Wisdom and Virtue

Russ Roberts

How Adam Smith Can Change Your Life

An Unexpected Guide to Human Nature and Happiness

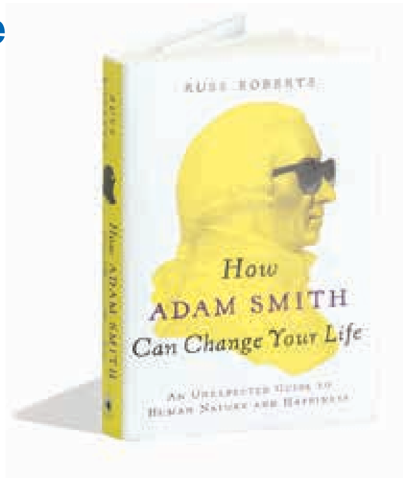
Portfolio/Penguin, New York, 2014, 272 pp., $27.95 (cloth).

Ethics in economics seems to be back in vogue today. This is undoubtedly because of the global financial crisis, which exposed a startling degree of malfeasance and unethical behavior in the financial sector—with catastrophic consequences for the global economy and people's lives. But it also reflects a deeper dissatisfaction with the utilitarianism and narrow technocratic focus that holds sway in so much of modern economics. It is no accident that more and more people are seeking—sometimes demanding—a broader approach to the study of economics, one that incorporates key elements of philosophy, psychology, and history.

Given this zeitgeist, a book on the moral philosophy of Adam Smith is timely indeed. While Smith may be the founder of modern economics, he was first and foremost a professor of moral philosophy. Yet his major philosophical work, *The Theory of Moral Sentiments*, remains largely unknown. In his new book, Russ Roberts strives to fill the gap—to bring to light the hidden wisdom contained in a much-neglected classic.

Roberts writes with the Christmas-morning wonder of a child embarking on a new and exciting adventure. His enthusiasm is infectious as he describes his immersion in a book he simply cannot put down. The book is jam-packed with memorable stories and colorful vignettes. Altogether, it is an easy and engaging read and a good introduction to Smith's moral philosophy.

In Roberts' telling, Smith's morality boils down to simple life rules: "Seek wisdom and virtue. Behave as if an impartial spectator is watching you."



While the first part of the book is more about—to speak somewhat anachronistically—"self-improvement," the second focuses on how we interact with each other in society. Here, Roberts points to a key insight of Smith—while we may be naturally inclined to put our own happiness above that of others, it would be wrong to live life in such a manner, to hurt or exploit others out of mere self-interest. Why? Because the impartial spectator—the ultimate arbiter of Smith's morality—would not approve.

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The idea of the impartial spectator as a motivator of morality is a profoundly powerful idea. Nobel Prize–winning economist Amartya Sen, for example, stresses the advantages of this simple and practical reasoning over the more dominant philosophical approach, which focuses on systems of perfect justice and perfect institutions. Yet Roberts never really teases out the full implications of this way of thinking, being too inclined to treat *Moral Sentiments* as a self-help book.

In his last chapter, Roberts does touch on the implications of Smith's ethical standpoint for the functioning of the modern economy, but this is his weakest chapter.

An enormous amount of ink has been spilled over the years over the famous "Adam Smith problem"—how to reconcile the emphasis on benevolence in *Moral Sentiments* with the emphasis on self-interest in *The Wealth of Nations*. The most obvious answer is that the latter focuses on the bare minimum conditions for beneficial market exchange, while the former focuses on the deeper underpinnings of our broader social interactions.

As Sen put it, Smith's insight was narrowly confined to exchange, ignoring equally important concepts like production and distribution. And even in pure exchange, self-interest can take us only so far and must be supplemented with shared trust and mutual confidence in the ethics of all involved. In other words, moral sentiments are never too far from the surface.

Roberts takes a different tack. He argues that Smith's two books are about different and nonoverlapping spheres of human interaction. Borrowing from economist and philosopher Friedrich Hayek, he argues that "we need to inhabit two different worlds at the same time to interact within our families and then move into the commercial sphere and interact with strangers." Thus *Moral Sentiments* is about our "personal space"—the world of friends, family, and close acquaintances—while *The Wealth of Nations* is more about interpersonal exchange in a "world of strangers." Different worlds, different norms of behavior.

Reading Smith through these Hayekian bifocals is not at all convincing. Imposing Hayek's crimped philosophical worldview on Smith does him a disservice. It narrows the scope of his contribution far too much.

Ultimately, Smith is concerned with virtue—especially benevolence, courage, temperance, justice, and prudence. Indeed, Deirdre McCloskey argued that Smith is the last of the virtue ethicists, following in a long tradition that began with Aristotle. And when we start with virtue, we are naturally inclined toward human flourishing—in all aspects of life. There are no bifurcated or disembodied virtues!

Because Roberts draws such a fine line between the different spheres of life, he never really teases out the implications of Smith's moral philosophy for today's economy—what we really should care about. This is a pity, because Smith's insights would be especially valuable right now.

For example, what would the impartial spectator say about the behavior of the financial sector in recent years, when extreme recklessness and short-termism swamped all notions of virtue? Or more generally, what would she say about a business model that puts short-term profit above duty to stakeholders like workers, clients, the natural environment, and society in general? These are the important questions that are not really answered in this book.

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