

# Unfolding the Allegory behind Market Communication and Social Error and Correction

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*Abstract:* One aspect of the present paper is to draw out the Adam Smith in Friedrich Hayek. I suggest that common economic talk of market communication, market error and correction, and policy error and correction invokes a spectatorial being and appeals to our sympathy with such being. Behind such common economic talk, I suggest, are implicit allegories wherein an allegorical figure runs a system of superior knowledge, communication, and voluntary cooperation. Theoretical discussions of *social* error invoke the notion of *agent* error applied to the allegorical being. Similarly, theoretical talk of *social* correction invokes the notion of *agent* correction applied to the allegorical being. The allegory behind such talk is vital and necessary because without it the talk of social or market communication, error, and correction cannot be sustained. Unfolding the allegory clarifies the meaning, limitations, and value of such talk. Making what had been implicit explicit helps economists to avoid overstating their generalizations or making those generalizations sound more precise and accurate than they are. Meanwhile, scholars have pointed out that spectating impartially involves something of a paradox – distant-closeness, or cool-warmth. Concurring, I explore the connections between the features of the allegorical being and the doings of the economic agents. I suggest that the cogency of such theorizing depends on such correspondences, and that they are matters of culture, of both the context within which the theorizing is done and of the context theorized about.

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## Unfolding the Allegory behind Market Communication and Social Error and Correction

This opinion or apprehension, I say, seems first to be impressed by nature. Men are naturally led to ascribe to those mysterious beings, whatever they are, which happen, in any country, to be the objects of religious fear, all their own sentiments and passions. They have no other, they can conceive no other to ascribe to them. Those unknown intelligences which they imagine but see not, must necessarily be formed with some sort of resemblance to those intelligences of which they have experience.

Adam Smith, *Theory of Moral Sentiments* (163-64)

The only difference between [the system which places virtue in utility] and that which I have been endeavouring to establish, is, that it makes utility, and not sympathy, or the correspondent affection of the spectator, the natural and original measure of this proper degree.

Ib. (306)

Adam Smith enumerated not one but four sources of moral approval. What they were does not concern us just now – the paragraph (TMS, 326-27) is reproduced here as an appendix. Though underplaying the tensions between the four sources, Smith nonetheless showed awareness of the tensions as well as of the difficulty in distinguishing them. Smith did not pretend to any integration of the four sources. He did not pretend to solve for overall moral judgment. In fact, he scoffed at the pretense or aspiration of definitive resolution. Overall moral judgment, rather, is in the realm of the “loose, vague, and indeterminate,” like “the rules that critics lay down for the attainment of what is sublime and elegant in composition” (TMS, 175, 327).

The vague rules are explored by way of figurative or allegorical reasoning.<sup>2</sup> Smith invokes or sketches beings who judge the action or conduct. The rules of their judgment are vague but not empty or arbitrary. The figurative beings have ethical sensibilities, the sensibilities imparted by Smith's discourse. Conjuring the judges, Smith explores overall moral judgment in terms of what aspects in human conduct they regard as beautiful or becoming. Overall moral judgment is an aesthetics of human agency.<sup>3</sup> The judges are like the panel of judges of a figure-skating competition. They score performances, they indicate which they like and why. But they do not pretend to any determinate formula or precise grammar for figure-skating aesthetics. Their scores are rarely in exact agreement.

By marking their judgment in particular instances, enabling us to surmise their sensibilities,<sup>4</sup> Smith enables us to react to the judges, to discover whether we comfortably "enter into" their interpretations and attitudes, whether our sentiments "beat time" with theirs. We judge the judges. We do so by appealing to higher judges; we proceed, as it were, to the even sketchier panel who assess the panel who assess figure-skating. Smith sketches the spectator not as a purely austere and inscrutable authority that issues an exact code of righteousness, but in essential respects as a being close to ourselves and to whom we morally respond. As Fonna Forman-Barzilai has explained, there is a dualism

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<sup>2</sup> I find one dictionary definition of *allegory* as follows: "an expressive style that uses fictional characters and events to describe some subject by suggestive resemblances; an extended metaphor."

<sup>3</sup> Indeed, Smith could pass seamless between science and aesthetics. He narrated the history of astronomy as a quest for successively more beautiful or satisfying systems, and in treating music he spoke of the mind enjoying "not only a very great sensual, but a very high intellectual, pleasure, not unlike that which it derives from the contemplation of a great system in *any other science*" (EPS, 205, italics added; see also 212).

<sup>4</sup> Charles Griswold (199) beautifully highlights that for Smith an aesthetic sensibility is surmised from points or moments, not given as algorithm or formula: "Just as we do not know what nature is in and of itself, so too we do not know what the imagination in and of itself is, but we can describe its works in all of the ways that I have specified. Since we lack a theoretical account of mind *qua* mind, we seem to be largely left with an account of mind in terms of *how it comes to see nature in this or that particular way, and that is just the kind of account Smith aims to provide*" (343, italics added).

in spectating impartially: To spectate knowingly one must be somewhat close/warm/soft toward the individual and her express part in the matter, but to judge impartiality one must be sufficiently distant/cool/tough toward that part, so as to do justice to the other parts touched by the matter (not just of other people but also of the first individual). The inherent dualism evokes Smith's (occasionally gendered<sup>5</sup>) dialectic of amiable and respectable virtues (TMS, 23, 306).

Smith says:

All such sentiments suppose the idea of some other being, who is the natural judge of the person that feels them; and it is only by sympathy with the decisions of this arbiter of his conduct, that [the individual] can conceive, either the triumph of self-applause, or the shame of self-condemnation. (TMS, 193)<sup>6</sup>

Throughout Smith's work, figurative beings, though only sketchy, even subconscious, mediate social affairs and moral conduct. We relate to each other, and to ourselves, by way of substantive yet figurative beings, and how they would feel about the matters in view. In Smith's 1761 essay on the first formation of languages, he comes to the following sentences:

The word *I*, does not, like the word *man*, denote a particular class of objects, separated from all others by peculiar qualities of their own. It is far from being the name of a species, but, on the contrary, whenever it is made use of, it always denotes a precise individual, the particular person who then speaks. It may be said to be, at once, both what the logicians call, a singular, and what they call, a common term; and to join in its signification the seemingly opposite qualities of the most precise individuality, and the most extensive generalization. (Smith 1761, 219)

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<sup>5</sup> E.g., "Humanity is the virtue of a woman, generosity of a man"(TMS, 190).

<sup>6</sup> Likewise, in a letter Smith affirms "my Doctrine that our judgements concerning our own conduct have always a reference to the sentiments of some other being" (Corr., 49).

The precise individuality is clear enough, but the word *I* also always carries “the most extensive generalization,” for we always conjure general, albeit tacit, perhaps unconscious, even instinctual, sensations of a being, sensations that mediate our understanding of the person who writes *I*. We glean the general being that that person is like. For Smith, sympathy could be morally compelling even though “illusory” or “imaginary” (e.g., TMS, 71, 78, 19, 21, 317). It is the nexus of such inchoate imaginings that enable us to relate to one another.

I believe that economists practice the Smithian way but are reticent, even unconscious, about doing so. One cause of the reticence is that the figure does not conform to images of science as precise and accurate, or “positive” and “objective.” The Smithian awareness declares that economic judgment involves aesthetics, but popular images of science say that aesthetics are not supposed to play a role in scientific judgment.

Economists often hold up the idea of *economic efficiency* as precise, accurate, positive, and objective. I would argue that such claims are overdone. “As Frank H. Knight has so often emphasized, problems of welfare economics must ultimately dissolve into a study of aesthetics and morals” (Coase 1960, 43). A number of points argue that efficiency is much vaguer than often thought.<sup>7</sup>

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<sup>7</sup> Some points one might make about why efficiency/willingness-to-pay concepts are often ambiguous would include: (1) The diminishing marginal utility of wealth; (2) The hypothetical nature of propositions, giving rise to ambiguities in, for example, the time-to-adjustment in deciding one’s willingness to pay; (3) The collective action problems that might matter to the individual’s contemplation of how much he would be willing to pay; (4) The issue of deeper, truer preferences, as opposed to unenlightened preferences, which is especially relevant in considering policy reforms; (5) Identity factors involved in changing policy; (6) In as much as a policy reform would alter future preferences, perhaps of the new and future generations, we have to consider what preferences are worth fostering; (7) The Smithian distinction (TMS, 68, 83, 137, 188-92) between passive experience of the effects of a change and moral agency for the change; (8) Economists often, perhaps usually, do not have good data on the willingnesses to pay that are most pertinent to their theoretical arguments.

Here I unfold the allegory in certain topics in economics. One topic is the market process as “a system of telecommunications” (Hayek 1948, 87). In the literal sense, prices, profits, inventories, and so on communicate very little. In a figurative sense, however, prices may communicate how to advance the vast concatenation. When skeptics declare: “What communication are you talking about?,” the economist – if unprepared to supply the allegory – can only offer explanations incorrect or nonsensical.

Another is the idea of market, social, or policy *error*. We often say that society or policymakers have erred. When we get out the microscope, however, we might find that no one erred. How do we have social error without any agent error? Lying behind the social error is allegorical error. Similarly, we often speak of *correction*, as in the claim that governments do not correct themselves as well as markets. We can make sense of it by unfolding the underlying allegory.

There are other economic tropes, not treated here, such as “social cost/benefit”<sup>8</sup> and even “the economy,” that may be clarified by bring out the allegory behind the text. In a number of ways, important economic discourse is made clearer, more correct, and more accountable by seeing the allegory behind the text.

## The Allegory behind Concatenate Coordination

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And, where “economic efficiency” is confined in such a way as to make it relatively precise and accurate, it really is a lower-level criterion for overall judgment. That is, narrower, more precise notions of economic efficiency are not a final arbiter of the social good.

The following sentences appear at the very end of I.M.D. Little’s book (1957) *A Critique of Welfare Economics*: “Economic welfare is a subject in which rigour and refinement are probably worse than useless. . . . It is satisfying, and impressive, that a rigorous logical system, with some apparent reality, should have been set up in the field of the social sciences: but we must not let ourselves be so impressed that we forget that its reality is obviously limited; and that the degree of such reality is a matter of judgement and opinion” (279).

<sup>8</sup> James Buchanan’s work often speaks of the allegorical basis behind talk of social costs and benefits, and of the economy.

Elsewhere I have written about coordination,<sup>9</sup> so I keep this section brief.

We must distinguish two kinds of coordination. One is the mutual coordination of Thomas Schelling (1960) and equilibrium modeling, particularly game theory – focal points, meeting at Grand Central station, “battle of the sexes,” cheap talk, lock-in of conventions, coordination-problem macro-theory, and so on. The other is what economists up to 1960 principally understood by *coordination*, as used by Simon Newcomb, John Bates Clark, Thorstein Veblen, Frank H. Knight, Friedrich Hayek, Ronald Coase, and very many others.<sup>10</sup> That coordination was a quality of a concatenation of activities and factors. It invoked a judgment imputed to a mind imagined to behold the referent concatenation. If we refer to the concatenation within a firm, it is natural for the beholder to correspond to the owners, and to assume that the criterion behind coordinativeness was honest profits – a fairly precise and accurate rule. But when Hayek, Coase, and many others took the idea of coordination beyond the firm, the precision and accuracy melted away. For the concatenation of the great skein, the imagined beholder is much less clearly defined. That did not stop them, however, from talking about coordination of the vast concatenation. Concatenate coordination invokes a Smithian sort of beholding, a figurative being. In talking about concatenate coordination we develop ideas of the sensibilities proper to such a being. The circle of “we” tempers us to draw or entertain a being agreeable to the circle. We explore not only certain causes and effects narrowly conceived, but attitudes about the whole. We do so by discovering and cultivating our sympathetic reactions to figurative “arbiters.” Smith, Marx, Veblen,

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<sup>9</sup> Klein 1997; Klein and Orsborn 2009.

<sup>10</sup> Klein and Orsborn (2009) report a JSTOR content analysis of five leading economics journals and tell how concatenate coordination once dominated but receded some time after 1960.

Keynes, Hayek, Myrdal, and Friedman symbolize figures that are relatively focal in the culture. How finely we delineate the being depends on the discourse situation and the circle of “we.”

Adam Smith never used the word *coordination*, but the idea of concatenate coordination figures very prominently in his work and is plain enough, as when he wrote:

Human society, when we contemplate it in a certain abstract and philosophical light, appears like a great, an immense machine, whose regular and harmonious movements produce a thousand agreeable effects. As in any other beautiful and noble machine that was the production of human art, whatever tended to render its movements more smooth and easy, would derive a beauty from this effect, and, on the contrary, whatever tended to obstruct them would displease upon that account: so virtue, which is, as it were, the fine polish to the wheels of society, necessarily pleases; while vice, like the vile rust, which makes them jar and grate upon one another, is as necessarily offensive. (TMS, 316; see also 185, 165)

Unfolding the allegory behind concatenate coordination helps us to address some big questions in economics. Unfolding the allegory helps us to clarify what it means for entrepreneurship to be coordinative, and to assess whether it is *always* coordinative or only *usually* coordinative (or, perhaps, not even usually). Unfolding the allegory helps us to clarify what we mean if we say free enterprise is a system of *cooperation*. Unfolding the allegory might spare one from misrepresenting or overstating the case for economic liberalism. Meanwhile, it may *embolden* liberals and economists – ***by and large***, entrepreneurship *is* coordinative, economic freedom *does* conduce to coordination, free enterprise *is* a system of cooperation – for we can justify those claims by virtue of, and *only* by virtue of, cogent allegories natural to human understanding.

## The Market System as a Communication System

One way to explore the free-enterprise system is to liken it to a system of benevolence working by communication. That is what Friedrich Hayek did in his famous essay “The Use of Knowledge in Society” and elsewhere. He posited the elimination of a source of tin, such as the collapse of a tin mine, traced out market adjustments, and said: “The whole acts as one market ... so that through many intermediaries *the relevant information is communicated to all.*” Further: “We must look at the price system as such a mechanism for communicating information if we want to understand its real function.” And: “It is more than a metaphor to describe the price system as a kind of machinery for registering change, or a system of telecommunications” (Hayek 1948, 85-87, italics mine). In his Nobel lecture, Hayek (1974) spoke of “a communication system which we call the market” (7; see also Hayek 1955, 99; Lachmann 1956, 62).

Hayek mostly avoided simile in speaking of the market system as a system of communication, just as Adam Smith did in speaking of the invisible hand.<sup>11</sup> But, God aside, Smith’s “invisible hand” is fictitious. I think that Hayek’s “communication” is no less fictitious. Indeed, the two are basically the same (at least as we confine Smith’s invisible hand to the matters addressed by Hayek). If, when we say that the market system communicates knowledge, we are not prepared to elaborate the allegory, we can only speak falsehood or nonsense, for *the statement is unsound save for the allegory.*

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<sup>11</sup> There are varied interpretations of Smith’s “invisible hand.” My view is of a traditional classical-liberal sort, broadly in line, I believe, with a great many including F.W. Maitland, William Smart, Edwin Cannan, F.W. Hirst, A.L. Macfie, Jacob Viner, Friedrich Hayek, Ronald Coase, E.G. West, D.D. Raphael, Ian Ross, Norman Barry, Ronald Hamowy, Karen Vaughn, Jerry Muller, Peter Minowitz, Jeffrey Young, James Otteson, Craig Smith, and N.E. Aydinonat. My view takes exception to those who diminish its importance, see it as very specific to the textual neighborhoods in which it appears, or treat its referent to be behavior that is merely “self-interested,” for example, variously, William Grampp, Emma Rothschild, and Gavin Kennedy, as well as to those, like Joseph Stiglitz, who would interpret the invisible hand narrowly in terms of “perfections” obtaining in certain equilibrium models.

Hayek writes as though market signals – prices, profit and loss, inventories, etc. – are forms of communication telling people how to advance the general interest. We should, however, mind the element of communion, or community, in communication. In its literal sense, communication is *a meeting of minds*. The knowledge communicated passes through us as commonly experienced ideas, images, or notions. It is much like the beat or melody of the music that Smith's says we share. It passes through us in a common experience, neither mine, nor yours, but ours. An idea, image, or notion communicated is understood commonly by us, we feel the beat commonly or symmetrically.

At the supermarket, where a carton of eggs bears the price \$1.89, there is *only one bit* of communication in a literal sense: the supermarket telling you "Yours for \$1.89." As for the entrepreneur computing her profit or loss, there really is *no* communication in the literal sense, no meeting of minds – whose mind would she meet? In no literal sense is the market system or anyone within it telling you to forgo tin or buy eggs.

From knowledge communicated, each party makes inferences, and inferences may be closer or farther from the basic knowledge communicated. If the price of tin is five dollars, a close inference might be "the price is higher than last month." But as inferences get farther from the basic knowledge, it becomes less correct to say they have been communicated.

Crucial to Hayek, in fact, is that people's inferences are highly asymmetric, that, contrary to the common-knowledge assumption, all information is not commonly interpreted.<sup>12</sup> Different people have different contexts and situations, in which they perceive different opportunities in prices etc. They interpret asymmetrically. Even "the

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<sup>12</sup> Notable moments in Hayek's corpus on asymmetric knowledge would include many of the essays in Hayek 1948; as well as 1967; 1978; 1989.

price is high” might fit your interpretation but not mine. It makes little sense to say that inferences as to how one should respond to prices are matters of literal communication. We talk to merchants of their advantages, ready payment, said Smith, not our necessities, and even less our schemes.

Hayek means an allegorical communication. Hayek addresses the allegory most explicitly in his 1933 lecture at the London School of Economics entitled “The Trend of Economic Thinking”:

Unfortunately, this oldest and most general result of the theory of social phenomena [viz., the spontaneous coordination of individual efforts] has never been given a title which would secure it an adequate and permanent place in our thinking. The limitations of language make it almost impossible to state it without using misleading metaphorical words. The only intelligible form of explanation for what I am trying to state would be to say – as we say in German – that there is *sense* [*Sinn*] in the phenomena; that they perform a necessary *function*. (Hayek 1933, 27)

We must work in a zone between embrace and rejection of such allegories:

But as soon as we take such phrases in a literal sense, they become untrue. It is an animistic, anthropomorphic interpretation of phenomena, the main characteristic of which is that they are not willed by any mind. And as soon as we recognize this, we tend to fall into an opposite error, which is, however, very similar in kind: we deny the existence of what these terms are intended to describe. (Hayek 1933, 27)

During the remainder of his career, Hayek wrote only fleetingly of a “social mind” in his own theorizing.<sup>13</sup> It may be that, launching as he did so fully into attacking collectivist thought, he underplayed the allegory behind his own text. James Buchanan is another thinker who notably struggles in the zone between embracing and rejecting the

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<sup>13</sup> Hayek (1937, 54).

allegory – mostly rejecting but not always convincingly (see e.g., Buchanan 1999, 193-96).

But the figure was hardly unknown. For example, Edwin Cannan – an ardent Smithian and editor of *The Wealth of Nations* (1904) – wrote in 1902: “The reason why it pays to do the right thing – to do nearly what *an omniscient and omnipotent benevolent Inca would order to be done* – are to be looked for in the laws of value” (461; italics mine). The free-enterprise system, Cannan suggests, leads to patterns of activities that please a benevolent being.

Though the impartial spectator in *Theory of Moral Sentiments* is male, let’s make her female, and let’s call her Joy, a short name that connotes her benevolence. The allegory in Cannan’s remark is that Joy issues instructions, cooperatively, to each market participant spelling out “the right thing” to be done. Joy tells Bridget the baker that perhaps she should buy new ovens, look out for better deals in flour, advertise her confections. Within the allegory, Joy communicates these instructions to Bridget. Within the allegory there is a meeting of Joy’s and the Bridget’s minds regarding these actions. Within the allegory, Bridget, who is sensible to Joy’s benevolence and ethical wisdom, and who feels entrusted to advance what Joy finds beautiful, follows, not market signals, but Joy’s communications, embraced voluntarily by Bridget from what Smith would call her *sense of duty*, and *those communications tell her to take actions rather like the actions that the market signals would lead her to take*. Cannan suggests that the market conduces to socially beneficial actions much as a benevolent system of superior knowledge, communication, and cooperation would.

The allegory fits Smith’s vision of virtuous behavior:

But by acting according to the dictates of our moral faculties, we necessarily pursue the most effectual means for promoting the happiness of mankind, and may therefore be said, in some sense, *to co-operate with the Deity*, and to advance as far as in our power the plan of Providence. (Smith, TMS, 166; italics added)

The pervasive modifiers “nearly,” “much as,” and so on, are necessary and important. If interests coincided neatly and perfectly (as Bastiat in *Economic Harmonies* (1850) seems to have suggested save for evil and error), then we would have much less trouble getting everyone to sympathize with a common, universal moral system. Morality would be a snap. Smith used *harmony* often but meant only a coarse or tolerable harmony. He writes, for example, that the sentiments of two people “may, it is evident, have such a correspondence with one another, as is sufficient for the harmony of society. Though they will never be unisons, they may be concords, and this is all this is wanted or required” (TMS, 22). As Maitland (1875) put it, “we cannot appeal to him as the father of those who see *nothing but harmonies* in political economy” (132, italics mine). Following Klamer, McCloskey, and Ziliak (2007), we may say that the central claims of Smithian political economy are *enthymemes*, by and larges, not 100-percents.

The figurative being exercises judgment, and we demand that its character or sensibilities be fleshed out. We want to know what kind of being we are being asked to go along with. We might argue over the character of Joy. We distinguish multiple Joys, perhaps as Joy<sub>1</sub>, Joy<sub>2</sub>, Joy<sub>3</sub>, etc., and highlight and contend over the differences. Some are similar and form a family that we recognize and label. Sometimes we downplay the family bickering and work with the more generic family representative, highlighting differences between separate families “socialist,” “liberal,” “conservative,” – though also

aware that *all* the Joys are of the broadest human family. The judging never ends, so we have to get used to the idea that any characterization of Joy invites a further.

Once we get comfortable, once the circle of “we” is mutually coordinated, the allegory opens up a fruitful way to think about institutional quality. What institutional arrangements generate the “signals” that best “communicate” what to do? Such talk gets us to focus on what the relevant signals are. It gets us to focus on how well they conduce to the general interest. It helps us appreciate how “communications” adjust when practices go wrong. If the signals start “telling” people to go in the wrong direction, will the system correct itself? Will it tend to correct errors? Will it tend to keep up with changes? Will it dig up new opportunity, new matters for “communication”? The allegory of Joy communicating instructions is useful because it enables one to reason from the perspective of someone who has superior knowledge and purposes that we go along with.

Many writers in the “Austrian” tradition have acknowledged that prices do not literally communicate knowledge. In his presidential address to the Society for the Development of Austrian Economics, for example, Steven Horwitz (2004) offers the felicitous “knowledge surrogates” and references others who likewise seek to salvage Hayekian market communication despite the fact that, in a literal sense, prices communicate almost nothing. My residual dissatisfaction with Horwitz and others writing in the same vein is that they neglect –even stubbornly resist! – explaining the allegory of knowledge surrogacy. If they were to unfold the Smithian sort of allegory embedded in knowledge surrogacy, they would upset “Austrian” strictures concerning social aggregation and social welfare and the particular modernist image of scientific economics

expounded by Ludwig von Mises (for whom economic theory was axiomatic, categorical, apodictic, deductive, *wertfrei*, etc.). They might become as much “Scottish” as “Austrian” economists. If latter-day “Austrians” were to open themselves up to Smith, see his paramount place in the great conversation, and see that Hayek is closer to Smith than to Mises, they would face the choice of either shedding the “Austrian” identity or withdrawing into the styles of reasoning distinctive to Mises, Murray Rothbard, and today those associated with the Ludwig von Mises Institute.

### Unfolding the Allegory Makes It Innocuous

A.L. Macfie (1967) noted that “the theory and politics of the eighteenth century did not permit of any explicit theory of *society* as in some sense a *living human organism*” (69), and Hayek (1955) was probably right to criticize social-organism thinking as misleading or worse. But unfolding the allegory is no slippery slope to grief. Cannan makes the being an Inca, to make sure that his readers do not start looking around for a benevolent, omniscient, omnipotent being. Making the allegory explicit makes it clear that it is a fiction. There is no being telling Bridget to replace her ovens. And to the extent that moral norms exist within living society, they do not make a social organism. If Joy were a God, she would not have any powers save perhaps that of conveying her approbation or disapprobation, sensed within one’s own breast. The more the allegory is spelled out – in particular, as knowing – the less it seems to correspond to any external being or institution, perhaps least of all government. Again, Smith was right that we work by sympathies with figurative beings, and rejecting such awareness is not sensible. But

by embracing the insight, and by explicitly developing a figure with certain sensibilities, and explaining how different institutional arrangements appeal to those sensibilities, liberals and economists may advance a spirit or ethos that contends for recognition and understanding.

## Agent Error

Agent error is not merely risk that turned out badly. A poker player who makes a good bet but draws a “bad beat” did not make an error. One identifies an action as “error” from an imagined perspective *ex-ante* to the play-out, but wise to other potential interpretations of the hand.

At the agent level, error entails a sense of regret. Israel Kirzner tells of a person walking along the street, seeing *and reading* a sign offering apples for one dollar, yet proceeding to buy elsewhere for two dollars. Kirzner (1979) writes: “[S]urely, in an important sense he will, when he realizes his mistake, reproach himself for having been so absentminded as to pass by the bargain, *which he saw*, for the more expensive purchase. In this sense he *did* commit an error, the error of not acting on the information available to him or not perceiving fully the opportunity before his very nose” (129-30). Kirzner repeatedly associates error with regret and self-reproach.<sup>14</sup>

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<sup>14</sup> This regret/self-reproached-based definition agrees neatly with *some* of Israel Kirzner’s expositions of error. However, in my view, Kirzner is inconsistent, at times holding a broader conception that would not necessarily entail any kind of regret or self-reproach. At page 22 of Kirzner 1992, Kirzner rightly notes that the obviousness of the missed opportunity, and hence the basis for regret or self-reproach “must be a matter of degree.” The issue, then, becomes how one draws the lines to delineate error. At times Kirzner, as in the quoted passage, seems to draw the lines, as I do (Klein 1999, 64-69), such that error is the missing of obvious opportunities and entails a sense of regret, but at other times (e.g., Kirzner 1992, 21-23) he draws the lines much wider, at not-totally-unobvious, and drops the necessity of any regret or self-reproach. For further discussion of the difference, see Klein & Briggeman (2009; 2010b).

Actual regret is where you acted on one interpretation of the situation (“apples will cost me two dollars”), and later you reproach yourself for not having had the insight and judgment instead to see and act on another superior interpretation (“apples will cost me one dollar”). But, also, the sense of regret or self-reproach can be only vicarious or potential. You might speak of an individual, such as your brother-in-law or any of a class of people caught in a familiar syndrome, acting in error because under a not fantastic counterfactual – a counterfactual made more relevant and possible by your discussing the error – he could see, or could have seen, the better interpretation.

In discussing affection as habitual sympathy, Smith (TMS) brings up the syndrome of family members who have grown up in absence: “The absent son, the absent brother, is not like other ordinary sons and brothers; but an all-perfect son, an all-perfect brother; and the most romantic hopes are entertained of the happiness to be enjoyed in the friendship and conversation of such persons ... Time and experience, however, I am afraid, too frequently undeceive them” (221). Such syndrome is an example of error based on regret that may be only vicarious or potential. If someone you know lays plans to reunite with a previously absent and supposedly perfect relative, you might say that he acts in error, because you see vicariously, or he sees potentially, the badness of the interpretation he acts on. His interpretive lenses are rose-tinted. A better interpretation is available – he can find it in on page 221 of *The Theory of Moral Sentiments*.

Adam Smith (1761, 219) noted that the word *I* simultaneously carries two significations, one of “the most precise individuality,” the other of “the most extensive generalization.” These two significations are only “*seemingly* opposite” (italics mine). For, human individuality is not all that individual. We put ourselves in each other’s

shoes, relate to the apparent situation, and judge of each other's actions. Just as Hayek indicated a zone in which we carefully invoke a notion of social sense or function, we work in zones of generalization in which we feel we know the individual's purposes and situation well enough to judge of his action. The zone is a sort of overlap region, an intersection of *closeness to the individual*, to understand his partial view of things, and *distance from him* so as not to be entangled in his partialness. As Forman-Barzilai puts it, "for Smith, the sympathy model is effective for producing impartial moral judgments because the spectator is *at once* both involved and detached" (2005, 193). And further: "an ideal Smithian perspective will be that of a spectator who is essentially Janus-faced: near enough to access the meaning and vicissitudes of a particular situation but distant enough not to be entangled within them – both hot and cool" (204).

Self-reproach is reflexive, entailing a sort of multiplicity of selves. It is useful to think of an actor calling on internal sub-agents or routines. When the sub-agent or routine messes up in the instant, spilling a drink or mistyping a word, the mishap is best called a *mistake*. The actor curses angrily, as though reprimanding a subordinate. But the actor saying *I* in the situation is itself an agency embedded in a larger being, and sometimes it comes to doubt itself, it feels that it employs the wrong routines, it suspects that it has made an *error*. It feels regret, not anger. The actor resides in a hierarchy. Error for him relates to what is above, mistakes to what is below. Erring is poorly interpreting the situation; making a mistake is slipping-up within the situation. Error is regretting the path one embarked on; mistake is slipping-up along the path. Likewise, on the happy side, affirmation of the plan may be distinguished from fulfillment of the plan. Plan affirmation does not imply plan fulfillment, and plan fulfillment does not imply plan

affirmation.<sup>15</sup> Although the terms *mistake* and *error* are often used interchangeably,<sup>16</sup> economists have found it useful to distinguish them.<sup>17</sup> Also, it should be noted that it is impossible to eradicate a theoretical domain for error, for any agent that says *I* must emerge from and be subordinate to higher (or deeper) levels. The uppermost articulated level carries hints, understandings, questions, and aspirations relating to a lowermost non-articulated level, and it is fatal to deny the tacit contacts to higher matters.<sup>18</sup> As a practical matter, there is always a realm above the articulated *I*, there is always a *yet* superior character (cf TMS, 137), a *yet* more exalted propriety (cf TMS, 192).

*Correction* for each differs. Correcting a mistake is simply revising the instant. A typing mistake is corrected by retyping the word. Correcting an error, however, involves more significant reform of the actor and his notion of how he manages his sub-routines.

In his economics, Adam Smith gave too scant attention to these matters.<sup>19</sup> In the morals, however, he linked error and remorse. For example, he tells of characters in Voltaire who, faced with conflicting interpretations of their moral duty, commit a crime and then “discover their error, and the fraud which had deceived them, and are distracted

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<sup>15</sup> The distinction is elaborated in Klein and Briggeman (2010b).

<sup>16</sup> One reason that *error* and *mistake* are often used interchangeably is that mistakes alert us to possible error – if a student’s paper is filled with mistakes, maybe he needs to rethink his idea of having done his homework. Another is that action is situated, such that what is to one agent an error may be to a higher agent a mistake, just as the 5<sup>th</sup> floor of a building is up to some and down to others. Yet another reason may be that there is no verb for *mistake*, and hence we resort to using the verb *to err* even for mistakes.

<sup>17</sup> Our distinction between mistake and error comports with Kirzner (1979, 121-22) and with the distinction made by Polanyi (1963) between “faults committed within an acceptable framework” and “rational applications of an unacceptable framework” (87).

<sup>18</sup> See Polanyi 1962; 1963; 1967; Hayek 1952, 185, 189, 194; 1955, 89; 1967, 62; Klein 1999, 69-71.

<sup>19</sup> Smith’s deficiency was picked up on by others including Jeremy Bentham (extracted 2008), J.B. Say (see quotes in Hodgskin 1827, 54-57), Thomas Hodgskin (1827, 34, 45-99, 120), James Maitland Lauderdale (1819, 265-304), and John Rae. Regarding the last two, Macfie (1967) writes: “[Lauderdale and Rae] thought Smith’s theory should give more weight to the importance of invention, novelty, new arrangements in history. Smith, of course, did much here, but to Lauderdale and Rae invention is picked on as the core of economic growth, and this is suggested as the central issue in theory and practice. One cannot say this of the *Wealth of Nations*” (35).

with horror, remorse, and resentment” (177; see also 158).<sup>20</sup> Smith’s thought is suffused with appreciation of knowledge’s richness.<sup>21</sup>

## Error and Correction as Applied to an Allegorical Being

The preceding section supplied a formulation of *agent* error and *agent* correction. When it comes to “*market error*,” “*social error*” or “*policy error*,” we find statements that are best expounded by way of a figurative being. The statements are meaningful fundamentally as agent error *applied to an allegorical being*.

Israel Kirzner has much to teach humankind, but, his protestations notwithstanding, many of his teachings make sense only by virtue of Smithian turns and qualifications. In the case of market error, Kirzner writes:

Except in the never-attained state of complete equilibrium, each market is characterized by opportunities for pure entrepreneurial profit. These opportunities *are created by earlier entrepreneurial errors* which have resulted in shortages, surplus, misallocated resources. (Kirzner 2000, 16; italics mine)

Consider an example raised by Kirzner (250f), the invention of the automobile. Kirzner suggests that it devastated the livelihoods of many who had built their entire careers around the horse-drawn carriage industry. Kirzner’s writings would suggest that the malinvestments were a result of error. Such unfulfilled plans were based on “an erroneously imagined decision framework” (17). Kirzner links the earlier error with a process of correction. He writes that “earlier entrepreneurial errors have created profit opportunities which provide the incentives of entrepreneurial corrective decisions to be

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<sup>20</sup> Also, in discussing self-deceit, Smith mentions error and regret (158).

<sup>21</sup> Another prime example is when Smith (WN) says that, in the matter of judging how society’s interest relates to his own, one may be “unfit to judge even though he was fully informed” (266).

made” (31). Elsewhere Kirzner (1985) writes that “To act entrepreneurially is to identify situations overlooked until now because of error” (52).

Speaking historically, surely some of those in the horse-drawn carriage industry had erred. But the invention of the automobile was a highly exceptional event. It is possible that only some, it is conceivable, in fact, that *none*, in the horse-drawn carriage industry actually looked back on their undertakings with a feeling that they had acted foolishly, that they should have been more aware than they were. They may not have erred. They may have all felt like the poker player who made a good play but drew a “bad beat.” Similarly, it is conceivable that no individual undertook any correction of a foregoing error.

The general interpretation of market correction is best expounded as analogous to how a figurative being who gives instructions might have felt about it. As we look back on the economic history, we know things that our predecessors did not, and we attribute such knowledge to our figurative being. If Joy knew what was coming – and surely some inventors had early anticipations of what was in fact coming – and she nonetheless communicated instructions to build and expand livery stables and stage-coach lines – undertakings that subsequently did not pay off socially – *Joy would be erring*. Her giving of such instructions is something she would look back on *with regret, with self-reproach*. She would feel she erred. As those bad instructions were reversed and she reconsidered whatever had impelled such a faulty plan, *she would be correcting her error*. Like the metaphor of market communication, the talk of market error and correction is fundamentally understood by way of allegory.

If we deny the allegory, if we confine our thinking and talk to *agent* error and correction, we may fall into statements that are not justifiable in those terms. But the point here is not to avoid talk of market communication, error, and correction. Kirzner's theorizing, indeed, may help us see how Joy error and correction relate to agent error and correction, and thus to justify the figurative theorizing. The theorist typically invokes a perspective that no one in the story quite possesses, a perspective attributed to some enlarged beholder. But, again, the Joy-like being is not a glinty inscrutable figure, but a being that understands and sympathizes with us, a being in the zone of both intimate knowledge and less partiality. Her benevolence is such that what makes a set of instructions issuing from her erroneous will tend to correspond to vicarious or potential errors for people in the story of the market process. Kirzner is right that equilibrium modeling provides no scope for human error or human imagination (2000, 59); his brilliance lies in seeing the need and doing the work to get such things into economic theory. But our endeavor gains by unfolding the Smithian elements – a turn vehemently rejected by Kirzner (2000, ch. 7; 2010). Behind the will of the individual as he goes about his market activity there are figurative beings, perhaps only inchoate or unconscious,<sup>22</sup> and behind the theorizing of the economist there are figurative beings seemingly appropriate to the discourse situation, *and the two are related*. The error of the individual may be only vicarious or potential – in that it invokes an onlooker who reinterprets what he does. That onlooker is related to the onlooker invoked by the theorist who talks of market error and correction. Lon Fuller, an eminent legal scholar whose work drew in a fundamental way on TMS, wrote the following:

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<sup>22</sup> James Otteson stresses that our moral bearings may be unconscious, 2002, 21, 104-06, 116, 123-24, 264.

The economist may not care what the consumer wants, but he cannot be indifferent to the process by which the consumer reaches his decision as to what he wants. If he is to understand that process, the economist must be capable of participating in it vicariously and have an understanding of its terms. (Fuller 1969, 18)

The relatedness between theorizer and theorized, like that between judge and judged of, may draw on Kirzner's insights and help give them power, for, if Kirzner is right, and I think he is, that, in *most* (though not all) market moments, there is a tendency for the individual to correct his errors, and there is no tendency for him to make errors (Kirzner 2000, 31), then the suggested relatedness helps to sustain the general idea that there are tendencies for market processes to avoid and correct Joy errors.

The being with an invisible hand is an allegory invoked in theorizing about spontaneous order, a being that sees the particulars of what to us remain only abstract generalizations, abstract theoretical tendencies. Meanwhile, the impartial spectator – or, rather, his representative (TMS, 215) – is the ordinary individual's moral counselor, especially sensitive to commutative justice and established propriety but also to the becoming virtues. Perhaps Joy corresponds in some way to both. Perhaps we have a duality, or at least a potential duality. Smith says that religion “gave a sanction to the rules of morality, long before the age of artificial reasoning and philosophy” (TMS, 164). In the age of artificial reasoning and philosophy, perhaps common understandings of vast social coordination and common understandings of mundane propriety evolve along paths potentially roughly parallel, depending on the cultural ecology.

## Social or Policy Error

Adam Smith favored separation of church and state but was concerned that little sects might breed morals “disagreeably rigorous and unsocial” and suggested “remedies” by which the state might “*correct* whatever was unsocial or disagreeably rigorous in the morals of all the little sects” (WN, 796, italics mine). Does Smith mean to say that the state corrects the agent error of the individual sectarian? I think not, at least not primarily. The correction and implied error are social, which is to say allegorical. Smith’s talk is perfectly natural, but the allegory is rarely spelled out. Consider a matter in which economists often diagnose the existing interventionist policy as error and prescribe correction in the form of liberalization.

Economists who study the U.S. Food and Drug Administration are accustomed to analyzing the FDA decision of whether to permit a new drug as one involving a trade-off between two possible evils, as shown in Figure 1.

Figure 1: Two Types of Bad Outcomes for FDA Decision

		<u>Permitting would be Beneficial</u>	<u>Permitting would be Harmful</u>
The FDA reviewers	<u>Permit the Drug</u>	Good outcome	<u>Type-1 Bad Outcome:</u> Permitting a bad drug. Victims are identifiable, traceable and might appear on television.
	<u>Do Not Permit the Drug</u>	<u>Type-2 Bad Outcome:</u> Not permitting a beneficial drug. Victims are not identifiable and scarcely even acknowledged in the abstract.	Good outcome

Economists say the FDA apparatus is faulty because the FDA officials are overly prone to Type-2 bad outcome and are too stingy with permission. Economists who publish judgments on the matter really do very preponderantly say this.<sup>23</sup> I should note that economists' judgments are based significantly also on the suppression of drug development – that is, restrictiveness discourages researchers and drug makers from generating many would-have-been drugs from ever being in a position to enter into the context of Figure 1.

In the literature, bad outcome is often called “error,” but I want to focus on the higher level managing of the trade-off between the bad outcomes. I suggest that standard discourse implicitly projects the allegory of Joy running a benevolent and super knowledgeable system of communications and cooperation. We confine her possible communication to instructions about the general stance the official should take, that is, his stance with respect to permissiveness.<sup>24</sup> Every outcome involves an element of luck, so, just as in poker a lost hand does not necessarily indicate bad play, an unfortunate outcome does not necessarily indicate error. Joy's communication tells the FDA official how permissive to be, what “cut points” to use, in deciding whether to permit drugs.<sup>25</sup>

FDA officials are too stingy. It is said that “the FDA is erring” or “society is erring” or “we are erring.” But the “error” talk is best understood by way of an allegory involving a being like Joy. If the FDA's actions flowed from Joy's communications, then

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<sup>23</sup> See Klein 2008, 319. Meanwhile, Klein and Briggeman (2010a) have ethically summoned 305 economists to a smart questionnaire on the policy of banned-till-permitted, yielding a bona fide enlargement of conversation.

<sup>24</sup> If we, instead, allowed Joy's instructions to be specific to each individual drug decision, so that Joy might use her super knowledge of the particular case, we would weaken the affinity between the agent's context and Joy's framework for issuing instructions.

<sup>25</sup> Conceivably these “cut points” would otherwise become so permissive as to run into further issues of the FDA abiding by the legislation that it is charged with executing, but it is clear that there is ample scope for relaxation without running into such issues.

we would deem Joy's communications to be in error, for her communications would in that case have FDA officials too often withholding permission. The definition of agent error is being applied to Joy, as the agent in question.

But Joy's point of view stands in contrast to that of the FDA official as the structures actually exist and function. Economists, including Stigler (1966, 74-75) and Coase (1975, 59), have been quick to explain that the individual FDA reviewer does *not* necessarily err when he is stingy with permission, because the consequences of permitting a bad drug loom much larger for him personally than do the consequences of not permitting a good drug. Although it is possible that the human agents involved in the process do err, the more central point is that they need not: *the high rate of Type-2 bad outcomes (and the associate suppression of drug development) does not necessarily reflect any agent error*. The human agents do not necessarily feel any regret or self-reproach, even of only the vicarious or potential sorts. Perhaps the error told of in the familiar analysis is *only* figurative.

The figurative dimension does not hinge on assuming no agent error. Even if we assume that some of the agents did err, it is the figurative that is more fundamental. The vicarious or potential regret can be said to fall back on some notion of a generalized being the actor could have sympathized with, could have seen himself as like. Indeed, Smith's internal arbiters – he speaks of the conscience, the inhabitant, inmate, or man within the breast, the impartial spectator, the *supposed* impartial spectator, the *representative* of the impartial spectator – are all usefully interpreted as allegorical or metaphorical figures. Smith even let's on: "The real *or even imaginary* presence of the

impartial spectator, the authority of the man within the breast, is always at hand ...”

(TMS, 292, italics mine).

I suspect that the conclusion that there is social error without any agent error rubs us, as human beings, the wrong way. I suspect that we are programmed<sup>26</sup> to think that if there is social error, somewhere along the line there must be agent errors. If, as some allege, our instincts are rooted in the Paleolithic small band, a society so simple that any sense of social error would plausibly be amenable to correction by the alphas, it would make sense that we instinctively feel that social error implies agent error.

I suspect that we are programmed to think that Smith’s fourth source of moral approval, particularly the aesthetic beauty in the social system writ large advancing happiness, tends to go with the other three sources, which have to do with the propriety of the micro behaviors in terms of the actor’s intentions, the moral responses of those effected, and how those micro interactions fit customs or established rules of conduct. Indeed, there are cultural dynamics which may give rise to such consonance between the four sources of moral approval: When some analyst, at 100,000 feet up, notices failings at the grand fourth source she tends to voice them and challenge the sense of propriety that has till now inhered in the baneful microbehaviors. In a book like Thomas Schelling’s *Micromotives and Macrobehavior* (1978), someone explains how erstwhile blameless micromotives spell bad macrobehavior, people read the book, and the troublesome microbehavior *becomes less blameless*. Smith, who rode a position of cultural royalty, tended in TMS to play up such consonance, at least in affairs among “equals.”

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<sup>26</sup> Programmed, that is culturally or genetically, though, as Hayek argues, culture plays such a large role in both genetic selection and genetic exfoliation that the distinction is dubious.

But in a world checkered with baneful policies that enjoy official propriety and the assent or even approval of the cultural elites, and are awfully imperviousness to challenge, the presumption of consonance seems much less assured. We should allow that even very persistent Joy error does not necessarily entail any agent error of the *actual* sort (as opposed to the vicarious or potential sorts). If humans tend to over-estimate the traversability of the impasse between Joy error and agent error, that could help explain why they are disinclined to bring out the allegory behind social error, for they feel they can make due by indicating agent errors.

Humane optimism and aspiration certainly goes along with supposing that someone on the ground could feel self-reproach in his helping to establish or preserve what, from 100,000 feet up, is seen as a baneful arrangement of practices. At any rate, the culture tends to welcome such humane optimism. Presuming agent error, focusing on agent error, then, signals one's rejection of the disagreeable, fatalistic view of no agent-error. Indeed, to embrace the fatalistic view, to surrender efforts at vicarious and hope for potential agent regret, would be to give up engagement and fundamentally to reject Smith's Solonic outlook. Signaling against the fatalistic view might help explain why the allegory remains as tacit as it does.<sup>27</sup>

### Social or Policy Correction – or Lack thereof

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<sup>27</sup> Incidentally, among the ways that the great economist George Stigler in his last three decades distinguished himself was by propounding the fatalistic view (e.g., 1982), as well as by championing the related views that knowledge should be flattened down to information and that the concept of liberty was nugatory. His inconsistencies and absurdities in these matters were often so immediate that sympathetic onlookers tend to see his sermons as arch irony. Less sympathetic onlookers may see them as irresponsible whimsy.

Hayek, Kirzner, Armen Alchian (1950), and others have stressed that the fertility and flexibility of an economic system lay in its propensities to correct its own errors – that is, Joy errors. Consider what happens when an FDA-permitted drug is found to be harmful. Patients suffer and actors in the private nexus adjust rapidly, as the patients, doctors, pharmacies, health institutions, the manufacturer, lawyers, journalists, and others quickly stop the harm; they act quickly to correct the Joy errors.

How well do Joy errors located in government self-correct? Permitting a bad drug leads to identifiable sufferers and public outcry. Not permitting a beneficial drug, however, leads to little public outcry. The suffering is relatively neglected, *unseen*, overshadowed by what is officially intended. FDA critics who identify the Joy error in FDA stinginess – who, that is, do the analysis at Smith’s fourth source – seem to have very little political or cultural traction; they too seem to be largely ignored. That is why the FDA official may feel secure and just as regards Smith’s first three sources of moral approval. Moreover, each person tends to get locked into basic beliefs and outlooks,<sup>28</sup> – “I may become more deeply entrenched in my historical context, progressively less capable of understanding myself and others” (Forman-Barlitz 2005, 208) – a fact that dims our hopes of her coming to feel regret. Within the socio-politico-cultural ecology, therefore, the evolution of the links between Joy interest and agent interest, the process for correcting Joy errors, is often extremely bad.

Smith and Hayek taught that libertarian arrangements tend to align Joy and agent interest. In the free context, most Joy errors tend to be self-correcting. In a highly governmentalized context, many of the most grievous Joy errors do not have similar

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<sup>28</sup> On the lock-in of ideological views by the age of 25 or 30, see for example Jennings (1990, 347-48), Alwin et al (1991, 60), and Sears and Funk (1999, 1). Smith (TMS, 158), Kierkegaard, and Schopenhauer also commented on such lock-in.

tendencies toward self-correction. Buchanan (1999) says: “There is no political counterpart to Adam Smith’s invisible hand” (458).

### Agent Error Is a Matter of Culture

The FDA official may pretend to be deciding with the general interest in mind – he may pretend to be following the communications that would flow from a benevolent figurative being. Yet often he does not, either because the pretense is fake or because he misunderstands the general interest and how to advance it. Perhaps his figurative beings differ quite fundamentally from others’.

One reason that the micro contexts of bad policy often feel just is that, by procedure and by taboo, political culture has cordoned off certain aspects and consequences, particularly those on coerced and their would-be trading partners, into seemingly separate moral contexts or, indeed, into docility, acquiescence, silence, and invisibility. Whether the FDA official would reproach himself for being stingy depends on his moral qualities, intellectual understandings, and cultural pressures. As Forman-Barzilai (2005) says, rendering an enlarged cross-cultural judgment “requires that the spectator be able to question and sometimes subvert the very measure by which he has become accustomed to judging himself and the world” (207). Lauren Brubaker expresses similar concerns:

The desire to receive the sympathy or approval of others, however, leads us to conform to the opinions of others. When the actual spectators and the impartial spectator are in conflict, as is almost always the case when there are divisions or disagreements in society, the desire for sympathy is corrupting. Under most political conditions, then, the natural desire for sympathy leads us to adopt the

partial opinions of our religious, ethnic, political or economic peers at the expense of impartiality. (Brubaker, 2006, 200-01)

What is so saddening about governmentalization is that it not merely suppresses the fruits of voluntary actions but breeds cultures that make the bonds of candid and natural discourse, sympathy, and approbation so clouded, conflicted, and weak. Smith writes:

The great pleasure of conversation and society, besides, arises from a certain correspondence of sentiments and opinions, from a certain harmony of minds, which like so many musical instruments coincide and keep time with one another. But this most delightful harmony cannot be obtained unless there is a free communication of sentiments and opinions. (TMS, 337)

Governmentalization sometimes perversely tends toward the disjoining of one source level from the next, yielding cultural confusion, degeneracy, deep disharmonies, and unhappiness. For many people, these moral and cultural consequences are quite central in judging policy and politics – more central, in fact, than they usually manage to communicate. We want a better world materially, but more importantly we want a better world culturally. Indeed, when we read Smith’s descriptions of the “superior stations,” where, unlike “the middling and inferior stations,” honesty is not the best policy,<sup>29</sup> when we notice Smith’s confidence in and favor for active agency, rather than passive bystanding,<sup>30</sup> when we heed his emphasis on the love and esteem of “those we live with,”<sup>31</sup> we feel that Smith is concerned primarily with the moral and cultural, as opposed to the material. “What can be added to the happiness of the man,” Smith asks, “who is in health, who is out of debt, and has a clear conscience?” (TMS, 45).

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<sup>29</sup> TMS, 63-66.

<sup>30</sup> E.g. TMS, 68, 83, 137, 188-91.

<sup>31</sup> TMS, 116, 122, 166-67, 200, 213, 253-54, 272, 295, 297, 298, 307.

In addition to the officially superior stations, things are difficult also when it comes to cultural figures. One must judge the wisdom and scruple of the scholar and the pundit. He may be very eminent and, by well established standards, satisfy moral norms at the first three sources of moral approval, but his ideas may be nefarious and fail in the matter of the fourth source, although he does not think so.

Some measure of correction may come by directing understanding, criticism, and judgment to what is being done and what should be done. These efforts help to align Joy error and agent error. After all, what actually keeps government and political culture from being much worse is not any democratic accountability but rather the fair measure of decency and enlightenment nestled within each agent within those structures. It is primarily as lattice of not-too-terribly-unenlightened despots that politics works as well as it does.

## Concluding Remarks

Most of the morality plays in *The Theory of Moral Sentiments* are of a private nature, interaction among neighbors or “equals,”<sup>32</sup> where the broad social view plays little role. That is why the impartial spectator is usually thought to be a personal moral advisor, not a political economist. *The Wealth of Nations*, however, was an annex of *The Theory of Moral Sentiments*, making together a more extensive system of moral sentiments. *The Wealth of Nations* explores the broad view in *TMS*'s fourth source

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<sup>32</sup> As noted by the TMS editors D.D. Raphael and A.L. Macfie (p.40), from the fourth edition (1774) on, the title page included a description of the work: “The Theory of Moral Sentiments, Or An Essay towards an Analysis of the Principles by which Men naturally judge concerning the Conduct and Character, *first of their Neighbours*, and afterwards of themselves” (emphasis mine).

especially as concerns commercial behavior and public policy.<sup>33</sup> In that sense, contrary to what Vivienne Brown observes (1994, 46), perhaps the impartial spectator *does* appear in *The Wealth of Nations* – as the author. For, if the inmate within the reader’s breast is its representative, and if “To direct the judgments of this inmate is the great purpose of all systems of morality” (TMS, 293), then the author of such a system, if edifying and properly so, would be akin to the impartial spectator.

Smith was culturally tops in his day, but times have changed. In the worst cases, totalitarian cases, Hayek suggested, the worst get on top. The situation today in the United States and elsewhere is not nearly as bad as that, but still many of the positions of greatest political and cultural power tend to attract, breed, or prosper people who are less than attuned to Smith’s moral and economic sensibilities. Those more attuned may criticize them, but such criticism may smack up against the simpler sources of moral approval. It is obnoxious and offensive, at least to those criticized and all who go along with their sentiments and eminence. One consequence may be dismissal and freeze-out of our enlightened critic, reducing the good he does.

In a letter to David Ricardo, James Mill (1818) urged Ricardo to follow “the plain rule of utility which will always guide you right, and in which there is no mystery.” The passage is quoted by A.L. Macfie (1967), who adds: “No mystery for James Mill; but for Adam Smith there was always mystery” (146). For those who heed moral guides like those heeded by Smith and Hayek, the mystery may seem to grow ever more perplexing, but, still, there are helpful answers and less partial resolutions. There is sense in the

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<sup>33</sup> My remarks about *WN* as an annex of *TMS* comport with Stewart 1794, 310-15; Young 1997, Ch. 8, esp. pp. 192-93, 201; Macfie 1967, 61-62, 75f; and Otteson 2002.

liberal cultural project. Here I have suggested that that sense is well served by bringing implicit figures more clearly out into the open.

### Appendix:

#### Adam Smith's paragraph about the four sources of moral approval

Here Adam Smith is criticizing Francis Hutcheson's doctrine of a moral sense. Smith writes that in his own system the four sources of moral approval leave no place for a further moral sense.

When we approve of any character or action, the sentiments which we feel, are, according to the foregoing system, derived from four sources, which are in some respects different from one another. First, we sympathize with the motives of the agent; secondly, we enter into the gratitude of those who receive the benefit of his actions; thirdly, we observe that his conduct has been agreeable to the general rules by which those two sympathies generally act; and, last of all, when we consider such actions as making a part of a system of behaviour which tends to promote the happiness either of the individual or of the society, they appear to derive a beauty from this utility, not unlike that which we ascribe to any well-contrived machine. After deducting, in any one particular case, all that must be acknowledged to proceed from some one or other of these four principles, I should be glad to know what remains, and I shall freely allow this overplus to be ascribed to a moral sense, or to any other peculiar faculty, provided any body will ascertain precisely what this overplus is. It might be expected, perhaps, that if there was any such peculiar principle, such as this moral sense is supposed to be, we should feel it, in some particular cases, separated and detached from every other, as we often feel joy, sorrow, hope, and fear, pure and unmixed with any other emotion. This however, I imagine, cannot even be pretended. I have never heard any instance alleged in which this principle could be said to exert itself alone and unmixed with sympathy or antipathy, with gratitude or resentment, with the perception of the agreement or disagreement of any action to an established rule, or last of all with that general taste for beauty and order which is excited by inanimated as well as by animated objects. (TMS, 326-27)

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