


RESEARCH ARTICLE

The Impartial Spectator's Counterpart in Adam Smith's *Wealth of Nations*

Karen Horn 

University of Erfurt

Email: karen.horn@uni-erfurt.de

Abstract

One possible strategy in dealing with the so-called “Adam Smith Problem” is to probe the architectural unity of his two major works, The Theory of Moral Sentiments and the Wealth of Nations. The architectural elements of a theory consist of premises and perspectives chosen, processes and mechanisms described, and results obtained. In this essay, I trace in the Wealth of Nations the architectural building blocks as known from The Theory of Moral Sentiments, by analogy, all the way up to the Impartial Spectator. The key challenge of this thought exercise is to not simply carry over the ethical categories of The Theory of Moral Sentiments to the Wealth of Nations, but to remain entirely within its economic framework. There is no explicit mention of the Impartial Spectator in the Wealth of Nations, but one can find his counterpart in connection with prudence, the dimmed-down self-regarding virtue that connects the two books and drives much of the action in the economic realm. Specifically, it is the long-sightedness of prudence, that is, the consideration of the consequences of one's economic actions on oneself and others over a longer time-horizon, that allows for an analogy to the Impartial Spectator procedure. Just as the Impartial Spectator from The Theory of Moral Sentiments is the result of spinning off from one's person an imagined disinterested, more objective judge of one's conduct, the unnamed Long-sighted Spectator of the Wealth of Nations would be conjured up by the economic agent to ensure better judgment and sustainable economic behavior over time.

Keywords: Adam Smith; wealth of nations; Impartial Spectator; prudence; long-sightedness; architectural approach

Introduction

Upon engaging with the work of Adam Smith, it does not take long until one is confronted with “Das Adam Smith Problem”¹ pondered in the nineteenth

¹ In the literature on this issue, this phrase is still being used, preceded by a German article (“Das Adam Smith Problem”), although August Oncken's 1897 article, where it seems to have made its first

century by the German Historical School. These thinkers and others following their example believe that there is a deep rift in Smith's oeuvre, brought about by a change in his view of man. While Smith originally focuses on the other-regarding faculty of sympathy, they argue, he subsequently replaces this concern with the self-regarding faculty of self-interest. This, they feel, produces an inconsistency between his books *The Theory of Moral Sentiments* and *An Inquiry into the Nature and Causes of the Wealth of Nations*.² Many interpretive strategies have been used to elucidate—and, as it has turned out, mostly to dismantle—this so-called Adam Smith problem.

One such strategy is simply chronological. It asks: Can there be such a deep rift at all between two books that have evolved very much in parallel, with several revisions to both undertaken by the author until his death? The obviously negative answer is corroborated by the 1895 discovery of the first set of student notes from Smith's *Lectures on Jurisprudence*, the argumentation of which displays striking similarities to the later *Wealth of Nations*. This deals a final blow to the notion that Smith had changed his outlook during his French journey from 1764 to 1776. As a result of this interpretive strategy, the Adam Smith problem should become nonexistent.

A second strategy, granting that there may still be a tension between the anthropological premises of *The Theory of Moral Sentiments* and the *Wealth of Nations*, is contextual and dualistic. It asks: Does the tension matter? *The Theory of Moral Sentiments* and the *Wealth of Nations* deal with different subject matters—ethics and economics—and in each book, Smith narrows down his view of man to the contextually relevant traits. *The Theory of Moral Sentiments* and the *Wealth of Nations* are in this sense unrelated. The result of using this strategy is that the Adam Smith problem is irrelevant.

A third strategy is directly unifying. It asks: *The Theory of Moral Sentiments* and the *Wealth of Nations* seek to answer different questions, but aren't there robust similarities and interconnections between them nonetheless? In a first step, this requires demonstrating that *The Theory of Moral Sentiments*, on the one hand, does not limit Smith's view of man to other-regarding faculties and virtues, such as sympathy and benevolence, but also provides room for self-regarding motivations of self-love and one's own interest, and that his *Wealth of Nations*, on the other hand, is not devoid of sympathy and virtue. The first part of this two-pronged

appearance in print, is in English. Actually, Oncken refers to the "so-called Adam Smith problem," which indicates that the phrase had been around a while in the German academic debate. See August Oncken, "The Consistency of Adam Smith," *The Economic Journal* 7, no. 27 (1897): 443–50.

² See, most importantly, Bruno Hildebrand, *Die Nationalökonomie der Gegenwart und Zukunft* (Literarische Anstalt, 1848); Karl Knies, *Die politische Ökonomie vom Standpunkte der geschichtlichen Methode* (C. A. Schwetschke und Sohn, 1853); Wilhelm Roscher, "Die Ein- und Durchführung des Adam Smith'schen Systems in Deutschland," *Berichte über die Verhandlungen der Königlich-Sächsischen Gesellschaft der Wissenschaft zu Leipzig* 19 (1867): 1–74; Lujo Brentano, *The Relation of Labour to the Law of Today* (G. P. Putnam's Sons, 1887); Witold von Skarżyński, *Adam Smith als Moralphilosoph und Schoepfer der Nationaloekonomie* (Theobald Grieben, 1878). On this issue, see Keith Tribe, "The German Reception of Adam Smith," in *A Critical Bibliography of Adam Smith*, ed. Keith Tribe with Hiroshi Mizuta (Pickering and Chatto, 2002), 120–52; Keith Tribe, "'Das Adam Smith Problem' and the Origins of Modern Smith Scholarship," *History of European Ideas* 34, no. 4 (2008): 514–25.

demonstration can easily be delivered; the proof is contained in the opening sentence of the work: “How selfish soever man may be supposed” (TMS I.i.1.1). Smith sees self-love as a natural and useful feature of man that must, however, be balanced with other-regard. The second part, regarding the *Wealth of Nations*, is less straightforward, given that the virtue that is the relevant driving force in the *Wealth of Nations* is (a priori self-regarding) prudence. Smith depicts benevolence as an economically dysfunctional motivation, a resource too easily depleted and always in danger of being free-ridden on.³ But this does not mean that other-regarding virtues and sympathy are absent from the *Wealth of Nations*. They must be imagined as underlying all transactions. This way, there is ample room for sympathy in the *Wealth of Nations*, that is, for man’s faculty of imagining himself in the shoes of another person, ideally converging with the sentiments of the latter. Sympathy would be the prudent economic agent’s tool for figuring out and adapting to what his counterpart in a transaction may need or desire.

In this interpretive strategy, the second step—which I endeavor to make in this essay—is to probe the unity of the essential building blocks, or architectural features, of Smith’s systems. The architectural elements of these systems are the premises, key characters, and perspectives chosen; the processes and mechanisms described; and the results obtained. The subject matter, Smith’s focus, and even his rhetoric may well be different in the two books, but the similarity in the architectural structure of his theoretical modeling is striking and in itself an indicator of unity. The analogies may be explicit, with textual evidence; implicit, requiring more interpretation; or putative, that is, contextually implied and compatible as instantiations of the same underlying model structure. It is easy to name such analogies between the two books—stopping short, however, at the “Impartial Spectator.” In *The Theory of Moral Sentiments*, this fictitious figure enters the stage as a higher court of moral judgment of one’s own sentiments and conduct. But what would he, or his counterpart, be doing in the *Wealth of Nations*? Where is he? Toward what is he oriented?

A key challenge of this thought exercise consists of not merely carrying over the ethical theory and framework of *The Theory of Moral Sentiments* to the *Wealth of Nations*, as many authors have done.⁴ The analogy must be genuinely *economic*. This is *not* about finding the *ethical* Impartial Spectator at work somewhere in the economic realm. It is *not* about proving that economic man may have something ethical about him, which is certainly true. Rather, it is about figuring out what it is, or could be, that fulfills the *structural* role of *The Theory of Moral Sentiments*’s Impartial Spectator in Smith’s economic edifice as laid out in the *Wealth of Nations*. This should be a promising thought exercise even if one has long come to the conclusion, as I have, that the original Adam Smith problem does not exist and never really existed. It will still bring out the unity of Smith’s work in a new and interesting light.

³ See, e.g., Smith, WN IV.ii.9, II.ii.55. In *The Theory of Moral Sentiments* as well, Smith rejects moral systems based on benevolence alone. Smith, TMS VII.ii.3.

⁴ See, e.g., Alexander L. Macfie, “Adam Smith’s Moral Sentiments as Foundation for His *Wealth of Nations*,” *Oxford Economic Papers* 11, no. 3 (1959): 209–28.

In this essay, I will first sketch the more straightforward architectural analogies between *The Theory of Moral Sentiments* and the *Wealth of Nations*, up to the point where the Impartial Spectator enters the stage. In the next section, I will examine the Impartial Spectator's meaning and role in *The Theory of Moral Sentiments*, reviewing some of the literature as a springboard for my subsequent endeavors in the following section to come up with analogies in the *Wealth of Nations*. There, I will first explore—and, in fact, reject—some candidates that have been argued for in the literature, before offering my own interpretation.

I will argue that the Impartial Spectator, in the *Wealth of Nations*, does exist, though unnamed and only in the background, in a structural counterpart. His action is triggered by the all-important virtue of prudence, the same virtue that he is tied to in *The Theory of Moral Sentiments*, and he manifests his influence in the longer-term calculations and plans made by the individual economic agent. The Impartial Spectator—or his counterpart—teaches long-sightedness, helping the individual agent to aim not only at success, but also at *survival over time* in the marketplace. It is thus prudence with its corollary of long-sightedness, prompting higher courts of moral or economic reflection, that builds the bridge between *The Theory of Moral Sentiments* and the *Wealth of Nations*, confirming their architectural unity.⁵ In *The Theory of Moral Sentiments*, prudence calls for the Impartial Spectator to test (and refine) our sentiments and conduct. In the economic world of the *Wealth of Nations*, prudence demands that we double-check (and refine) the sustainability of, say, our household finances and business models. I wrap up with some concluding remarks.

Architectural analogies

Smith never leaves his readers in the dark about his aims. The research question to which *The Theory of Moral Sentiments* is dedicated is clearly announced in the subtitle chosen by Smith for the sixth, and last, edition: “an essay towards an analysis of the principles by which men naturally judge concerning the conduct and character, first of their neighbors, and afterwards of themselves.” The same is true for the *Wealth of Nations*, where he does not bother, or need to bother, to come up with a subtitle. These two questions—“How do we judge?” and “How do nations get rich?”—are then explored in an approach that draws both on present observation and on history, all of which is fitted into a model that rigorously endogenizes that which it seeks to explain: moral judgment in the case of *The Theory of Moral Sentiments*, wealth in the case of the *Wealth of Nations*. The result of endogeneity is a genuinely dynamic theory of social interaction. It is only possible because of the analytical egalitarianism Smith resorts to in his theoretical model. This analytical egalitarianism, which is not the only dimension of

⁵ My argument goes much beyond what David Raphael and Alexander Macfie write in their introduction to the Glasgow edition of *The Theory of Moral Sentiments*, where they briefly mention “the consistency and the Stoic character” of Smith’s views of prudence. David D. Raphael and Alexander L. Macfie, “Introduction,” in Adam Smith, *The Theory of Moral Sentiments*, ed. David D. Raphael and Alexander L. Macfie (1759; repr., Liberty Fund, 1982), 9.

egalitarianism in his work,⁶ strips away exogenous influences that may artificially differentiate people and countries. In a thought experiment, we thus obtain a benchmark for assessing real situations.⁷

In *The Theory of Moral Sentiments* as in the *Wealth of Nations*, interaction between individuals—agents and those people who are the subject of their judgment or affected by their actions—stands at the root of the collective phenomena that are to be explained: social norms or national prosperity. This bottom-up approach is in line with the Newtonian method and Adam Ferguson's much-quoted insight into "establishments" that nations "stumble upon" and "which are indeed the result of human action, but not the execution of any human design."⁸ Smith's system is analytically individualistic in the sense that his explanations always start with the individual person as the smallest unit of interaction in society. That said, the *Wealth of Nations* never fleshes out individual behavior in as much detail as *The Theory of Moral Sentiments*.

Anthropological premises

Because everything is derived from individual action and interaction, Smith begins by modeling man. He posits two rudimentary, observable, arguably universal features as anthropological premises from which all else will subsequently follow, in line with his theory of science as laid out in his essay on "The History of Astronomy."⁹ In this act of purposeful abstraction, Smith makes an important model-building choice insofar as he picks features of human nature, propensities, or drives that may contradict each other. This gives them the ability and task of holding each other in check: one of them is a self-regarding feature, while the other is other-regarding. The first is self-

⁶ See, e.g., Samuel Fleischacker, *On Adam Smith's Wealth of Nations* (Princeton University Press, 2004); Samuel Fleischacker, "Adam Smith and Equality," *Estudios Públicos* 104 (2006): 1–23; Samuel Fleischacker, "Adam Smith on Equality," in *The Oxford Handbook of Adam Smith*, ed. Christopher J. Berry, Maria Pia Paganelli, and Craig Smith (Oxford University Press, 2013), 485–500; Deborah Boucoyannis, "The Equalizing Hand: Why Adam Smith Thought the Market Should Produce Wealth Without Steep Inequality," *Perspectives on Politics* 11, no. 4 (2013): 1051–70; Elizabeth Anderson, "Adam Smith on Equality," in *Adam Smith: His Life, Thought, and Legacy*, ed. Ryan Patrick Hanley (Princeton University Press, 2016), 157–72; Sergio Cremaschi, "Adam Smith on the Causes of Inequality" (paper presented at the ESHET Annual Meeting, Paris, France, June 2016); Karen Horn, "Natürliche Gleichheit, materielle Ungleichheit und der Schatten von Hobbes: Arm und Reich im Werk von Adam Smith," in *Einkommens- und Vermögensverteilung in historischer Sicht*, ed. Volker Caspari (Duncker & Humblot, 2020), 85–124.

⁷ See Paul Sagar, *Adam Smith Reconsidered: History, Liberty, and the Foundations of Modern Politics* (Princeton University Press, 2022).

⁸ Adam Ferguson, *An Essay on the History of Civil Society* (Cadell, 1767).

⁹ Adam Smith, "The History of Astronomy," in *Essays on Philosophical Subjects*, ed. William P. D. Wightman and John C. Bryce (1795; repr., Oxford University Press, 1980). My interpretation is at odds, to some extent, with Doğan Göçmen's view that Smith's anthropology is itself endogenous. See Doğan Göçmen, *The Adam Smith Problem: Reconciling Human Nature and Society in The Theory of Moral Sentiments and Wealth of Nations* (I. B. Tauris, 2007), esp. 18 and chap. 1. In my view, this seems correct in the context of the social "constitution of the self" over the course of an individual life, but not so much with respect to the analytical starting point of Smith's model, which must consist of fixed and equal premises to set in motion a dynamic process.

love, whereas the second is an outward-looking, communicative trait, directed at and involving other people, derived from the “principle to persuade” that is proper to man, as described in Smith’s *Lectures on Jurisprudence* (LJB 221). Given this natural inclination, “every one is practicing oratory on others thro the whole of his life” (LJA vi.56). We may naturally strive for self-preservation and pursue our own interest, but we are, at the same time, social creatures oriented toward communication and developing our selves only in relationships with others.

The first of these two anthropological premises—the self-regarding feature of man’s nature, or self-love—is introduced in *The Theory of Moral Sentiments* as “the natural preference which every man has for his own happiness” (TMS II.ii.2.1). In the economic sphere of the *Wealth of Nations*, the direct analogy to this feature is Smith’s reference to the “desire of bettering our condition” (WN II.iii.28). Smith’s differential use of terms such as self-love, self-preservation, and self-interest¹⁰ is complex and sharp; it has been argued that he sometimes uses them interchangeably, adopting colloquial language, and that his distinctions are precise only when he speaks of his own system.¹¹ At any rate, self-love alone, which can extend beyond one’s self to encompass family and friends, comes with a relational element, or an ordering: We prefer our own happiness over the happiness of others.

The second anthropological premise—the other-regarding feature—is introduced through the very opening words in *The Theory of Moral Sentiments*: “How selfish soever man may be supposed, there are evidently some principles in his nature, which interest him in the fortune of others” (TMS I.i.1.1).¹² This wording is remarkable in at least two important ways. First, it pins down the countervailing-powers character of the dual anthropological premises right at the outset of the treatise. Second, the reference to the self-regarding feature comes in a subdued, hedged fashion. Smith seems to allude to other authors or public opinion, distancing himself from a depiction of man as systematically selfish (and thus reprehensible). In the *Wealth of Nations*, the other-regarding analogue flows from the “principle to persuade”; it finds its expression in “a

¹⁰ The term “self-interest” appears more often in *The Theory of Moral Sentiments* (nine times, without considering the Appendix) than in the *Wealth of Nations* (one time), by the way.

¹¹ See Pierre Force, *Self-Interest before Adam Smith* (Cambridge University Press, 2003); Fleischacker, *On Adam Smith’s Wealth of Nations*, 84–103; Pratap B. Mehta, “Self-Interest and Other Interests,” in *The Cambridge Companion to Adam Smith*, ed. Knud Haakonssen (Cambridge University Press, 2006), 246–69; Craig Smith, *Adam Smith’s Political Philosophy: The Invisible Hand and Spontaneous Order* (Routledge, 2006); Vivienne Brown, “Agency and Discourse: Revisiting the Adam Smith Problem,” in *Elgar Companion to Adam Smith*, ed. Jeffrey T. Young (Edward Elgar, 2009), 52–72; Ryan Patrick Hanley, *Adam Smith and the Character of Virtue* (Cambridge University Press, 2009), 104; Force, *Self-Interest before Adam Smith*; Fonna Forman-Barzilai, *Adam Smith and the Circles of Sympathy: Cosmopolitanism and Moral Theory* (Cambridge University Press, 2010), 37; Eugene Heath, “Adam Smith and Self-Interest,” in *The Oxford Handbook of Adam Smith*, ed. Berry, Paganelli, and Smith, 241–64; Eleonora Viganò, “Not Just an Inferior Virtue, Nor Self-Interest: Adam Smith on Prudence,” *Journal of Scottish Philosophy* 15, no. 1 (2017): 125–43.

¹² On this meticulously crafted opening sentence, see Karen Horn, “How Selfish Soever Man May Be Supposed,” *Journal of the History of Economic Thought* 45, no. 2 (2023): 211–13.

certain propensity in human nature ... to truck, barter, and exchange one thing for another" (WN I.ii.1).

The analytical composition of man's nature, as it arises from these premises taken together, is very similar in the two spheres. In the ethical sphere of *The Theory of Moral Sentiments*, on the one hand, Smith sets out to model a process of individual moral judgment. He does this first regarding the sentiments and conduct of others, and then—based on the standards we have forged in the mirroring process of social interaction—regarding ourselves, with the resulting emergence of social norms as a by-product. This framing may be described as man being made in such a way that, while caring about himself first for self-preservation, he also cares about others. In the economic sphere of the *Wealth of Nations*, on the other hand, the framing undergoes a (merely) slight twist insofar as man is now conceptualized as being made in such a way that, while desiring more goods for himself, he is capable and desirous of obtaining them peacefully through trade. This is another way of saying that as man seeks to avail himself of the goods that he desires or needs through exchange, he implicitly aims to fulfill the desires and needs of other people as well.

Sympathy as input and output

In *The Theory of Moral Sentiments*, the other-regarding feature of man—that is, the fact that we are interested in the fortune of others—together with our natural gift of imagination are the preconditions for sympathy (TMS I.i.1.3), which is our fellow-feeling, our ability to mentally change places with other people when we observe and judge their sentiments and conduct. Sympathy is “a psychological mechanism that enables human beings to overcome the separation of their bodies.”¹³ This is needed because moral judgment, for Smith, is an intersubjective social enterprise, and the underlying sociality of man is linked to the fact that we see and observe each other.¹⁴ As the editors of the *Wealth of Nations* explain in their general introduction, “the accuracy of the judgement thus formed will be a function of the *information* available to the spectator with regard to action or motive, and the *impartiality* with which that information is interpreted.”¹⁵ In an unintended side effect of this individual act of judging, sympathy will also act as an individual input into the mirroring process of social interaction through which collective norms will emerge (TMS VII.iii.2.7).

Smith describes this process, which takes place between the two key characters of his system—the agent and his counterpart—from inside the individual's mind. In a “corner solution” case, that is, in an extreme case, no real, physical interaction needs to take place at all. An observer, in order to judge another

¹³ Viganò, “Not Just an Inferior Virtue,” 4.

¹⁴ David M. Levy traces Smith's fascination with vision (and distance) back to George Berkeley, *Essay Towards a New Theory of Vision* (Rhames, 1709). See David M. Levy, “The Partial Spectator in the *Wealth of Nations*: A Robust Utilitarianism,” *The European Journal of the History of Economic Thought* 2, no. 2 (1995): 223–29.

¹⁵ Roy H. Campbell and Andrew S. Skinner, “General Introduction,” in Adam Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations*, ed. Roy H. Campbell and Andrew S. Skinner, vol. 1 (1776; repr., Liberty Fund, 1982), 7.

person's sentiments or behavior, uses his imagination to place himself in the shoes of that person.¹⁶ When the resulting emotion is different from that which the person displays, disapproval is the consequence (TMS I.i.3.1). But the person herself also imagines how the observer will judge her sentiments or behavior. She dreads disapproval. We all are sensitive to the judgment of others because we are naturally made in such a way as systematically to seek approbation, or praise, and to dread disapprobation, or blame:

Nature, when she formed man for society, endowed him with an original desire to please, and an original aversion to offend his brethren. She taught him to feel pleasure in their favourable, and pain in their unfavourable regard. She rendered their approbation most flattering and most agreeable to him for its own sake; and their disapprobation most mortifying and most offensive. (TMS III.2.6)

For this reason, anticipating the observer's reaction, the person might recalibrate her passions and adapt her sentiments and behavior (TMS I.i.4.8). In other words, in this corner solution case, interaction takes place merely in individual imagination. But in reality, things will not be so unnoticeably smooth. There will be real sanctions. Everybody experiences painful disapproval from time to time. That is not necessarily a bad thing. On the contrary, without ever experiencing disapproval, we might not be able to anticipate and avoid it.

Compared to *The Theory of Moral Sentiments*, Smith's description of individual economic action and social economic interaction in the *Wealth of Nations* is rather global (rather than discrete, or atomistic¹⁷). There is no lack of economic activities. People produce, bring to market, supply, sell, compete, borrow, lend, accumulate stock, "improve," add value, make profit, or even go bankrupt. They sometimes over-do or under-do their business. They save, buy, consume, use, and exchange. Smith is rather tight-lipped, though, regarding the details of the assessment process by which the individual economic agent decides what to do. Even though he anchors his theory in individualistic assumptions, he swiftly adopts a predominantly macroeconomic perspective. He offers no detailed description of how exactly individuals, households, or producers seek to optimize their consumption or production. He nowhere explains how, for example, the baker gauges the demand for a new type of bread, nor how he will react to a non-anticipated demonstrated lack of interest for this new type of bread among his customers. He does speak of natural price, which must cover the production cost and toward which market price gravitates, but nowhere does he describe the baker's calculation. And neither sympathy—our ability to mentally change places with other people—nor the sympathetic process itself find mention. In Smith's *Wealth of Nations* narrative, what happens down at the micro level seems to be spun off to the

¹⁶ For this reason, we tend to "sympathize even with the dead." Smith, TMS I.i.1.13.

¹⁷ See also Diogo Sasdelli, "Libertas Ex Machina? Human Freedom, the Invisible Hand, and the Mechanistic Worldview in Adam Smith's Philosophy of Science," *Journal of Contextual Economics* 143, nos. 1–4 (2023): 67–84.

general care of prudence. The prudent man supposedly knows what his own economic success requires.

However, one may assume that the architectural pattern familiar from *The Theory of Moral Sentiments* is active here as well, in analogous fashion, if in the background. I therefore take issue with Vivienne Brown, who finds sympathy altogether missing in Smith's economic sphere: "[b]eing a symmetrical relation, the exchange relation provides its own mirror and has no need of spectator mechanisms to achieve reflection."¹⁸ This alleged "no need," though, could only be true in a planned economy. In a market economy, all individual economic decisions are geared toward anticipated reactions of the counterpart, which naturally requires foresight and imagination.

In the same vein, I would object to Doğan Göçmen, who states that in Smith's "account of the relationship of individuals in commercial society, there are no sympathetic relations at all, whether we observe them at the level of commercial exchange relations or at the level of production. The only principle which mediates between individuals in commercial society is pure self-interest."¹⁹ I disagree not just because sympathy seems to be a prerequisite of any exchange. Smith's own butcher, brewer, and baker example (WN I.ii.2), to begin with, is an illustration of how we imagine (how else, if not sympathetically?) what our potential transaction partner may want. Smith also mentions our anticipation of the other's desires in a passage on the emergence of money:

[E]very prudent man in every period of society, after the first establishment of the division of labour, must naturally have endeavoured to manage his affairs in such a manner, as to have at all times by him, besides the peculiar produce of his own industry, a certain quantity of some one commodity or other, such as he *imagined* few people would be likely to refuse in exchange for the produce of their industry. (WN I.iv.2, my italics)

Prudent management of one's economic affairs requires imagining what an exchange partner may want (including a quantity of an abstract means of payment). This cannot be done without sympathy.

With this issue cleared away, let us now continue with the analogies. The baker, in the market, strives for economic rather than moral approbation. Economic approbation is expressed in terms of money by the price offered and finally paid. What matters is price—praise, not so much. If the baker hopes to win customers, he must, as in the ethical realm of *The Theory of Moral Sentiments*, try to place himself in their shoes as well as he can. By help of sympathetic imagination and reflection, he must enter their mind and figure out what their culinary desires might possibly be and what price they might be willing to pay. On this basis, he can adapt his business plan and prepare the kind of supply that might meet their demand. This procedure, like the ethical

¹⁸ Vivienne Brown, "Re-reading the 'Adam Smith Problem'," in *ISTOKI: Economics in the Cultural Context*, ed. Vladimir Avtonomov et al. (Higher School of Economics Press, 2011), 12, <https://oro.open.ac.uk/102472/1/102472.pdf>.

¹⁹ Göçmen, *The Adam Smith Problem*, 110; see also 147.

procedure of external spectating, takes place in the individual's (the baker's) mind alone, in the corner case, and requires no real interaction (with the customer). It goes both ways, too. The customer also observes the baker, and because the customer wants to be served by the baker, he needs to make his expectations similar to what the baker can provide. To do so, he will have to adopt the baker's perspective. This is what goes on in the background of the famous process where we do not need to expect our dinner from "the benevolence of the butcher, the brewer, or the baker," but can simply rely, as natural equals, on "their regard to their own interest" (WN I.ii.2).

According to *The Theory of Moral Sentiments*, we feel best when the sympathetic process ends in perfect concord, that is, when we can fully approve of another person's sentiments or conduct. Nothing makes us happier than such harmony (TMS I.i.4.6). The sympathy Smith refers to in this case is sympathy not as an individual ability and an input, but as a social end-state, an output that results from the process of interaction and coordination in which each party may need to adapt. Something very similar can be witnessed in the economic sphere. It is only when supply and demand match at some equilibrating price that a transaction will take place, as a consequence of which both parties involved will improve their lot and find themselves better off than before. As long as we feel that the person at the other end should modify her conditions, we will refrain from entering into the deal, but we do prefer a situation where the transaction can be carried out.

Circles of sympathy

In *The Theory of Moral Sentiments*, Smith recognizes that our ability to sympathize depends on how well we know the other person and how close—or, conversely, how remote—we are: "That we should be but little interested ... in the fortune of those whom we can neither serve nor hurt, and who are in every respect so very remote from us, seems wisely ordered by Nature" (TMS III.3.9). For Smith, in his day, geographical and emotional distance tended to coincide. Although the two seem to some degree decoupled today, his argument concerning the "circles of sympathy" still holds, which is why James Otteson introduces the more modern "familiarity principle."²⁰ The more often we are exposed to someone, and the better we therefore get to know that person, the more apt we grow to enter into her feelings. But even then, sympathizing does not come easy. Our sympathetic means are limited. Familiarity, with the fellow-feeling that it generates, is at the origin of Smith's "circles of sympathy" that structure our emotional landscape.²¹

In the economic realm, a similar pattern of concentric circles may form. Proximity and distance play an important role in the *Wealth of Nations*. In the dynamic process leading to prosperity that unfolds in the *Wealth of Nations*, production and trade go hand in hand and reinforce each other, restructuring

²⁰ James R. Otteson, *Adam Smith's Marketplace of Life* (Cambridge University Press, 2002).

²¹ Forman-Barzilai, *Adam Smith and the Circles of Sympathy*; Maria Pia Paganelli, "The Moralizing Role of Distance in Adam Smith: *The Theory of Moral Sentiments* as Possible Praise of Commerce," *History of Political Economy* 42, no. 3 (2010): 425–41.

the economic space. The division of labor prompted by specialization increases productivity, allows us to cater to ever growing markets, and thereby promotes both individual and overall prosperity. The division of labor is always limited by the extent of the market (WN I.iii.1), but every time it deepens and scales up, new scope for an even larger market and a further increase in overall prosperity arises. At the same time, Smith sees that trading or investing in faraway lands is riskier than at home: here we have the “familiarity principle” again. As he indicates in the (only) passage where he invokes the “invisible hand” in the *Wealth of Nations*, prudent merchants tend to display a bias toward home, which is all the better for their country of origin:

By preferring the support of domestick to that of foreign industry, [an individual] 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. Nor is it always the worse for the society that it was no part of it. By pursuing his own interest he frequently promotes that of the society more effectually than when he really intends to promote it. (WN IV.ii.9)

Whether this statement holds is an empirical question. But even if it is refuted in concrete cases, its logic remains compelling: our ability to enter into our (potential) trading partners’ desires is again a function of our proximity or distance. These notions, as in the moral realm of *The Theory of Moral Sentiments*, may or may not be geographical. It matters whom we know and which contexts we are familiar with. Although economic sympathy is helped by price signals in a globalized world where market interaction takes place predominantly among strangers, it is much more difficult to mobilize such sympathy in abstract societies than in small face-to-face societies.

The impartial spectator in *The Theory of Moral Sentiments*

As has already been remarked, there is a lot of spectating going on in *The Theory of Moral Sentiments*.²² Our moral evaluation of our own sentiments or conduct runs through two consecutive stages. After the first stage, where we are judged externally by spectators around us, because God “has made man ... the immediate judge of mankind” (TMS III.2.31), Smith introduces a second layer, a “higher tribunal,” physically internal this time: the Impartial Spectator. He is the third key character in Smith’s system. Smith fully fleshes out this figure for the second edition of his *The Theory of Moral Sentiments*, answering an important criticism raised by Gilbert Elliott.²³

²² See, e.g., Levy, “The Partial Spectator”; Vivienne Brown, “The Impartial Spectator and Moral Judgment,” *Econ Journal Watch* 13, no. 2 (2016): 232–48; Robert Urquhart, “The Logic of Reflection: Spectators Partial and Impartial,” *Econ Journal Watch* 13, no. 2 (2016): 340–50.

²³ Sir Gilbert Elliott, later the Third Baronet of Minto, was an advocate, judge, member of the House of Commons, a friend of David Hume, and “a distinguished classical scholar.” Thomas Somerville, *My Own Life and Times, 1741–1814* (Edmonston & Douglas, 1861), 121.

We do not have a written document of Elliott's objections. However, given Smith's response to Elliott from October 10, 1759, reprinted in the *Correspondence of Adam Smith*, and given an enclosure of a first new draft, we can infer that Elliott argued that "if moral judgement on our own actions were a reflection of the approval and disapproval of society, then it would be impossible for a man to form a moral judgement which he knows is contrary to public opinion."²⁴ Smith writes in his reply to Elliott that while his revision confirms that "our judgements concerning our own conduct have always a reference to the sentiments of some other being," it also seeks to show that "real magnanimity and conscious virtue can support itself [sic] under the disapprobation of all mankind."²⁵ In other words, the purpose of the more fully developed Impartial Spectator is to make virtue somewhat less dependent on popular opinion, without changing the whole philosophical system. Smith himself considered this a "very considerable addition."²⁶

The great inmate

Because Smith endogenizes morality, he cannot simply take a shortcut and refer to God as a direct corrective of man's behavior and as the source of eternal and absolute moral laws that we must abide by.²⁷ In the sixth edition of *The Theory of Moral Sentiments*, he explains, instead, that

[t]he all-wise Author of Nature has ... taught man to respect the sentiments and judgments of his brethren He has made man, if I may say so, the immediate judge of mankind; and has, in this respect, as in many others,

²⁴ *The Correspondence of Adam Smith*, ed. Ernest Campbell Mossner and Ian Simpson Ross (Liberty Fund, 1987), Letter 40, 48n1.

²⁵ *Correspondence*, Letter 40, 49.

²⁶ *Correspondence*, Letter to David Hume, December 12, 1763, Appendix E, 413. David D. Raphael explains that, nevertheless, Smith's fundamental position remained unchanged: "Even before he came to draw a sharp contrast between the man within and the man without, Smith's view was that an agent can judge his own character and conduct only if he imagines himself in the position of a spectator." David D. Raphael, *The Impartial Spectator, Adam Smith's Moral Philosophy* (Oxford University Press, 2007), 42. John Dwyer, however, considers that Smith had "completely shifted gears" and was, by the last edition completed shortly before his death in 1790, "determined to distance the impartial spectator from communal values." John Dwyer, "Ethics and Economics: Bridging Adam Smith's *Theory of Moral Sentiments* and *Wealth of Nations*," *Journal of British Studies* 44, no. 4 (2005): 681.

²⁷ This, by the way, was the important undercurrent of the German ordoliberal's objections to Smith; see Karen Horn, "Perpetuating Prejudice: The Difficult Relationship Between German Ordoliberalism and Adam Smith," *History of Economic Ideas* 28, no. 2 (2020): 97–133. As I have argued elsewhere, it never occurred to them that they could have replicated Smith's interactive process of social morality production in such a way as to imagine God as a participant in it. Karen Horn, "Im Spiegel von Gott und der Welt," in *Vom Wert der Werte*, ed. Karen Horn and Gerhard Schwarz (Verlag Neue Zürcher Zeitung, 2011), 89–100. Another way of reconciling the ordoliberals with Smith could come from the interpretation offered by María Carrasco and Christel Fricke, arguing that Smith sees three levels of moral judgment, the man without, the man within, and, on top of all, God. María Alejandra Carrasco and Christel Fricke, "Adam Smith's Impartial Spectator," *Econ Journal Watch* 13, no. 2 (2016): 259.

created him after his own image, and appointed him his vicegerent upon earth. (TMS III.2.31)²⁸

So, for Smith, the process of judging technically needs to remain conventionalist, but it may come with a complication. This complication is brought about by the Impartial Spectator, a fascinating theoretical contraption. In the sixth edition, this figure, an imagined externalization of our own internal judgment, enters the stage in Part III of *The Theory of Moral Sentiments*, where Smith deals with “the foundation of our judgments concerning our own sentiments and conduct.”²⁹ In the double-layered moral judgment process, the judgment by the (often partial) “man without” thus gets checked by a less corruptible “inmate of the breast” (TMS III.3.1), “this great inmate” and “great arbiter of [our] conduct” (TMS III.3.25), or “the great demigod within the breast” (TMS VI.iii.25). While the Impartial Spectator is not God, he can still be “a pointer towards the divine.”³⁰ At any rate, “without the ‘impartial spectator,’ without reasoning judgment, sympathy is dumb.”³¹

One may paraphrase the Impartial Spectator as our conscience, as our super-ego, speaking to us from time to time when we seek to “examine our own conduct as we imagine any other fair and impartial spectator would examine it” (TMS III. i.2). It is part of our natural endowment: “[A]ll normally functioning humans have it.”³² The Impartial Spectator is none other than some part of me, spun off in my imagination as I step back a bit to assess calmly what I am feeling, thinking, and doing. The first person, for a moment, gives birth to a fictitious third person to listen to. The question we ask this Impartial Spectator is whether, from his more objective standpoint, he can sympathize with our sentiments and conduct. We seek his approbation; if he considers our sentiments and conduct praiseworthy, our minds are at rest.

The virtue of prudence

Life could be easier without the Impartial Spectator, but prudence systematically recommends him to us. Prudence is a virtue. As Eleonora Viganò points out, it is

²⁸ It is interesting how, with his Impartial Spectator, Smith takes up the Christian idea of man being created after God’s image and the Stoic Divine Being; both come with egalitarian implications. See Matthew Braham, “Adam Smith’s Concept of Social Justice” (working paper, University of Hamburg, 2006); Brown, “The Impartial Spectator,” 239, 241.

²⁹ This happens right at the beginning of Smith, TMS III.3. In the preceding chapters of *The Theory of Moral Sentiments*, there is also occasionally mention of an “impartial spectator,” but this is not the Impartial Spectator that I spell here in capital letters. It is not yet the “man within,” but a “man without” who (in, e.g., Smith, TMS I.i.5.4, I.ii.3.8, II.i.2.2, II.ii.1.3, II.ii.2.1) happens to be impartial. See also Charles L. Griswold, Jr., *Adam Smith and the Virtues of Enlightenment* (Cambridge University Press, 1999). This impartiality comes in a common-sense fashion. Samuel Fleischacker, “Adam Smith’s Impartial Spectator: Symposium Remarks,” *Econ Journal Watch* 13, no. 2 (2016): 273.

³⁰ Fleischacker, “Adam Smith’s Impartial Spectator,” 275.

³¹ Macfie, “Adam Smith’s Moral Sentiments,” 214.

³² Craig Smith, “Peer Review and the Development of the Impartial Spectator,” *Econ Journal Watch* 13, no. 2 (2016): 328.

in fact the only virtue for which Smith provides an *economic* justification both in *The Theory of Moral Sentiments* and the *Wealth of Nations*.³³ It is also the virtue that most tightly connects the two books and builds their unity: "Prudence ... is in Smith's system a hybrid virtue because it is both a moral and an economic excellence."³⁴ It "avoids the division of the individual into a moral agent and an economic agent that are independent of each other."³⁵ *A priori*, prudence seems to be a self-regarding virtue, which explains why it has often been misinterpreted as a synonym for crude self-interest.³⁶ Yet, it is also needed for practicing other-regarding virtues such as benevolence.

In fact, Smith offers a two-pronged definition of the virtue of prudence, one part with a focus on its components and the other part with a focus on its objects. As for its components, Smith defines prudence as a combination of reason and self-command:

The qualities most useful to ourselves are, first of all, superior reason and understanding, by which we are capable of discerning the remote consequences of all our actions, and of foreseeing the advantage or detriment which is likely to result from them: and secondly, self-command, by which we are enabled to abstain from present pleasure or to endure present pain, in order to obtain a greater pleasure or to avoid a greater pain in some future time. In the union of those two qualities consists the virtue of prudence, of all the virtues that which is most useful to the individual. (TMS IV.2.6)

Supported by reason and self-command, prudence generates patience (and thus long-sightedness), parsimony, industry, and frugality (TMS IV.2.1, VI.ii.11). Regarding its objects, Smith describes prudence as "[t]he care of the health, of the fortune, of the rank and reputation of the individual, the objects upon which his comfort and happiness in this life are supposed principally to depend, is considered as the proper business of that virtue which is commonly called Prudence" (TMS VI.i.5).

It has been argued, though not convincingly in my view, that prudence is merely an inferior virtue in Smith's eyes.³⁷ Throughout antiquity, prudence counted as a cardinal virtue, at times even as the highest meta-level virtue. For the Stoics, from whom Smith drew much inspiration, it was even the one specific virtue that was required to orient individual action toward the divine plan for the world. Also, Smith nowhere classifies prudence as an inferior virtue as compared to another, such as benevolence: "Prudence borrows its elevation from the level of its material."³⁸ The label "inferior" is appropriate when it is self-

³³ Viganò, "Not Just an Inferior Virtue," 10.

³⁴ Viganò, "Not Just an Inferior Virtue," 11.

³⁵ Viganò, "Not Just an Inferior Virtue," 16.

³⁶ See Samuel Hollander, "Adam Smith and the Self-Interest Axiom," *Journal of Law & Economics* 20, no. 1 (1977): 138.

³⁷ Vivienne Brown, *Adam Smith's Discourse: Canonicity, Commerce, and Conscience* (Routledge, 1994), 25, 33. Against this interpretation, see Viganò, "Not Just an Inferior Virtue."

³⁸ Macfie, "Adam Smith's Moral Sentiments," 222.

regarding, which is still “a most respectable and even, in some degree, ... an amiable and agreeable quality, yet it never is considered as one, either of the most endearing, or of the most ennobling of the virtues” (TMS VI.i.14).³⁹ The virtue of prudence deserves the label “superior” when it is other-regarding, oriented toward society and the common good.⁴⁰ In this case, it must be supported by qualities of excellence such as valor, extensive and strong benevolence, and a sacred regard to the rules of justice (TMS VI.i.15). This is a virtue that Smith looks for in the great general, statesman, or legislator—those whose business is society—but not in the common man.

In the common man, prudence is the virtue that prompts him to engage with his Impartial Spectator. Why? Because—and here comes another Smithian anthropological premise—we naturally wish “to be loved” and be “lovely” (TMS III.2.1), and because we love “what is honourable and noble” (TMS III.3.4). We desire not only praise, but also praiseworthiness. Praise may be a proxy for praiseworthiness, but as such, it is unreliable, and therefore, in our hearts, we tend to long for the real thing:

The jurisdiction of the man without, is founded altogether in the desire of actual praise, and in the aversion to actual blame. The jurisdiction of the man within, is founded altogether in the desire of praise-worthiness, and in the aversion to blame-worthiness; in the desire of possessing those qualities, and performing those actions, which we love and admire in other people; and in the dread of possessing those qualities, and performing those actions, which we hate and despise in other people. (TMS III.2.32)

Our desire for praiseworthiness triggers the Impartial Spectator who, when it comes to judging ourselves, works as a corrective to our natural but often exaggerated self-love.⁴¹ He prevents it from growing disproportionately and degenerating into egoism. Prudence, by appealing to the Impartial Spectator, softens its own self-regardedness and opens itself for other-regardedness. As Viganó points out, “prudence is originally open to the other.”⁴² Smith explains that “[n]atural misrepresentations of self-love can be corrected only by the eye of this impartial spectator” (TMS III.3.4). The Impartial Spectator, himself the product of natural sociability,⁴³ is aware that we are “but one of the multitude, in

³⁹ Lisa Herzog finds this description “rather condescending.” Lisa Herzog, “Higher and Lower Virtues in Commercial Society: Adam Smith and Motivation Crowding Out,” *Politics, Philosophy & Economics* 10, no. 4 (2011): 380.

⁴⁰ On this distinction, see also Leonidas Montes, *Adam Smith in Context: A Critical Reassessment of Some Central Components of His Thought* (Palgrave Macmillan, 2004). A corollary worth noting here is that other-regardedness alone, without prudence, is neither noble nor in any way “superior.” Merely declaring one’s good intentions alone is not enough.

⁴¹ Note that, when it comes to judging others, the Impartial Spectator can also work against pandering to others and against going for appearances rather than respecting the logic of the given context (e.g., markets).

⁴² Viganó, “Not Just an Inferior Virtue,” 16.

⁴³ Charles L. Griswold, Jr., “Imagination: Morals, Science, and Arts,” in *The Cambridge Companion to Adam Smith*, ed. Haakonssen, 37.

no respect better than any other" (TMS III.3.4), which allows him to see through our conceit and remind us of our duties. In judging, he applies what we have learned in various social interactions with others⁴⁴ but which we sometimes forget, and he is helped in this by reasoned reflection. The Impartial Spectator enhances the purely conventionalist element of "social sympathy" with "moral sympathy."⁴⁵

What is the effect of the Impartial Spectator in the moral sphere of human life? Ideally, he helps us to grow and to improve as individuals, to become morally better, more respectable, more virtuous people.⁴⁶ This is obviously a good thing for society, too.

The Impartial Spectator's counterpart in the *Wealth of Nations*

As such, the Impartial Spectator—in capital letters—of *The Theory of Moral Sentiments* is absent from the *Wealth of Nations*. All that can be tracked down in Smith's economic treatise is his description of how geographical distance from the capital reduces party spirit and turns provinces into "more indifferent and impartial spectators" of central government (WN V.iii.90). In the context of individual economic judgment, impartiality is never mentioned. This notion is reserved for the public realm, to politics (WN Intro.7, V.i.g.8), and to jurisprudence (WN IV.vii.c.54). Therefore, just as with sympathy, we need to look for the Impartial Spectator's analogue or counterpart, that is, for instantiations of the same kind of structure in the economic model. The search must focus on element(s) in Smith's economic theory that might fulfill a similar task and work in a similar way.

Dead ends

It has been argued that Smith advertises himself as an impartial spectator in the *Wealth of Nations*.⁴⁷ However, it is impossible to replicate this "result" in the exact same way in which Smith models the Impartial Spectator in *The Theory of Moral Sentiments*. Who would be the person who spins off the philosopher as part of herself, to have an objective point of comparison? No, this is no analogy.

Prices as the incarnation of the Impartial Spectator are not convincing either. True, they "are completely impartial" and "a function of social interaction just as

⁴⁴ Viganò speaks of "the introjection of real viewers that the individual has met in her life." Viganò, "Not Just an Inferior Virtue," 4. Compare also Fleischacker, *On Adam Smith's Wealth of Nations*, 47, 52.

⁴⁵ Brown, "The Impartial Spectator," 238.

⁴⁶ As Brown remarks, the Impartial Spectator does not entirely cure the problems associated with Smith's system: "There is the element of impossibility about the reflexive aspect of the spectatorial project of self-judgment, where an agent imagines himself and judges himself as from a standpoint that is not his own." Brown, "The Impartial Spectator," 241.

⁴⁷ Jack Russell Weinstein, "My Understanding of Adam Smith's Impartial Spectator," *Econ Journal Watch* 13, no. 2 (2016): 356; Göçmen, *The Adam Smith Problem*, 12; Levy, "The Partial Spectator," 239.

the principles and rules of morality are for Smith,” as Douglas Den Uyl writes.⁴⁸ While these are indeed relevant features for an analogy to the Impartial Spectator, the underlying categories seem somewhat garbled. The questions that Den Uyl poses to identify the Impartial Spectator analogue at first follow the term closely: Is *x* impartial, does *x* spectate? (He answers “yes” to the first part and “no” to the second.) Subsequently, he poses the classical Smithian social explanation question: Does *x* emerge spontaneously? In his answer, however, he then performs a problematic shift by comparing the emergence of prices through social interaction not to the emergence of the Impartial Spectator through social interaction, but to that of principles and rules of morality.

While the Impartial Spectator must be interpreted as the product of social interaction—helped by reason, and with an opening for possible communication with a deity—things are complicated for Den Uyl’s analogy by the fact that the Impartial Spectator is always also an active agent in the process through which those moral principles and rules emerge in society. The individual Impartial Spectator’s job consists of identifying and reminding the all-too-partial man in whose breast he sits of the standard for good conduct, that is, of the socially accepted principles and rules, but he is clearly not identical with these. Also, if the Impartial Spectator is compared to prices, it is logically impossible to model the Impartial Spectator as a price *taker*.⁴⁹ The latter needs to be an agent. In sum, therefore, this analogy does not work.

The same holds for Göçmen’s interpretation of *The Theory of Moral Sentiments* capital-letter Impartial Spectator as the “representative”⁵⁰ of the “general interest of society.”⁵¹ The “general interest of society” is not very present in *The Theory of Moral Sentiments*, occurring only in three unrelated instances. Only once does Smith present the Impartial Spectator as a representative of something, and this is not society, but “mankind.”⁵² The term “interest” is also too narrow. The “inhabitant of the breast” is prompted to action not so much by utility, as implied by “interest,” but by the love of praiseworthiness and “what is honourable and noble.” This analogy therefore also falls flat.

Prudence and the long run

My own conjecture is that in the *Wealth of Nations*, the Impartial Spectator—or his counterpart, his structural instantiation—is tied to prudence, the virtue that drives most of the action in the economic sphere. Smith is aware that it is wise not to rely too much on the virtue of benevolence, which he already found

⁴⁸ Douglas J. Den Uyl, “Impartial Spectating and the Price Analogy,” *Econ Journal Watch* 13, no. 2 (2016): 264.

⁴⁹ Den Uyl, “Impartial Spectating,” 270.

⁵⁰ My quotation marks.

⁵¹ Göçmen’s quotation marks, citing Smith (without a direct reference). Göçmen, *The Adam Smith Problem*, 12. It is neither exact to say that Smith “refers many times to the ‘general interest of society’” in the *Wealth of Nations* nor that he “points out many times” in *The Theory of Moral Sentiments* that “the representative” of the general interest of society is the Impartial Spectator.

⁵² Smith does so only in editions 2–5, as the editors of *The Theory of Moral Sentiments* show in a lengthy quotation; see esp. Smith, TMS, 130.

socially insufficient in *The Theory of Moral Sentiments*. As he observes, it is simply unrealistic to expect one's dinner only from other people's benevolence (WN I.ii.2), a resource too easily depleted and free-ridden on by others. The virtue of prudence does a better job here, fostering "oeconomy, industry, discretion, attention, and application of thought" (TMS VII.ii.3.16).

Prudence prevents prodigality and promotes parsimony (WN II.iii.14); it thus produces profit. Smith opposes "prudent and profitable, to imprudent and unprofitable undertakings" (WN II.ii.77). Prudence guides man toward the division of labor, which increases productivity and promotes general prosperity (WN V.i.a.14). Smith trusts that "though the principles of common prudence do not always govern the conduct of every individual, they always influence that of the majority of every class or order" (WN II.ii.36). In the marketplace, the prudence of a decision to buy or sell is measured by the nominal price (WN I.v.21); financial credit relies on the lender's opinion of the borrower's "fortune, probity, and prudence" (WN I.x.b.20); and the value of money depends on the issuing banker's prudence (WN II.ii.28). Prudence is recommended both to the sovereign and the "master of a family" (WN IV.ii.11).

Prudence demands that the long-run consequences of one's actions—on oneself and on others—are being considered. This requires long-sightedness. It involves an act of imagining ourselves in conversation with our future selves as much as with our future partners in economic exchange. This enables us to act with a view to the future, which, however, we are not able and should not expect to fully control. All we can control is our own present action. Smith refers to the "long-run" a total of twelve times in his *Wealth of Nations*, mostly in contexts where he shows prudence to have been incomplete, with dire consequences.⁵³ It is this long-sightedness, a corollary of prudence, that allows for an analogy with the impartiality taught by the Impartial Spectator.

Long-sightedness is the prudent economic agent's ability to put on glasses that are different from usual in order to stand back and double-check his present decisions with a more extended time-horizon. This calls for patience, for resisting the lure of immediate gain, that is, for resisting our "passion for present enjoyment" in view of "the desire of bettering our condition, a desire which ... comes with us from the womb, and never leaves us till we go into the grave" (WN II.iii.28). This also calls for planning with a concern for economic sustainability and long-term market survival. Long-sightedness resonates perfectly with Smith's description of the time-neutrality, or time-indifference, of prudence in *The Theory of Moral Sentiments*:

The impartial spectator does not feel himself worn out by the present labour of those whose conduct he surveys; nor does he feel himself solicited by the importunate calls of their present appetites. To him their present, and what is likely to be their future situation, are very nearly the same: he sees them nearly at the same distance, and is affected by them very nearly in the same manner. (TMS VI.i.11)

⁵³ Smith, WN I.viii.12, II.ii.74, II.ii.75, II.ii.76, III.ii.16, IV.I.18, V.i.e.5, V.ii.c.26, V.ii.e.5, V.ii.k.5, V.iii.10, V.iii.56.

Long-sightedness implies spectating, of course, and thanks to the distance that it creates from the object under consideration, it generates its own specific kind of impartiality. Individuals develop economic long-sightedness because they not only strive for economic approbation, but also wish (and need) to keep it. The baker wants his customers to pay him a good price, and he also wants them to return. He wishes to be praiseworthy only insofar as he works under an incentive to make his bread worth its price, or “price-worthy,” over time, in the customers’ eyes. If these, seduced by the tempting smell in the bakery, end up disappointed by the taste of the bread once it is served at the dinner table back home, they will foreseeably not return.

Long-sightedness can itself be modeled as an emerging social construction, a product of interaction. The economic agent learns and improves his long-sightedness through his failures, helped by competition. Where the ethical Impartial Spectator in *The Theory of Moral Sentiments* brings about at the micro level a more exact and more just, because more objective, individual ethical judgment, the unnamed Long-sighted Spectator of the *Wealth of Nations*, hypothetically spun off in a similar fashion, brings about better economic judgment and more sustainable economic behavior over time. Where the multitude of individual Impartial Spectators in *The Theory of Moral Sentiments* contribute at the macro level to lifting the socially emerging principles and rules of morality to a higher level, long-sightedness in the *Wealth of Nations*, if widespread, contributes to a robust continuous process of wealth creation for all.⁵⁴ Prudence may at first seem to be an originally self-regarding virtue, but it does also open us up for other-regardness, as I argued above, by appealing to a higher judge in our breasts.

As mentioned above, Smith does not describe individual market behavior in much detail. However, he does explicitly point the reader toward long-sightedness as a corollary of prudence in his coverage of one spectacular business failure that he was all too familiar with: the collapse, after not even three years of operation, of the Ayr Bank in which Henry Scott, the Third Duke of Buccleuch, Smith’s former pupil and patron, was a partner.⁵⁵ Douglas, Heron, and Company, as the bank was officially called, failed on June 25, 1772, with liabilities exceeding 1 million pounds sterling, forcing partners to sell their lands, go bankrupt, or go to prison.⁵⁶ The bank’s liquidation took decades.⁵⁷ The events had severe consequences for the entire Scottish economy, especially because the Ayr Bank drew most other private banks down the drain with it.⁵⁸ As for the Duke, he was knee-deep in debt ever after.

⁵⁴ Levy may be on the right track here when he muses that this is a quality that Smith hopes to develop in his readers. See Levy, “The Partial Spectator,” 240.

⁵⁵ See Brian Bonnyman, *The Third Duke of Buccleuch and Adam Smith* (Edinburgh University Press, 2014), 76–81.

⁵⁶ Henry Hamilton, “The Failure of the Ayr Bank, 1772,” *The Economic History Review* 8, no. 3 (1956): 405.

⁵⁷ Estimates vary. Paul Kosmetatos speaks of more than forty years. Paul Kosmetatos, “The Winding-up of the Ayr Bank, 1772–1827,” *Financial History Review* 21, no. 2 (2014): 165–90.

⁵⁸ Bonnyman, *The Third Duke*, 80.

The Ayr Bank had been created to provide capital needed for the expanding economic activity in Scotland. “The bank got away to a flying start,” Henry Hamilton reports.⁵⁹ Too much so.⁶⁰ Smith, who advised the Duke of Buccleuch in coping with the disaster, concludes that

[t]he design was generous, but the execution was *imprudent*, and the nature and causes of the distress which [the bank] meant to relieve were not, perhaps, well understood. This bank was more liberal than any other had ever been, both in granting cash accounts, and in discounting bills of exchange. (WN II.ii.73, my italics)

In this context, Smith uses the term “long-run” no less than three times (WN II. ii.74, 75, 76). In fact, the failure of the Ayr Bank supports Smith’s insight that one’s own interest is not the worst guide, including from a social point of view. In the *Wealth of Nations* passage where Smith mentions the invisible hand, he explains that it is not always the worse for society that it is no part of a merchant’s intention: “By pursuing his own interest he frequently promotes that of the society more effectually than when he really intends to promote it. I have never known much good done by those who affected to trade for the publick good” (WN IV.ii.9).

Every action has side effects or unintended consequences. Economic activity pursued in one’s own interest may, in many cases (WN IV.ii.9), unintentionally promote a public end. Economic activity pursued for the public good, however, may incite imprudence, causing both private and public harm. The operations of the Ayr Bank were meant to be one such outright patriotic venture. Smith acknowledges as much, explaining that they were “intended to support the spirited undertakings ... which were at that time carrying on in different parts of the country” (WN II.ii.74). But that was the wrong approach, a breach with prudence: “*In the long-run ...*, the operations of this bank increased the real distress of the country which it meant to relieve; and effectually relieved from a very great distress those rivals whom it meant to supplant” (WN I.ii.75, my italics). Good intentions can be a recipe for disaster, and time is sure to tell.

Conclusion

There is no mention of an Impartial Spectator in the *Wealth of Nations*. In contrast to his exploration of individual moral sentiments and judging in *The Theory of Moral Sentiments*, Smith seems not sufficiently interested in individual economic decision-making to come up with its procedural details. Therefore, he does not lay out an individual economic judgment process in as much detail as the

⁵⁹ Hamilton, “The Failure of the Ayr Bank,” 409.

⁶⁰ The banker and bank historian Andrew William Kerr neatly sums up the mischief: “The essential errors of the Ayr Bank were trading beyond their means; divided control by permitting branches to act independently; forcing the circulation of their notes; giving credit too easily; ignorance of the principles of business; and carelessness or iniquity of officers.” Andrew William Kerr, *History of Banking in Scotland*, 2nd ed. (A. & C. Black, 1908), 109.

sympathetic process he describes in *The Theory of Moral Sentiments*. He just broadly recommends prudence to economic agents, a virtue coming with many corollaries, such as parsimony, frugality, industry, discretion, attention, application of thought, and consideration of the long run. But it is precisely this virtue that implies the two-step procedure with three key characters as known from *The Theory of Moral Sentiments*. Everything begins with an individual agent's original impulse, followed by the anticipated or real reactions by the people affected or concerned, and then the man in the breast will speak to serve as a judge in a second tribunal. When the man in the breast, a product of sociability, speaks economics, he orients the economic agent toward the long run, toward sustainability and long-term survival in the market, an endeavor that is heavily taxed by our biases, constraints, and the overall uncertainty of the future. In other words, in the economic sphere, the Impartial Spectator's general impartiality rhymes with long-sightedness, that is, with the logic of what actually serves oneself and the common good in the long run. The counterpart of the Impartial Spectator is, in the *Wealth of Nations*, the unnamed Long-sighted Spectator.

One problem with the Long-sighted Spectator as implied in the *Wealth of Nations*, however, comes with the model premise according to which we turn to him because we strive for long-term survival in the market. The problem is that, if it is possible to make a huge gain in the present, “après nous le deluge” (“after us, the flood”) may instead become an individual's guiding principle. But the same is true for the Impartial Spectator in *The Theory of Moral Sentiments*. If we do not really strive for praiseworthiness most of the time, we will not turn to the man in our breasts for a more objective judgment of our sentiments or conduct. Sanctions then need to come from elsewhere. But that is another story.

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