

# THE SOCIAL-ECONOMIC MAN OF ADAM SMITH - OR THE MACROFOUNDATIONS OF MICROECONOMICS<sup>1</sup>

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## I. THE ROBINSON CRUSOE METAPHOR

Robinson Crusoe is the prototype of the *homo oeconomicus*, the agent whose calculations provide the foundations not only of microeconomics but also of macroeconomics. At least since the so called marginalist revolution of the 1870s mainstream economists analyse specific areas of research with the tools of mathematical optimisation and utility maximisation. In recent years, the behaviour of economic agents has been described in more refined ways than simple utilitarianism guided by instrumental rationality (see Colander 2000: 134-36). The 2002 Nobel Prize was awarded to Daniel Kahneman and Vernon Smith for their leading researches into the fields of psychological and experimental economics aimed at innovating 'on the assumption of a *homo oeconomicus* motivated by self-interest and capable of rational decision making' (available at <http://www.nobel.se/economics/laureates/2002/press.html>). However, methodological individualism it is still the leading method in economic analysis.

The birth of Robinson Crusoe is in 1719, well into the Mercantilist era, and he has a legitimate father: a merchant, adventurer and spy, Daniel Defoe. However, Smith is often regarded as Crusoe's putative father: the mentor who brought him to fame by advancing him from the pages of a novel to those of science, therefore becoming one of the most well-known metaphors of the new science of economics<sup>2</sup>. More recently, economists have discovered that this putative role should be rather ascribed to David Hume than to Smith, the latter being at most an uncle, and even so not a particularly benign one. Hume is the 'inventor' of utility as the main drive in human nature and in *The Theory of Moral Sentiments* Smith widely criticises the system "which places virtue in utility" (TMS: 306), this passage referring to Hume's system.

Nevertheless, a reductionist but widespread view of what economics should be all about takes the economic agent with instrumental rationality and competitive markets as *the pillars* of the new science. Competitive markets are far away from the problems that Robinson has to solve on his island, but he seems to be perfect to wear the suit of a rationally calculating economic agent provided with limited resources and several needs. There is not much of a society on that Island. Even the arrival of Friday, after twenty five years of solitude, does not change Robinson's behaviour; Friday looks much more like one more asset to allocate rather than a human being with whom to organise a social life.

The rise to fame of Robinson Crusoe is due neither to Smith nor to Hume, indeed they both ignore him, and he has to wait for the second half of the nineteenth century to enter economics<sup>3</sup>. Once the Robinson Crusoe metaphor enters the scene does not leave it. It occupies the stage and coupled with another metaphor (that of 'the invisible hand' which is duly ascribed to Smith), it seems to provide all that is needed for microeconomics and also for the foundations of macroeconomics. Economic agents follow the simple principle of non-tuism (see Wilson 1976:

81, 92), a parametric behaviour guided by price signals alone.

This paper wants to show that Smith's work provides solid arguments in favour of an alternative view which we could call the macro-foundations of microeconomics. There the behaviour of human being requires first the definition of a society, more or less complex; then the search is open for the economic laws and relationships of cause and effect in a particular social division of labour. Human behaviour is by and large guided and constrained inside such a social specification; rules and norms of human conduct derive from the society: the macro structure plays a major role in determining microeconomic activity. Section II analyses some of the different descriptions of men's behaviour provided by Smith, particularly in the *Theory of Moral Sentiments*. In Section III we examine the process of the 'socialization' of the individual in Smith's work. Section IV delves more into the issue of the socialization of man by examining some passages in the *Wealth of Nations*.

## II. HOW MANY VARIANTS OF 'MAN' IN SMITH?

A number of characters appear in Smith's work, man appears in many different variants: self-loving, altruistic, prudent, virtuous, impartial, benevolent, sympathetic, labouring poor, rich(of course), middling rank, prone to vanity. We have one man for each passion plus infinite combinations. We will introduce only five types of man, possibly those characters who can be of interest to economics.

### The sympathetic man

In 1967 Alec Mcafia with his *The individual in society* opens the door to the storiographic revision of Smith. The 1976 introduction to Smith's *The Theory of Moral Sentiments* by Mcafia and Raphael tackles the so called *Das Adam Smith problem*<sup>4</sup>. This leads to a possible reconciliation of the altruistic man of the *Theory* and the selfish man of the *Wealth*. Above all the analysis of Smith's ethics, the road to virtue, takes the centre of the stage and leads to a number of studies which taken together show how terribly simplistic is the Crusoe metaphor when compared to Smith's analysis of individual behaviour.

According to Smith the dominant principle in human nature is that of sympathy, not utility, (see *TMS*: 9). Of course we feel sympathy with any passion, a fact which leads the editors of the *Theory* to remark that Smith's sympathy must not be confused with Smith's benevolence; per se sympathy does not particularly imply altruism(see *ibid.*: 10-1, footnote) . In human nature we find both sympathy and benevolence, which is also a universal passion, but the crucial aspect of Smith's conception of human nature is not so much benevolence, but rather sympathy. Altruism is an extremely helpful attitude, but the fellow-feeling which characterises sympathy is enough to provide the cement of society. Fellow-feeling is in-built in human nature; it is a natural disposition to take interest in the fortunes of others, that correspondence of sentiments which leads us to participate, at least partially, in the sorrow of others. This quality of human nature keeps societies together, and prevents their collapse. Sympathy also helps to resist excessive self-interest, it is that blend of moderation and propriety which bestows on men the moral qualities of the impartial spectator(see section III below), whose unrelenting industry on markets and whose pursue of personal well being will never hurt the others

## **The virtuous man**

The interplay between benevolence and sympathy leads to the problem of virtue. Let us examine the behaviour of the virtuous man, of the man which follows those inclinations which nature has engraved into all human beings and which guide their actions.

The wise and virtuous man is at all times willing that his own private interest should be sacrificed to the public interest of his own particular order of society. He is at all times willing, too, that the interest of his order of society should be sacrificed to the greater interest of the state or sovereignty, of which it is only a subordinate part.

(TMS: 235)

The passage continues with reference to the interest of the entire universe and to God and it gives more force to the natural order which then has both a positive and a normative dimension. Virtuous men are willing to sacrifice their inferior interests in favour of the well-being of a larger set of individuals. The moral rules which drive human behaviour combined with the fact that natural laws are the products of a benevolent God should prevent any serious contrast between the interests of the individual and those of society, even of that large society which is the entire mankind. True, virtue is only an open possibility and benevolence, Hutcheson's principle of human behaviour, is not such a universal and dominating passion and all but a limited number of human beings can possibly achieve virtue. What happens with those men who are not virtuous, but only imperfect creatures? Wise and virtuous men are limited resources (see Rosenberg 1990: 1), we need a model of man which is less demanding and possibly easier to adopt, a sort of second best to human conduct and here comes our third character: the prudent man.

## **The prudent man**

In the sixth edition of the *Theory* Part six on prudence is new. Here Smith seems to rely less on sympathetic human nature and more on natural order and invisible hand. As for human nature sometime we find very harsh passages.

Every individual is naturally more attached to his own particular order or society, than to any other. His own interest, his own vanity, the interest and vanity of many of his friends and companions, are commonly a good deal connected with it. He is ambitious to extend its privileges and immunities. He is zealous to defend them against the encroachments of every other order of society.

(TMS: 230)

In the *Theory* we find one Smith's remarks on the invisible hand, perhaps the clearest of the three of them<sup>5</sup>, where the rich are described with terrible terms. They look only for luxury, they are capricious, full of vain and insatiable desires, even more they seem to be granted with 'natural selfishness and rapacity' (see *ibid.*: 184.). Here the invisible hand, that is deception, comes into the picture and redresses the excessive passions of the rich man<sup>6</sup>, men can be deceived and we have the so called law of unintended consequences which plays such a vital role in the Scottish Enlightenment.

Over the years Smith seems to have become more pessimistic about the possibility of achieving virtue, but he still has all the conditions and the ‘tools’ convenient to build what he regards a decent and possibly a wealthy society(see Evensky 1989: 140). Prudence seems to be the virtue which most helps to reach that aim, it is therefore necessary to dedicate more time to the ‘prudent man’. In the sixth edition of the *Theory* Smith praises the prudent man, the frugal man of the *Wealth*; thus the prudent man may also be seen as a way to reconcile the view of man in the *Wealth* with that of the *Theory*. The prudent man is the prototype of that middle class that by coupling virtue and prudence can try to reach fortune.

Some interpreters maintains that the whole analytical structure of both the *Theory* and the *Wealth* rests on the character of the median man supported by a majority rule and this combination results in a sort of robust utilitarianism(see Levy 1995: 313-18). Men are poorly informed and their judgements are guided by widespread ignorance (ibid: 300, 308). There is no real difference between the economic man and the virtuous man: their information are quite partial and they are constantly under the effect of deception by the working of markets. This agent is a median man who observes a common morality, avoids excesses and builds up a good deal of conformism.

Some support to this reductionist view can be derived by passages from the *Theory* where Smiths writes that two apparently different ethical possibilities confront human beings.

To deserve, to acquire and to enjoy the respect and admiration of mankind, are the great objects of ambition and emulation. *Two different roads* are presented to us, equally leading to the attainment of this much desired object; the one, by the study of wisdom and the practice of virtue; the other, by the acquisition of wealth and greatness. Two different characters are presented to our emulation; the one of proud ambition and ostentatious avidity; the other, of humble modesty and equitable justice. Two different models, two different pictures.

(TMS: 62, italics added, see also ibid.: 86)<sup>7</sup>

In order to be praised by his contemporaries man can follow the road to virtue but also that of the search for wealth. Smith sympathises with the practice of virtue but he is aware of the frailty of human beings and of the great mob of mankind.

In the middling and inferior stations of life, the road to virtue and that to fortune, to such fortune, at least, as men in such stations can reasonably expect to acquire, are, happily, in most cases, very nearly the same. In all the middling and inferior professions, real and solid professional abilities, joined to prudent, just, firm, and temperate conduct, can very seldom fail of success.

(ibid.: 63)

We might conclude that the prudent search of wealth with good conduct can provide a road to social approbation; therefore the utilitarian interpretation of Smith’s man is right after all. Even if there are many variants of ‘man’ in Smith’s work there is at least one which is not completely at variance with the ethical considerations of the *Theory* and is fully compatible with the more limited character of the *Wealth*. The middle man who practices the virtue of prudence, plus the veil of ignorance are not too far away from the Robinson Crusoe metaphor. The prudent man is the Trojan horse to re-establish utilitarianism in Smith’s theory. Moreover the whole approach of

the micro-foundations of macroeconomics could be justified on the basis of the rational behaviour of the prudent man who is also the ideal economic agent.

There are several reasons to cast doubts on this view. First of all, neither in the *Theory* nor in the *Wealth* Smith describes self-love as the founding principle of human societies. In the very beginning of each of his two published books Smith is very careful in establishing the principle on which the text is based, this is sympathy in the *Theory* and it is the division of labour in the *Wealth*(see also section IV below). Self-love indicates a sort of minimal requirement for the existence of society, provided there is at least an agreed social norms according to which individuals behave and reciprocate.

Secondly, in the two passages from the *Theory* quoted above Smith emphasises the difference between justice and beneficence and he does not eliminate all the contradictions between the two standards of behaviour but at most contains and limits them; the two roads point to different paths. The text continues with a reference to the rules of justice and to the fact that honesty is the best policy. ‘To attain to this envied situation, the candidates for fortune too frequently abandon the paths of virtue; for unhappily, the road which leads to the one, and that which leads to the other, lie sometimes in very opposite directions’(ibid.: 64). Therefore searching fortune only, and abandoning virtue is not enough to attain happiness, all the more so for the whole society. It is no accident that Smith often refers to the inferior and superior virtues: the ‘supreme virtue of beneficence.....the inferior virtues of prudence, vigilance, circumspection, temperance, constancy, firmness.’(ibid.: 304, see also 63).

Does the prudent man, or the economic man, embodies all these virtues? Probably not. Does this social and economic agent embodies only the inferior virtues? The problem of virtuous behaviour still exists: the virtuous man has a huge role to play in the improvement of the economic wealth of society and above all, in the peaceful, decent and benevolent organisation of society. In the quest for individual and collective happiness the problem of virtue cannot be removed.

The gap between the virtuous man and the prudent one is still quite wide, the selfish man and the sympathetic or even benevolent individual cannot be easily reconciled<sup>8</sup>. But this paper does not focus on the variety of the possible characters in Smith’s work, nor on the wide range of virtues and passions influencing human behaviour. We explore the relationship between the micro and macro aspects of Smith’s contribution. From this point of view the existence of many possible types of man’s behaviour is a premise to the main argument, which is the fact that man, whatever the passions and virtues leading his conduct, is the result of a process of socialisation. Man’s behaviour is the outcome of a certain society and here comes a fourth player: the socialised man.

### **The socialised man**

The prudent man is a character which performs inside the commercial society, the fourth of the stages described by Smith in the *Lectures on Jurisprudence* and in Book III of the *Wealth*. Therefore he is already a specific man who continuously adapts his behaviour to a specific type of society in the history of mankind, man is not an invariant element of nature, a stylised ‘agent’ with a predetermined and constant behaviour. Our ‘man’ is being socialised, but even so we must assume that a commercial society builds moral and physical capital, probity and punctuality thus taming the passions. It has been observed that this could be the case but only in competitive

conditions (see Rosenberg 1990: 15-7). In the *Lectures* we find a well known passage in which Smith says that frequent exchanges help to prevent cheating(see *LJB*: 538-9), we could assume that the market creates trust or at least punishes mistrust, but that requires that the exchanging partners should not be too unbalanced in terms of market power(see Fiori 1992: 51).

Zanini too highlights the fact that in Smith man's behaviour is not based on simple individualism, there is a sort of social middle conformation(see Zanini 1993: 12) which gives to man's behaviour the social connotation of propriety.

Smith writes:

We expect in each rank and profession, a degree of those manners, which, experience has taught us belong to it. But as in each species of things, we are particularly pleased with the middle social conformation, which in every part and feature, agrees most exactly with the general standard (...) so in each rank, (...) we are particularly pleased, if they have neither too much, not too little of the character which usually accompanies their particular condition and situation.

(*TMS*: 201)

The prudent man is a intermediate social agent and there is a social, macro, determination of the moral conduct of the individual; individual of this moderate and intermediate moral conduct is also 'rank specific' and 'profession specific'. According to Zanini the same ethics is to be found in *Theory* and *Wealth*, it is impossible to separate ethics and economics, but social ethics prevails over individualistic morality(see Zanini 1993:18). No single all encompassing description of human behaviour is possible, whatever the natural predisposition of the individuals they become specific social characters. The general rules emerge through social experience, morality is a social phenomenon<sup>9</sup>.

### III. THE MAKING OF THE IMPARTIAL SPECTATOR

What does Smith say about the process of socialisation of individuals? Here we must introduce a fifth character: the impartial spectator, the most sociable man in Smith's view. In editions 2-5 of the *Theory* Smith refers to the impartial spectator in the following way: 'this abstract man, this representative of mankind, and substitute of the Deity'(*TMS*: 130). Perhaps he realised that the comparison to the Deity was too much of a metaphor to leave in the text of edition 6, but the impartial spectator is *the man within*, the attempt to put oneself into the position of the others, it is a continuous practice of socialisation. The 'impartial and well-informed spectator'( *ibid*: 130) is the ultimate judge of human action, he is the judge of a higher tribunal, because it is not concerned only with the actual behaviour of men, but also with the motivations which inspire that behaviour. The search for the approbation of other men, the desire to be praiseworthy is a useful additional affection of man in society. But how does this process of socialisation take place?

#### Experience

The process of socialization takes place through mutual experience. Experience plays a fundamental role in shaping human behaviour and man's judgements. But where do these rules of justice and of morality come from? 'The general maxims of morality are formed, like any

other general maxims, from experience and induction' (*TMS*, p. 319). The sympathetic interaction of the individuals produces social norms, the rules and conventions are the results of experience (see Samuels 1966: 185). The simple passions of prudence and sympathy must exert themselves through historical institutions. Following Brown we can say that 'people through their productive activity create their social reality' (Brown 1992: 20).

In Smith's works there is an evolutionary flavour, he believes that laws, rules and social norms, trust are the result of a long lasting process which stimulates certain passions in human nature and which contributes to the building of a decent society.

Experience and ethics continuously interact with each other. The moral rules depend on the size and depth of the division of labour and upon the institutions which derive from it. At the same time a widely shared sense of propriety and the agreement on formal and informal norms are necessary elements of the process of economic development (see Loasby 1996: 306-7). There is an interaction of economic organisation and of socially generated individual consciousness, a co-evolution of individuals and society (see Samuels 1966: 187).

## Reason

However, for Smith, experience is not alone in shaping the norms of social behaviour 'by induction from this experience, we establish those general rules. But induction is always regarded as one of the operations of reason. From reason, therefore, we are very properly said to derive all those general maxims and ideas' (*TMS*: 319). Thus general rules of morality are derived from both reason and induction. Smith underlines that 'the first perception of right and wrong' are first of all the object 'of immediate sense and feeling' (ibid.: 320). But reason comes into the elaboration of those feelings in order to produce widely shared norms. Experience is the source of the general rules of morality, but it is a guided experience, not a plain one.

Men have a natural inclination to be sociable, amiable, to avoid conflicts. The *Theory* gives further support to this view of a sociable man. 'Nature, when she formed man for society, endowed him with an original desire. to please, and an original aversion to offend his brethren' (ibid. 116; see also 292). Nature has given 'man in society' not only the ability to watch the conduct of other people but above all the capacity to look at his conduct as through the eyes of his brethren. Men and women are social animals and it is through their guided experience in society that they acquire the feature of the impartial spectator. In a very important passage Smith refers to man and writes: 'Bring him into society, and he is immediately provided with the mirror he wanted before' (ibid.: 110).

Habit and experience have an important role to play, but they are also guided by reason and by the authority of conscience. 'The selfish and original passions of human nature' are tamed by the game of the impartial spectator and this leads the individuals to continuously change and adapt their position:

habit and experience have taught us to do so easily and so readily, that we are scarce sensible that we do it; and it requires, in this case too, some degree of *reflection* and even of *philosophy*, to convince us, how little interest we should take in the greatest concerns of our neighbour, (...) if the sense of propriety and justice did not correct the otherwise natural inequality of our sentiments.

(*TMS*: 135-6, italics added)

Reason, reflection, even philosophy come into the picture and provide an orientation to the behaviour of men<sup>10</sup>. Mutual experience and reason are the sources of the general rules of morality, but it is through guided experience that men acquire the aptitude of the 'impartial spectator', which is the ability to look at opposite interests with the eyes of a third person(see *ibid.*: 135; see also Macfie 1967: 52-3). Reason, individual sensations, the social structures and institutions surrounding the individual all work together in shaping the society and the behaviour of individuals inside it, the evolution of society is the outcome of all the above factors(see Brown 1992: 320).

### **Self-command**

Smith is well aware that the whole process may require considerable effort, human beings are not immediately gifted with the ability to play the game of the impartial spectator. Men have a very limited experience of the passions and feelings of other people, and tend to be dominated by their own passions. 'When we are about to act....the violent emotions which at that time agitate us, discolour our views of things (....) every thing appears magnified and misinterpreted by self-love.'*(TMS*: 157, see also 137 and 158). Notwithstanding human weakness Smith has another powerful weapon in his analysis of the individual in society, a weapon which helps human beings to become the impartial spectator: self-command.

Chapter IV of Part III of the *Theory*, whose title is 'Of the Nature of Self-Deceit, and of the Origin and Use of general Rules'. We see Smith's description of how the partial experience of each man is reconciled by the emergence of general social norms and moral rules, which will include the rules of justice. Men are social animals and nature has provided them with a better and more refined remedy than simply the fear of punishment. Nature has not 'abandoned us entirely to the delusions of self-love. Our continual observation upon the conduct of others, insensibly leads us to form to ourselves certain general rules concerning what is fit and proper either to be done or to be avoided.'*(ibid.*: 159)

Thus we slowly abandon the partial and indulgent view of our behaviour in favour of the more proper attitude of the impartial spectator. The impartial spectator, the man within, helps the individual in society to form the sense of duty 'the only principle by which the bulk of mankind are capable of directing their actions.'*(ibid.*: 162). Smith mention some of these duties: 'the duties of politeness (...) of justice, of truth, of chastity of fidelity, which it is often so difficult to observe'*(ibid.*: 163). It is worth noting that justice is regarded as a duty; justice is not simply a code, the imposition of a penalty against those who violate its rules, a sort of retaliation by society. Justice is part of the general rules of morality which constitute the sense of duty, and which guide the conduct of man in society.

Self-command is an important element in the making of the sympathetic man, in the building of that fellow-feeling which characterises human societies. 'Our sensibility to the feelings of others, so far from being inconsistent with the manhood of self-command, is the very principle upon which the manhood is founded'*(ibid.*: 152).

Therefore man learns through experience, through reason and also through the practice of self-command on his passions; self command his the possibility to humble the arrogance of self-love (see *ibid.*: 83). Smith praises moderation in several passages of the *Theory*: 'Every affection is useful when it is confined to a certain degree of moderation.....virtue consists not in any one

affection, but in the proper degree of all the affections'(ibid.: 306). As a matter of fact self-command is regarded as that particular virtue from which 'all the other virtues seem to derive their principal lustre'(ibid.: 241, see also p. 237). The virtuous man needs prudence, justice, sympathy and benevolence, but also he must exert these virtues according to self-command<sup>11</sup>. Self-command is recommended by the sense of propriety, every man can experience it(ibid.: 262)<sup>12</sup>.

Smith's description of the socialisation of man also includes education, to which he dedicates many pages in the *Wealth*(see *WN: V.i.f*). There can be a different education for the different orders of people; the people of some rank and fortune may be instructed in a different way with respect to the common people(see ibid.: *V.i.f*. 52-54). The rules of justice are for all but there are various degrees of knowledge, from the philosopher who unveils the invisible chain of events, to the men of middling rank who exert prudence to the labouring poor who must be publicly educated in order to avoid the dark side of the division of labour: stupidity (see ibid.: *V.i.f* 49-50).

#### **IV. THE INDIVIDUAL IN THE *WEALTH OF NATIONS***

##### **Division of labour**

There is a widespread view that notwithstanding the analysis of ethics in the *Theory* in the *Wealth of Nations* Smith adopts a very simplified version of human conduct. The economic behaviour of man in commercial society would be based on straightforward self interest plus instrumental rationality: It may not be obvious but even the opening pages of the *Wealth* provide elements in favour of the view of the macroeconomic foundations of microeconomics. In the first chapters of the *Wealth* we find indications of how the macro structure of society influences the behaviour of men. It is time to examine the process of socialization of the individual in the context of the social division of labour.

The first three chapters of the *Wealth* are the realm of the division of labour, that is to say of what Smith considers his own principle, not only the principle of wealth but also the principle which prevails in civilised societies. However, it is precisely in the opening paragraph of chapter II that Smith tells us that the division of labour is the 'consequence of a certain propensity in human nature to truck, barter, and exchange one thing for another.'*(WN: I.ii.1; see also I.ii.4)*. This well-known line seems to lead to the conclusion that Smith plays the reductionist game on human nature and that this is the basis of his masterpiece and of his theory of wealth. In the following paragraph of the *Wealth* Smith tells us that this propensity to exchange is no ultimate explanation of human nature because it depends on the faculties of *reason* and *speech*(see ibid.: *I.ii.2*, italics added). Therefore the propensity to exchange *is not* a general principle of mankind. However, Smith continues by saying that the faculties of reason and speech are not the object of his enquiry in the *Wealth* and this could be taken as a reductionist view of human behaviour.

Take another famous passage in chapter II where Smith says that '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'(ibid.). Bring together reductionism and self-interest and the picture is ready for methodological individualism with economic agents guided by utility and instrumental rationality. Thus why not to resort to the Robinson Crusoe metaphor and use it as the founding principle of the economic behaviour of man in society? As a matter of fact this is *the* popular

view, particularly for most of the hasty readers of the *Wealth*.

However, this conclusion is highly inaccurate because it forgets that in these pages Smith is discussing division of labour and not the foundations of human behaviour in society, a subject he has already examined in the *Theory*. The entire *Wealth of Nations* and in particular the first three chapters must be read having in mind the general principle of the division of labour. For instance in the 3B passage, butcher, brewer and baker, Smith describes the social division of labour and the way in which human relations takes place in the commercial stage of mankind. It is hard to derive from these few lines all the theoretical implications of the *maximizing economic agent* that always follows the same simple rules of behaviour and ignores the many aspects of social division of labour<sup>13</sup>. Let us go back the faculties of reason and speech. Of course *reason* reminds us of the *Theory*, of self-command and of propriety, of the formation of human behaviour through experience. *Speech*, language, is the necessary vehicle of communication among the individuals; the two faculties distinguish civilised societies, in particular commercial societies, from the societies of the animals.

Chapter II of the *Wealth* continues with the comparison of the conditions of human beings in civilised societies and that of animals, here portrayed as two greyhounds. Animals do not know any 'species contracts'; sometime they seem to co-operate, but it is only 'the accidental concurrence of their passions', passions are their only guidance. An animal has 'no other means of persuasion, but to gain the favour of those whose services it requires'. Then animals either behave under the impulse of passions, which are no part of the art of persuasion, or they adopt the humble and servile behaviour of the puppy-fawn. Contracts are an instrument of socialization in civilised societies, on the other hand the bunch of greyhounds is lead by passions, because animals lack means of persuasion.

Persuasion is a principle of human nature and its practice becomes a sort of automatic behaviour for men in society. It is because the principle to persuade is such a prevailing feature in human nature, that men must surely find a method to establish contracts and bargain, which is what distinguishes men from dogs(see also *LJ(A)*: 352.). It is important to notice that the art of persuasion is not finalised to establish contracts and exchanges; it is the opposite: contracts and exchanges are social tools which are used in the endeavour to persuade<sup>14</sup>. The social construction determines the behaviour of men and the instruments they can use<sup>15</sup>.

## **Markets and men**

Of course simplifications are needed in the complex world of the division of labour and no doubt Smith makes use of them, but we cannot reduce all the characters Smith presents to us to the metaphor of Robinson Crusoe. Moreover, the microfoundation approach overstretches the role of the simplifying assumptions on human behaviour in a commercial society and pretends too much from them. The microfoundation view assumes a very simplified character and this is the pillar upholding the entire structure. No need to talk of virtue or self-command, no need to identify instruments of communication and socialization: all that is needed is the same simple economic man. Everything, including the wealth of nations depends on this simplified agent, *and this is not to be found in Smith*, not even in the *Wealth*. The requirements for building a theory of wealth on a simple micro-behaviour can hardly be found in Smith's work.

In Smith's work, and even in the *Wealth* there is an interaction between man and society, between human feelings and passions and historical conditions and existing institutions, but the

latter one take on a leading role in shaping the character of the individual in society. The individual is not a purely passive actor, but his behaviour slowly evolves from the existing social and institutional framework. Warren Samuels uses a very efficient phrase to indicate that in Smith's view society is a *market-plus-framework* and not a market alone(see Samuels 1966)<sup>16</sup>. We can go further on Samuels' interpretation. The market itself is an institution and Smith's message about the relationship between the individual, society and wealth may be captured by the following sequence of causation: *framework(institutions)-plus market(competitive)-plus propensity to truck(moderated by propriety and self- command)*<sup>17</sup>. The framework comes first and the last element of this chain can hardly be substituted by the simple economic agent of mainstream economics.

### **The surplus produce**

Chapter II of the *Wealth* provides one more argument in favour of the primacy of macro-structures over microeconomics. In paragraph 3, just following the 3B passage, Smith continues his illustration of the origin of the social division of labour and of the separation of society into different activities, or branches, that is to say the origin of the exchange economy.

And thus the *certainty of being able to exchange all that surplus part of the produce of his own labour*, which is over and above his own consumption, for such parts of the produce of other men's labour as he may have occasion for, encourages every man to apply himself to a particular occupation

(WN: I.ii.3, italics added)<sup>18</sup>

Of course the certainty to be able to sell ones own 'surplus produce' first of all requires the existence of surplus. The passage indicates an obvious technical prerequisite for the specialisation of men: the conditions of production must be such that most of our individuals have a surplus produce to exchange. On his island Robinson Crusoe confronts himself mainly with given natural resources, the individual in society confronts himself primarily with technology and with the amount of 'surplus produce' that technology leaves for him to be exchanged. Without the advantages of the 'technical' division of labour there would no chance of achieving a 'surplus produce' above necessary consumption and no stimulus towards specialisation would arise. The *framework* of Samuel's chain must include institutions, but also the *methods of production* and the *social structure* of society. The analysis of the technical division of labour and of the means to increase labour productivity appears in the first chapter of Book I of the *Wealth*, the existence of a 'surplus produce' as a necessary condition for exchange is clearly indicated. This story takes us to the *Lectures on Jurisprudence* and to Book III of the *Wealth*, where we find a description of the four stages theory, Smith's view of the evolution of human societies and of the emergence of an exchange economy<sup>19</sup>. Societies change, but their evolution is certainly not explained only or even primarily by the behaviour of a rationally economic agent who is guided by self interest.

A final consideration. Something similar to Adam Smith with the Robinson Crusoe metaphor has happened also to Alfred Marshall with neoclassical economics: a much too easy association. Simple ideas are extremely powerful. We owe to Peter Groenwegen a most successful clarification of Marshal relationship with neoclassical economics(see Groenwegen 1995).

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<sup>1</sup> I want to thank the editors of the book and a referee for their very helpful suggestions. Remaining errors and flaws are mine.

<sup>2</sup> Antonella Picchio (2003) gives a beautiful description of Defoe's Robinson, his way of life, his attitude to nature and the way he organises his life; Defoe's Robinson is rather different from the *homo oeconomicus*.

<sup>3</sup> See White's entry 'Robinson Crusoe' in the New Palgrave Dictionary. White provides an interesting description of the emergence of this metaphor in economics and of its quick and widespread acceptance(see White 1986).

<sup>4</sup> See Raphael and Macfie (1976): 20-ff and also Macfie (1967): 112-3.

<sup>5</sup> On the various 'invisible hand' see Ahmad (1990): 138 and Macfie (1967):101.

<sup>6</sup> On the question of deception see for instance Davis (1990): 345-6, who underlines the difference between Smith and Mirabeau and Quesnay's magic harmony of the *Philosophie Rurale*. Of course the Physiocrats had in mind the enlightened sovereign much more than the individuals in general. On the role of deception and of economic man see for instance Gerschlager (2003).

<sup>7</sup> This part was added in the 6th edition (see Raphael and Macfie 1976: 43). According to Smith the search for approbation or the quest for status are important motivations in human behaviour, (see Kern 2001: 357-58).

<sup>8</sup> The tension between self-love and sympathy could be eased making the rather heroic assumption that each individual has all the relevant information about all the his possible choices and all their consequences, in the present, and in the near and far future; everything is included in the individual welfare functions(see Hammond 1991: 150-1 and Vaggi 1996: 141).

<sup>9</sup> There are of course opposite views, Collison Black remarks that Burke played a major role in conveying the idea of the stability of human nature(see Collison Black 1976: 63).

<sup>10</sup> Imagination plays an important role in the formation of such a useful social attitude, it is thanks to imagination that men can approximate the 'impartial spectator'(see *TMS*: 9-10). Imagination has a leading role in the formation of science as it is clear in the *The History of Astronomy* (see *EPS*: 88-ff.).

<sup>11</sup> The theme of self restraint appears also in the *Lectures on Rhetoric*, see *LRBL*: 55 and pp.145-46.

<sup>12</sup> There is a case in which the impartial spectator is submerged by 'hostile passions': war. War corrupts 'the propriety of our moral sentiments', because 'the partial spectator is at hand: the impartial one at a great distance. In war and negotiation, therefore, the laws of justice are very seldom observed. Truth and fair dealing are almost totally disregarded'(*TMS*: 154).

In wars partiality prevails, even if it is a collective, or national, phenomenon which typically implies the disregard of the feelings of the people of the other country(*ibid.*).

<sup>13</sup> Elsewhere we have shown that the principle of the division of labour ultimately derives from 'that principle to persuade which so much prevails in human nature.'*(LJ(B)*: 493, see Vaggi 1996: 117-20). On the division of labour see also the very interesting article by Groenewegen 1977.

<sup>14</sup> In the *Lectures* there is a beautiful passage which explains the importance of conventions and means of communication. Smith links money, to exchange and persuasion: 'The offering of a shilling, which to us appears to have so plain and simple a meaning, is in reality offering an argument to persuade one to do so and so as it is for his interest. Men always endeavour to persuade others to be of their opinion even when the matter is of no consequence to them.'*(LJ(A)*: 352)

<sup>15</sup> In Chapter 2 of Book 1 we meet two important characters: the street porter and the philosopher and the difference among them 'seems to arise not so much from nature, as from habits, customs and education'*(Wealth: I.ii.4)*.

<sup>16</sup> Davis talks of deception-plus-market-plus-framework(see Davis 1990: 352).

<sup>17</sup> This chain may describe Smith's explanation of the wealth of nations, that is to say of economic growth with a good deal of respects for the laws of justice and for social norms(*propriety*). If we aim at the picture of Smith's view of a prosperous society and of happiness then we may have to insert in the chain also the *impartial spectator*, possibly in between *framework* and *market*.

<sup>18</sup> Almost exactly the same words are used in the opening of chapter III and chapter IV of the *Wealth* (see *WN: I.iii.1* and *I.iv.1*, see also *LJ(A)*: 351-2)

<sup>19</sup> Ronald Meek and Andrew Skinner have extensively written on this topic(see for instance Meek 1976 and Skinner 1993).