

# The role of teleology in Adam Smith's Wealth of Nations

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## I Introduction

It is now the common view that Adam Smith's "invisible hand" was nothing more than a colourful metaphor for his perception, well grounded in observation and theory, that competitive markets tend spontaneously to allocate a society's economic resources in an optimal manner. Today most historians of economics would probably agree. But it hasn't always been so. It was once widely accepted that the concept signalled Smith's belief in the existence of a benevolent deity. Scholars further supposed that his entire "system of natural liberty" rested on this teleological foundation and could not be sustained without it. The early interpretations had some merit. In this paper I argue that the idea of a divine creator played a significant role in his Inquiry into the Nature and Causes of the Wealth of Nations.

In the latter half of the nineteenth-century, critics maintained that economic liberalism ultimately derived from the outmoded Enlightenment doctrine of a natural order. To prove their case, they pointed to the main treatise from which liberal political economy developed, the Wealth of Nations. According to Cliffe Leslie, the "original foundation" of Smith's whole intellectual approach was "that theory of Nature which . . . taught that there is a simple Code of Nature which human institutions have disturbed, . . . and a beneficial and harmonious natural order of things which appears wherever Nature is left to itself." Smith "blended" the classical ideal of a natural order "with the theological conception of 'that great, benevolent, and all-wise Being, who directs all the movements of nature, and who is determined . . . to maintain in it at all times the greatest possible quantity of happiness'" ([1870] 1879, pp.151, 153; citation is from TMS VI.ii.3.2). The "real ground of his confidence in the beneficial economy resulting from the undisturbed play of individual interest, is expressly stated in the Wealth of Nations, as well as in his Theory of Moral Sentiments, to be the guidance of Providence" ([1875] 1879, p.173). Smith imparted this bias to all subsequent analysis in classical political economy. "[E]conomic investigation would long since have penetrated beneath the surface of pecuniary interest to the widely different character of the real aims determining the nature and uses of wealth, but for that assumption of an identity between public and private interest which Adam Smith's authority converted into an axiom" ([1870] 1879, p.155).

The same view of Smith's work (and implicitly of the laissez-faire programme) was put forward by Wilhelm Hasbach, a member of the German Historical School. The "point of departure" for Smith's work in general and the foundation of his system of natural liberty, was

the tenet of a God whose most prominent properties were the greatest possible wisdom and beneficence. His highest purpose in creating the world was human happiness. For the realization of his ultimate ends he made use of mechanics. The Creator is to be compared to a watchmaker, who has so artfully assembled the gears of the world that it produces order, harmony, beauty and happiness without the gears knowing or willing this outcome. (1891, p.7)

Hasbach pointed to Smith's scheme of a natural sequence for the allocation of capital as evidence for the influence of such a principle in the Wealth of Nations. People naturally prefer to invest in agriculture rather than in manufacturing or trade; yet agriculture also happens to be the most productive of the three sectors. "In this agreement between the drives of mankind and the external conditions of existence the hidden power, the invisible hand of the Creator, shows itself anew" (pp.10-11).

This interpretation of the Wealth of Nations was challenged in the second quarter of the twentieth century, not surprisingly by scholars defending a liberal outlook on the major economic policy questions of the day. An early approach was to grant that Smith's economic analysis had been guided by the principle of a benevolent deity, but to insist that in the end he had discovered a set of this-worldly causes sufficient in themselves to explain the observed connection between individual self-interest and the public good. This line of argument was first adopted by Jacob Viner upon the occasion of the sesquicentennial of the publication of the Wealth of Nations ([1927] 1958). Viner allowed that in the Theory of Moral Sentiments (first published in 1759) Smith had indeed constructed his system by a priori reasoning from the basic presupposition of a divinely-created natural order. But, he speculated, by 1776 Smith had largely abandoned that precept. And even if it was still the "secret basis" for his conclusions, in the actual presentation of his case Smith had relied solely upon facts. His "argument for the existence of a natural harmony in the economic order, to be preserved by following the system of natural liberty, is, in form at least, built up by detailed inferences from specific data and by examination of specific problems, and is not deduced from wide-sweeping generalizations concerning the universe in general" (p.224). Viner gave as further evidence for a factual rather than dogmatic orientation Smith's allowance that the harmony of the economic order was far from perfect.

Viner's view was echoed by other scholars of the period. Overton Taylor admitted that the idea of economic harmony originally derived from eighteenth-century ideas of a natural teleology, but felt it transcended these roots. "For even when we reject the notion that Providence ordained the laws of nature, we do not therefore necessarily reject the belief, which must of course be tested by facts, that the processes described by scientific laws are processes of adjustment of things to changing conditions, which tend to preserve a certain measure of 'order' and 'harmony'" (1929, pp.30-1). And even eighteenth-century theorists, he maintained, had arrived at their laissez-faire conclusions primarily upon empirical grounds. Their "optimistic philosophy of the harmonious order and wise laws of nature was perhaps not so much a deduction from a priori theological postulates, as an inference from facts which were in the main correctly analyzed" (p.32). Henry Bittermann asserted that "[w]hile Smith believed in some natural order, he stated his theory in a form such that its main conclusions could be accepted or rejected irrespective of the implied theological sanction" (1940, p.718). Specifically, in "his analysis of morals and economics, Smith repeatedly returned to the 'facts' of human nature as the efficient causes" (p.731). Schumpeter generalized this line of argument to all scientific inquiry:

For any [scholarly] worker whose philosophy includes Christian belief, research is research into the works of God. For him, the dignity of his vocation flows from the conviction that his work is revealing a part, however small, of the Divine order of things. . . . Nevertheless nobody doubts . . . (a) that the scientific work of the four authors mentioned [Newton, Leibniz, Euler, and Joule] was not deflected from its course by their theological convictions; (b) that it is compatible with any philosophical positions; and (c) that there would be no point in trying to explain its methods or results by

their philosophical positions. . . . They put their scientific work in a theological garb. But, so far as the content of this work is concerned, the garb was removable. (1954, pp.30-1)

Of more recent vintage is the view that Smith's reference to an "invisible hand" never had teleological associations in the first place. This interpretation was first put forward by William Grampp. In the Theory of Moral Sentiments, he argued, Smith had indeed needed the idea of a benevolent deity. At that time he thought human beings were deceived into pursuing wealth by a yearning for sympathy, and that social order (a prerequisite for the increase of wealth) was ultimately the product of innate tendencies to revere power and abhor poverty (1948, pp.317-20). A deity was needed to explain the existence of sympathy and other innate tendencies. But in the Wealth of Nations, Smith portrayed the pursuit of wealth as a rational activity, and "[j]ustice is no longer regarded as the special charge of a benevolent deity but as the particular care of government, which exists for the very mundane reason of protecting property" (pp.327-8). Grampp concluded of the later work: "Smith did not say that the economic man was moved by a providential force. . . . The natural order of the economic man is the product of his pecuniary interest seeking expression on a free market. The natural order is simply competition" (p. 336).

Following Grampp's lead, most post-WWII historians of economic thought have favoured a thoroughly secular interpretation. Robbins, for instance, asserted that the "invisible hand which guides men to promote ends which were no part of their intention, is not the hand of some god or some natural agency independent of human effort; it is the hand of the lawgiver, the hand which withdraws from the sphere of the pursuit of self-interest those possibilities which do not harmonize with the public good" (1952, p.56). In Letwin's view, "[t]he invisible hand is introduced as a literary embellishment . . . and not, as it has often been misrepresented, a dogmatic assertion of 'natural harmony' in economic life;" Smith merely "was asserting that man's natural tendency [is] to follow their self-interest" (1963, p.225). O'Brien thought that in the Theory of Moral Sentiments Smith held to a "teleological view of the universe," or "harmony theory." But "by the time he came to write the Wealth of Nations he was more concerned to stress the extent to which harmony required law," and showed that the "pursuit of self-interest ensured (subject to an appropriate framework) optimal resource allocation" (1975, p.30). Blaug wrote: "'the obvious and simple system of natural liberty,' which is said to reconcile private interests and economic efficiency, turns out upon examination to be identical with the concept of competition; the 'invisible hand' is nothing more than the automatic equilibrating mechanism of the competitive market" (1985, pp.57-8). And Rothschild is of the view that Smith "did not particularly esteem the invisible hand and thought of it as an ironic but useful joke" (1994, p.319).

Within the last decade or so, however, the older interpretation has begun to make something of a comeback.<sup>1</sup> Following in this vein, I shall argue that Leslie and Hasbach were correct; Smith did build his analytical framework around the supposition of a natural teleology of divine origin. In Section II, I demonstrate that to explain the connection between self-interested behaviour and public well-being, Smith ultimately relied upon certain "propensities" of human nature. In Section III, I show why this gives the concept of a benevolent divinity an important role to play in the Wealth of Nations. In Section IV, I examine briefly the implications for our understanding of the book as a whole.<sup>2</sup>

## **II Smith on the Fundamental Causes of Economic Growth**

Smith's "system of natural liberty" ultimately rested upon his claim that national wealth tended to increase spontaneously, without need of "extraordinary encouragements" from the statesman (WN IV.ix.50).<sup>3</sup> His central analytical purpose was therefore to demonstrate that the specific causes of national wealth did not depend upon conscious human oversight. Of the proximate causes he identified for economic growth, two are very well known: the division of labour (WN I.i-iii) and capital accumulation (WN II.iii). Another cause, to which less attention has been paid, he called the establishment of "order and good government"—a precondition for capital accumulation (WN III.ii-iv). He added that a society's capital stock is allocated best (for the purposes of further capital accumulation) when individuals are permitted to invest where they see fit (WN II.v-III.i). In this section I show that Smith ultimately traced these main causes of economic growth to the operation of certain instinctive "propensities" of human nature.

### **A The division of labour**

On Smith's account, the original cause of the division of labour was the propensity to truck, barter and exchange; for it was only in the course of frequent exchanges that individuals discovered specialization enhanced their wealth (WN I.ii.3). By the term "propensity" Smith always seems to have meant an instinctive tendency to behave in a certain way without prior recognition that such behaviour might prove advantageous to oneself. At first glance it would seem that he did not consider barter a propensity in this strict sense of the word. For as he immediately proceeded to explain, civilized human beings traded to secure goods and services needed for their survival. They found it more efficacious to appeal to others' self-interest than to their benevolence for this purpose. In referring to barter as a propensity, however, Smith seems to have been thinking not of its function in civilized societies but of its historical origin. In "rude" societies barter was not originally a means of survival, since most hunters and gatherers were self-sufficient. Smith's bow-and-arrow maker was already in the habit of frequent exchange before specialization had emerged, and so before it was necessary to his subsistence (WN I.ii.3).

How then did people in rude societies first come to exchange goods and services with one another? Unfortunately, Smith supplied no explanation in the Wealth of Nations, aside from the vague suggestion that exchanges were undertaken principally out of good will and reciprocated in like manner. But he did give an answer in his Glasgow lectures—the human propensity for persuasion:

If we should enquire into the principle in the human mind on which this disposition of trucking is founded, it is clearly the naturall inclination every one has to persuade . . . You are uneasy whenever one differs from you, and you endeavour to persuade him to be of your mind. . . . and to this every one is breeding thro their whole lives . . . This being the constant employment or trade of every man, in the same manner as the artizans invent simple methods of doing their work, so will each one here endeavour to do this work in the simplest manner. That is bartering, by which they adress themselves to the self interest of the person and seldom fail immediately to gain their end. (LJ p.352; see also the parallel passage at LJ pp.493-4)

This passage suggests that people began offering something of benefit to others (a service or commodity) in order to buy their affections, as it were. At first therefore,

there may only have been a one-sided gift rather than a proper exchange. But the process would soon have become bilateral because those receiving gifts were equally interested in purchasing the agreement of the other party (whether on this same issue or some other). Even though reason suggested the strategy of offering a gift to purchase agreement, it may still have made sense for Smith to refer to barter as a propensity. For in its origin the swap was never undertaken for its own sake; it arose rather as ceremonial, almost involuntary side-effect of another more fundamental negotiation—for a mutual meeting of the minds.

## **B The accumulation of capital**

Smith attributed capital accumulation to parsimony, for whatever a person saves from their current revenue, he asserted, is always added to their capital. This is because most of us have a strong “desire of bettering our condition” (WN II.iii.15) and by Smith’s very definition of capital (any stock of commodities set aside for the purpose of generating further wealth as opposed to being used for immediate consumption), savings can enhance wealth only when they are employed as capital. So the ultimate cause of capital accumulation is the pursuit of wealth. While we typically regard this as a thoroughly rational preoccupation, Smith seems to have thought otherwise. There is only one slim indication of this in the Wealth of Nations itself. In criticizing Quesnay, he described the desire of bettering our condition as analogous to that “unknown principle of preservation” by which the human body keeps itself healthy despite even the most absurd prescriptions of the physician. “In the political body, . . . the wisdom of nature has fortunately made ample provision for remedying many of the bad effects of the folly and injustice of man; in the same manner as it has done in the natural body, for remedying those of his sloth and intemperance” (WN IV.ix.28; emphasis added). This passage suggests that Smith considered the desire of bettering our condition to be an instinct or propensity.

That classification was made explicit in the Theory of Moral Sentiments, in his explanation of “that great purpose of human life which we call bettering our condition” (TMS I.iii.2.1). Smith observed, first, that it cannot be motivated by the physiological utility of commodities. For the goods physically necessary to human happiness may easily be obtained upon the wages of the common workman; if anything, one sleeps more soundly in a cottage than a castle. This view is elaborated in Smith’s homily on the “poor man’s son, whom heaven in its anger has visited with ambition” (TMS IV.1.8). The latter’s pursuit of wealth obviously comes at the expense of his own well-being defined in some larger, non-material sense. To explain the desire of bettering our condition, Smith had recourse instead to vanity: the desire for attention. His argument turned on two propositions established earlier in the book. First, human beings experience an instinctive pleasure when they attain “mutual sympathy,” that is, when they know their own sentiments to be equal in intensity to the spectator’s sympathetic emotions. Likewise, the absence of mutual sympathy is painful (TMS I.i.2). Second, “our propensity to sympathize with joy is much stronger than our propensity to sympathize with sorrow; . . . our fellow-feeling for the agreeable emotion approaches much more nearly to the vivacity of what is naturally felt by the persons principally concerned, than that which we conceive for the painful one” (TMS I.iii.1.5). Smith proceeded to argue that human beings pursue riches and shun poverty because they find the former the best means to attain the pleasure of mutual sympathy and the latter a great obstacle to it. The enjoyable sentiments generated in spectators when they contemplate the trappings of wealth help procure their sympathy more readily. “The

rich man glories in his riches, because he feels that they naturally draw upon him the attention of the world, and that mankind are disposed to go along with him in all those agreeable emotions with which the advantages of his situation so readily inspire him” (TMS I.iii.2.1).

Later in the Theory of Moral Sentiments, Smith elaborated on this argument, explaining that the enjoyable sentiments produced by owning or contemplating wealth derive mainly from an instinctive fascination with well-crafted devices. The “exact adjustment of the means for attaining any conveniency or pleasure [is frequently] . . . more regarded, than that very conveniency or pleasure, in the attainment of which their whole merit would seem to consist” (TMS IV.1.3). For instance, individuals take no pleasure in a watch which runs two minutes late in a day, even though such a timepiece is perfectly adequate for its purpose—punctuality in the normal degree (TMS IV.1.5). The owner’s delight derives not from the usefulness of the watch but from its fine crafting. It is this instinct that causes wealth to garner the spectator’s sympathy and so makes the pursuit of wealth a rational course of action for pleasure-maximizing individuals.

If we examine . . . why the spectator distinguishes with such admiration the condition of the rich and great, we shall find that it is not so much upon account of the superior ease or pleasure which they are supposed to enjoy, as of the numberless artificial and elegant contrivances for promoting this ease or pleasure. . . . And it is the ingenious and artful adjustment of those means to the end for which they were intended, that is the principal source of his admiration. (TMS IV.1.8)

In sum, on Smith’s view people do not pursue wealth because of a prior, reasoned reflection on its capacity to enhance their material or physiological well-being. Rather, they are driven to this behaviour by an instinctive fascination for well-crafted devices (which are no more useful for their intended purposes than other, less elaborate contrivances) and by a largely unthinking awareness that in the possession of such objects lies their best hope of attaining the admiration of others. Even that admiration itself derives not from utilitarian considerations upon the material advantages of possessing wealth, but from the same, mainly instinctual grounds.

### **C Order and good government**

In Book III of the Wealth of Nations, Smith explained how certain institutional prerequisites for the pursuit of wealth—the existence of order and good government, and their concomitants, the liberty and security of individuals—came to be re-established in Europe after the fall of the Roman empire. The immediate cause in the towns was a power struggle among king, lords and burghers (WN III.iii.1-16); in the countryside, it was the introduction of refined manufactures from abroad that seduced landlords into dismissing their retainers and raising their rents (WN III.iv.4-18). The latter development was driven in turn by an instinctive fascination for well-crafted devices. Landlords “sold their birth-right”—their political power—“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 play-things of children than the serious pursuits of men” (WN III.iv.15).

A further cause is indicated, however, since there is no inherent reason why an abatement in the lords’ political power should have led to political stability rather than anarchy. Smith supplied this cause in the Theory of Moral Sentiments: the “distinction of ranks,” ie, a general tendency to admire and support the nobility (TMS I.iii.2). This

force was traced in turn to the same principles operative in the pursuit of wealth. In assessing an agent's action, the spectator always weighs the emotions expressed in the act against his own sympathetic emotions. He approves when these two emotions are equal in intensity, and disapproves in proportion to the extent of their inequality (TMS I.i.3). Now the spectator always conceives a high degree of sympathy for the leaders of his society, on account of their enormous wealth. Consequently he tends to disapprove very strongly of actions by which the great are injured. "Every calamity that befalls them, every injury that is done them, excites in the breast of the spectator ten times more compassion and resentment than he would have felt, had the same things happened to other men. . . . The traitor who conspires against the life of his monarch, is thought a greater monster than any other murderer" (TMS I.iii.2.2). Any agents contemplating injury of society's leaders know their act will meet with great disapproval. This painful prospect induces them not to pursue such a course of action. Hence instinct, not reason, is the source of popular support for the political status quo. On occasion this instinct even pits itself against the dictates of reason:

Even when the order of society seems to require that we should oppose them [viz. our superiors], we can hardly bring ourselves to do it. That kings are the servants of the people, to be obeyed, resisted, deposed, or punished, as the public conveniency may require, is the doctrine of reason and philosophy; but it is not the doctrine of Nature. Nature would teach us to submit to them for their own sake, to tremble and bow down before their exalted station, to regard their smile as a reward sufficient to compensate any services, and to dread their displeasure, though no other evil were to follow from it, as the severest of all mortifications. (TMS I.iii.2.3)

#### **D The optimal allocation of capital**

Finally, there is Smith's claim that a nation's wealth increases most rapidly when individuals are permitted to invest their capitals as they see fit. His argument may be summarized as follows. Equal amounts of capital add most to the value of the society's annual produce when invested in agriculture, and successively less in manufacturing, wholesale trade, and retail trade (WN II.v.8-12). This is because the proportion used to maintain productive labour (as opposed to purchasing input materials) is highest in agriculture and successively lower in the other sectors,<sup>4</sup> and because nature contributes the value of rent in agriculture (WN II.v.12).<sup>5</sup> Equal amounts of capital in commerce add most value in the home trade, less in the foreign trade of consumption, and least of all in the carrying trade (WN II.v.24-31). For capital employed in the home trade replaces two domestic capitals and so permits the immediate re-employment of two sets of productive labourers. By contrast, capital employed in the foreign trade of consumption replaces only one domestic capital, and in the carrying trade none. Now in the "natural progress of opulence," given equal profit rates, individuals will allocate their capital first to agriculture. For it is the most secure sector and individuals are attracted by the beauty, tranquillity, and independence of farming (WN III.i.3). When opportunities for agricultural investment are exhausted, capital is allocated next to manufacturing, since it is the next most-secure field of investment. Capital doesn't flow into wholesale trade, the least secure employment, until the previous two sectors are fully stocked.<sup>6</sup> In commerce, merchants' efforts to minimize risk and economize on the cost of reloading their wares cause capital to "gravitate" to the trades closest to home (WN IV.ii.6). Finally, in the home trade, merchants' profit-maximizing behaviour

ensures the maximum amount of value is added to the society's annual produce (WN IV.ii.7-9).

On this interpretation, while maximizing behaviour clearly has a large role to play, it would not result in the optimal allocation of capital without a) the tastes for security, beauty, peace and independence; b) the fact that agriculture, manufacturing, and trade offer descending degrees of investment security (as well as beauty, peace and independence); c) the tendency for agriculture to be more labour-intensive than manufacturing, and the latter more so in turn than trade; and d) the alleged "free" productive contribution of nature in agriculture. This is not to suggest that modern neoclassical economists would be content with such an explanation of capital allocation (clearly they would not). But it is a faithful reporting of how Smith constructed his analysis.

Samuel Hollander has suggested that Smith explained the priority of agricultural over manufacturing investment by means of factor endowments and relative prices alone (1973, pp.280-3). He cited Smith as follows:

In our North American colonies, where uncultivated land is still to be had upon easy terms, no manufactures for distant sale have ever yet been established in any of their towns. When an artificer has acquired a little more stock than is necessary for carrying on his own business in supplying the neighbouring country, he does not, in North America, attempt to establish with it a manufacture for more distant sale, but employs it in the purchase and improvement of uncultivated land. . . .

In countries, on the contrary, where there is either no uncultivated land, or none that can be had upon easy terms, every artificer who has acquired more stock than he can employ in the occasional jobs of the neighbourhood, endeavours to prepare work for more distant sale. The smith erects some sort of iron, the weaver some sort of linen or woollen manufactory. (WN III.i.5-6)

Hollander translated: Early in the colonies' development, land was abundant and hence cheap. This in turn diminished the supply of wage labourers (who became farmers as soon as they could afford a sufficient number of acres) and so raised wages. High wages kept the profit rate in manufacturing persistently below that in agriculture, directing capital to the latter sector. According to Hollander, Smith employed the same principles to explain the subsequent flow of capital into the manufacturing sector: "The rate of profit in agriculture would evidently tend to fall relatively to that in manufactures as the growth in population led, on the one hand, to a growing scarcity of land, and a consequent increase in rents, and, on the other, to reduced wages." Hollander drew on Book IV to strengthen his case. On Smith's account, land scarcity in Britain entailed an abundant labour supply and low wages. This enabled British manufacturers to export "refined manufactures" to America at relatively low prices, and so depressed the profit rate in colonial manufacturing below that available in agriculture. He cited Smith on the colonies: "Land is still so cheap, and, consequently, labour so dear among them, that they can import from the mother country, almost all the more refined or more advanced manufactures cheaper than they could make them for themselves" (WN IV.vii.b.44).

But Hollander's interpretation cannot sufficiently account for the alleged tendency of capital to flow first to agriculture and only later into manufacturing and trade. High wages would have reduced profits for colonial manufacturers only if the latter employed wage labourers. But consider the sentences for which Hollander substituted ellipses in his citation from WN III.1.5-6:

From artificer he becomes planter, and neither the large wages nor the easy subsistence which that country affords to artificers, can bribe him rather to work for other people than for himself. He feels that an artificer is the servant of his customers, from whom he derives his subsistence; but that a planter who cultivates his own land, and derives his necessary subsistence from the labour of his own family, is really a master, and independent of all the world. (WN III.i.5)

This passage indicates that Smith was thinking of self-employed manufacturers (since they sold directly to their customers) and that he posited a profit-rate differential in favour of manufacturing, not agriculture (large wages, which include the profits of self-employed artisans, could only constitute a “bribe” if the net return to farming was lower). Hence the tastes for beauty and independence are still needed for the priority of agricultural investment, in order to offset the higher returns available in manufacturing. At first glance, Hollander’s appeal to British competition seems more successful; Smith certainly did argue that cheap imports made most colonial manufactures unprofitable. The problem is that the concept of foreign competition was introduced only in Book IV, while in Book III (where it is never mentioned) Smith asserted manufactures for more distant sale gave a better return than farming. This is probably because the principle of British competition was logically inadmissible in WN III.1, where his focus was the “natural progress of opulence”—the hypothetical case of a nation developing in the absence of interventionist legislation. On Smith’s portrayal, the “natural” progress of wealth occurs in splendid isolation. He did use the colonies for an example in that chapter, but only as the closest available real-world substitute; the substitution was imperfect precisely because the colonies developed alongside nations already producing advanced manufactures. In the absence of cheap imports, however, and given sufficient demand, nothing can keep the profit rate in manufacturing below that in agriculture. In the natural progress of opulence, only the taste for independence can prevent capital being allocated to manufactures for more distant sale before agriculture is fully stocked.

### III The Analytical Role of Smith’s Concept of a Benevolent Deity

In the Jayne Lectures for 1966, subsequently published as The Role of Providence in the Social Order, Viner noted that Smith had located the fundamental causes of his moral and economic analyses in what Viner called the “sub-rational” domain of human nature (1972, pp.77-81)—a finding confirmed above. This led Viner to conclude (having changed his mind since 1927) that “Adam Smith’s system of thought, including his economics, is not intelligible if one disregards the role he assigns in it to the teleological elements” (1972, p.82). Unfortunately, Viner’s logic was not obvious and he did not elaborate. I propose to make sense of his position by examining more closely the propensities from which Smith built his system.

Smith identified three basic causes of economic growth: the division of labour, capital accumulation, and the existence of order and good government. In tracing their origins he was always concerned to deny any significant role to human foresight. People came to specialize not because they recognized this would lead to the rapid increase of national wealth but because they enjoyed trading for its own sake. They were first induced to barter not because they saw this would contribute to their own survival, but from an instinctive delight in persuading others to their own point of view. Human beings do accumulate capital with the recognized goal of becoming wealthy. Their desire for wealth, however, stems not from any reasoned contemplation of the uses to which it might be put, but from an unthinking fascination with well-contrived

devices and an instinctive desire to be noticed by others. Feudal barons never foresaw that their penchant for “baubles” would eventually eliminate their capacity to domineer—which if anything they loved far better than wealth itself. Citizens do not obey their political leaders because they know this will lead to social stability, but quite instinctively; indeed, on occasion this natural sentiment is positively counter-productive from a utilitarian point of view. Furthermore, individuals spontaneously allocate their capital to agriculture above all other sectors not because they know this is the best way to increase national wealth, but because they desire security, beauty, quiet and independence and a farmer’s life happens to satisfy those tastes better than any other.

Since Smith denied any significant role to conscious human foresight in the process of wealth formation, his analysis leads to an obvious question: how did human beings come by those particular instincts that turn out to be essential for the spontaneous increase of national wealth? His modern interpreters have offered varying solutions to this problem. Some favour Darwin’s thesis of natural selection (Campbell 1971, pp.3-8; Coase 1976, pp.538-41). Others rely upon Hayek’s “theory of spontaneous order”, which traces fortuitous global outcomes not to instincts but to the happenstance rules of conduct adopted by different societies (Barry 1982, pp.25-8; Hamowy 1987, pp.13-22; Hayek 1988, pp.11-17). Order, that is, results from a kind of natural selection: societies that choose rules conducive to disorder do not survive as well. A third strand of interpretation draws upon Robert Merton’s concept of “the unanticipated consequences of purposive action” (Haakonssen 1981, p.78; Schneider 1979, pp.47-54). It should be noted, however, that this is more a handsome slogan than a genuine explanation of Smith’s problem. For though Merton acknowledged that “psychological considerations of the source or origin of motives . . . are undoubtedly important for a more complete understanding of the mechanisms involved in the development of unexpected consequences”, he explicitly chose to “ignore” that particular issue in his own work (Merton 1936, p.896).

The key point, however, is that while such principles may offer viable solutions to the problem at issue, Smith himself seems to have had a very different answer in mind. Specifically, he supposed that some kind of divine being,<sup>7</sup> with the objective of producing the greatest possible amount of human happiness, deliberately implanted the necessary sentiments and propensities in human nature at the time of creation. The premise is spelled out in numerous passages throughout the Theory of Moral Sentiments. Consider the following few examples: “The ancient stoics were of opinion, that as the world was governed by the all-ruling providence of a wise, powerful, and good God, every single event ought to be regarded, as making a necessary part of the plan of the universe, and as tending to promote the general order and happiness of the whole” (I.ii.3.4). “Nature . . . seems . . . to have intended the happiness and perfection of the species” (II.iii.3.2). “The happiness of mankind, as well as of all other rational creatures, seems to have been the original purpose intended by the Author of nature, when he brought them into existence” (III.5.7).

Though man . . . be naturally endowed with a desire of the welfare and preservation of society, yet the Author of nature has not entrusted it to his reason to find out that a certain application of punishments is the proper means of attaining this end; but has endowed him with an immediate and instinctive approbation of that very application which is most proper to attain it. The œconomy of nature is in this respect exactly of a piece with what it is upon many other occasions. With regard to all those ends which, upon account of their peculiar importance, may be regarded, if such an expression is allowable, as the favourite ends of nature, she has constantly . . . not only

endowed mankind with an appetite for the end which she proposes, but likewise with an appetite for the means by which alone this end can be brought about, for their own sakes, and independent of their tendency to produce it. (TMS II.i.5.10)

“The idea of that divine Being, whose benevolence and wisdom have, from all eternity, contrived and conducted the immense machine of the universe, so as at all times to produce the greatest possible quantity of happiness, is certainly of all the objects of human contemplation by far the most sublime” (VI.ii.3.5).

Modern commentators have tried to downplay the significance of such passages. Some suggest that the Theory of Moral Sentiments was developed from lectures originally delivered to students destined for priesthood, and that Smith was merely catering to their prejudices. Others hypothesize that Smith may have been reluctant to challenge the religious conventions of his day and included such remarks merely pro forma. And many argue that Smith himself recommended removing final causes from “scientific” analysis, offering the following key passage in evidence:

In every part of the universe we observe means adjusted with the nicest artifice to the ends which they are intended to produce; and in the mechanism of a plant, or animal body, admire how every thing is contrived for advancing the two great purposes of nature, the support of the individual, and the propagation of the species. But in these, and in all such objects, we still distinguish the efficient from the final cause of their several motions and organizations. The digestion of the food, the circulation of the blood, and the secretion of the several juices which are drawn from it, are operations all of them necessary for the great purposes of animal life. Yet we never endeavour to account for them from those purposes as from their efficient causes, nor imagine that the blood circulates, or that the food digests of its own accord, and with a view or intention to the purposes of circulation or digestion. The wheels of the watch are all admirably adjusted to the end for which it was made, the pointing of the hour. All their various motions conspire in the nicest manner to produce this effect. If they were endowed with a desire and intention to produce it, they could not do it better. Yet we never ascribe any such desire or intention to them, but to the watch-maker, and we know that they are put into motion by a spring, which intends the effect it produces as little as they do. But though, in accounting for the operation of bodies, we never fail to distinguish in this manner the efficient from the final cause, in accounting for those of the mind we are very apt to confound these two different things with one another. When by natural principles we are led to advance those ends, which a refined and enlightened reason would recommend to us, we are very apt to impute to that reason, as to their efficient cause, the sentiments and actions by which we advance those ends, and to imagine that to be the wisdom of man, which in reality is the wisdom of God. (TMS II.ii.3.5)

From this paragraph Knut Haakonssen concluded:

The tendency to take that for a motivating force of behaviour which is really nothing but the unintended, de facto result of such behaviour was very common, according to Smith, and it was the basic weakness of all teleological metaphysics. In this Smith simply applied Hume’s general criticism of teleological explanations to such explanations of the moral world, and in doing so he also followed Hume’s criticism of the theological versions of teleology. (1982, p.211)<sup>8</sup>

Similarly, Thomas Campbell thought it meant that the “general laws [of human behaviour] must be discovered and explained in terms of efficient causes conceived in terms of constant conjunction; explanations in terms of the will of God have no place in determining the efficient causes of behaviour, but enter at a later stage once the scientific investigation is completed” (1971, p.61).

Such interpretations are unwarranted. Far from stating that final causes should be removed from scientific explanations,<sup>9</sup> the passage stresses their importance. It may be paraphrased thus. In both the physical and moral realms we see the apt arrangement of efficient causes for producing some end and rightly attribute this to the final causality of a benevolent Nature. In the case of physical phenomena, we always distinguish the efficient from the final causes. But in the case of moral phenomena, we sometimes confuse them, making reason (which in the grand scheme of things is only one of the efficient causes by which nature attains its ends) the final cause of all (by supposing it to be the efficient cause of our moral sentiments). The implicit recommendation is that the human should follow the natural sciences in attributing to the wisdom of Nature the apt adjustment of efficient causes toward a beneficial end. I suggest this was Smith's own procedure in conceiving the Wealth of Nations.

What of the early Viner's argument that Smith could not have been working from a teleological principle because he allowed for imperfections in the natural order? The simplest response is that Viner was mistaken in assuming the idea of a benevolent deity is inconsistent with the presence of evil in the world. It was precisely the task of Enlightenment theodicy to make them appear consistent. Smith himself was sympathetic to the Stoic view that all things in the universe, both good and evil, ultimately advance the beneficent ends of the author of nature. “[E]very part of nature, when attentively surveyed, equally demonstrates the providential care of its Author, and we may admire the wisdom and goodness of God even in the weakness and folly of man” (TMS II.iii.3.2). We would then have to examine any apparent imperfections in the system in order to learn their concealed and ultimately-beneficial purpose. Another possible reply stems from the fact that Smith attributed a desire for economy to the author of nature. On at least two occasions, this led him to propose that the divine architect had not endowed creatures with principles sufficient to look after every trifling evil; he made certain only that his main ends could not be thwarted.<sup>10</sup>

#### **IV Concluding Remarks**

On my reading, the teleological dimension of the Wealth of Nations is not at all like Schumpeter's “removable garb”. First, it offers an answer to what must be considered the central explanatory puzzle of the book: why did the wealth of nations tend to increase even if no individual or government consciously aimed at this result? Second, the fundamental structure of Smith's whole analytical framework clearly took shape around the principle of a benevolent deity. Why otherwise endeavour to build an explanation of economic growth that downplayed the importance of human foresight and traced it instead to a few elementary propensities of human nature? Finally, Smith's appeal to a natural order must surely have been a key source of the book's original persuasive power. Phrases like the “magic of the market” are influential today because they conjure up mental images of an economic order that has actually existed for more than a century and obviously works (though it could be debated at great length whether it has worked well and if it has ever in fact been substantially “free” of conscious human oversight). But in the eighteenth century, what responsible statesmen would have contemplated removing all existing economic controls on the mere assurance,

however analytically fortified, that everything was bound to work out well in the end? Only a firm belief in the genuine existence of a benevolent natural order could have induced contemporary readers to overcome ingrained habits and prejudices and surrender intellectually to the proposition that an economy could be trusted to look after itself. Cliffe Leslie was surely correct; the mindset of dogmatic nineteenth-century liberalism first took root in, and derived much of its staying power from, the rich philosophical soil of the Enlightenment.

Now of course modern interpreters can always insist on treating the division of labour, capital accumulation, and the existence of order and good government as simple data and set aside as irrelevant speculation the few passages where Smith sought to elicit their first causes. This tactic would not suffice to rescue his analysis of capital allocation. But the average economist would advise jettisoning that part of the book in any case; neoclassical economic theory offers a far superior method for attacking the problem. Such interpretive strategies are hardly novel. As Viner observed in his later years:

Modern professors of economics and of ethics operate in disciplines which have been secularized to the point where the religious elements and implications which once were an integral part of them have been painstakingly eliminated. It is in the nature of historians of thought, however, to manifest a propensity to find that their heroes had the same views as they themselves expound, for in the intellectual world this is the greatest honor they can confer upon their heroes. If perchance Adam Smith is a hero to them, they follow one or the other of two available methods of dealing with the religious ingredients of Smith's thought. They either put on mental blinders which hide from their sight these aberrations of Smith's thought, or they treat them as merely traditional and in Smith's day fashionable ornaments to what is essentially naturalistic and rational analysis . . . For these writers the teleological aspects of Smith's thought have only nuisance value. (1972, pp.81-2)

Nevertheless, it remains the case that Smith himself attached considerable importance to the concept of a benevolent deity and that his analytical framework was significantly shaped by it.

In insisting upon the importance of teleology for Smith's thinking, Viner for one hoped to induce "a general weakening of convictions" and to prevent "undue attachment to one's own new ideas through hubris or intellectual arrogance" (1972, p.113). This indeed is one of the benefits of the history of economic thought in general. With the passage of time it becomes easier to see how even rigorous theoretical analyses have been significantly shaped by passing ideological currents and political fashions. This makes it seem unlikely that the present generation of economists has managed to transcend its socio-cultural milieu and attain to pristine, indisputable truths. It would be well if practitioners kept this in mind whenever tempted to claim the authority of "science" for their policy recommendations.

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## Notes

<sup>1</sup> See for instance Davis 1990; Evensky 1993, p.200; Oswald 1995; and Evensky 1998, p.26.

<sup>2</sup> See Kleer 1995 for a parallel study of the role of teleology in Smith's *Theory of Moral Sentiments*.

<sup>3</sup> The following short assessment of the structure and focus of the book is very much in keeping with the more detailed overview provided in Brown 1994, pp.166-91.

<sup>4</sup> On Smith's view, value-added derived from three sources: wages, profits and rent. In attributing a higher value-added to capitals employed in labour-intensive sectors, he did not mean to suggest that profits ("capital" in the narrow sense of the word) made no productive contribution. He seems rather to have been of the view that, because profit rates tended to equality across all sectors, the amount added to value by profits—by equal amounts of capital—was the same in every sector.

<sup>5</sup> Smith apparently subscribed to the view that rent was a payment for the free productive contribution of "nature", which bestowed a greater physical return to agricultural investment than the mere quantities of labour and capital employed on the land were themselves capable of generating.

<sup>6</sup> The argument has one wrinkle. In the natural progress of opulence, agriculture and manufacturing actually develop side by side. But the manufactures in question are those "coarse and household" goods needed to carry on agricultural production. Only when all investment opportunities in agriculture have been exhausted is capital allocated to "refined manufactures," ie, goods of artful contrivance and beauty (WN III.i.4, III.iii.17-20).

<sup>7</sup> It is an open question how far Smith was prepared to go in identifying this deity with the God of Christian theology. I suspect that his was the most vague and formless kind of natural theology, with a very minimal commitment to the central elements of Scottish Calvinism. But to make this case, speculative at best, a whole other paper would be required.

<sup>8</sup> See Haakonssen 1981, pp.77-9, for a similar, more detailed interpretation of the same passage.

<sup>9</sup> The only basis for such an interpretation is the half-sentence: "Yet we never endeavour to account for them from those purposes as from their efficient causes." For this seems to imply that the natural scientist explains the organization of animal bodies by means of efficient rather than final causes. Granted, the phrase "from those purposes as from their efficient causes" is ambiguous. The common reading interprets the word "as" to mean "but". Yet this could not have been Smith's meaning; rather he meant "as if". In other words, when we give the teleological part of the explanation ("account for them from those purposes"), we don't proceed as if the efficient causes were themselves the final causes. This is the meaning indicated in the remainder of the sentence: "nor imagine that the blood circulates, or that the food digests of its own accord, and with a view or intention to the purposes of circulation or digestion." Later in this passage, the term "as" is used in the same way: "we are very apt to impute to that reason, as to their efficient cause, the sentiments and actions by which we advance those ends." Here it clearly means that we are apt to argue as if reason were the efficient cause of those sentiments, when actually their cause is the wisdom of God.

<sup>10</sup> "Such occasions [from which animals cannot save themselves] can in the common course of things occur but seldom, and nature, with her usual œconomy, has not thought proper to make any particular provision for them, any more than she has made for the relief of man

when he is ship wrecked in the middle of the ocean. Her great purpose, the continuance and propagation [sic] of each species, she has thought, was not likely to be interrupted by such uncommon and extraordinary accidents” (LJ p.571).

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