

Adam Smith is to markets as Jane Austen is to Marriage

I.

Whether we take Adam Smith as an apostle of capitalism or as a trenchant critic of the abuse of power, privilege and wealth – for he was both – his view of the nascent capitalism of his time should interest us, if for no other reason than for its freshness. Today we cannot hear capitalism's many virtues defended without hearing cliches and slogans. But Smith gazed upon and theorised capitalism, or as he called it 'commercial society', as it was just emerging. Revisiting what so captivated him can vivify our own appreciation of that now ubiquitous social institution, the market.

To further the task of understanding Smith on his own terms, seeing him in his own times, and to make my claims more vivid, I propose the following conceit as a sub-theme: Adam Smith is to markets as his near contemporary Jane Austen is to marriage. For though Smith's *Wealth of Nations* came with a (relatively small) list of 'do's' and 'don'ts' for government policy, we tend to see it as only that. Smith and his times were a long way from us. In fact not unlike Jane Austen's novels, Smith's great books were a *tour de force* in the eighteenth century rhetorical tradition, with the threefold task of instructing, delighting and persuading their audience. And much of that persuasion was not advice on government policy but rather the presentation of the market as a rich medium through which human life was lived, with an invitation to observe and denounce folly and vice and to embrace the more difficult but rewarding path of virtue.

II.

Part of a larger Enlightenment project, Smith taught that for humanity to prosper, economically but also ethically, it must embrace self-interest rather than demonise it as he argued the Christian churches had. But his great balancing theme was that what he called 'self-love', was necessarily balanced by equally powerful socialising forces.

His first book, *The Theory of Moral Sentiments* (1759) is one of the first great works of theoretical psychology and sociology. It explains that 'sympathy' makes society work by taming and mediating self-love. By 'sympathy' Smith does not mean benevolence which is an ornament rather than a foundation - too weak to battle our self-interest.

Smith explains sympathy as the faculty by which we understand others by imagining ourselves in their place. But even this doesn't quite capture the elemental nature of Smith's message which I take to be this: As we grow beyond the cravings of an infant, our consciousness is actually constructed within social contexts and so we only ever know ourselves as beings *amongst other beings*.

This makes us an agent in our own interest and a spectator of others. But we understand that others are in the same relation to us as we are to them. So, because (for both self interested and more noble motives) we care what they think of us, we anticipate their gaze and so become spectators of ourselves, and of the social acceptability of our own actions. As we mature, this internal spectator becomes progressively internalised as conscience.

Selfishness unmediated by Smith's 'sympathy' but which we might call social expectation and its enforcement - is a fiction:

Were it possible that a human creature could grow up to manhood in some solitary place . . . he could no more think of his own character . . . than of the beauty or deformity of his own face. . . . Bring him into society, and he is immediately provided with the mirror which he wanted before. . . . all his own passions will immediately become the causes of new passions. He will observe that mankind approve of some of them, and are disgusted by others. He will be elevated in the one case, and cast down in the other his desires and aversions, his joys and sorrows, will now often become the causes of new desires and new aversions, new joys and new sorrows: they will now, therefore, interest him deeply, and often call upon his most attentive consideration.

Given his view of society as an endless dialogue between agent and spectator, it should come as no surprise that, for Smith, the great attraction of the market is its mediation of endless dialogue and mutual adjustment between its participants. Before we see why, we take a brief detour – via Jane Austen.

III.

Pride and Prejudice is about different ways of seeing: The man's and the woman's; thought and feeling; art and nature. What appears as Darcy's prideful arrogance to Elizabeth is not, in her final realisation "improper pride". It is in the service of the code of *noblesse oblige*. As a gentleman Darcy will never complain and never explain in response to Wickham's malicious falsehoods. It is beneath his dignity. Elizabeth's naturalness in assessing people informs her prejudice against Darcy and nearly leads to the disaster of her more fully succumbing to Wickham's charms.

The happy resolution is a paradigm of eighteenth century moderation and compromise between perspectives. In the words of critic Samuel Klinger:

If the conclusion of the novel makes clear that Elizabeth accepts class relationships as valid, it becomes equally clear that Darcy, through Elizabeth's genius for treating all people with respect for their natural dignity, is reminded that institutions are not an end in themselves but are intended for human happiness.

Though on the more prosaic level that was appropriate to his subject matter, Smith saw markets as mediating the same kind of synthesis of alternative perspectives (needs) in which the whole became more than the sum of its parts. Smith built his economics upon what he proposed was the innate human tendency to “truck barter and exchange”. He suggested that this tendency was itself built on the even more basic human desire to communicate and persuade. Thus Smith’s ‘oratorical’ theory of negotiation:

The offering of a shilling, which to us appears to have so plain and simple a meaning, is in reality offering an argument to persuade someone to do so and so as it is for his interest....And in this manner every one is practicing oratory on others through the whole of his life.

In this context the market is a quintessentially human – and *humanising* institution – a theatre for conversation, compromise and connection between people. In just the way that sympathy transforms or mediates self-love so that the social result is some adjustment that takes into account others’ self-love, so in Smith’s market the self love of the seller is mediated, and so transformed by the buyer’s self-love. Without their self-love coming into relation, there is no deal.

Mere self-love is not sufficient for it, till he applies it in some way to your self-love. A bargain does this in the easiest manner. When you apply to a brewer or butcher for beer or for beef you do not explain to him how much you stand in need of these, but how much it would be in [his] interest to allow you to have them for a certain price.

Thinking of Smith’s picture of markets I think of E.M. Forster’s great injunction about life – “only connect!” which is of course what Darcy and Elizabeth finally manage to do. The participants in a market are connecting. Their connection is neither as close, nor as challenging as Darcy’s and Elizabeth’s. But though it will often perhaps mostly be dominated by mercenary motives, the market connection, often between strangers, is, to use Smith’s telling expression, every bit as “fit and proper” to its own circumstance and context. Dialogue and mutual accommodation is our best instrument of wisdom, of virtue, and our best chance at happiness. “Self love is not enough”.

By comparison, consider me filling out my Business Activity Statement each quarter and the various unreasonable requirements which continue (despite much touted simplification) which I will not detail here. I can use my oratory on a government official or on the Parliament. If they behave well and my concerns are valid or if I can persuade enough people to join me in my quest, some adjustment may be possible.

Institutions have been developed to limit power and to promote responsiveness to citizens’ needs. But this is always artificial and always dependent on the integrity of the system and the officers within it. There is no organic balancing and weighing of relative interests in each case, no office holder has any direct self interest in satisfying my needs and without me paying a price for my service

cannot know how genuine those needs are. And it's unlikely that things would be improved by introducing any such crude appeals to self interest. Government and the market are different. And so the citizen remains in many ways a supplicant before government.

Immediately after explaining the dialectic of self interest in a market, Smith turns to contrast it with the begging of an animal or a beggar. His point is the relative indignity of the latter's "coaxing and courting". In a typical touch Smith observes that once the beggar has succeeded in obtaining some gift, he is off to market to trade what he's begged for what he wants. Once in the market he can attend to his needs in a way that is both more direct and more dignified. Similarly, though Smith objects to the economic damage they do, his most fundamental objection to merchants' attempts to pervert and monopolise markets against the public interest is the indignity they impose upon others who must now beg. They are rebelling against the great conditioner of self-love, the self-love of the other in a free bargain.

IV.

Smith toyed with the idea that the creator had brought into existence the best of all possible worlds and he believed that humanity was progressing – which it was. Commercial society brought great benefits. It 'softened' social manners and built the arts and human ingenuity. But Smith was no Pangloss. His optimism was set against the broad sweep of history and a view of human nature that was realistic about its potential and resigned about its limitations.

Softening of social manners could dull the marshall spirit. And advances in the arts and human inventiveness were often at the service of greed and vanity. Smith's portrait of the dehumanising conditions within a factory was later much admired by Marx. Smith was a moralist who despaired of society's adulation of the rich. He sympathised with the poor and the weak, routinely siding with them against the powerful. He thought the legal system was both the foundation of civilised society and a conspiracy of the rich against the poor. But these things were constants of human nature, just as there were always knaves and fools and the resulting disappointed hopes in Jane Austen's novels. As Smith puts it when discussing mercantile abuse of power, "I am afraid, the nature of human affairs can scarce admit of a remedy."

Still, though merchants' rapacity could not be corrected, Smith's system of 'natural liberty' would see merchants' undermining each others' power by competition, thus preventing them from "disturbing the tranquillity of anybody but themselves."

With typical irony, insight and feeling, Smith describes the way in which commerce had diffused economic power throughout Europe. The great proprietors of the past had once spent their surplus wealth on retainers who were

thus subservient to them. But the baubles produced by commercial society proved more irresistible than the services of retainers. However those supplying the baubles had plenty of customers and so never needed to be servile to their customers. The proprietors' greed for baubles also led them to demand higher rents from their tenants which could only be got by yielding autonomy to the tenants by extending the term of their leases sufficiently to enable them to improve the land.

The resulting diffusion of economic power was "a revolution of the greatest importance to the public happiness" driven by the "childish vanity" of the proprietors and the "pedlar principle" of the artisans and merchants.

The tenants having in this manner become independent, and the retainers being dismissed, the great proprietors were no longer capable of interrupting the regular execution of justice, or of disturbing the peace of the country. Having sold their birth-right, not like Esau, for a mess of pottage in time of hunger and necessity, but, in the wantonness of plenty, for trinkets and baubles, fitter to be the playthings of children than the serious pursuits of men, they became as insignificant as any substantial burgher or tradesmen in a city. A regular government was established . . . nobody having sufficient power to disturb its operations

Thus 'natural liberty' provides the theatre within which human freedom, security and autonomy grow together with sociability, security, skill, sensibility and productivity. Smith likewise argued that when slaves or other workers were given better pay and greater freedom to better themselves, they would be more productive and that both master and worker would benefit.

V.

The astonishing economic progress since Smith demonstrates his association of 'commercial society' with material progress. But what of ethical progress? Remarkably, research of the last decade provides some clues. Smith's dialectical picture of society and of markets suggests two predictions. First, that children will become progressively less selfish as they mature. Second that despite popular anxieties to the contrary, markets will make people more sociable, more aware of and defensive of fair dealing, and more prepared to trust and co-operate with strangers, possibly even at some risk to themselves.

Economic experiments are now corroborating those predictions. Experimenters measure subjects selfishness and sense of 'fairness' with games like the 'ultimatum game'. A subject (or group of subjects) is given something valuable - often, but not necessarily, money - and then given the opportunity to offer any amount (including none or all) of it to another subject. The other subject can accept it, in which case the rewards are split as proposed or reject it in which case neither player gets anything.

In the last decade, experimentation has provided evidence that as young children grow older they become less selfish and more fair-minded. Likewise in a major study of “the roots of human sociability” such games were conducted within 15 tribal societies. Within those societies, the higher the degree of market integration and the greater the degree of productive activity taking place outside immediate families, the greater the level of prosociality expressed in the experimental games.

Of course next to the magnitude of the issues, these results are no more than straws in the wind. But they are suggestive endorsements of the ethical value of openness in our economic system, quite apart from its economic efficacy.

VI.

We should remember that for Smith commerce was generally conducted at a personal level. Today it is often mediated through giant organisations. They continue to address the self love of their customers with as much fervour as ever. But, like so much else, this has been industrialised through bureaucracies and market research. And much of the oratory and persuasion of the market is now given over to the surreal fantasies of advertising. Opinions will differ as to how much difference this makes to Smith’s case.

Still, while there are proposals to tinker at the edges, there is no better way than markets to meet our needs. In the meantime, a full or even passionate appreciation of the miracle of the market is not an argument against governments, or even necessarily for smaller Governments. Smith himself argued for substantial extensions to government alongside his trenchancy about the way in which government had been perverted by the greed of merchants conspiring against the public interest.

I began this essay suggesting that Adam Smith was to markets what Jane Austen is to marriage. But the converse is also true. For Smith the market, for Austen marriage, were honourable estates, ideal theatres for human engagement where prudence and good character would be rewarded (in the absence of unusually bad luck). They were likewise a state in which people made their own lives together, in which each might find and benefit from the best in others as they sought what was best for themselves. As such, though they were not the sum of human life, they were estates in which both virtue and happiness might thrive together, at least so far as is possible in human affairs.

Nicholas Gruen is the CEO of Lateral Economics and Peach Financial and Visiting Fellow at Melbourne and the Australian National Universities. This essay began as a series of blog posts - ‘homo dialecticus’- on www.clubtroppo.com.au.

Published at “Miracle of the Market” in the Australian Financial Review Friday Review on 7th April 2006, pp. 1 ff.

Published in Best Australian Essays 2006, Black Inc books.