

THE INVISIBLE HAND NEEDS US TO BE VIRTUOUS¹

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Abstract: Some authors contending that Adam Smith's invisible hand is the hand of God have posited the idea that Smith accepted the stoic view that the vices and follies of mankind were necessarily part of the plan of God. This paper will show that for Smith the vices and follies of mankind are not necessary for economic matters; whereas virtuous behavior is. In relation to the 'invisible hand' passages both in TMS and WN, the paper also shows that the economic outcome depicted in those passages is only possible with virtuous individuals.

Keywords: Invisible Hand, Virtue, Adam-Smith

Resumen: Algunos autores lidiando con la idea de que la mano invisible de Adam Smith es la mano de Dios han avanzado la idea de que Smith aceptó el punto de vista estoico de que los vicios e insensateces de la humanidad no son necesariamente asuntos económicos; en tanto que la conducta virtuosa sí lo es. En relación a las referencias sobre la "mano invisible" in TMS y WN, el trabajo muestra que resultado económico descrito en esos párrafos sólo es posible suponiendo individuos virtuosos.

Palabras clave: Mano Invisible, Virtud, Adam-Smith

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Introduction

This paper holds that in Adam Smith's view the vices and follies of mankind are not only unnecessary, but even harmful to commercial society and to economic matters, and that virtue is necessary for economic matters.

In the twentieth century there have been several interpretations of Adam Smith's invisible hand. One of the most popularized holds that Adam Smith's invisible hand refers to the hand of God, which would take part in human economic affairs. This interpretation has been partially based in the supposed relation between Adam Smith's *The Theory of Moral Sentiments* and stoic writers, such as Marcus Aurelius. However, since the 1940's the secular interpretations were predominant, contending that Adam Smith's invisible hand cannot be interpreted in providential terms. These interpretations stem from the reduced role that theology plays in Adam Smith's works. Early in the 1940's, Henry Bittermann was one of the first scholars to establish that Adam Smith's philosophy and economics can be best studied without taking into account theological and teleological conceptions.

In spite of this secular wave of interpretation predominant during the last half of the twentieth century, the providential interpretation emerged again in the specialized literature since the 1990's. Authors such as Andy Denis, Lisa Hill, Richard Kleer, A.M.C Waterman and James Alvey supported a *new theistic view*. In the context of this *new theistic view*, two questions that are related arise:

1) If God takes part in economic affairs through human self-interested actions and the desire of bettering our condition, are the vices and follies of mankind necessary for the plan of God? And,

2) If God takes part in economic affairs through human self-interested actions and the desire of bettering our condition, are the results of commerce beneficial to the whole society regardless of the non-virtuous behavior of individuals?

It is not the aim of this paper to analyze whether for Smith God takes part in economic affairs through human self-interested actions and the desire of bettering our condition or not. However, it is possible to show the answers that Smith would give to the questions above, even supposing Smith's acceptance of God's intervention in human economic affairs.

One of the first scholars that answered both questions was Bitterman, who held that the vices and follies of mankind were not necessary for the

plan of God, and that only moral and intelligent conduct can be good for it (cf. Bittermann 1940: 724).

Nowadays, the first question has received different answers in the literature. Lisa Hill, A.M.C Waterman, William Ashley and Andy Denis contend that Smith accepted the stoic view that the vices and follies of mankind were as necessary a part of the plan of God as their wisdom or their virtue.² However, Gloria Vivenza, following the line of analysis of Bitterman, holds that Smith accepted stoic doctrines up to a point, and that the vices and follies of mankind are not part of the plan of God in Adam Smith's view (cf. Vivenza 2000: 68-69). The second question has also received different answers. While Richard Teichgraeber holds that, according to Smith, economic activity is an amoral one, Jerry Evensky affirms that human virtue is relevant to a fruitful commercial society (cf. Teichgraeber 1986: 16-17 and Evensky 2005: 153, 154 and 159).

In relation to the first question, this paper shows that the vices and follies of mankind are not only unnecessary but even harmful to commercial society and to economic matters. In relation to the second question, this paper holds that in Adam Smith's view human virtue is necessary for economic matters. Both answers can be deduced from the readings of *The Theory of Moral Sentiments* (TMS henceforth) and of *Inquiry into the Nature and Causes of the Wealth of Nations* (WN henceforth).

TMS is frequently quoted in order to prove that, according to the stoic influence on Adam Smith's thought, the vices and follies of mankind are necessary for the plan of God, whereas the lack of virtue is not a problem for economic matters and for the correct functioning of a commercial society. However, this paper shows that in TMS Adam Smith affirms that vices are harmful, whereas a prudent and virtuous conduct is necessary for individual economic matters. Many passages of WN also show that capital improves with prudent, parsimonious and moderate individuals; whereas it diminishes with the prodigal man.

Finally, the paper analyzes the relation between virtues and the 'invisible hand' passage. In the references given to the invisible hand in TMS and in WN, virtue is necessary. On the one hand, the virtue of industry is necessary for economic success in TMS. On the other hand, merchants and manufacturers must not be prodigal if the maximization of the total annual product is expected.

² See Hill 2001: 16, Hill 2004: 629, Denis 2005: 7 and Waterman 2002: 911. Early in 1924, William Ashley supported also the idea that the wisdom of God was displayed in the folly of men; and links this idea with Adam Smith's invisible hand (cf. Ashley 1924: 502).

Virtues and individual economic matters in TMS

In TMS Smith says that “every part of nature, when attentively surveyed, equally demonstrates the providential care of its Author, and we may admire the wisdom and goodness of God even in the weakness and folly of man” (TMS II. iii. 3.2).³ The same idea is applied when explaining some irregularities in our moral sentiments, in relation to our admiration of success and fortune (cf. TMS VI. iii. 30). However, Smith maintains that the effects of vice are destructive, either immediately or in the long run, even supposing the providential care of God (cf. TMS I. ii. 3.4). We need to “co-operate with the Deity” (TMS III. 5. 7) because our behavior could obstruct “the scheme which the Author of nature has established for the happiness and perfection of the world”.

In TMS I.iii.3, Smith deals with the topic of the “corruption of the moral sentiments”. As Griswold stresses out, this form of corruption is seen by Smith as a natural danger in the commercial societies. The pursuit of wealth is often related to the neglect of virtue, and is often seen as the cause of greed, dishonesty, vanity and the willingness to exploit others (cf. Griswold 1999: 16-17).

In part VI of TMS, added in the sixth and last edition, Smith develops an answer to the problems of commercial corruption. As Hanley contends, two issues require attention: The problem of anxiety and the problem of duplicity. On the one hand, the unregulated love of praise is the cause of the anxious search for wealth, which produces the pernicious effects in people of “not knowing when they were well, when it was proper for them to sit still and to be contented” (TMS III. 3.31). On the other hand, the search for praise can lead to inauthenticity “once praise-pursuers come to realize that their goals are better achieved by duplicity than by honesty” (Hanley 2009: 102). There is, however, a remedy for the aforementioned problems: the virtue of prudence. For example, Hanley stresses the Epicurean influence on Adam Smith, in relation to the function of reducing anxiety by paying attention to long-term self-interest. In part VI of TMS, Hanley contends, impartial spectators do not pay too much attention to present appetites and regard their present and their considerations of future at nearly the same level (cf. Hanley 2009: 119).

According to Griswold, for Smith, prudence is a bridge between TMS and WN because it is both a moral and an economic virtue. It is also related to self-command over the desire of present gratification (cf. Griswold 1999: 204-205). According to Haakonssen, we can talk of the operations of the impartial spectator when men internalize a morality seeking self-command,

³All the references to *The Theory of Moral Sentiments* are taken from Smith 1976.

which would be a meta-virtue. The moral value of prudence, justice, and benevolence, for example, would derive from this meta-virtue (cf. Haakonssen 1989: 57). In fact, Smith would speak of the impartial spectator when describing the Stoic virtue of self-command (cf. Raphael 2007: 40).

Virtuous behavior is not only a remedy for the corruption of the moral sentiments caused by the commercial system. Virtuous behavior is also necessary for success in the commercial society. For Smith, certainly, virtuous actions meet their economic reward. If we are industrious, prudent and circumspect we will have success in every sort of business; because wealth and power are “the natural consequences of prudence, industry, and application” (TMS III.5.7-9). Through the pages of TMS, we found several references to the virtues of prudence, industry and frugality: virtues which are useful for individual economic development.

As Griswold points out, virtue is divided for Smith in TMS into the intellectual and the moral, the theoretical and the practical. The moral virtues can be divided into those derived from the body and those derived from the imagination. Those derived from the imagination can be divided into the unsocial, the social and the selfish passions. The virtues such “as prudence, industry, frugality, moderation, and self-control” are grouped in the category of the selfish passions (cf. Griswold 1999: 184-185). According to some, Smith says, prudence is “the judicious pursuit of our own private interest and happiness or in the proper government and direction of those selfish affections which aim solely at this end” (TMS VII. ii. intro. 2). For Smith, this virtue consists in “the care of the health, of the fortune, of the rank and reputation of the individual” (TMS VI. i. 5), being the security of these the principal object of it. Prudence is, indeed, the opposite of “shortsighted folly or precipitate rashness” (TMS VII. ii. 4. 1) and is related to other virtues, such as industry and frugality (cf. TMS VI. i. 8 and VI. iii. 13). It is also related to frugality, industry and application. The person who acts with frugality, industry and application, tends to give up present pleasures in order to obtain future benefits. For Smith, success in individual economic matters depends on a prudent and temperate conduct; whereas imprudence and profligacy tend to ruin it (cf. TMS I. iii. 3.5 and III. 3. 18). It is worth to be observed that the desire of bettering our condition is not enough for success in individual economic matters:

“Wherever prudence does not direct..., the attempt to change our situation, the man who does attempt it, plays at the most unequal of all games of hazard, and stakes every thing against scarce any thing” (TMS III. 3. 31).

In fact, ambition should be limited by prudent decisions and we should be contented with growing economically by small accumulations of money; not being tempted to “go in quest of new enterprises and adventures” (TMS VI. i.

II. 12). To improve our fortune, besides, is necessary to be parsimonious in our expenses (cf. TMS VI. i. 4 and VI. i. 12).

Industry and the ‘Invisible Hand’ passage in TMS

Virtuous behavior is not only necessary for individual economic success. It is necessary for society as a whole. In relation to this, the importance of industry as a necessary virtue in relation to the ‘invisible hand’ passage in TMS will be shown.

A few lines before the ‘invisible hand’ passage, Smith is talking about the importance of the improvement of arts and manufactures for the development of agriculture. Anthony Brewer explains that Smith maintains that in feudal times Britain was poor because the arts were poorly developed, and there were few manufactured goods for people to buy. So, there was no incentive to produce an agricultural surplus to trade. The key to development was the introduction of attractive consumer goods which gave feudal lords an incentive to produce more and sell the surplus. Brewer also notes that Hume shared this idea: In the absence of attractive manufactured goods landlords had no reason to sell the produce of their lands because there was nothing for them to buy (cf. Brewer 1998: 81). Brewer is right about this point. However, in order to explain the essence of the ‘invisible hand’ passage in TMS we need to analyze something more. Besides being true that arts and manufactures gave the necessary incentives to landlords to produce in order to buy these new manufactures, the increase in agricultural production was due to the improvement of the arts which made possible the increase of agricultural production. In TMS, Smith explains that all the sciences and arts “entirely changed the whole face of the globe” and “turned the rude forests of nature into agreeable and fertile plains”. This improvement in the sciences and arts enabled the earth to “redouble her natural fertility”; and finally, the result is the capacity to “maintain a greater multitude of inhabitants” (TMS IV. I. 10). It is only after explaining the benefits of the improvement and application of arts and sciences to agriculture that Smith mentions the expression ‘invisible hand’:

“It is to no purpose, that the proud and unfeeling landlord views his extensive fields, and without a thought for the wants of his brethren, in imagination consumes himself the whole harvest that grows upon them [...] The rest he is obliged to distribute among those, who prepare, in the nicest manner, that little which he himself makes use of [...] The rich only select from the heap what is most precious and agreeable. They consume little more than the poor, and in spite of their natural selfishness and rapacity [...] they divide with the poor the produce of all their improvements. They are led by an invisible hand to make nearly the same distribution of the necessaries of life, which would

have been made, had the earth been divided into equal portions among all its inhabitants, and thus without intending it, without knowing it, advance the interest of the society, and afford means to the multiplication of the species” (TMS IV. I. 10).

The development of arts and sciences is the cause of the increase of the fertility of land; and the increase of it is the cause of the plenty of food for the inhabitants. But, who is responsible for the development of arts and sciences? It is not the rich and selfish landlord. It is ‘the poor man’s son’. A few lines before talking about the importance of the improvement of arts and manufactures for the development of agriculture, Smith says that ‘the poor man’s son’ admires the condition of the rich and imagines himself in that situation. Smith describes the efforts made by ‘the poor man’s son’:

“To obtain the conveniencies which these afford, he submits in the first year, nay in the first month of his application, to more fatigue of body and more uneasiness of mind than he could have suffered through the whole of his life from the want of them. He studies to distinguish himself in some laborious profession. With the most **unrelenting industry** he labours night and day to acquire talents superior to all his competitors. He endeavours next to bring those talents into public view, and with equal assiduity solicits every opportunity of employment. For this purpose he makes his court of all mankind; he serves those whom he hates, and is obsequious to those whom he despises” (TMS IV. I. 8).⁴

As we have seen in the preceding reference, the poor man’s son works with unrelenting industry day and night in order to better his condition. A few lines after saying that, Smith explains that it is this way of working which makes the earth to redouble its natural fertility:

“The pleasures of wealth and greatness, when considered in this complex view, strike the imagination as something grand and beautiful and noble, of which the attainment is well worth all the toil and anxiety which we are so apt to bestow upon it.

And it is well that nature imposes upon us in this manner. It is this deception which rouses and keeps in continual motion the industry of mankind. It is this which first prompted them to cultivate the ground, to build houses, to found cities and commonwealths, and to invent and improve all the sciences and arts, which ennoble and embellish human life; which have entirely changed the whole face of the globe, have turned the rude forests of nature into agreeable and fertile plains... The earth by these labours of mankind has been obliged to redouble her natural fertility...” (TMS IV. I. 9-10).

It is worth mentioning the importance Smith attributes to the virtue of industry. He says that the poor man’s son works with unrelenting industry. It is a key element because the improvement of arts and sciences is

⁴ Bolds are mine.

attributed to the effort of the poor man's son, and not to the rich. The reason of this attribution is that Smith considers in TMS that those who have been born in the high ranks of society do not possess the virtue of industry (cf. TMS I. iii. 2. 5).

A similar idea can be found in WN. In book III, chapter II, Smith explains that when the German and Scythian nations over-ran the western provinces of the Roman Empire, the greater part of the lands were taken by the principal leaders of those nations. Great tracts of land were engrossed by particular families and, because of the law of primogeniture, the possibility of dividing them was forbidden. As a consequence, lands were left uncultivated. Smith explains that it was so because "it seldom happens... that a great proprietor is a great improver". He was occupied in defending his own territory and had no time to attend the improvement and cultivation of land. But, when law and order gave landlords time to improve land, they only concentrated in acquiring new purchases; and forgot the improvement of land (cf. WN III.ii). The explanation to this is the same given in TMS I. iii. 2.5. The rich landlord is incapable of improving land. Because of his inherent personality, he is more worried about luxury than the improvement of land (cf. WN III. ii. 7).

In the 'invisible hand' passage in TMS we find similar ideas with those of TMS I.iii.3, where Smith deals with the topic of the corruption of the moral sentiments. In TMS I.iii.3 Smith develops the idea that to admire the rich and look for wealth and greatness is the cause of the corruption of our moral sentiments. In the 'invisible hand' passage in TMS, Smith talks about the anxiety produced by our unrelenting search for wealth and greatness, a topic analyzed deeply by Hanley (2009), and about the deception of nature that causes the improvement in relation to the fertility of soil.

As we have seen, virtue, and prudence especially, is seen as a remedy for the corruption of the moral sentiments (cf. Hanley 2009). In WN Smith deepens his analysis of virtue in relation to economic success. As Hanley points out clearly: "So far from a crude apology for greed, WN itself tends to point to ways in which markets foster the reconciliation of virtue and material benefit; indeed much of WN can be taken as an illustration of TMS's dictum that 'the practice of virtue' is 'in general so advantageous, and that of vice so contrary to our interest'" (Hanley 2009: 127). In the next section, the relation between virtue and the analysis of the maximization of the total annual product in the 'invisible hand' passage will be analyzed.

The prodigal man and the ‘invisible hand’ passage in WN

In the first book of WN, Smith contends that great fortunes are made by regular, established, and well-known branches of business, as a consequence of being industrious, frugal, and attentive. The speculative merchant, in contrast, is the one who exercises no regular, established or well-known branch of business; and it is not uncommon that the speculative merchant ruins himself. In relation to this, Smith gives the example of mining, which he describes as an unprosperous project, as a lottery, “in which the prizes do not compensate the blanks” (WN I.xi.c.26). These speculative merchants are blinded by their avidity, and cannot see that the value of the metals arises from their scarcity, and that the discovery of new mines would lower the value of the metals. The prudent man, however, would never choose to invest in unprosperous projects like the search for new gold and silver mines. This fact is not indifferent to society as a whole. The prudent man, as he chooses prosperous projects, benefits society; whereas the speculative merchant, when choosing to invest in the discovery of new mines, for example, adds very little to the total annual produce of land and labour of society, which constitutes the real wealth of a particular nation (cf. WN I.x.b, I.xi.c and IV.vii.a).

According to Smith, the way in which the merchant and manufacturer invest is not indifferent to economic development; that is to say, the increase of the total annual product of the land and labour of society. This total annual produce can never be infinite, and has certain limits. So, the amount of it which is employed in unproductive labour diminishes the amount that can be used in productive labour. If more is used in productive labour, the next year’s produce will be greater; otherwise, it will be smaller (cf. WN II.ii.30).

The same can be said in relation to parsimony and prodigality: “capitals are increased by parsimony, and diminished by prodigality and misconduct” (WN II.iii.14). The only way in which the capital of a society, the exchangeable value of the annual produce of land and labour of the country, can be increased is by annual collective savings; and for that it is necessary that individuals be parsimonious and not prodigal (cf. WN II.iii). This idea was recognized as a central Smithean one early after the publication of the first edition of WN in 1776. In a letter to Smith, Jeremy Bentham attributes to him the idea that projecting and prodigality retard the accumulation of national wealth (cf. Smith 1977: 394).

In addition, for Smith, the effects of misconduct are as bad as the ones of prodigality, because unsuccessful projects diminish the capital of society. Although the capital is used supporting productive hands,

unsuccessful projects “do not reproduce the full value of their consumption” and are, consequently, less advantageous than more meditated and regular uses of capital (cf. WN II. iii. 26).

In the preceding paragraph, Smith is implicitly talking about prudence. If a project is thought to contribute to the increase of the total annual produce of land and labour, it must be a prudent project.

In the previous lines preceding the ‘invisible hand’ passage in WN, Smith is talking about merchants and manufacturers who prefer the home-trade to the foreign trade of consumption (cf. Rothschild & Sen 2006: 346):

“Thus upon equal or nearly equal profits, every wholesale merchant naturally prefers the home-trade to the foreign trade of consumption, and the foreign trade of consumption to the carrying trade” (WN IV. ii. 6).

When he employs his capital in the support of domestic industry, and endeavours to do this in such a way that it produces the greatest possible value, the merchant or the manufacturer labours to render the annual revenue of the society as great as he can. In Smith’s words:

“He generally, indeed, neither intends to promote the publick interest, nor knows how much he is promoting it. By preferring the support of domestick to that of foreign industry, he intends only his own security; and by directing that industry in such a manner as its produce may be of the greatest value, he intends only his own gain, and he is in this, as in many other cases, led by an invisible hand to promote an end which was no part of his intention” (WN IV. ii. 9).

However, certain individual dispositions are necessary for the maximization of the total annual product in the ‘invisible hand’ passage. First of all, merchants and manufacturers must not be prodigal, they must confine their expense within or nearly within their income. Besides, if merchants and manufacturers employ their capital in supporting unproductive labour, they will diminish the quantity of productive labour; and, as a consequence, the value of the annual produce of land and labour will diminish; it being the real wealth of the society. It is of no value that the prodigal invests in home-made commodities. If he invests in home-made commodities supporting unproductive labour, and not in foreign commodities, the results are the same: the diminution of the exchangeable value of the annual produce of land and labour and the impoverishment of his country. In Smith’s words:

“Every year there would still be a certain quantity of food and cloathing, which ought to have maintained productive, employed in maintaining unproductive hands. Every year, therefore, there would still be some diminution in what would otherwise have been the value of the annual produce of the land and labour of the country” (WN II. iii. 21).

If we expect the success of the invisible hand in WN, monopoly cannot prevail. Besides all the pernicious effects of monopoly to society which are accounted through WN, there is specially one which deserves attention for the purposes of this paper. Monopoly destroys merchants and manufacturers' parsimony. When profits are high as a consequence of monopoly, the dissolute behaviour of merchants and manufacturers makes no place for sober expence, reduces accumulation, and diminishes the capital of the country.⁵

Conclusion

As we have seen, for Smith, the vices and follies of mankind are not necessary, whereas virtuous behaviour is necessary for economic matters. In TMS, Smith explains that success in individual economic matters requires the virtues of prudence, frugality and industry. In WN, prudence and parsimony are necessary virtues for the increase of the total annual produce of land and labour of a country. We have seen also that the success of the invisible hand is only possible through virtuous behaviour. In TMS, it requires the unrelenting industry of the poor man's son; and in WN it requires merchants and manufacturers not to be prodigal. It is not enough that they invest the money in home-made consumption. It is necessary to invest it in productive labour, and to do it in a parsimonious way.

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