

2 Adam Smith's Prudence

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INTRODUCTION

Shakespeare did not say it, but it is true that some men are born small, some achieve smallness, and some have smallness thrust upon them. Adam Smith, the father of modern economics, has had to cope with a good deal of such thrusting. That conclusion is inescapable, reading some of the recent pronouncements of conservative extremism (especially in Britain), with persistent attempts to implicate Adam Smith in justifying the straight and the narrow. The invoking of Adam Smith and 'the invisible hand' is a widespread phenomenon, varying from explicit attribution to implicit use of Smith's authority (in, say, the spirited outpourings of the so-called 'Adam Smith Institute').

The Wealth of Nations is, however, a complex work. Tearing out particular sentences as slogans, e.g. the bit about 'the butcher, the brewer or the baker',¹ does little justice to Smith's views. Note also has to be taken of Smith's *The Theory of Moral Sentiments* as the broader work of Smith, one specific promise of which is 'partly executed' (in Smith's words) in the *Wealth of Nations*.² The latter-day 'Smithians' may have a simple enough message to enhance our wisdom on economic affairs, but Adam Smith was scarcely capable of such heroic simplicity.

The tradition of using Adam Smith for defending simple (and frequently obtuse) political decisions goes back a long time. As early as 1812, the Governor of Bombay turned down a proposal to move food into famine-affected Gujerat by citing the authority of Adam Smith: 'The digression of the celebrated author of *The Wealth of Nations* concerning corn-trade . . . and particularly as far as respects the *inland trader*, is forcibly and irresistibly applicable to every state of society where merchants or dealers in grain may be established'.³ Adam Smith had in fact said little, directly or indirectly, on how to deal with a developing famine. But that name and that alleged argument were to

crop up again and again throughout that century in India, in China and in Ireland – justifying costly inaction in the face of widespread death by starvation. The taking of Adam Smith's name in defence of policies on which Adam Smith had said little has been one of the unchanging features of the economic politics of the two hundred years since *The Wealth of Nations*.

In *The Frontiers of Development Studies*, published a dozen years ago, we find Paul Streeten rightly pointing out: 'Adam Smith, both a moral philosopher and an economist, considered education as fundamental to social peace, self-improvement and economic progress'.⁴ That is scarcely the policy of seeing education in the extraordinarily narrow and restrictive terms in which the alleged followers of Adam Smith have been trying to refashion the educational structure of Britain. There is hardly less irony in the willingness of the present policy-makers to accept massive unemployment as a price for 'sound' economics in view of Adam Smith's discussion on the very first page of *The Wealth of Nations* of how the prosperity of the nation depends on two main factors, one of which is 'the proportion between the number of those who are employed in useful labour, and that of those who are not so employed'.⁵

I have started off polemically, but I have an ulterior motive: to go on to discuss academic matters. In particular, to discuss Adam Smith's treatment of prudence, an issue that also has some relevance to political economic debates on current policy as well as some interest from the point of view of the history of economic thought. It has, of course, been much discussed that Adam Smith seems to have sung the praise of both 'sympathy' and 'self-interest'. While a great deal has been said on the well-known 'Adam Smith problem',⁶ and I can add little to that, I will try to discuss some elementary features of Adam Smith's approach to this question.

PLURALISM AND SYMPATHY

Adam Smith's claim to be building up his theory of moral sentiments on the basis of sympathy has been well discussed by Raphael and Macfie.⁷ There can be little doubt that Smith saw sympathy as having a 'linking' role. But this emphasis on sympathy coexisted with admitting many virtues, rather like in Aristotle's system. In this sense, Smith's approach may justifiably be seen as a 'pluralist' one, and the part that sympathy plays appears to be one of providing a common 'measure' for this plural system.

In contrasting his own theory with that of an unnamed defender (almost certainly David Hume) of 'utility' as the basis of virtue, Smith had the following to say on the exact contrasts between the two theories:

According to this [Hume's] system therefore, virtue consists not in any one affection, but in the proper degree of all the affections. The only difference between it and that which I have been endeavouring to establish, is, that it makes utility, and not sympathy, or the correspondent affection of the spectator, the natural and original measure of this proper degree.⁸

The 'measure' of sympathy does not, of course, deny the intrinsic importance of each of a plurality of virtues.

In fact, Smith was in general quite critical of trying to reduce all virtues into one ultimate virtue. For example, in discussing Epicurus's attempt to see virtue entirely in terms of prudence, Smith seized the occasion to chastise the philosophers for having 'a peculiar fondness' for the reductionist exercise:

By running up all the different virtues too to this one species of propriety, Epicurus indulged a propensity, which is natural to all men, but which philosophers in particular are apt to cultivate with a peculiar fondness, as the great means of displaying their ingenuity, the propensity to account for all appearances from as few principles as possible.⁹

The basic pluralism of Smith's position comes out sharply in his discussions of various virtues – prudence, humanity, justice, generosity, public spirit, etc. – to all of which intrinsic importance is attached. Whether the claim of sympathy providing a common 'measure' is well established by Smith can certainly be debated, but in doing that debating it has to be borne in mind that Smith's objective was not one of reductionist monism in the way that, say, Benthamite utilitarianism can be taken to be.

Smith does, of course, provide powerful and novel analyses of the relevance of sympathy in a wide variety of judgments. He shows the importance of sympathising with the motive of the agent, and the relevance of sympathising with the beneficiary's gratitude as well as with the agent's benevolence.¹⁰ He also provides a brilliant account of what it is like to place oneself in the position of another¹¹ – an account from which modern welfare economists and social choice theorists have much

to learn. But despite the concentration on sympathy, Smith's essentially pluralist perspective stops him from denying the intrinsic importance of a multiplicity of virtues.

PRUDENCE AND COMMON MOTIVATION

George Stigler's enjoyable essay on 'Smith's Travel on the Ship of the State'¹² starts off with interpreting Smith's remark that 'though the principles of common *prudence* do not always govern the conduct of every individual, they always influence that of the majority of every class or order', as implying: '*self-interest* dominates the majority of men'.¹³ The point is certainly an important one in understanding Smith's assessment of the real world – including the world of day-to-day economics, and indeed many authors have taken Smith to task for introducing this dubious generalisation in economics.¹⁴ Certainly that generalisation got respectability from Smith's seeming championing of it. Nevertheless, it is not strictly accurate to identify 'prudence' with 'self-interest'. In fact, Smith saw prudence as 'the union of' the two qualities of 'reason and understanding' on the one hand, and 'self-command' on the other¹⁵ – the latter being a Stoic concept of which Smith makes much use.¹⁶ Self-interest and self-love form a substantially narrower motivation than prudence.

Furthermore, even if prudence were to be narrowly – and (I believe) wrongly – interpreted as the pursuit of self-interest, the idea that prudence does 'always influence' the majority cannot be interpreted simply as 'self-interest dominates the majority of men', since there are many other influences about which Smith himself speaks. The distinction is of particular importance in analysing Smith's understanding of social behaviour, and the policy implications that might follow from it. For example, he emphasises the importance of 'rules of conduct' in influencing people's behaviour and the positive role that such rules can play:

Those general rules of conduct, when they have been fixed in our mind by habitual reflection, are of great use in correcting misrepresentations of self-love concerning what is fit and proper to be done in our particular situation.¹⁷

Adam Smith did emphasise the pursuit of self-interest as a principal influence on the behaviour of the majority, but he did not overlook other

aspects of prudence that go well beyond self-interest maximisation; he also admitted influences other than prudence in the determination of common behaviour. The qualifications have to be borne in mind in examining Smith's approach to economic behaviour.

USEFULNESS AND VIRTUE

The questions as to (1) whether people typically behave in a self-interested manner, and (2) whether this is the right thing to do, are, of course, quite different from each other. The folklore of history of thought seems to see Smith as asserting *both* that actual behaviour is self-interested and that that is a very good thing too. I have already disputed the first of this pair of assertions, claiming that Smith's view was much more complex than that. In that context, reference was made also to Smith's pointer to the role of 'rules of conduct'. I shall come back to that question, but before that I would like to address the 'rightness' issue.

In so far as Smith thought that self-interest-based behaviour would be peculiarly successful in generating economic prosperity, should it not be automatically assumed that he was recommending such behaviour? A good action is surely one with good consequences, and a good person one who takes good action? Again, the picture is much more complex than that bit of 'consequentialist' reasoning would suggest.¹⁸

Usefulness, Smith thought, is a good way of judging a piece of furniture, but scarcely adequate for judging a person:

it seems impossible that the approbation of virtue should be a sentiment of the same kind with that by which we approve of a convenient or well-contrived building; or that we should have no other reason for praising a man than that for which we commend a chest of drawers.¹⁹

Prudence is, of course, worthy of praise in Smith's pluralist system of virtues, but not just because it achieves results – economic or otherwise. A person must also be judged by what he *is* and not merely by the useful purposes he *serves*; by what his motives are, and not only by what his actions achieve. While what Smith calls 'the natural selfishness and rapacity' of the rich (who 'mean only their own conveniency' and pursue 'the gratification of their own vain and insatiable desires'²⁰) might, under certain circumstances, achieve good results, that does not make

them men of virtue. Nor do their inadvertent achievements, when these occur, make them in Smith's eyes admirable as persons.

Our sensibility to the feelings of others, so far from being inconsistent with the manhood of self-command, is the very principle upon which that manhood is founded. The very same principle or instinct which, in the misfortune of our neighbour, prompts us to compassionate his sorrow; in our misfortune, prompts us to restrain the abject and miserable lamentations of our own sorrow . . . The man of the most perfect virtue, the man whom we naturally love and revere the most, is he who joins, to the most perfect command of his own original and selfish feelings, the most exquisite sensibility both to the original and sympathetic feelings of others.²¹

CAUSES AND EFFECTS

Did Smith think that self-interest would, in fact, achieve wonders? In some ways he clearly did. In many economic transactions self-interest would make people serve each other's interests as well as their own. The famous fact of our not expecting 'our dinner' from 'the benevolence of the butcher, the brewer, or the baker' but from 'their regard to their own interest' is undoubtedly an important part of Smith's thinking about the activities of exchange and division of labour.

But did Smith think that intelligent pursuit of self-interest and – more broadly – prudence are the most helpful motives that we can cultivate (quite aside from the question of whether prudence would be a marvellous virtue *if* it were most helpful)? There is very little evidence that Smith thought that to be the case. While he did think that prudence is 'of all virtues that which is most helpful to the individual',²² he also thought 'humanity, justice, generosity, and public spirit, are the qualities most useful to others'.²³

There is no puzzle here. Anyone dealing with immediate policy issues has good reasons to concentrate on the 'ills' that are diagnosed to be currently present, and Smith's involvements with current policy issues were deep and sustained.²⁴ The various feudal barriers and other restrictions of economic transactions were undoubtedly seen by Smith as terrible hindrances to productive efficiency. Smith wanted those 'ills' removed and he explained (as no one had done before him with such clarity) how the unhindered pursuit of self-interest can be very useful in certain types of economic activities. In this respect the specialist nature of Smith's praise of the achievements of self-interest is comparable to

Edgeworth's belief that 'economical calculus' was particularly relevant to two types of activities, namely 'war and contract'.²⁵

This is, of course, a far cry from arguing that the pursuit of self-interest and prudence do, in general, produce the best, or even just efficient, results. Smith's emphasis on 'humanity, justice, generosity, and public spirit' being 'the qualities most useful to others' does not contradict his belief that in some spheres of economic activity, self-interest does very well indeed.

The issue is of a good deal of practical relevance today, since serious empirical doubts have been raised about the motivational efficiency of the pursuit of self-interest even in the most elementary workings of capitalist economies. For example, the industrial success of Japan seems to have drawn greatly on a different motivational regularity – what Michio Morishima has called 'the Japanese ethos'.²⁶ The unusual extent of loyalty, co-operation, sense of duty and public spirit that can be found in Japanese economic relations – including on the factory floor – can be traced to powerful historical roots, which also influence other aspects of Japanese life (such as an astonishingly low crime rate, remarkably little litigation, etc.) Given the nature of interdependences in production and the advantages from a co-operative as opposed to narrowly self-seeking attitude, it is not really surprising that even the success of capitalist economies depends on many motivational features other than prudence in general and the pursuit of self-interest in particular.²⁷

I don't believe that there is any contradiction between this recognition and Adam Smith's general position about the usefulness of different motivations, including the roles of 'humanity, justice, generosity, and public spirit'. And the point is further strengthened by Smith's explicit discussion of the role of 'general rules of conduct' in 'correcting misrepresentations of self-love'. What is oddly out of line is not Smith's own analysis, but the peculiarly limited view of Smith's beliefs based on a breathtakingly narrow reading of what he wrote.

Perhaps one can say in mitigation (though not in defence) of these narrow interpretations that the enthusiasm with which Smith outlined some of his views of particular (and limited) cause-effect relationships did sometimes leave room for misunderstanding. David Hume had noted, in his congratulatory letter to Adam Smith after the publication of *The Wealth of Nations* (not to be confused with Hume's more famous letter regarding *The Theory of Moral Sentiments*), that Smith's new book was full of what Hume called 'curious facts'.²⁸ Smith did have a fascination for curious facts not well-known or obvious to others, and

his enthusiastic discussions of possible implications, based on quick reasoning, often did have the appearance of grand generalisations.

For example, consider Smith's analysis of the nutritional value of potatoes. He noted that 'the chairmen, porters, and coalheavers in London and those unfortunate women who live by prostitution', typically come from 'the lowest rank of people in Ireland' and 'are generally fed with this root [potato]'. From the further observation that the former group – the porters and others – are 'the strongest', and the latter group – the prostitutes – are 'the most beautiful women perhaps in the British dominions', Smith came to the conclusion that 'no food can afford a more decisive proof of its nourishing quality'.²⁹

No doubt there is something in that odd line of reasoning about the nourishing quality of the potato, and no doubt also there is much more in the line of reasoning about 'the butcher, the brewer, or the baker'. But it is not fair to Smith to identify particular arguments, with a fairly limited focus, with Smith's general position regarding motives, achievements and virtues. Certainly, there is little justification for wrongly attributing views to Smith about what qualities are 'most useful to others' and what 'virtues are most important' when he has himself discussed these questions in detail and expressed his own views in very clear terms.

A CONCLUDING REMARK

Smith was, to say the least, a complex thinker. He has suffered more than most from oversimplification and – sometimes – distortion in support of political positions very different from his own.³⁰ On the particular subject of prudence, to understand Smith's views, we have to:

1. distinguish between prudence and the pursuit of selfishness;
2. distinguish between the consequential usefulness of a motive and its being a virtue;
3. distinguish between the contingent success of prudence (including of self-interested action) in some spheres of activity and Smith's general beliefs (including that 'humanity, justice, generosity, and public spirit, are the qualities most useful to others');
4. distinguish between the claim of prudence to be a virtue and the basic pluralism of Smith's moral framework (with 'sympathy' as the common measure);
5. distinguish between Smith's analysis of self-interested reasoning on the one hand, and on the other that of following general rules of

conduct', which have 'great use in correcting misreps of self-love'.

If smallness must be 'thrust upon' someone, there are none deserving candidates than the father of modern econoi

NOTES

1. Adam Smith, *An Inquiry into The Nature and Causes th of Nations* (1776; Everyman's Library, London: Dent, 1910), c I, p. 13.
2. See D. D. Raphael and A. L. Macfie, 'Introduction', in Ralacfe (eds) *The Theory of Moral Sentiments* (Oxford: Clarent976), p.24.
3. See my 'Famine', *World Development*, 8 (1980), and *Povmines* (Oxford: Clarendon Press, 1981), Section 10.4; and S. Amssical *Political Economy and British Policy in India* (Cambridge University Press, 1978).
4. P. Streeten, *The Frontiers of Development Studies* (Lonillan, 1972), p. 129.
5. Smith, *Wealth of Nations*, Vol. I Book I, p. 1.
6. The useful and varied collection of papers on Adam Smith found in A. S. Skinner and T. Wilson (eds) *Essays on Adam* Oxford: Clarendon Press, 1975) includes some discussions of this;e also Raphael and Macfie, 'Introduction', op. cit. See also DorAdam *Smith's Politics* (Cambridge: Cambridge University Pre
7. Raphael and Macfie, 'Introduction'.
8. Smith, *The Theory of Moral Sentiments*, eds Rapflacfe, VII.ii.3.21., p.306.
9. Smith, *The Theory of Moral Sentiments*, VII.ii.2.14, p. .
10. On this see D.D. Raphael, 'The Impartial Spectator' and Wilson, *Essays on Adam Smith*.
11. Smith, *The Theory of Moral Sentiments*, VII.iii.1.4, p.3
12. In Skinner and Wilson, *Essays on Adam Smith*.
13. Stigler, 'Smith's Travel on the Ship of State', p.237; ita
14. See, for example, Albert Hirschman's discussion of 'pass:rests': 'But by the latter part of that century [the eighteenth],s were collapsed into interests by Adam Smith who pronouncedmob of mankind" to be safely programmed: From the cradlave its members were to be exclusively concerned with "ber conditions", (*Essays in Trespassing*, Cambridge: Cambridge Press, 1981, p. 288).
15. Smith, *The Theory of Moral Sentiments*, IV.2.6, p. 189
16. On this see Raphael, 'The Impartial Spectator', and RMacfie, 'Introduction'.
17. Smith, *The Theory of Moral Sentiments*, III.4.12, p.166
18. On some limitations of 'consequentialist' reasoning, seeWilliams, 'A Critique of Utilitarianism', in J. J. C. Smart Williams,

Utilitarianism: For and Against (

1973). See also A. Sen and B. V

(Cambridge: Cambridge Univers

19. Smith, *The Theory of Moral Sen*

20. Smith, *The Theory of Moral Sen*

21. Smith, *The Theory of Moral Sen*

22. Smith, *The Theory of Moral Sen*

23. Smith, *The Theory of Moral Sen*

24. See Winch, *Adam Smith's Politia*

25. F.Y.Edgeworth, *Mathematical I*

Mathematics to the Moral Scien

26. M. Morishima, *Why Has Japan*

Japanese Ethos (Cambridge: Car

27. Some of these general issues have

Lloyds Bank Review (1983); r

Development (Oxford: Blackw

University Press, 1984).

28. Cited in *Encyclopaedia Britannic*

29. Smith, *Wealth of Nations*, I.I.xi,

30. See also Winch, *Adam Smith's P*