial spectator  Beauty and grandeur of a system or order	People often judge badly because:  - They have no direct experience of the issue  - They need to construct an abstract impartial spectator from actual <i>partial</i> spectators

**2.1. 1<sup>st</sup> Level of Context: Trinkets**

The first and most concrete level of context involves individual actions in concrete settings. At this level, our sympathy generally contributes to social harmony because we have learned to judge well through countless observations and judgments. We live most of our lives in the first level of context—so we have a lot of experience and have received extensive feedback about our own actions and judgments. Here we can easily define and appeal to an impartial spectator to evaluate our experiences (see Mueller 2016).

Making good judgments in the first level of context rarely requires reflection on indirect consequences. Smith's moral theory is strongest and clearest when the context is defined, specific, and limited to a small number of individuals. Our knowledge is most comprehensive in these circumstances. The first level of context is not solely about physical proximity. It also

includes relational or “affective” nearness as well as historical or cultural nearness (Forman-Barzilai 2005; Rasmussen 2008). But even here our moral sentiments can be corrupted. It bears repeating: liberal institutions and political decentralization by no means guarantee people will make good or praiseworthy moral judgments. Instead, the argument is that politicization and centralization of social affairs introduce new sources of moral corruption and make it more difficult to arrive at appropriate judgments.

We find trinkets (Smith’s main example of this level of context) attractive, not primarily because they are useful, but because they are clever or ingenious inventions. People usually value watches, not only because they make them more punctual, but because the watch is a clever invention that *could* make them more punctual. How *well* the watch serves its function makes it agreeable. Most people would disdain a watch that fell two minutes behind every day, not because it caused them to be late but because it was a bad watch. Such a watch could be sold for a few guineas, while “one curious in watches” might lay out fifty guineas to buy a new watch that scarcely loses one minute in a fortnight. But Smith notes that the watch buyer is not likely to be more punctual than before. That’s not why he bought the better watch. His imagination of the order or aptness prompted his purchase. Smith describes trinkets that seem beautifully suited for a particular purpose, yet end up being troublesome to maintain and carry about. Such trinkets are “toys” having “frivolous utility” (TMS 180).

Or take another example. Imagine, Smith says, entering a room where the chairs are out of place. Although the “usefulness” of a particular chair does not usually depend on how the rest of the room is configured, one might be so discomfited by the disorder that he or she takes the trouble to organize the room before sitting down. The individual gets no more use out of the organized arrangement, but approves of the room as now being more suited to a useful end.

After illustrating how people value things for their aptness more than for their direct utility, Smith steps from trinkets to weightier matters. He informs us: “Nor is it only with regard to such frivolous objects that our conduct is influenced by this principle; it is often the secret motive of the most serious and important pursuits of both private and public life” (TMS 181). This human practice of valuing trifles based on their perceived aptness to some end carries over into more important facets of life such as career, habits, customs, traditions, and government.

## ***2.2. 2<sup>nd</sup> Level of Context: Private Life***

Smith begins his discussion of the second level of context with his famous example of a poor man’s son. In this story, the poor man’s son "admires the condition of the rich" and becomes dissatisfied with his current surroundings. He imagines that wealth, and the status that comes with it, will make his life much better. So he works hard and toils day after day to become wealthy. But, Smith says, "to obtain the conveniences which these afford, he submits in the first year, nay in the first month of his application, to more fatigue of body and more uneasiness of mind than he could have suffered through the whole of his live from the want of them" (TMS 181). The cost of trying to obtain wealth and the comforts that come with it, exceeds the cost he would have experienced of not having that wealth.

In fact, the poor man's son "will find [riches] to be in no respect preferable to that humble security and contentment which he had abandoned for it" (TMS 181). The son eventually discovers

that wealth and greatness are mere trinkets of frivolous utility, no more adapted for procuring ease of body or tranquillity of mind than the tweezer-cases of the lover of toys; and like them too, more troublesome to the person who carries them about with him than all the advantages they can afford him. (TMS 181)

The son views wealth as the "lover of toys" views trinkets. He is enamored with the beauty, aptness, and supposed usefulness of wealth. But like the buyer of the watch, his justification for pursuing wealth rings hollow because it does not deliver the "ease of body or tranquillity of mind" that he expected.

Just as he was clear about people naturally admiring wealth and greatness too much, Smith also clearly argues that we pursue them in order to flatter our vanity. Just as people value trinkets, not for how much enjoyment they bring, but for how well we *imagine* they are suited to a particular purpose, so people value wealth and greatness based on how they *imagine* others will perceive them. But this will not bring happiness:

If we consider the real satisfaction which all these things [riches, status, influence] are capable of affording, *by itself and separated from the beauty of that arrangement which is fitted to promote it*, it will always appear in the highest degree contemptible and trifling. But we rarely view it in this abstract and philosophical light. We naturally confound it in our imagination with the order, the regular and harmonious movement of the system, the machine or economy by means of which it is produced. (TMS 183, emphasis added)

In a most striking passage, Smith writes:

Power and riches appear then to be, what they are, enormous and operose machines contrived to produce a few trifling conveniencies to the body, consisting of springs the most nice and delicate, which must be kept in order with the most anxious attention, and which in spite of all our care are ready every moment to burst into pieces, and to crush in their ruins their unfortunate possessor. (TMS 182-183)

Beware of what you wish for! People do not realize all the encumbrances and inconveniences of "trinkets" and "operose machines." Yet the emptiness and vanity of the son's pursuit are not the end of the story.

Although Smith describes the poor man's son's pursuits as motivated by vanity and ultimately unsatisfying, the son's actions have important beneficial effects. It's the son's efforts to become wealthy that "ennoble and embellish human life" (TMS 183). As Ronald Coase

observes: "The great advantage of the market is that it is able to use the strength of self-interest to offset the weakness and partiality of benevolence, so that those who are unknown, unattractive, or unimportant, will have their wants served" (Coase 1976:544). In the marketplace, the invisible hand uses vulgar motives to advance universal benevolence—which means we should think twice about attempting to restrain, or even to censure, the choices of the poor man's son. We are left with a puzzle. Is pursuing wealth bad for the individual but good for society? Or is pursuing wealth in some ways bad but in others good? Matson (forthcoming) argues persuasively that Smith is engaging in pedagogical dialect here—meaning Smith deliberately retained ambiguity and tension so that the reader could come to a deeper understanding by wrestling with it.

Or suppose we are trying to decide whether to build a prison or a palace. Smith argues that a prison is clearly more useful to society than a palace. Assuming it is only used to restrain those who harm others, the effects of a prison advance universal benevolence. Yet most people prefer palaces to prisons. They prefer them because palaces are pleasant to look upon and because it is more enjoyable to imagine how the inhabitants of a palace live than it is to imagine the misery and deprivation of prison inmates. Smith summarizes the issue nicely:

[I]t is the immediate, and not the remote effects of objects which render them agreeable or disagreeable to the imagination. A prison is certainly more useful to the public than a palace; and the person who founds the one is generally directed by a much juster spirit of patriotism, than he who builds the other. But the immediate effects of a prison, the confinement of the wretches shut up in it, are disagreeable; and the imagination either does not take time to trace out the remote ones, or sees them at too great a distance to be much affected by them. A prison, therefore, will always be a disagreeable object; and the fitter it is for the purpose for which it was intended, it will be the more so. A palace, on the contrary, will always be agreeable; yet its remote effects may often be inconvenient to the public. It may serve to promote luxury, and set the example of the dissolution of manners. Its immediate effects, however, the conveniency, the pleasure, and the gaiety of the people who live in it, being all agreeable, and suggesting to the

imagination a thousand agreeable ideas, that faculty generally rests upon them, and seldom goes further in tracing its more distant consequences. (TMS 35)

Smith contrasts "immediate" with "remote" effects as well as near and "more distant" consequences. There is tension here and a possibility for poor judgments to be rendered because indirect effects are not considered or are not given their proper weight.

Smith uses the illustration of a palace ten times in TMS. Seven of those uses occur in Part IV.1 alone. Our delight and admiration of a palace comes from how well we imagine it to be suited to its inhabitant's desires and needs, not from the value of those desires and needs being satisfied. But sober reflection reveals that the rich sleep no sounder and are not much better fed than we: "Do they imagine that their stomach is better, or their sleep sounder in a palace than in a cottage? The contrary has been so often observed . . . . It is the vanity [or aptness of wealth and power], not the ease, or the pleasure, which interests us" (TMS 50). Smith suggests that people pursue trinkets, emoluments, awards, and riches chiefly because they want "to be observed, to be attended to, to be taken notice of with sympathy, complacency, and approbation. . . . It is chiefly from this regard to the sentiments of mankind, that we pursue riches and avoid poverty" (TMS 50).

Smith claims "a much juster spirit of patriotism" for the person building prisons than for the person building palaces. He does not explain why we should expect statesmen to see the prison as superior to the palace. Perhaps Smith is suggesting that not all statesmen do see it this way but only wise ones with a "juster spirit of patriotism." But that means that some people, citizens or statesmen who do not have this "juster spirit," may choose trinkets of state, such as palaces, that do not advance universal benevolence. Although Smith addresses this possibility in his famous "man of system" passage, one wonders why he did not discuss it in the section where



he drew parallels between trinkets of frivolous utility, the poor man's son, and the man of public spirit.

### ***2.3. 3<sup>rd</sup> Level of Context: Public Life***

Smith continues drawing his parallel in a still higher and more abstract context:

The same principle, the same love of system, the same regard to the beauty of order, of art and contrivance, frequently serves to recommend those institutions which tend to promote the public welfare. When a patriot exerts himself for the improvement of any part of the public police, his conduct does not always arise from pure sympathy with the happiness of those who are to reap the benefit of it. It is not commonly from a fellow-feeling with carriers and waggoners that a public-spirited man encourages the mending of high roads. (TMS 185)

Statesmen generally care far more about the "beauty" or status that comes from having well-kept roads in the country than they do about the farmers, peddlers, and manufacturers who actually benefit from better roads. They are like the poor man's son—acting on motives other than a lively feeling of benevolence, yet advancing universal benevolence nonetheless. Sometimes statesmen can advance universal benevolence indirectly when they pursue "trinkets" of state, *provided* that their taste in state trinkets coincides with what serves universal benevolence.

That coincidence is a special case, not something we should take for granted. Consider how the situation of the statesman contrasts with that of the poor man's son. The latter faces a particular set of opportunities and constraints in a free commercial society. The benefits of the son's behavior that Smith highlights stem from a system where the son must win the voluntary cooperation of others and, to do so, produce goods and services of value to others, in order to become wealthy. Outside of commercial societies, such as in the feudal system preceding Smith and in the communist systems of the 20<sup>th</sup> century, the ambition of the poor man's son might not advance the interest of society. If the poor man's son gratified his ambition for riches and power

through pillage and plunder, I am confident that Smith would not have said "it is well that nature imposes" the deception of wealth and greatness on the greater part of humanity.

But Smith explicitly denies an intrinsic connection between wealth and power. In fact, Smith argues that wealth conduces to less power in modern commercial societies than in feudal societies (LJA 50; WN 411-427). In contrast to Hobbes, who claimed that wealth is power, Smith writes:

The person who either acquires, or succeeds to a great fortune, does not necessarily acquire or succeed to any political power, either civil or military. His fortune may, perhaps, afford him the means of acquiring both, but the mere possession of that fortune does not necessarily convey to him either. The power which that possession immediately and directly conveys to him, is the power of purchasing. (WN 48)

Political power means the ability to limit the liberty of others, and Smith did not think that such power was a necessary consequence of increasing wealth. Of course, one could use wealth to influence political actors, and thereby exercise political power over others. But that is exactly the activity for which Smith attacks merchants and manufacturers in a famous passage in the *Wealth of Nations* (WN 145).

The statesman, however, is not in the same situation. His advancement often comes through doling out favors and satisfying constituencies—not by his own production but by using political power to coerce others. If political actors are primarily motivated by the beauty or greatness of projects, they will often neglect the small and mundane projects. They will try to win applause rather than advance the common good:

The proud minister of an ostentatious court may frequently take pleasure in executing a work of splendor and magnificence, such as a great highway which is frequently seen by the principal nobility, whose applauses, not only flatter his vanity, but even contribute to support his interest at court. But to execute a great number of little works, in which nothing that can be done can make any great appearance, or excite the smallest degree of admiration in any traveler, and which, in short, have nothing to recommend them but their extreme utility, is a business

which appears in every respect too mean and paucity to merit the attention of so great a magistrate. Under such an administration, therefore, such works are almost always entirely neglected. (WN 729)

Lack of strict accountability separates political actors from private actors. Coase notes that

Smith allows for a good deal of folly in human behavior. But this does not lead him to advocate an extensive role for government. Politicians and government officials are also men. Private individuals are constrained in their folly because they personally suffer its consequences....[But] men who bankrupt a city or a nation are not necessarily themselves made bankrupt. (Coase 1976, 545)

Private individuals, lacking the benefit of coercion, have more accountability in their personal and concrete context than statesmen do in their higher more indirect and more abstract context. Furthermore, politicians and regulators are more likely to have corrupted moral senses because most of the actual spectators they interact with are partial—they usually have an agenda or ulterior motives for interacting with those who have political power. Less accountability and greater corruption of their moral sense means both that statesmen's noble goals may often not improve society and that their "noble" goals may not be all that noble.

Smith repeatedly contrasts political actors and private citizens in both TMS and WN. He notes that: "Every man, as the Stoics used to say, is first and principally recommended to his own care; and every man is certainly, in every respect, fitter and abler to take care of himself than of any other person" (TMS 219). Unlike politicians or bureaucrats, private individuals and families have a substantial personal interest in their own circumstances. Political actors can never be experts in Joe the way that Joe can be an expert in himself:

After himself, the members of his own family, those who usually live in the same house with him, his parents, his children, his brothers and sisters, are naturally the objects of his warmest affections. They are naturally and usually the persons upon whose happiness or misery his conduct must have the greatest influence. He is more habituated to sympathize with them. He knows better how every thing is likely to affect them, and his sympathy with them is more precise and determinate, than it can be with the

greater part of people. It approaches nearer, in short, to what he feels for himself. (TMS 219)

"Habituated" sympathy is an important characteristic of the lowest level of context. My knowledge of my son's discomfort, though not as accurate or direct as his own knowledge, is still better than the knowledge that some bureaucrat or stranger has, or even could have, about my son's suffering. I am better at feeling and imagining how my son feels than they are because I am closer relationally and have made a habit of sympathizing with him.

Smith highlights both a knowledge and an incentive problem for political actors dealing with issues in the highest level of context. Just as "physical proximity will improve the preciseness" of a bystander's knowledge of a situation, "distance will diminish it" (Forman-Barzilai 2005, 199). Physical distance, of course, is not the only dimension that weakens sympathy; so does distance from familial, cultural, and historical ties. But besides distorting people's sympathy, higher levels of context also weaken it. Coase comments that

as we go beyond the family, to friends, neighbours and colleagues, and then to others who are none of these, the force of benevolence becomes weaker the more remote and the more casual the connection. And when we come to foreigners or members of other sects or groups with interests which are thought to be opposed to ours, we find not simply the absence of benevolence but malevolence. (Coase 1976, 534)

Furthermore, besides having less accurate and specific knowledge, even political actors' benevolent intentions will often be distorted by faction and fanaticism because of the absence of truly impartial spectators.

Smith strongly condemns government intervention in labor markets, in part, because of the problems of poor knowledge and perverse incentives. Smith writes: "To judge whether he is fit to be employed, may surely be trusted to the discretion of the employers whose interest it so much concerns. The affected anxiety of the law-giver lest they should employ an improper person, is evidently as impertinent as it is oppressive" (WN 138). Aligned self-interest makes

the employer the best judge of whether or not to employ someone rather than some government official. Besides violating the laborer's "most sacred and inviolable" property, who is fitter to judge whether or not to hire someone than the employer? Yet labor restrictions, such as minimum wage laws, workplace safety requirements, health care mandates, limits on working hours, etc., take many decisions from the lowest level of context between the employer and employee to higher contexts of political actors, lobbyists, and other interest groups. The law-giver has an "affected" or pretended anxiety over the issue. He has no skin in the game; he does not stand to gain or lose personally, which dramatically reduces his incentives to make good decisions (Coase 1976; Taleb and Sandis 2014).

Table 2 presents several short passages from Part IV to show how Smith uses parallel examples to argue that the practice of moral judgment is the same across levels of context, but that the outcomes of our moral judgments across those levels varies significantly.

**Table 2: Smith’s Parallel Contexts – trinkets, the poor man’s son, and the public-spirited man (TMS 179-187)**

<u>Description</u>	<u>Examples</u>	<u>Effects</u>
<p><b>1<sup>st</sup> level of context (TMS IV.1.4-6)</b>  <b>“trinkets of frivolous utility”</b></p> <p>“What pleases these lovers of toys is not so much the utility, as the aptness of the machines...to promote it.”</p>	<p>“tweezer-cases”  “toys”  “tooth-pick”  “ear-picker”  “watch”</p>	<p>“baubles...of which the whole utility is certainly not worth the fatigue of bearing the burden”</p>

<p><b>2<sup>nd</sup> level of context (TMS IV.1.8-10)</b> <b>The “poor man's son”</b></p> <p>“wealth and greatness are mere trinkets of frivolous utility”</p> <p>“Power and riches...are, enormous and operose machines...ready every moment to burst into pieces, and to crush in their ruins their unfortunate possessor.”</p>	<p>“visited with ambition”</p> <p>“admires the condition of the rich”</p> <p>“fancies he should be lodged more at his ease in a palace”</p> <p>“judges, that a numerous retinue of servants would save him from a great deal of trouble”</p> <p>“He does not even imagine that [the rich] are really happier than other people: but he imagines that they possess more means of happiness. And it is the ingenious and artful adjustment of those means to the end for which they were intended, that is the principal source of his admiration”</p>	<p>“The rich only select from the heap what is most precious and agreeable. They consume little more than the poor...though the sole end which they propose...be the gratification of their own vain and insatiable desires....They are led by an invisible hand...and thus without intending it, without knowing it, advance the interest of the society”</p> <p>“it is well that nature imposes...this deception which rouses and keeps in continual motion the industry of mankind”</p>
<p><b>3<sup>rd</sup> level of context (TMS IV.1.11)</b> <b>The “public-spirited man”</b></p> <p>“It is not commonly from a fellow-feeling with carriers and waggoners that a public-spirited man encourages the mending of high roads...The perfection of police, the extension of trade and manufactures, are noble and magnificent objects.”</p>	<p>“The same principle, the same love of system, the same regard to the beauty of order, of art and contrivance, frequently serves to recommend those institutions which tend to promote the public welfare”</p> <p>“When a patriot exerts himself for the improvement of any part of the public police, his conduct does not always arise from pure sympathy with the happiness of those who are to reap the benefit of it”</p>	<p>“Nothing tends so much to promote public spirit as the study of politics....Upon this account, political disquisitions, if just, and reasonable, and practicable are of all the works of speculation the most useful”</p> <p>The man of system “is often so enamoured with the supposed beauty of his own ideal plan of government, that he cannot suffer the smallest deviation... But to insist upon establishing ...every thing which that idea may seem to require, must often be the highest degree of arrogance. It is to erect his own judgment into the supreme standard of right and wrong.”</p>

### 3. Smith's Advocacy of Decentralization

Given the implications of different levels of context affecting our moral judgments, we should not be surprised to see Smith advocating moving decisions or issues from high levels of context to lower ones. Despite suggesting in TMS that the “public-spirited man” will improve roads for carriers and waggoners out of a desire for national greatness, Smith argues in the WN

that greater accountability and knowledge will exist if public works like canals, harbors, and schools are run locally, *not nationally*, and are financed principally by user fees. Smith frequently advocates decentralization into lower levels of decision-making because individuals make better decisions regarding their own welfare than bureaucrats or politicians do.

For example, Smith thought local parishes should, perhaps, be responsible for providing public schools and that even poor parents should pay some fee to send their children to school (see Drylie 2016). The parish schools in Scotland (i.e., the early form of government-funded schools in Britain) were not supported by national tax revenue but by a combination of local tax revenues on landowners and voluntary contributions. The specifics of the schools very much reflected local patterns of interest and enforcement. Furthermore, Smith's final words on the topic of the schooling suggest no government funding at all:

This expence, however, might perhaps with equal propriety, and even with some advantage, be defrayed altogether by those who receive the immediate benefit of such education and instruction, or by the voluntary contribution of those who think they have occasion for either the one or the other. (WN 815.5)

In his general comments on taxation as well as in how he talks about public works, Smith argues that taxes should be specific and decentralized (WN 825-828). He says that public works should be paid for by those who use them because they have a direct interest in keeping costs low and benefits high. Without a tight connection between costs and benefits, resources are likely to be wasted or to be taken from those who do not receive any benefit from the public good:

The abuses which sometimes creep into the local and provincial administration of a local and provincial revenue, how enormous soever they may appear, are in reality, however, almost always very trifling, in comparison of those which

commonly take place in the administration and expenditure of the revenue of a great empire. They are, besides, much more easily corrected. (WN 731)

Besides limiting the scale of corruption and abuse, local management allows problems to be fixed more easily. At a local level, it is easier to uncover the causes of a problem and there are fewer interest groups opposed to reform.

Smith says that "it seems scarce possible to invent a more equitable way of maintaining" roads, canals, bridges, and harbors than by directly charging those who use them (WN 725). He does not advocate using national revenues for any of these projects because the "greater part of publick works may easily be so managed, as to afford a particular revenue sufficient for defraying their own expence" (WN 724). Most public works should be able to pay for themselves. But for those public works that do not lend themselves to collecting tolls Smith says:

Even those publick works which...cannot afford any revenue for maintaining themselves, but of which the conveniency is nearly confined to some particular place or district, are always better maintained by a local or provincial revenue, under the management of a local or provincial administration, than by the general revenue of the state, of which the executive power must always have the management. (WN 730)

Decentralized local administration is superior to centralized administration because of its lower level of context.

Smith also wrote about how London's streets are lit, paved, and maintained; not from general revenue but from local taxes. Although these are not directly fee-based, like toll roads or canals might be, the funding is still local. And the context remains fairly concrete and specific, allowing for greater accountability. He asks, "Were the streets of London to be lighted and paved at the expence of the treasury, is there any probability that they would be so well lighted and paved as they are at present, or even at so small an expence" (WN 730-731)? The implied answer to his rhetorical question is clearly: No, there is very little probability. If the national treasury



were to provide such funding, taxes would have to be levied "upon all the inhabitants of the kingdom, of whom the greater part derive no sort of benefit from the lighting and paving of the streets of London" (WN 731). One might add, "who also know nothing of how well or poorly such streets are maintained and whether the money was used efficiently." Smith's descriptions reinforce this idea that accountability and judgment are much better at lower levels of concrete context.

In contrast to his recommendation of decentralized provision of public goods, consider Smith's description of the man of system who believes that he knows what is best for society and can use the power of the state to make his ideal (imaginary) system into reality:

The man of system, on the contrary, is apt to be very wise in his own conceit; and is often so enamoured with the supposed beauty of his own ideal plan of government, that he cannot suffer the smallest deviation from any part of it . . . . He seems to imagine that he can arrange the different members of a great society with as much ease as the hand arranges the different pieces upon the chess-board. (TMS 233-234)

The man of system operates at the highest level of context as he seeks to use government power to impose his system on others. Such hubris will cause the game of society to go on "miserably" and "in the highest degree of disorder" if it conflicts with people's goals.

Smith's language describing the man of system reveals the problem of lacking good knowledge and lacking the perspective of an actual impartial spectator. The man of system thinks he is "very wise" but he is not really wise, he is only conceited. He is "enamoured" by his "ideal plan" and he "imagines" that he can "arrange" society however he wishes. The insistence upon implementing his own plan, in its entirety and over all objections, "must often be the highest degree of arrogance" (TMS 234). The man of system is "enamoured with the supposed beauty of his own ideal plan" in the same way people are enamored by the beauty of trinkets or the poor man's son is enamored of the beauty of "wealth and greatness." Besides ignoring the

motives, desires, and goals of individuals, the man of system has the illusion of knowledge and a corrupt moral sense. He falls prey to both self-deception and appealing to a partial spectator. The corruption of his moral sense comes largely because he is acting at the highest level of context.

The declining quality of judgment as issues move to higher levels of context supports devolution, decentralization, and degovernmentalization whenever possible. But in addition to the declining quality of judgment at higher levels of context, it is worth reiterating that the consequences of mistakes become greater at those levels. As Paganelli notes, Smith thought the damage of anti-social, morally corrupt behavior could be minimized by localizing “the area of effect as much as possible. The more decentralized a system is, the less danger it faces” (Paganelli 2006:208). These ideas give Smith a moral defense of classical liberalism and further support his strong endorsement of natural liberty in *The Wealth of Nations*:

All systems either of preference or of restraint, therefore, being thus completely taken away, the obvious and simple system of natural liberty establishes itself of its own accord. Every man, as long as he does not violate the laws of justice, is left perfectly free to pursue his own interest his own way, and to bring both his industry and capital into competition with those of any other man, or order of men. (WN 687)

In contrast to the self-ordering system of natural liberty where individuals advance their own interests as they are led by the invisible hand, the sovereign faces "innumerable delusions" in his attempt to direct his citizens' lives because he has no concrete impartial spectator to appeal to:

The sovereign is completely discharged from a duty, in attempting to perform which he must always be exposed to innumerable delusions, and for the proper performance of which no human wisdom or knowledge could ever be sufficient; the duty of superintending the industry of private people, and of directing it towards the employments most suitable to the interest of the society. (WN 687)

He lacks the knowledge necessary to deal with macrocosms well. In other words, the sovereign generally operates at the highest level of context, while individuals operate at the lowest level of context. Smith is quite clear about whom we can expect to make better decisions.

But Smith's exposition leaves one major problem unresolved. Smith implicitly assumes he has an impartial spectator's view of universal benevolence. But do we really know that a prison advances universal benevolence better than a palace does? Or what about even more ambiguous issues about the scope of public policy and the interest of entire nations? Discussing issues at the highest level of context may yield some productive conversation, yet it faces significant limitations. While we might be able to agree about the vast majority of the actions and disputes in the most concrete contexts, in the most general contexts we might only agree about a small minority of issues.

The problem has a number of important implications. Buchanan and Tullock (1962) and others argue that agreement at the most general level of society—the constitutional level—is extremely difficult to achieve. Small homogenous populations have a much easier time agreeing about political and social systems. Small homogenous societies constitute what Leeson (2014) calls "the easy case" for spontaneous voluntary coordination and governance. But centralization of power leads to an increasing size, and therefore increasing diversity of opinions, of the population being governed. Public policy issues must be debated at higher levels of context involving more people, opinions, and interests—leading inevitably to disagreement and conflict.

Despite the difficulty of judging macrocosms, Smith's philosophy can still be of use. Rather than giving us the "right answer" to public policy questions, Smith offers guidelines for the process of answering those questions. Humility and moderation become more important when deliberating at the highest level of context. Besides acknowledging one's own fallibility,

Smith argues that we should not push our own agenda too strongly, even when we believe we are right, because other people simply may not be able to go along with it. In contrast to his condemnation of the man of system, Smith praises the man of public spirit, saying:

The man whose public spirit is prompted altogether by humanity and benevolence, will respect the established powers and privileges even of individuals, and still more those of the great orders and societies, into which the state is divided. . . . When he cannot conquer the rooted prejudices of the people by reason and persuasion, he will not attempt to subdue them by force. . . . *He will accommodate, as well as he can, his public arrangements to the confirmed habits and prejudices of the people.* (TMS 233, emphasis added)

Smith emphasizes persuasion over force. He also suggests accommodating the "habits and prejudices of the people," whether they are healthy or not. His description of public spirit might be the key to understanding why Smith did not advocate total laissez-faire, why he allowed many exceptions to "perfect liberty" in *The Wealth of Nations*, and why his position is better characterized as a "presumption of liberty" (Clark 2010; Klein & Clark 2010; Mueller 2014). Not everyone can accept or live with "perfect" liberty, and "forcing" it upon them can cause trouble.

Smith realized that the constitutional or institutional framework of government will influence whether statesmen's plans, which they approach much like ordinary people approach "trinkets," are socially beneficial or socially destructive. The framework will also affect how negligent statesmen can be regarding the interests of the public. The problem of destructive choices by statesmen is related both to the framework of government and to the level of context. Although Smith suggests that some natural harmony between noble goals and universal benevolence exists, that harmony has a lot to do with the limits and powers of government. As James Buchanan (1984) famously wrote, we need politics without romance. Even in the TMS

passage where Smith praises the results of the “public-spirited” statesman’s action, he circumscribes government activity to removing obstacles and guarding against dangers:

Nothing tends so much to promote public spirit as the study of politics, of the several systems of civil government, their advantages and disadvantages, of the constitution of our own country, its situation, and interest with regard to foreign nations, its commerce, its defence, *the disadvantages it labours under, the dangers to which it may be exposed, how to remove the one, and how to guard against the other.* (TMS 186; italics added)

When government can only perform a few functions, the statesman's pursuit of public policy trinkets is more likely to be beneficial, or at least benign. But as the scope of government grows, there may be many more situations under which these trinkets lead to misery and ruin—as the monuments of kings, tyrants, and dictators can attest. Statesmen often make decisions at the highest level of context where there is no concrete impartial spectator and where moral corruption is far more common. Politicizing issues moves them from low levels of concrete personal contexts to higher levels of abstract context.

The most important remedy for problems at this highest level of context is to move disputes to a lower level of context. Since increasing size and centralization reduce the quality of judgments and of governance, devolving or decentralizing government authority will lead to greater agreement on policy issues. This idea underlies many arguments for federalism. If the federal government did not have education policies or a department of education, there would be little need for national agreement on educational issues. The same goes for drug policy, agricultural policy, housing and urban development, and several other federal departments. Taking many of these issues out of the political arena altogether at any level will reduce faction and fanaticism even further.

#### **4. Morality Deteriorates as Affairs Are Governmentalized**

The three levels of context explored in this paper improve our understanding of Smith's moral and political philosophy. At the lowest level of context, sympathy works remarkably well in leading people to more-or-less harmonious judgments. But as the context becomes more general, sympathy becomes less effective. It becomes more difficult to discover the relevant direct and indirect effects of what we are judging. The problem is heightened by the fact that we are motivated far more by beauty and aptness than we are by tangible benefits.

Even more importantly, we have fewer actual impartial spectators for our man within the breast to appeal to. We are left to construct our own impartial spectators—ones that often end up looking like our personal exemplars and role models. From these problems, it is difficult to reach harmonious judgments about macrocosms—especially as larger numbers of increasingly diverse people are involved. Without a true impartial spectator, we are left with partial ones. Our judgments are measured against those we agree with and admire. Our moral sentiments are far more likely to be corrupted by faction and fanaticism in this highest level of context.

But is this where Smith's moral theory ends? Are we left without resources to address these intractable problems? Although it may seem so at first glance, there are lessons from Smith that can alleviate this corruption. As I have indicated, moving issues from higher levels of context to lower levels can improve people's judgment. That could mean letting local communities run schools, harbors, roads, or health services rather than national governments. Decentralization reduces the scope of the issue and the number of people who must agree about it. Degovernmentalizing affairs altogether may often be even better because each man knows his own business, circumstances, and interests best. As issues are taken outside of governmental sway, it becomes less important that people agree or render similar judgments. Faction and

fanaticism decline because people can make opposite decisions without having to fight to achieve a universal rule that everyone must follow.

His support for decentralization and degovernmentalization explains why Smith has been considered a major advocate of laissez-faire. But his position is better described as a presumption, rather than an inflexible doctrine, of liberty. He realized, as the man of public spirit does, that he should not impose his system of liberty in its entirety because not everyone can go along with it. The standards for judging political issues at this highest level of context are "loose, vague, and indeterminate." Despite Smith's strong opinions on decentralization, degovernmentalization, and liberty, he took his own advice and exercised humility in how adamantly he advocated his position and was willing to allow exceptions for the status quo.

We can appeal to an impartial spectator to judge how we form our policy views, how we argue them, and how we treat opposing views. Are we doing so in a proper and praiseworthy way or in an improper and blameworthy way? Honesty and openness are preferred to intrigue and indirection: "Frankness and openness conciliate confidence. . . . Reserve and concealment, on the contrary, call forth diffidence" (TMS 337). Smith's procedure of the impartial spectator is powerful because in addition to evaluating our policy views (albeit only in imagination), he can help us judge the process by which we form our views and how we judge the views of others. We thereby moderate our passions, exercise restraint, consider others' views sincerely, and present ourselves with greater candor.

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