

Humanomics: Moral Sentiments and the Wealth of Nations for the Twenty-First Century

Vernon L. Smith and Bart J. Wilson

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I wonder if the 2020s will be the decade that, when later historians of economic thought look back from the perspective of 2075 or so, everyone agrees economics was redirected toward its roots in moral science. If it is, that will be in some measure because *Humanomics* deflected the economics profession back from its 130 years in the wilderness of applied mathematics. (I am dating that from 1890, and the publication of Marshall's *Principles*, though one might quarrel with that.)

The book is explicitly—some observers might say obsessively—Smithian. (For convenience, let me refer to the authors as S&W, and their subject as Smith.) The central claim made by S&W is that *Humanomics* is necessary to restore order to the force that has given us the “Two Adam Smiths” problem. If I may be forgiven that Star Wars reference, the argument is that the use of mathematics is not in and of itself the “dark side.” The problem instead is the focus on the coherence of the optimizing system of markets conceived as operating outside the larger system of propriety and sociality.

S&W read Adam Smith very carefully, documenting Smith's (apparent) obsession with precisely the right word, even to the extent of offering to other writers' corrections that seem pedantic (22). Given that attention to word choice, it is significant that Smith's “book is not entitled *The Theory of Moral Passions, Affections, or Feelings*” (21).

So, Yoda should have told Obi-Wan, “Use your moral sentiments, and find [the right answer] you will.” Restoring balance in the force of economics requires recognizing the proper place of moral sentiments in the system in which the interests of individuals operates.

Smith famously gives four “sources” of moral sentiments, which are enshrined in the judgements of the impartial spectator.

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. (*Theory of Moral Sentiments*, bk. 1, chap. 4)

As Smith formulated his system, there is no necessary role for division of labor or decentralized market processes until the fourth source of approval, the “system of behaviour which tends to promote the happiness” of the entire society. The first three can be

accomplished largely through emergent conventions and our intuitions about what is right and wrong. But the “beauty from this utility, not unlike that which we ascribe to any well-contrived machine,” depends on harnessing division of labor and commerce. Left to their own devices, agents in commercial systems develop increasingly expansive degrees of division of labor, limited only by the extent of the market.

S&W give a summary of their vision early on:

Here is [our view of] the logic of Smith’s vision in *Sentiments*.... People have common knowledge that all are self-interested and are locally non-satiated—more is always better, less is always worse from any reference state. Otherwise, we cannot be socially competent rule-followers because we cannot be sensitive to who benefits or who is hurt by our actions, and to properly balance concern for ourselves and concern for others.... What enables such sociability is our capacity for mutual fellow-feeling: we cannot reach maturity without being shaped to a highly variable extent by our experience of others and the mark they leave on our development. Our desire for praise and praiseworthiness, and to avoid blame and blameworthiness emerges from this maturation. Smith’s model leads to key propositions on intentional acts of benevolence and injustice that invoke corresponding thoughts and feelings of gratitude and resentment. (11–12)

In this view, property (a word closely related at the time of Smith’s writing to “propriety,” a connection no longer apparent to readers) and ownership are derived from shared expectations established by consent. I should note that “consent” here is being used (correctly, I think) in the more Humean sense that we all agree on the concept and its application, rather than in the political theory sense of actual social-contractual assent to allow the convention. The convention is, we all know it, and we act on that knowledge in ways that others recognize and approve, or decry, depending on whether the actions conforms to or violates those expectations.

Smith concluded that the fourth “source” of moral sentiments needed some help, some explanation. Being able to comprehend the circumstances where individuals acting in their own interests might actually benefit others by producing opulence is not something human beings do immediately or automatically. So the “second Adam Smith,” of *Wealth of Nations*, is in fact just the first Adam Smith trying to bring balance to the force of moral sentiments.

The paradox, the hardest thing to explain, is the result of the working of the “well-contrived machine”: if each elaborates our part in the division of labor in production, we become more dependent on others doing the same thing for all the other products we need, without being explicitly told to do so. And the result of this complex and unplanned mutual dependence is that the entire system becomes wealthier and wealthier, because productive processes realize increasing returns to scale, provided that everyone obeys the elaborated rules of propriety.

Smith was sympathetic to the intuition, something most of us share, that it was better—for the first three sources of moral sentiments, at least—to have close personal relationships and trade based on private knowledge and trust. But these cannot function well at scale. And scale, or “the extent of the market,” is what makes the machine so well-contrived.

Rather than the two Adam Smiths being in tension, then, the reintegration of systems of expectation based on actions that satisfy propriety and systems of actions based on expectations of exchange or property are inextricably linked, part of the same system. Locally, we can cultivate reciprocity, gratitude, and “friendship bound together in good offices of affection and esteem” (201). At scale, societies can survive quite well, as Smith puts it, from a “sense of utility ... upheld by a mercenary exchange of good offices according to an agreed valuation” (quoted by S&W on 201).

S&W’s conclusion is striking: “Beneficence is thus less critical to the support of society than justice is.” These two “paths to cooperation,” as S&W call them, are complementary. The most important contribution of S&W’s extension of Smith’s intuition is the establishment of a game-theoretic foundation showing that beneficence can support exchange as an equilibrium even if there is the possibility of defection. Their ultimate conclusion really does bring balance to the force:

In *Wealth*, trade in markets for goods and services are extensions of human sociality developed in *Sentiments*, except that in the former we make immediate or contractually pledged payments in compensation for items provided to us by others, and in like manner we expect compensation from others for what we provide and deliver to them. Being voluntary, the result does not depend on the intermediation of gratitude to produce a future reward.... *All such trades are an exchange of gifts in the beneficence sense, that each has to give in order to receive.*

[But] we also need justice. We need all the trappings of Smith’s conception [in *Sentiments*] of the classical liberal order, an immense playing field with clear foul boundaries within which people are empowered by the freedom to discover. That conception ... reaches its fullest meaning and significance only when we consider the two books as an organic whole.... For the science of economic betterment in the twenty-first century to be a study of humankind, it must likewise be an inquiry into human social betterment. (206–7, emphasis original)

—Michael Munger (e-mail: munger@duke.edu)
Duke University