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**AN ANALYSIS OF ADAM SMITH'S CONCEPT OF SELF-INTEREST:  
FROM SELFISH BEHAVIOR TO SOCIAL INTEREST**

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## 1. INTRODUCTION

We live in a historical period where it seems that ethical values and ideals that were points of reference for past generations are no longer there or at least they are lacking over time. In our age, what prevails over the important values of life is the logic of interest and personal profit; money and materialism forcefully impose themselves on the scale of values. In the meantime social problems are re-emerging. Modern man tends not to see certain things, closed in the grip of blind selfishness, he prefers to pretend to be blind and go on as if nothing is happening, continuing in his search for pleasure, in his unbridled luxury, even if he feels an inexplicable sense of dissatisfaction.

The following work includes an in-depth study of the difference between sympathy and Smithian self-interest. The first element is preponderant of the Theory of Moral Sentiments, in which Smith tried to find a balance between the passions and the interests that move human action. The second element is instead dominant in the Wealth of Nations, in which Smith outlines the thought according to which individual interest often coincides with the common good, it is here that we find the famous passage: "It is certainly not from the benevolence of the butcher, brewer or baker's that we expect our lunch, but from the fact that they take care of their own interests. We do not turn to their humanity, but to their selfishness and with them we never talk about our needs, but about their advantages"<sup>1</sup>.

The two concepts described above seem apparently antithetical, but in reality they are two sides of the same coin, because the human being is both oriented towards his own interests and to those around him. This is the reason that subsequently pushed me to make an assessment of the role of self-interest within the market economy.

Finally, the concept of fellow feeling is analysed. It has to be seen as one's person consciousness of an affective state of the other person, where that consciousness has similar affective qualities, pleasurable if the other person's state is pleasurable and painful if it's painful. This aspect is very important since nowadays relationships between people can be considered the pillar of society.

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<sup>1</sup> Adam Smith, Wealth of Nations, Book I Chapter 2

## 1.1 Adam Smith

Adam Smith was born in the town of Kirkaldy, not far from Edinburgh, in 1723. The exact date is unknown, but it should be between January 17 (his father's death) and June 5 (Smith's baptism date). His father was a customs official, while his mother came from a moderately comfortable Scottish family. Her mother raised him and she made sure that his son received a good education even after his father's disappearance.

He enrolled at the University of Glasgow, where he came into contact with one of the figures who would be most influential in his work: Francis Hutcheson. There Smith experienced, both as a student and as a professor, the Scottish Education System, which provided that the students were to pay teachers per course according to the judgment they gave to each teaching. In this way teachers were more stimulated to do well their job, and not as it happened in large British Universities that were financed by public funds or by private donations, where teachers received a fixed salary.

The University of Glasgow gave Smith the opportunity to enroll at Oxford University in 1740, providing him with a scholarship for those who wanted to undertake an ecclesiastical career (Snell Exhibition). He soon realized that even though it was attended by the utmost British intelligence, Oxford was not as lively and stimulating as Glasgow, just for the different education system. Smith's dissatisfaction was already evident from the letters addressed to his mother and William Smith between '40 and '41. In this letter is also told the anecdote where the young Smith was surprised to read Hume's *Treatise on Human Nature*, considered atheist and therefore not well seen in the traditionalist setting of the Balliol college. In 1746 he definitively left the Oxford University and the ecclesiastical career to return to Scotland. For 3 years he held public classes, probably for the Philosophical society, about English rhetoric and literature in Edinburgh, with great success. In fact in 1750 he was called to cover the logic chair at the University of Glasgow. Two years later he covered the moral philosophy chair and supported lessons about natural theology, ethics, jurisprudence, but also politics and economics. Part of the material prepared for ethics lessons was collected and then published in 1759 under the name of *Theory of Moral Sentiments*, which was remarkably successful. This book brought Smith into the eyes of the young politician Charles Townshend, who, admiring the work of the philosopher, proposed him the tutor's traveling position of his godson, Duke of Buccleugh. Smith left the chair in the 1763 and took the opportunity to see European capitals of culture and come in contact with the major thinkers of that time such as Voltaire, Aembert, Quesnay and many others.

The work as a tutor led him to spend time especially in Paris, where he deepened the ideas of French physicists, attending, also thanks to his friendship with Hume, well-known in France, the most important Parisian salons and the most famous intellectual circles. Here he began to dedicate himself to the themes,

which will be deepened later in his greatest work: *An Inquiry into the Natures and Causes of The Wealth of Nations*, basically finished already in 1772, but he continued his research for the next four years, three of which spent in London. The work, finally published in 1776, was a cause of great agitation among the thinkers of the time, since economy was never seen before as a specific discipline, neither it was believed that consumers behaviours could be carefully studied giving directions to describe them scientifically. The great success of the work is also witnessed by the discovery of reviews and letters among philosophers, which enhance its quality. An important letter is the one of Hume, who stated: “ *There was so much waiting for this work by yourself, your friends and the public, and I stumbled for its apparition, but now I’m very relieved. Not because his reading requires so much attention that the audience is so unwilling to keep doubts that can soon become popular, but it’s thick, solid and sharp and it’s so well illustrated by curious facts that catch public attention*”<sup>2</sup>.

The same impression was given to the historian Gibbon, testified by a letter to Adam Ferguson: “What an excellent work is that the common friend Smith enriched the audience! A vast science in a book, and the most deep ideas expressed in the most perspicacious way”.

The year of the publication of Smith’s first masterpiece was also marked by the death, after a long and painful illness, of his friend David Hume, who has named him his literary performer. Even the Prime Minister was extremely impressed by Smith’s latest work and he decided to apply some of the ideas on the taxation. To express his consideration , the Prime Minister appointed Smith in 1778 as custom commisioner in Scotland. The Philosopher moved to Edinburgh with his mother, who died in 1784, and spent a quiet life focusing on meticulous care of the new editions of his work.

In the last years of his life, Smith didn’t resume university teaching, despite many requests. The only connection he had with the University of Glasgow was to substitute his friend Burke as rector in 1787. During this period Smith completed a nearly total revision of the *Theory of Moral Sentiments*, published shortly before the aggravation of his health conditions, which lead him to death in 1790, after ordering to hus testamentary execuports to burn all his manuscripts except those which in 1795 will be published under the title *Eassy on Philosophical Subjects*.

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<sup>2</sup> Hume D., Lettere, pp.307-308

## 1.2 The influences

In Scotland, before the birth of Adam Smith, the so called Scottish Enlightenment spread. This movement can be seen as a purified enlightenment of Cartesian rationalism, as to believe in the conception of a spontaneous order. One of the most important figures of this current was also extremely influential on Adam Smith's work: Francis Hutcheson.

Hutcheson was born in Ireland in 1694, he had theological studies and an ecclesiastical career. His name began to spread in all major cultural circles in Scotland thanks to the publication in 1725 of *An Inquiry into the Original of Our Ideas of Beauty and Virtue*. This work allowed him to be assigned the chair of Moral Philosophy at the University of Glasgow, where he was a teacher of Smith and where he remained until his death in 1746. Hutcheson, in the Preface to the 2nd edition of his work declares that he has a debt with his colleague Shaftesbury, since his theory of Moral Sense derive from the latter, maintaining in any case a detachment from innatism. Shaftesbury's innatism was the awareness that there was an identity between singular and accollective interest: *"In the positions and inclinations of single creatures there is a constant relationship with the interest of the common species or common nature"*<sup>3</sup>. For Hutcheson, however, what drives individuals to live together is a natural impulse to society: *"The calm desire for private goods, although not approved as virtue, is far from being condemned as a vice. And none of the really natural egoistical appetites and passions are in themselves condemned as vicious when they reside within certain limits, even though they are not directed by those who act to public interest"*<sup>4</sup>.

Criticizing innatism, Hutcheson laid the foundation for the Smithian position, and again: *"The most benevolent and wise establishment of a rational system is the one in which the degree of egoistic advantage that is most beneficial to the individual is in accordance with the interest of the system; and in which the degree of the most generous affections for the system is usually consistent or subject to the greatest happiness of the individual"*<sup>5</sup>.

The philosopher starts from assuming that man is a social animal and that as such is generous and guided by the moral sense that leads him to the universal benevolence.

Smith will distance himself from both sympathy understood as the Hobbesian selfish system and from Hutcheson's benevolence.

*The Theory of Moral Sense* is criticized by Smith as it states that if moral approval and moral disapproval were particular emotions not recallable to any other kind of emotion, then moral evaluation would always be equal to itself.

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<sup>3</sup> Shaftesbury, *An Inquiry concerning Virtue and Merit*, II, 1

<sup>4</sup> Hutcheson F., *A System of Moral Philosophy*, London 1755, I, p.65

<sup>5</sup> Hutcheson, op. cit., I, p.149

Smith to overcome Hutcheson's position will fall into Hobbesian self-interest. Indeed, approval and disapproval are associated with coincidence or opposition between the feelings of the observer and of the observed person. When there is a discord between the two, the only possible measure would seem to be the feelings of the observer and hence his sentimental individuality, easily attributable to self-interest.

The second important figure for the influence on Smith is his colleague and friend David Hume. Hume was born in Edinburgh from a family of little country nobility. He attended the University of Edinburgh taking into account a career in law, but later the philosopher realized to be more interested in philosophy issues and general culture. Since he didn't excel in law, he moved to France, where he wrote his greatest work *A Treatise of Human Nature*, published in London but without receiving the hoped-for success. He never obtained a chair at the University of Edinburgh neither Glasgow since he was considered an atheist and for the strong opposition of the philosopher Thomas Reid. The first fundamental consideration to be made on Hume is that he criticizes Hutcheson's thinking and the alternative he proposed because it's still linked to the emphasis of an original moral sense. Hume will cause a fracture between the earlier and the next philosophy, which will particularly affect Smith's *Theory of Moral Sentiments*. He made a different distinction between self-interest and common interest, defining the former as a present and immediate interest, while the latter as a future interest linked to a moral proposal of a "must be". According to Hume, self-interest is an inclination, an instinct, a passion; some moral duties are attributable to these natural and immediate inclinations, and others, which are not, are called "true" duties.

One must then consider that there are tendencies, inclinations and passions that can be attributed to a natural prevalence of the present interest over the future one and so the preference of the self-interest over the common one. In this case Hume invokes policy to help the moral. In this way policy is seen as the set of techniques that make political power holders able to limit and change the satisfaction of the immediate interests of individuals in favor of the future interests of a majority of individuals. The writer D.D. Raphael came to the conclusion that: "*Sympathy is not a naked and raw feeling, as Hume thought, but it's, as Smith seems to have realized in his theory, a much more complex state of mind which includes thought and imagination*"<sup>6</sup>.

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<sup>6</sup> Raphael D.D., *Moral Judgement*, London 1955, p.108

## 2. THE ADAM SMITH PROBLEM IN REVERSE: SELF-INTEREST IN THE WEALTH OF NATIONS AND THE THEORY OF MORAL SENTIMENTS

Adam Smith published two books in his lifetime: *The theory of Moral Sentiments* (1759) and *An Inquiry into the Nature and Causes of the Wealth of Nations* (1776). The relationship between them is controversial and most scholars regarded the two books inconsistent with each other. This inconsistency is known as The Adam Smith Problem. *The Wealth of Nations* is seen as the book promoting self-interest, the book where self-interest is not always successfully constrained and the consequences of its excess may be catastrophic. It can be read as a more critical account of self-interest and of its possible abuses. *The Theory of Moral Sentiments* instead is seen as the book promoting sympathy or benevolence, the book where self-interest is constrained and its consequences are beneficial. It seems to present a more positive image of self-interest.

### 2.1 Positive Accounts of Self-Interest

For Smith self-interest is not only the desire for wealth but self love in all its possible manifestations. The economist George Stigler analysing the role of self-interest in the two books captures the presence, the essence and the beneficial effects of self-interest claiming that the *Wealth of Nations* is “ a stupendous palace erected upon the granite of self-interest”<sup>7</sup>.

“Give me that which I want and you shall have this which you want”<sup>8</sup> is the self-interested principle that allows the poorest man in a commercial society to be better off than a king in a non-commercial society. This positive account places Smith within the tradition of the so-called Scottish Enlightenment, associating him with thinkers as Montesquieu, Mandeville and Bentham. In both books self-interest seems to generate positive results both at individual and social level and both in material and moral realms.

This is the case in which self-interest is present in moderation, but what happens if self-interest is out of control? How does Smith deal with possible abuses of self-interest?

### 2.2 Negative Accounts of Self-Interest

Smith never states that self-interest has beneficial consequences in both books. He knows the abuses and the excesses caused by the self-interest that allows individuals and nations to prosper.

He disapproved and criticized the rapacity of manufacturers and merchants and the abuses of self-interested professors and priests. Smith accuses manufacturers and merchants of conspiring against the public for

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<sup>7</sup> On Adam Smith's *Wealth of Nations* by Samuel Fleischacker 2009 chap 5 pag 84

<sup>8</sup> Adam Smith's lost legacy by Gavin Kennedy 2005 pag. 104

purely self-interested reasons. He explains that they are “an order of men whose interest is never exactly the same with the public, who generally have an interest to deceive and even oppress the public”<sup>9</sup>.

Excessive self-interest seems to damage not only society but also the self-interested individual himself.

While in *The Wealth of Nations* Smith uses real examples to illustrate his points, in *The Theory of Moral Sentiments* he uses imaginary situations. One example is the story of the ambitious poor man's son. The poor man's son, whom heaven in its anger has visited with the ambition, struggles and struggles, faces all kinds of physical and emotional troubles, and works hard all his life to emerge from his poverty. And at the end of his life, in his wealth and with all his trinkets of frivolous utility for which he so much toiled, he realizes he is no happier than the beggar who sits for himself by the side of the street. It is all in vain.

Smith affirms that the excessive self-love would lead us to prefer a small personal gain over a large gain for the society. He states that “to hear, perhaps, of the death of another person, with whom we have no particular connexion, will give us less concern, will spoil our stomach, or break our rest much less than a very insignificant disaster which has befallen ourselves”<sup>10</sup>. He uses another anecdote and explains that if we have the chance to save a finger of ours or to save the great empire of China, with all its inhabitants, we naturally choose to save our finger and sleep peacefully during the night. Smith describes this example as a situation in which our passive feelings are so sordid and selfish.

Smith is quite sure that our self-interest will induce us to delude ourselves so much as to cause “half of the disorders of human life”. Since we love ourselves too much we are not willing to see our mistakes and to think ill of ourselves. This is a situation in which Smith appears more skeptical about the effects of self-interest in the self-deceit analysis.

### ***2.3 Remedies against the Excess of Self-Interest***

In both *The Wealth of Nations* and *The Theory of Moral Sentiments* the description of self-interest seems to be in accord and parallel, there is a positive account of self-interest and a negative account of his possible abuses. The two books, however, differ in how Smith propose possible remedies against his abuses.

In *The Theory of Moral Sentiments* self-interest is always successfully constrained; in this way both individuals and society are consequently better off. That's why *The Theory of Moral Sentiments* is seen as the book promoting self-interest. On the contrary *The Wealth of Nations* is less optimistic and more critical

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<sup>9</sup> An inquiry into the nature and causes of the wealth of nations Chapter 11 pag 107

<sup>10</sup> Theory of moral sentiments chapter 2 pag 82

than *The Theory of Moral Sentiments*. In fact, here, self-interest cannot be successfully constrained, leaving unfortunately individuals and society more susceptible to its abuses.

In *The Theory of Moral Sentiments* abuses of self-interest don't develop into real abuses, they are only potential. Indeed there are some mechanisms through which self-interest can be effectively constrained.

The best remedy to constrain self-interest is the natural desire to be praiseworthy and to praise.

Smith states that we admire in others behaviours what we judge praiseworthy. This because we “desire to become ourselves the objects of the like agreeable sentiments, as to be as amiable and as admirable as those whom we love and admire the most”<sup>11</sup>. In fact we emulate all those praiseworthy behaviors. In order to gain the approbation of others we have to behave as we think they would behave if they were in our place. But this imaginative process in which we place ourselves in the shoes of another person is imperfect by nature and its ability decreases with the distance. In fact since other people are obviously farther away from us than we are from ourselves their reaction can be quite different from ours in the circumstances in which we are. Therefore to gain the approbation of others we have to become the impartial spectators of our own character, we must control our self-love, our egoistic and egocentric desires and adjust our passions in a way we think others expect them to be.

Continuing his analysis Smith claims that when we see in other people odious delusions caused by self-love we are horrified. When we face such situation we feel disgust towards others and our direct reaction is to promise to ourselves that we never behave like that, since we don't want to be the object of such disapprobation.

In this way general rules of conduct are generated and their function is to direct us to obtain the approbation of others and to avoid behaviours that would make us the object of others' aversion.

While in *The Theory of Moral Sentiments* excessive self-interest is constrained and has positive consequences, in *The Wealth of Nations* it has negative consequences and lacks of effective remedies. In fact nature seems to have abandoned us to the delusions of self-love. Even remedies created by man to contain the abuses of self-interest, such as laws and regulations, don't seem to be convincing in *The Wealth of Nations*. The lack of effectiveness of legislative remedies against the abuses of self-interest is caused, claims Smith, by the formidable powers merchants and manufacturers have. Merchants and manufacturers put their interests above that of society to the point of casting down and step on their competitors, even if this is a reproachable behavior. This because the increase in personal wealth and in the social status is more important than how you reach it. They have so much power to convince others that they are not enemies of the society but, on the contrary, promoters of the wealth of the country, transforming in this way potential

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<sup>11</sup> The Adam Smith problem in reverse/ Maria Pia Paganelli

disapprobation into actual approbation, so that their actions are seen as worthy of approval even if they are not.

That's why in *The Wealth of Nations*, with the introduction of Government protections and through its power to grant monopolies, individual gains from protections are very high causing self-interest to deviate from a source of virtue and social well-being into a cause of human rapacity and social impoverishment. In this situation even remedies such laws and regulations created by man to stem the abuses of self-interest are useless. The government should not fall for the flattery of the self-interested merchants but should preserve the natural liberty system out of reverence toward its beauty. Unfortunately this doesn't happen. In fact Smith is very skeptical about the possibility to stem self-interest through legal rules so much that he thinks that to restore the freedom of trade in Great Britain is like to expect that an Utopia should be established, it's absurd. That's not a prejudice of the society but, on the contrary, private interests of individuals oppose to it. On the other hand, in *The Theory of Moral Sentiments* the "prudent man", who is in the race for wealth and honour run as hard as he can, strain every nerve and muscle to outspit his competitors, but not throwing down his competitors. It's a violation of fair play, which is not admissible.

Here the natural selfishness and rapacity of the rich lead them unintentionally to divide with the poor the product of their improvements. In this way the rich are lead by an invisible hand that make the same distribution of the necessities of life into equal portions among the inhabitants, hence advancing the interests of the society.

Finally, in *The Wealth of Nations* the lack of self-correcting mechanism against the abuses of self-interest can be founded also in the analysis of the abuses in the education and religion field. Universities could channel the interests of teachers towards those of the students by changing the incentive structure, linking for example professors' salaries to performances. Similarly, the abuses of self-interest in religion could be dampened by a competitive system of religions, the multiplication of sects reducing the monopoly power of each of them.

### 3. ADAM SMITH'S CONCEPT OF FELLOW-FEELING

Modern economists when address the concept of sympathy and empathy usually claim that their ideas have origin in the Adam Smith's *Theory of Moral Sentiments*. When Smith analyse the way in which people's sentiments impinge on one another he involves a concept of fellow-feeling, that is completely different from sympathy and empathy, since the last fit into the ontological framework of rational choice theory, while fellow-feeling doesn't.

“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”<sup>12</sup>.

The idea that people derive pleasure from pleasures of others immediately suggests a model of altruistic preferences.

The concept of fellow-feeling has to be seen as one's person consciousness of an affective state of the other person, where that consciousness has similar affective qualities, pleasurable if the other person's state is pleasurable and painful if it's painful.

Smith affirms that human beings derive pleasure from all forms of fellow-feeling. Imagine that Claire experiences pleasure or pain, and that Jack has fellow-feeling for it. Jack's fellow feeling is qualitatively similar but weaker pleasure or pain. But according to Smith we have to consider an additional psychological mechanism, which gives pleasure both to Claire and Jack. Claire's consciousness of Jack's fellow-feeling is for her a source of pleasure, and Jack's consciousness of his own fellow-feeling for her is a source of pleasure for him.<sup>13</sup>

This surprising mechanism can be seen as nothing more than a simple reflection of feeling. It means that if Claire's original feeling was one of pain, than Jack's fellow-feeling for it would be painful for him, and Claire's consciousness of Jack's painful fellow-feeling would be painful for her too. In other words if you are unhappy, other people's sympathy with your unhappiness is an additional cause of unhappiness for you.

Smith hypothesizes another source of satisfaction. This satisfaction derives from the correspondence of sentiments between one person and another. From the chapter title “Of the pleasure of mutual sympathy” it

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<sup>12</sup> Adam Smith, *The Theory of Moral Sentiments*, Part I, Chaper I, Section I

can be interpreted that this pleasure arises only from the consciousness of fellow-feeling and not from the mere knowledge that one's sentiments are aligned with those of another person.

In the case in which we clearly don't have a lively consciousness of the other person's sentiments our awareness of any correspondence of our sentiments with those of others is a potential source of pleasure and that our awareness of any dissonance is a potential source of pain. So if Jane is in a state of grief, Joe's fellow-feeling for her consists in his consciousness of her pain, which is painful to him too. But in this case there is a correspondence of sentiments between them, and their consciousness is a source of pleasure to both.

Smith thinks that the pleasure derived from the correspondence of sentiments outweighs any pain of fellow-feeling. In fact we are pleased when we are able to feel sympathy for the painful of others.

### ***3.1 Property***

For Smith the psychology of fellow-feeling and the correspondence of sentiments is closely related with that of approval and disapproval. Smith's first approach to the formulation of a link between fellow-feeling and approval is that we approve other people's sentiments just if we go along with them, that is just if we have fellow-feeling for them.

It's crucial to Smith's analysis of approval that the imaginative identification with others that constitutes fellow-feeling is only partial.

This means that when Joe imaginatively changes places with Jane, he takes with him enough of his own characteristics to be able to ask himself if, in Jane's circumstances, his sentiments would be the same as Jane's. Disapproval is possible only if the answer to the question would be negative.

Smith uses many examples in which a representative person imaginatively identifying with another doesn't go along with the other's sentiments. He uses these examples to show how the psychological mechanism of fellow-feeling work. There is no suggestion that we are at fault when we don't enter into another person's sentiments. Thus if the other's passion is too intense for us to go along with we call it weakness or fury, if it's not intense enough we call it insensibility or lack of spirit.

Smith's account of identification is seen as a very delicate subject. Smith is saying that when we enter into another person's sentiments the standpoint from which we imaginatively experience those sentiments is that of the other person, we see the world from the other person's point of view. Before entering into the other

person's sentiments we have to recognize that sentiments as sentiments that we would feel in that person's circumstances.

Human beings knowing the sentiments of others, sometimes go along with them and sometimes don't. The difference between the two cases is in the origin of our judgements of approval and disapproval. Becoming conscious of an actual correspondence of sentiments we receive pleasure from the consciousness that others approve us and pain from the consciousness of other people's disapproval.

The psychological mechanism of approval and disapproval tend to induce norms of propriety within any group of interacting people. Since we desire approval we earn subjective rewards for changing our sentimental repertoires in ways which bring them in line with prevailing norms and we incur in penalties for changes which deviate from those norms.

This mechanism induce us to adapt our sentiments with whatever norms of propriety approved by others. This social process which Smith calls "the great school of self-command" induce people who live together in a society to develop similar affective responses to similar stimuli.

Thus there is a close correspondence between people's actual sentiments and the sentiments that others can go along with. Smith in *The Theory of Moral Sentiments* tries to show that the complex order we observe in the world of morality is a consequence of the interactions of many individuals.

According to Smith some pleasures and pains are more susceptible to fellow-feeling than others. For example he argues that "the appetites of the body" for the food and sex tend not to induce much fellow-feeling because people find it hard imaginatively to identify with other people's bodily appetites. Smith thinks it's hard to sympathize with physical pain, thus on his account public expression of bodily appetites and physical pain tend to evoke disapproval.

### ***3.2 The impartial spectator***

For Smith the ideal standard of moral sentiment is to be found in the judgements of the impartial spectator. He represents, in an idealized form, the correspondence of sentiments that is induced by social interaction. He represents the mirror of social approval. The scope of the impartial spectator is to bring one's own sentiments into correspondence with what other people can go along with.

The impartial spectator has fellow-feeling for other people's sentiments, not in proportion to the intensity with which those sentiments are actually felt, but in proportion to their general tendency to induce fellow-feeling in other people.

### 3.3 *The bond of society*

Martin Hollis in his final book “Trust within reason” tries to find what he calls the bond of society, that is the set of principles which can explain how societies cohere. The book is built around the allegory of the Enlightenment Trail, a walk that Adam and Eve set out together. Only if they trust one another they complete the walk and reach that highly desirable pub. The fact that human beings so often choose to do things together is, if not quite a puzzle from the perspective of rational choice theory, at least a regularity that that theory cannot explain. Smith’s account of fellow-feeling may be able to explain it and tell us something about the bond of society.

It’s surely a characteristic of human friendship that friends like to engage in activities together. These are activities that can be pursued individually like eating, drinking, watching films or taking walks. But for friends the added value is doing such things together.

Smith’s theory suggests a convincing answer. The added value arises from the consciousness of fellow-feeling. For example, two people hiking together can obtain pleasure enjoying the same views, facing the same challenges and enduring the same discomforts. To obtain both pleasure it’s necessary that those people’s responses to the hike are aligned. It’s not fun to walk through an old growth forest with someone who thinks one tree is the same as another or to feel physically exhausted with someone who is not even pleasantly tired. What is required in doing things together is not that each person’s preferences are satisfied, but that they have fellow-feeling with respect to those sentiments, both pleasurable and painful.

Think of how people try to find topics on which they have common opinions or beliefs. Think of how much easier it’s for strangers to begin a conversation when they can be confident that they have some sentiments in common. Smith’s model of the connections between fellow-feeling, approval and morality may also help to explain why such exchanges are important for our sense of well-being.

We derive well-being from the sense that our lives are going well for us, that we are successful in our pursuit of what we take to be worthwhile goals. But of course our sense of what is worthwhile is partially founded on the perception of other people’s approval. Our consciousness of the correspondence of our sentiments with those of others help us to maintain the sense that our goals are worth pursuing.

For Smith it’s a fact of human psychology that people who repeatedly interact with one another tend to develop and express common sentiments, and it’s also a fact that such common sentiments tend to become the objects of common approval within the group of interacting people. Thus the failure of any one member of a social group to uphold the attitudes of that group will cause pain or unease to other members.

The same desire can motivate people to act according to the dictates of what is the rationality of team thinking.

But what if a single individual simultaneously subscribe to two or more systems of preference, one for each team to which he belongs? As long as these spheres of social interaction don't impinge much on one another there seems to be nothing in the psychology of fellow-feeling to prevent the same person from approving some norms as a member of a social group and also approving conflicting norms as a member of another. Smith recognizes the desire to please as a fundamental property of human psychology and affirms that when we are young this leads us to pursue the impossible and absurd project of gaining the goodwill and approbation of everybody. Smith claims that as mature adults we recognize the futility of trying to please everyone and instead consider how our actions would appear to an impartial spectator who had no particular relation to any of the specific people whose approval we are naturally inclined to seek.

## **4. SELF-INTEREST IN THE MARKET ECONOMY**

Adam Smith, especially in the *Wealth of Nations* outlines a form of free market economy in which individuals own most of the resources as land, labor and capital and control their use through individual decisions made in the marketplace. Two forces act in it, self-interest and competition.

Self-interest is the engine of the economic activity, in fact most of the economic decisions that man takes are the result of a behaviour based on personal interest. Then we have another force, competition, which regulates economic activities.

In the free market society described by Smith, personal interest never leads to immoral behavior or corruption because on the one hand Smith Moralist is held back by the morality of sympathy towards his own kind, on the other Smith Economist is competition to keep it under control.

### ***4.1 Self-Interest is the motivator of economic activity***

There may be many reasons why we go to school or to work, but probably the most likely reason is because we are self-interested. It means that we seek our personal gain. We go to school to receive a good instruction and get a good job that someday will permit us to receive a good salary, and we go to work to get paid so we can buy things that we like. This is why the most of the economic activity we see around us is the result of self-interested behaviour. Adam Smith describes it in this way in his book *The Wealth of Nations*: “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”.

So the baker decides to bake because of self-interest. He wants to earn enough money to feed his family and buy the things he wants. His bread has to be good enough and the service has to be friendly enough that customers are willing to give up their money freely in exchange for his bread. The baker while serving his self-interest provided a valuable good. The incredible thing of the market system is that self-interest produces behavior that benefits others.

Even if the term self-interest has negative connotations, it doesn't necessarily imply greedy or immoral behavior. Self-interest just means that you seek your goals.

### ***4.2 Competition is the regulator of economic activity***

Sometimes self-interest lead to price gouging, corruption and cheating and most often it's held in check by competition. Since in the market there are other self-interested people that are competing my self-interest is held in check. For example, the only way a baker would be able to get paid for his work is that his product is

better, cheaper or more convenient than the bread produced by the other baker of the town. If he increases the price too much, clients will probably buy the bread from his competitors. If his bread is moldy or inferior, clients will buy it from his competitors. The only way to to earn money is to provide a high quality good at a reasonable price. Of course, if instead he was the only baker in town, he might be able to charge a high price, sell an inferior good or treat this customers rudely. Even in this case, another self-interested person might see the opportunity to open a bakery in town to earn profit. For this reason competition is the regulator, it restrains the ability to take advantages from customers.

### ***4.3 The Invisible Hand***

Smith describes the opposing but complementary forces of self-interest and competition as the “Invisible Hand”.

Analyzing economic problems Smith noted that the interest of individuals were partly congruent and partly incompatible. The Invisible Hand and therefore the mechanism of the market is addressed only to that part of congruent interests.

Producers and consumers are not acting in the attempt to serve the needs of others or of the society. When you work, your goal is to earn money, but in this process you provide to individuals and society a valuable good or service. The bread that we buy at the store is the result of hundreds of self-interested people that cooperates without the existence of an ipotetical institution like the “Bread Government Agency” that manage the production at each step. The farmer grew the grain, the mill prepared the flour, the bakery produced the bread, the truck driver delivered the bread to the grocery store and the grocer sold the loaf. It’s as if they were being guided by an invisible hand that guided resources to their most valued use. In Adam Smith’s words: “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 [...] By pursuing his own interest he frequently promotes that of the society more effectually than when he really intends to promote it”<sup>14</sup>.

### ***4.4 Regulation***

The economic system is called free market also because there is little or no control of the government over it. The question concerning the regulation and therefore the control that the government has on the market economy has been the source of studies and debates.

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<sup>14</sup> *An inquiry into the Natures and Causes of the Wealth of Nations*, ed. Edwin Cannan, London, 1776, cap. 2

On one hand there are those who believed that it's really possible to let the supply and the demand naturally reach an equilibrium point. On the other hand there are those who point to examples of fraud where competition has failed to be an adequate check on self-interest. They argue that government must take a more active role regulating economic activity.

## 5. CONCLUSION

If we look exclusively at the role of self-interest in *The Theory of Moral Sentiments* and *The Wealth of Nations*, we see that Smith's earlier book is the one that describes the beneficial and positive effects of self-interest, while *The Wealth of Nations* seems to criticize it.

In *The Theory of Moral Sentiments* Smith claims that nature allows self-interest to be constrained so that its presence has unequivocally positive consequences both at the individual and at the social level; in this way potentially dangerous abuses are avoided. In *The Wealth of Nations* individual self-interest, when backed by the power of government, is left unbound to enrich a few at the expenses of many.

*The Theory of Moral Sentiments* seems therefore to present a picture of self-interest that resembles more the picture of self-interest traditionally present in economics: pursuing individual self-interest makes both the individual and, unintentionally, society better off. On the other hand, the kind of self-interest present in *The Wealth of Nations* resembles more the kind of self-interest depicted in the public choice literature: self-interested individuals do what is best for them by engaging in rent-seeking activities, while impoverishing the rest of society.

What Smith describes in *The Theory of Moral Sentiments* may very well be a “nation of shopkeepers”, but what he describes in *The Wealth of Nations* is a nation whose government is influenced by shopkeepers. This makes *The Theory of Moral Sentiments* the book promoting self-interest and its beneficial consequences and *The Wealth of Nations* the book criticizing self-interest and its abuses.

It's interesting to analyze what scientists believe to be the origin of human action: interest. On the one hand, personal interest sees the man making choices taking into account only his own needs and goals. On the other hand we have social interest, that finality that manages to reach the greatest amount of well-being for the greatest number of individuals. It is evident that these two concepts cannot be combined with each other, since the subjects to whom they refer have a common nature but different number.

If personal interest and social interest coincide, there would be less social contrasts that have always characterized history. Social interest has a normative value, since almost exclusively in accordance with a norm the individual will be inclined to set aside his own subjective happiness to look at the needs of the social group. For this reason, theoretically, the majority criterion would not be sufficient to motivate the passage of the many subjective benefits to a single social utility. In fact, to overcome this criterion, man should find a superior being able to direct and govern, so as to follow his dictates; as long as to administer

public affairs will be a man endowed with self-love, sensitivities and interests, the majority criterion will be the best to reach satisfactory decisions.

Even in the terms of a market economic system, in which goods and services are exchanged freely and their value is determined by the market interaction, the basic assumption is that both consumers and producers act rationally and in their own self-interest. In fact the interaction and the voluntary exchange of goods and services between parties is based on actions taken keeping in mind only self-interest, but that, in turn, manage to benefit all parties involved.

This concept of rational self-interest explains the actions producers and consumers take in order to make exchanges that leave both parties better off than before the exchange.

Smith saw the market as a societally useful coordinating system for harnessing self-interest. Smith knew that markets didn't always work, that they didn't work perfectly and that they worked efficiently only in the absence government involvement. It has most relevance to me that Smith never denied the obvious ways in which people are altruistic or other-regarded but that he focused on the limitations of such motivations for coordinating a complex society. In fact this scope of benevolence derive from Smith's distrust of politicians. Even those who are most altruistic may still be focused helping a fairly narrow subset of others, and may end up hurting the whole.

Nowadays self-interest is an indicator of our egoistic society. There are no more ethical values and what prevails is just personal profit. Adam Smith's analysis of self-interest, even though dating back to the 16th century, can be considered a modern and fundamental tool which helps to understand the logic behind egoistic behaviour.

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