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Theory of Moral Sentiments 1759 vs. Theory of Moral Sentiments 1790:

A Change of Mind or a Change in Constraint?

Maria Pia Paganelli

The 1790 edition of Adam Smith's Theory of Moral Sentiments presents significant changes from the 1759 edition. In the 1790 edition Smith seems critical of the moral consequences of commerce. By focusing exclusively on the approbation generated by showing off material possession, I propose that the 1790 edition is just an updated edition of the 1759, and does not represent a change of mind Smith had. Writing *The Wealth of Nations* Smith realizes the constraints in poor pre-commercial societies are different from the constraints in rich commercial societies and therefore behaviors and consequences will differ. The apparent contrast between the two editions of Theory of Moral Sentiments can therefore be interpreted as only apparent.

(J.E.L.: B12, B31, P0)

The name of Adam Smith is more often than not associated with *The Wealth of Nations* (Wn). But his first book was *The Theory of Moral Sentiments* (TMS). The place of TMS in the literature on Smith is problematic. When it was first published, TMS was a success. Then, for a long time, TMS tended to be disregarded as an uninteresting book. But ignoring TMS to concentrate on Wn did not erase TMS from the list of Smith's work. Indeed, in recent years, TMS has been (re)discovered and its richness is now being (re)appreciated.

Laurence Dickey (1986) is one of many who analyze how the relation between Smith's two books is treated in the literature (see also Montes 2004 and Peters-Fransen 2000). Dickey claims that the "The Adam Smith Problem", the problem of the consistency or lack of thereof between Wn and TMS, can take at least four forms. In one approach, TMS and Wn are two separate and non-reconcilable entities – this is the Adam Smith Problem traditionally understood (Oncken 1897). In a second approach, TMS swallows Wn, with Wn being like a long footnote to TMS – this is the approach exemplified by A.I. Macfie and D.D. Raphael (1984). In the third approach, à la

Viner (1927), *Wn* and its system of natural liberty is the major focus of Smith's attention, and TMS just sits close by, in *Wn*'s shadow, as an additional source of support. The fourth approach, the one of Dickey himself, considers "three rather than one or two motivating centers" (587); one center is *Wn*, the other one is TMS 1759 (TMS 1st-5th edition), and the third one is TMS 1790 (TMS 6th edition), the edition finalized after the completion of *Wn* and with major changes.

With this paper, i address Dickey's challenge, showing that *Wn*, TMS 1759 and even TMS 1790 are consistent with each other. i do not compare the three books as a whole, or the entirety of their themes, approaches, styles, focuses, etc. rather, i slice one common issue out of TMS 1759, *Wn*, and TMS 1790 and compare its treatment in the three books. My conclusion is that TMS 1759 and TMS 1790 are one and the same book, and they are a book which is not in contradiction with *Wn*. in their differences, they are intertwined, complemented and strengthened by each other.

The single common thread i follow is the approbation gained from having material possessions, an issue covered both in TMS (1759 and 1790) and in *Wn*. By focusing exclusively on the approbation generated by showing off material possession, i propose that *Wn* and TMS can be read as a symbiotic relation in which neither book has dominance over the other, and that TMS 1790 is just an updated edition of TMS 1759, not a different book. i propose that all four approaches to the problem summarized by Dickey have some validity, but none of them is complete by itself. Similarly to Macfie and Raphael's approach of seeing *Wn* as the applied version of TMS, i see TMS (1759 and 1790) as the "theory" book and *Wn* as the "practice" book. But differently from them, i do not see *Wn* as a simple application of TMS and its consequent lack of autonomy – i think that one feeds off the other. To better understand "practice" we need a "theory", and to have a good "theory", we need a "practice". As proposed by the original formulation of the Adam Smith Problem, one book stands independent from the other but, at the same time, in contrast to that reading, combining the two (or three) makes a better and stronger case, rather than generating an incoherent picture.

if we look at the approbation generated by material possession in the three-center Adam Smith Problem of TMS 1759, TMS 1790 and *Wn* that Dickey presents as well as to original Adam Smith Problem, we may get to opposite conclusions. in TMS 1759, approbation from material possessions seems to generate a moral and prosperous individual and society – in TMS 1790, less so. But in *Wn*, that same desire for approbation is described as a potentially destabilizing force for individuals and society, not always bringing prosperity or morality. TMS 1759, and even TMS 1790, seem to present a more favorable account of this form of self-interest than *Wn*, which may sound counter-intuitive given some of the previous expositions of the Adam Smith Problem.

On the other hand, if TMS (1759 and 1790) and *WN* are somehow read together, in terms of theory and practice, the contradiction is only apparent, and we can see the same approbation, and the same consequences of it, in all three books. TMS describes the general mechanism through which man gains approbation – a combination of moral and material approbation – and in *WN*, the same principle works in a world where the amount of wealth and the involvement of government in the economy change. The constraints that the individual faces in *WN* change, and they are meant to change given the historical narrations of *WN*. But a change in constraints changes the observed behaviors. The individual actions and their consequences are therefore going to be different depending on what constraint the individual faces. In *WN*, indeed, the more prosperous a society is and the more a government grants monopoly powers, the more incentives there are to rely on wealth to receive approbation and the higher is the risk that individual would dismiss moral conduct to achieve that wealth. Actually, it is only in *WN*, when Smith describes societies with increasing commerce, wealth, and government-granted monopolies, that the consequences of the natural desire of approbation generate the potential ruin of some individuals, as well as the socially disastrous mercantilist policies, rather than the betterment of the individual and of his society (Paganelli 2009).

The treatment of approbation in one book can stand independently from the exposition of it in the other book. But at the same time, combining them makes a much better and stronger case. If we look at the revisions that Smith makes, rather than seeing the Adam Smith Problem with three centers à la Dickey, with the 6th edition of TMS being the major source of the Problem, we can see the feedback mechanism often present when theories are put into practice and practices are analyzed through theories. The theory is updated, given some practical results. Updating is not changing. The general idea still holds. But now we are able to account for the “difficult” cases as well as for the general case. Seen in these terms, what may look like contradicting results is in fact conciliated as the two faces of the same coin.

The paper develops as follows. The next section describes the theoretical mechanism through which one can gain approbation as presented in TMS. The following section illustrates the practical consequences of acting in a world with “politics, revenue, and arms” as described in *WN*. Concluding remarks end the paper.

Approbation in TMS

In TMS 1759, Smith explains how approbation works. Approbation comes from two different channels: an appropriate moral conduct and the social status associated with the possession of wealth.

The approbation generated from appropriate moral conduct generally

gives us incentives to behave morally as well as, unintentionally, to generate moral rules of conduct that are the embodiment of behaviors that give moral approbation (Muller 1995). Rules of appropriate moral conduct come from the habit of “adjusting the pitch of our passions” to the level we think others would show if they were in our place (TMS iii.i-iii). We want to “adjust the pitch of our passions” to what we think the expectations of others are, because one approves the presence in others of the same feeling that one has (TMS i.i.2.1 and i.ii)¹.

Additionally, the desire to be approved of is also fulfilled by the visible accumulation of wealth. And indeed, the reason why men accumulate wealth is to receive the approbation of others (TMS i.iii.2.1). Wealth is a visible and easily distinguishable sign of distinction. The more wealth one has, the more attention he attracts, and the more approbation he gains. Furthermore, the approbation deriving from possessing fortunes is strengthened by the process through which the fortune is accumulated. He who wants to pursue “wealth and greatness” will gain not only the approbation granted to possessors of wealth, but also the admiration and the esteem of the observers when he acts in a morally appropriate way (TMS iv. 2.8).

Our desire to be approved therefore can have positive consequences for the individual – individuals can both learn how to be virtuous and moral and can gain material fortune. Under these circumstances, the positive consequences of the desire to gain approbation at the individual level extend to the social level as well. The desire to gain approbation drives man not only to generate rules of moral conduct but also to transform natural challenges into useful things (TMS, iv.1: 9-10).

TMS 1759 therefore describes how approbation generates positive outcomes both for the individual and for society. Dickey claims that TMS 1790 is a different book from TMS 1759 because Smith changes his mind, among other things, regarding what approbation from material possession can do. Holding constant the effects of approbation due to moral behaviors, Smith introduces some potential negative effects of our desire for approbation achieved through accumulation and parade of riches in i.iii.3 and in part vi, all added in the last edition. But even with these considerations, if one reads TMS by itself, approbation does not seem to generate major negative material consequences for individual or society, especially when compared to what *WN* portrays.

Smith describes the potential negative consequences of the desire for approbation from wealth accumulation in TMS 1790, in a chapter titled “Of

¹ For a recent attempt to formally model it, see Khalil 2005. For Smith the development of fellow-feelings is an imperfect process, the accuracy of which decreases as social distance increases.

the corruption of our moral sentiments, which is occasioned by this disposition to admire the rich and the great and to despise or neglect the persons of poor and mean condition” (i.iii. 3). Here Smith notices that the greater admiration for men of fortune may induce individuals to take great moral risks (TMS i.iii. 3.8). if the results of the morally questionable actions are positive, they gain the approbation from the higher level of wealth, and their immoral misbehavior will be ignored. Similarly, in Part Vi of TMS we find that reproachable behaviors generate great admiration when the resulting gains are great, while they generate contempt if the gains are “petty” (TMS Vi.i.

16: 217). What Smith is telling us, then, is that we are willing to gamble moral approbation for wealth approbation. We are willing to give up moral approbation if we think that we can gain a lot of material approbation. The higher is the gain in material approbation, the more we will be willing to risk in terms of moral approbation.

This is not surprising given that material possessions are easier to recognize, and therefore approve, than moral (mis)behaviors (TMS i.iii. 3.4). Thus, given the high recognizability of wealth and the difficulties with which virtue is distinguished from morally questionable behaviors, we tend to rely more on wealth than on morality when we give approbation to others (TMS Vi.ii.1.

20). Similarly, we rely more on wealth than on morality when we seek approbation from others. The frequency of moral gambles is even less surprising when one considers that in *Wn* Smith claims that people systematically over- estimate their probability of success and underestimate their probability of failure. gambling morality does not seem too different from gambling for- tunes through a lottery or (lack of) insurance (*Wn*, i.x.b)².

A couple of considerations are relevant here. First, despite the possible disillusion at the end of one’s life, the anxiety, and the infamy of a dirty conscience of an individual (TMS i.iii.3.8), the consequences of trading off moral approbation for material gains at the social level do not appear to be devastating³. Second, the ease with which one is willing to give up moral approbation for material approbation depends on the amount of material gains one makes. The larger the material gain, the more likely one is willing to behave in morally disapprovable ways.

if one stops here, two contradictions emerge, like the ones Dickey points to. First, Smith changed his mind from TMS 1759 to TMS 1790, because now approbation from moral possession has high costs, not just high bene-

² For an analysis of the consequences of overestimation of the probability of success in the loanable funds market in Smith see Paganelli 2003.

³ Even factions, where local moral approbation is favored over the general good, do not seem to be a serious or permanent threat (TMS TMS Vi.ii.2.13-14, Vi.iii.12.19-20).

fits. Second, despite these differences within the various editions of TMS, in TMS the consequences of gaining approbation through the accumulation of wealth remain, generally, positive. The disruptive consequences of gambling morality for material wealth remain on a private and moral level. The end result is still, generally, a betterment of an individual's material condition as well as of his society. This, however, is not always the case in *Wn*, where pursuing approbation through material possessions has more ambiguous consequences, being dependent on how rich society is. In *Wn* Smith is frazzled about how disruptive the consequence of pursuing material approbation can be, if a society is rich. But he is not, if the society is not rich.

What I propose here is that these differences are not due to a different perspective or a different motivation at the base of human behavior. They are simply due to the development of an awareness of differences in the constraints that individuals face. *Wn* introduces differences in the environment in which an individual operates. The mechanisms are the same, but the outcomes are different if we are in a poor society or in a rich society, as the incentives in these different environments vary. TMS 1790 accounts for the possibilities of differences in the constraints within the same model, differences which were overlooked in TMS 1759.

Let us see how Smith explains how approbation works in the real world, in a world with "police, revenue, and arms", as described in *Wn*.

Approbation in *WN*

Wn is well known, correctly, for the idea that pursuing one's interest to better oneself would generate not only individual prosperity, but also social prosperity. There is no need to restate this argument here. Yet, contrary to what is often presumed, *Wn* does not always match the depicted picture or the optimism present in TMS. In *Wn*, the people "whom heaven in its anger has visited with ambition" are not always gaining social status and benefiting society. Smith, in *Wn*, talks about unambiguously ruinous consequences both for individuals and for society when the desire for approbation meets the enormous commercial fortunes. *Wn* indeed describes how consequences of our desire for approbation may potentially become increasingly negative as society becomes richer. When a society is poor, there is not much to show off and not much to gain with questionable behaviors. But the wealth of a rich society generates perverse incentives that may lead to the ruin of the individual or of society itself. If read in isolation, the analysis for approbation in *Wn* is sound, yet dark (Paganelli 2008).

Wn has a first explanation of how we are willing to gamble away morally approvable behaviors to gain material fortune in its account of wage determination in book 1 chapter 10. David Levy (1999) highlights how large changes in money are able to change one person's rank and the social approbation

that comes with it. People are therefore willing to take large risks, such as attempting to succeed in some very competitive professions, to try to improve their material status.

The trading off of moral approbation for material application under different constraints is explicit in *Wn* ii.iii.38-42. Here Smith describes how every man suffers from a “base and selfish disposition.” When the wealth and the riches of commerce and manufactures are introduced, they bring along durable goods, such as “frivolous trinkets.” Spending on durable goods is more directed toward oneself than toward others. The “selfish disposition” in us is unleashed with morally questionable behaviors. indeed “where he can spend the greatest revenue upon his own person, he frequently has no bound to his expense, because he frequently has no bounds to his vanity, or to his affection for his own person” (*Wn* iii.iv.16). This “base and selfish disposition” is present even in poor non-commercial societies. But because there is very little on which to gratify one’s “most childish vanity,” the temptations of human “folly” are less and weaker. indeed when a man can spend his fortune only on consumption goods, such as sumptuous meals and numerous servants, his “selfish disposition” is well constrained. When spending one’s fortune implies spending on others as well as on oneself, as consumption goods usually imply, only very few people will go bankrupt. This is the case in “nations to whom commerce and manufactures are little known” (*Wn* iii.iv.5). indeed, Smith repeats, in non-commercial societies “seldom [one has temptations] so violent as to attempt to maintain more than he can afford” (*Wn* iii.iv.16).

The increase of wealth, changing the constraints, increases the incentives for reckless behavior. The glitter of wealth blinds prudence. The negative consequences will also be more severe. With the introduction of commercial wealth, indeed, individual ruin becomes more common, as individual behavior becomes less prudent. Proprietors are willing to sell their birthrights in exchange “for a pair of diamond buckles ... for the gratification of the most childish, the meanest and the most sordid of all vanities, they gradually bartered their whole power and authority” (*Wn* iii.iv. 10-15). They think that they would gain approbation by showing off their unique trinkets, even if they lose moral approbation because of their sordid, childish and vain behaviors. They think they are “bettering their condition” by buying “trinkets and baubles.” in reality, by so doing, they are bound to become poor. True, this drive for approbation is the cause of the dismantling of feudal institutions—which is a good thing for society (rosenberg 1968, rosenberg 1990). But the “folly” and the gratification of “the most childish vanity” tear away the stability of land property and generations of family riches, and bring individuals and their families to ruin (*Wn* iii.iv.16-17: 422).

When the same change in constraints is faced by the sovereign, differences in behavior are parallel. The consequences, though, are felt not just at

the individual level but at the societal level as well. Smith explains: “The ignorance of the times [among nations to whom commerce and manufactures are little known] affords but few of the trinkets in which that finery consists [...]. in a commercial country abounding with every sort of expensive luxury, the sovereign, in the same manner as almost all the great proprietors in his dominions, naturally spends a great part of his revenue in purchasing those luxuries. His own and the neighbouring countries supply him abundantly with all the costly trinkets which compose the splendid, but insignificant pageantry of a court” (Wn V.iii. 2-3). And since the sovereign will spend his revenue on futile things when there is peace, when war comes, he will go into debt. Unfortunately, “[t]he progress of the enormous debts which at present oppress, and will in the long run probably ruin, all the great nations of Europe, has been pretty uniform” (Wn V.iii. 10). Even if Smith is not very preoccupied by it, the ruin of a country is a possible threat of commercial society caused by the possibilities that commerce itself offers.

The change in constraints that commercial society brings about is also felt at the policy level. Merchants and manufacturers, in their desire to improve their image in the eyes of others, now have opportunities to do so in a grand manner. The wealth generated by commerce is unprecedented and can be concentrated in their hands, if only the government grants them monopolies. Merchants and manufacturers are willing to take the moral tradeoff – to increase their fortune and status at the expense of the rest of society; they are willing to elbow their way over their competitors, even if these are reproach- able behaviors, because with monopoly power, they will gain much wealth and approbation. The increase in personal wealth brings an increase in social approbation sufficient to outweigh any possible disapprobation for the methods used to achieve it. in Wn, given the perverse incentives that large commercial wealth can create, the social consequences of our desire for approbation can be devastating (Evensky 2005). Mercantilist policies deform, distort, and impoverish society (Wn iV.viii.c. 43; i.xi. p.10, iV.i. 10, iV.ii. 38, iV.iii.c: 9-10). Merchants and manufacturers are able to extort ferocious laws from the legislature (Wn iV.viii. 17; iV.ii. 43; iV.viii. 53).

The wealth of commercial societies changes the constraints that individuals face. When the possibilities to gain approbation from wealth are large enough, they may incentivize more morally questionable actions and generate potentially disastrous consequences. it is after this realization that TMS 1790 is changed. Behaviors and their consequences differ under different levels of wealth. This change in constraints has to be accounted for in the theoretical description of approbation. The model remains the same. it is just updated, given a case not previously considered, to account for all the circumstances.

Conclusions

Focusing on a single common issue among TMS 1759, TMS 1790 and *Wn* may help us better understand the relationship between the books and the different editions of TMS. Looking at approbation deriving from material possession suggests that TMS (1759 and 1790) and *Wn* are two distinct books, each standing alone on its own feet, yet feeding off the other. TMS can be interpreted as the “theory” book – the book containing the positive description of the mechanism through which approbation works – and *Wn* as the “practice” book—the book that looks at how man lives in a world with “police, revenue, and arms”, where the level of wealth changes through time, and where the government is a concrete player of tangible force.

The same desire to gain the approbation of others motivates the man of TMS 1759, the man of *Wn*, and the man of TMS 1790. But while in TMS 1759 the desire of approbation does make, generally, the individual and society better off, in *Wn* this result is questioned, and the desire to gain approbation is described as potentially generating individual and social disruption. This is not because the two books are inconsistent with each other, but rather because one book has individuals facing the different and changing constraints of a world of “police, revenue, and arms” and the other one, describing a theoretical model, does not. The additions in TMS 1790 can be interpreted as a simple update of the previous description of approbation, rather than a change of mind. The man of *Wn* is the same as the man of the various editions of TMS. The mechanisms through which he gains approbation are the same in TMS 1759 and in *Wn*, TMS 1790 presenting a more complete account of it than TMS 1759. The differences appear as a synergic point when the two books in their various editions are read together. Reading TMS and *Wn* together allows one to interpret Smith as explaining that approbation derives both from appropriate moral conduct and from wealth, but that enough wealth can trump moral conduct in achieving approbations and can generate social malfunctions. The strength of the incentives in poor pre-commercial societies is different from the strength of the incentives in rich commercial societies and as a consequence behaviors and consequences will differ. The apparent contrast between the two editions of TMS can therefore be interpreted as only apparent.

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