INVENTING THE MARKET.

SMITH, HEGEL AND POLITICAL THEORY

Lisa Herzog, New College

Thesis submitted in partial fulfilment of the

requirements for the degree of DPhil in Politics in the

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Abstract

This thesis analyses the constructions of the market in the thought of Adam Smith and Georg Wilhelm Friedrich Hegel and their relevance for contemporary political philosophy. Combining the history of ideas with systematic analysis, it contrasts Smith's view of the market as a benevolently designed 'contrivance of nature' with Hegel's view of the market as a 'relic of the state of nature.' In two interpretative chapters these two constructions of the market are discussed within the contexts of Smith's and Hegel's thought. In three systematic chapters, the relevance of these different constructions for the problems of identity and community, social justice, and different notions and dimensions of freedom is discussed. The first of these chapters argues that the conceptualization of the labour market as a market place for human capital or as a locus for the development of a professional ethos has a deep impact on how one thinks about the relation between individual and community, cutting across the debate between liberals and communitarians. The second systematic chapter shows that the market can be seen either as an instrument for *addressing* issues of social justice or as an institution *against* which social justice needs to be realized: for Smith, who thinks that free markets reward virtue and equalize income, it is the former, whereas for Hegel, who holds that free markets lead to unpredictable results and exacerbate social differences, it is the latter. The third systematic chapter addresses the relation between different aspects of liberty and the market. It shows that the market offers both chances and risks for liberty in the sense of individual autonomy, and analyses the relations of the market to positive liberty in a political sense. The concluding chapter draws some broader methodological lessons, arguing for a closer integration of economic and political theory at a 'less-ideal' level.

TABLE OF CONTENTS

I INTRODUCTION: IN SEARCH OF 'THE MARKET'

I.1 Introduction

Where would you go to see 'the market'? To the trading floors of Wall Street? To your local farmers' market on a Saturday morning? To a recruitment fair where large corporations and 'high potential' graduates court each other? To the famous Tuna auctions in Tokyo? Or to the internet, to look up figures on aggregate demand and supply, production and consumption, currency rates and foreign trade?

These are all instances and aspects of 'markets,' but when we talk about 'the market,' we mean something more. We mean the complex system in which people buy and sell, offering money, goods, labour time and abilities. We all participate in it, day by day, in our roles as workers, customers or investors. As Adam Smith said, more than 200 years ago, in a post-feudal society 'every man […] lives by exchanging, or becomes in some measure a merchant.'[1] Our societies have, to a greater or lesser degree, become 'market societies'[2]: they are differentiated societies whose economic sphere is characterized by individual property rights, the pursuit of self-interest, highly divided labour, and complex mutual interdependencies. Their economic sphere is a 'market economy' functioning according to its own laws and principles, rather than supervening on other social relations. While there is more than one political form that market societies can take on, certain political structures – in particular the rule of law – are necessary for markets to become widespread, and the political sphere can in turn be influenced by markets. Thus, our societies receive their overall character to some degree from the existence of the market. Its presence has had a deep and lasting impact on our lives, on our material well-being, but

[1] WN I.IV.1.

[2] I use the term 'market society' as an umbrella term that covers the societies Smith and Hegel have written about as well as our own societies. Smith uses the term 'commercial society,' or sometimes 'civilized and commercial society' (e.g. WN I.IV.1, V.I.III.II.52, V.III.5; ED II.11). Hegel speaks of the 'system of needs,' which is part of 'civil society' (PR §182ff.).

also on our social relations, the way we spend much of our time, and the notions we use for describing success and failure.

Different images have been used to describe the market. For some, it is a monster, a demon devouring its own children like the god Kronos. For some, it is a huge machine that transports stuff from one place to another, evoking images of large industrial plants with innumerable tubes and conveyer belts. For others, it is a Darwinist jungle in which only the fittest survive – and for yet others, a huge sporting spectacle in which, through a wonderfully benevolent design of the rules, not only the winning team, but also everyone else involved profits.

These images, or the theories which evoke them, have been painted by very different kinds of thinkers. The market and its effects on individuals and societies have been described by philosophers and psychologists, historians and novelists. Most of all, of course, economists have dealt with markets. While the definition of economics as a science is itself contested, it is clear that markets and their structure are at its core.

Modern economics is in large parts modelled on pre-relativist physics and works with abstract, mathematically based models. Its central focus is the question of efficiency, and the market is usually endorsed as an institutional arrangement that enables efficient outcomes. Markets are often depicted as two lines cutting into each other, or as some curves that reach a maximum at the 'equilibrium point.' Other schools – heterodox, as they are called – like Austrian economists, socio-economists or feminist economists have criticized many of these formal models and the focus on equilibriums. These heterodox schools use less harmonious pictures to describe the market, and have often been much more critical of it than the mainstream.

But many questions about markets are not answered within the discipline of economics. Many interesting aspects of markets – e.g. the nature of economic agency, the impact of the market on social relations, or its meaning for our understanding of freedom – are hidden in the premises of economic models and taken for granted when economists

work with them. Often, a great deal of translation from jargon into everyday language is needed to bring out these implicit assumptions. And this is not surprising since these models have been built to answer different questions. Referring to the academic division of labour and the self-understanding of economics as different from other social sciences and philosophy, many economists have delegated the responsibility for more 'philosophical' questions to other schools of thought, if they recognize their legitimacy at all. To ask deeper questions about the meaning of the market and its impact on our lives – about its 'existential' side, one might say – one thus needs to bring in other disciplines.[3]

An obvious candidate for this task is political philosophy. In particular, its contribution seems to be needed when one wants to ask not only *descriptive*, but also *normative* questions about what the market *should* look like and how we *should* relate to it. Markets are not just an aspect of individuals' private lives. Rather, they are social phenomena. They function within a structure of laws and institutions, such as property rights and a judicial system, which are the core business of political philosophers.[4] They have an impact on many political questions, including the realization of ideals such as equality, justice and freedom. So it seems quite natural to expect that political theorists should have something to say about the market, building on, and maybe synthesizing, the insights not only of economists, but also of psychologists or sociologists who have explored other aspects of the economic world.

But the market has not figured very prominently in the political theory of the last 40 years. This may be the result of a number of assumptions about the tasks of political philosophy and the nature of the market. John Rawls, in his pioneering study *A Theory of Justice*, defines the task of political philosophy as dealing with the 'basic structure' of society.[5] This 'basic structure' concerns the institutional framework *within which* markets operate. In a just society it makes sure that the distributive results of the market economy

[3] Sometimes this is of course done by economists themselves. For examples of economists who have crossed disciplinary boundaries see fn. 34 below.
[4] Cf. also Debra Satz, *Why Some Things Should Not Be for Sale* (New York: Oxford University Press, 2010), 4.
[5] John Rawls, *A Theory of Justice* (Cambridge, MA.: Belknap Press of Harvard University Press, 1971), e.g. 6f.

accord with the principles of justice: the equal distribution of liberties and opportunities and the 'difference principle' that states that inequalities should lead to the greatest benefit for the least-advantaged members of society.[6] The focus of interest therefore points to these surrounding institutions, away from markets themselves. The implicit assumption made here, and arguably shared by many theorists *post-Rawls*, is that markets as such are not a normative issue, that they form a 'system'[7] the distributive results of which are determined by the rules by which it is restricted. But if all that matters about markets is their distributive *outcome*, it is quite understandable that *they themselves*, or the images one has of them, do not need special attention from a normative perspective.[8] One philosopher in the contractarian tradition, David Gauthier, goes as far as talking about the market as a 'morally free' zone, claiming that the need for morality arises precisely because the world is *not* a perfectly competitive market.[9] While this radical claim depends on his neo-Humean understanding of morality, the assumption that it is not the market but what *surrounds* it that should be treated in political theory seems to be widely shared. Often, the market seems to be the ghostly 'other' of the institutions political theorists focus on, something that needs to be tamed and restricted, but not itself made an issue.[10]

Pluralist theorists of justice like Michael Walzer and David Miller, in contrast to the mainstream, describe the market as one social sphere among many. Specific goods are conceived, created and distributed in it according to its specific principles. Miller, for

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[6] Ibid., 60, 303.
[7] Cf. e.g. Jürgen Habermas's account: the market is described as part of 'the system,' which is opposed to the 'life world' (*Theorie des kommunikativen Handelns* (Frankfurt am Main: Suhrkamp Verlag, 1995), vol. II chap. VI.2.). Cf. also chap. VI.4 below.
[8] Cf. similarly Richard Dien Winfield, *The just economy* (New York / London: Routledge, 1988), chap. I.
[9] David Gauthier, *Morals By Agreement* (Oxford: Clarendon Press, 1976), 84.
[10] A number of themes related to the effects and the meanings of the market can be found in so-called postmodern or poststructural thinkers (e.g. Gorz, Baudrillard, Lyotard; for an overview and critical discussion see Gary K. Browning and Andrew Kilmister, *Critical and Post-Critical Political Economy* (Basingstoke: Palgrave Macmillan, 2006). The problem with these authors, however, is how to relate their thought to other currents of political thought from different paradigms. It is not always clear whether they accept the broadly liberal outlook shared by Smith, Hegel and most contemporary political theorists, and whether their approach is normative at all. These methodological issues, in conjunction with the wish to stay concise, have led me to exclude them from this study.

example, defends the principle of desert as principle of justice for the labour market.[11] However, a central focus of his theory, and even more of Walzer's *Spheres of Justice*, is not the market as such, but rather the question about the *boundaries* of the market – what Walzer calls 'blocked exchanges.'[12] The principle of exchange which reigns in the market must not take over in other spheres, as '[t]he morality of the bazaar belongs in the bazaar' – and *only* there.[13] The question about the limits of the market has indeed been raised by a number of thinkers in the last decades, such as Elizabeth Anderson,[14] Michael Sandel[15] and, most recently, Debra Satz.[16] They address the question whether, for example, surrogate motherhood, human organs or military service should be 'commodified' in markets. Opening a microeconomics textbook or a recent issue of *Econometrica* will not get one very far in answering such questions; rather, a genuinely *philosophical* discussion is needed.[17]

But the issue of markets matters not only for these specific questions. The basic thesis of this study is that how we see the market – as monster or machine, jungle or racing field – matters not only at the margins of political philosophy, but at its core. To make this impact visible we need not so much another technical consideration of markets. What we need is a *philosophical* consideration that takes into account the market's meaning for our lives. This not only helps to develop better political theories and to bring them closer to real-life questions, but it is also necessary for a better understanding of ourselves, as citizens of market societies, who have become, as Smith's line says, 'in some measure […] merchant[s].' What needs to be addressed is the meaning of markets for our social identities, for our understanding of justice, for the ways in which we are free or unfree.

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[11] David Miller, *Principles of Social Justice* (Harvard University Press, 2001), VII-VIII. This topic will be taken up in chap. V.2 below.
[12] Michael Walzer, *Spheres of Justice. A Defense of Pluralism and Equality* (New York: Basic Books, 1983), chap. IV.
[13] Ibid., 109.
[14] Elizabeth Anderson, *Value in Ethics and Economics* (Cambridge, Mass: Harvard University Press, 1993).
[15] Michael Sandel, *What Money Can't Buy: The Moral Limits of the Markets* (Oxford: <http://www.tannerlectures.utah.edu/lectures/documents/sandel00.pdf>, 1998).
[16] Satz, *Why Some Things Should Not Be for Sale*.
[17] For other questions at the borderline of philosophy and economists see Hausman's excellent overview in "Philosophy of Economics," in *The Stanford Encyclopedia of Philosophy*, ed. Edward N. Zalta, Fall 2008 edition, <http://plato.stanford.edu/archives/fall2008/entries/economics/>.

These questions are as urgent today as ever they were. The financial crisis of 2008 has made clear how great the impact of the globalized economy on political processes and on the private lives of citizens has become. After the fall of communism, discussions about a large-scale alternative to capitalism have declined. But this leaves open a broad range of questions about what it means to live in a market society and about how to deal with its effects. It seems that in one way or other, we need to live with the market. We can only think about *how* to live with it if we discuss it in all its dimensions and take its meaning and impact seriously. Therefore, the market needs to be an issue for political philosophers.

In this situation, it pays to revisit the writings of those who thought about the market society at its beginning, and invented the views of the market that still influence our lives, both as intellectual constructions and as institutions and practices that have flowed from them. Keynes coined the *bon mot* that '[p]ractical men, who believe themselves to be quite exempt from any intellectual influences, are usually the slaves of some defunct economist.'[18] When we act in markets, we all have some vague ideas about what this means and what effects it has – and it is likely that in one way or other ideas by 'some defunct economist' have become part of this set of assumptions. Political theorists, whose task it is to make explicit our ways of thinking about the social world, are not exempt from this danger.[19] An excellent way of addressing this problem is to reconsider those past thinkers whose ideas have contributed to shaping our present categories, ideas and assumptions. Studying their thought is not 'history for history's sake,' but helps to illuminate our own times and allows us to relate to it in deeper, more conscious ways.

The strategy pursued in this study is to analyse, in a comparative perspective, the models of the market society developed by Adam Smith and Georg Wilhelm Friedrich Hegel. Both are among the most controversial, and most often misrepresented, thinkers of

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[18] John Maynard Keynes, *The General Theory of Employment, Interest and Money* (London: Macmillan, 1936), 383.
[19] I here follow MacIntyre's arguments about the theory-ladenness of everyday social interaction and the continuity between our everyday ways of making sense of our lives and political theory's attempts to systematize them. See, in particular, Alasdair MacIntyre, "The Indispensability of Political Theory," in *The Nature of Political Theory*, ed. Larry Siedentop (Oxford: Clarendon Press, 1983), 17-33; *After Virtue. 2nd edition* (Notre Dame: University of Notre Dame Press, 1984), 175ff.

the last 250 years. If one takes a closer look at their writings, however, one cannot but be struck by the subtlety and richness of their views about the market, its meaning, and its relation to society as a whole. Smith and Hegel develop the prototype models for two ways of describing the market the influence of which is still very much with us. This study analyses and compares these two approaches. It shows in what ways they matter for three central themes of political theory: identity and community, desert and justice, and the relation between different dimensions of freedom.

Adam Smith,[20] born in the Scottish town of Kirkaldy in 1723, is often taken to be the 'father' of the science of economics. However, before publishing *An Inquiry into the Nature and Causes of the Wealth of Nations*, he was known as a professor of 'moral philosophy,' in the wide sense in which this term was used in his day. His *The Theory of Moral Sentiments* had been much acclaimed on its first publication in 1759. He had taught numerous subjects, including rhetoric, jurisprudence, logic and 'natural theology' in Edinburgh and Glasgow. He had travelled to France as a private tutor to a young nobleman, where he had met the *crème de la crème* of the French Enlightenment, including the so-called 'physiocrats,' who spearheaded the economic thought of the era. A life-long bachelor and a member of numerous learned clubs and societies, he spent the last years of his life as commissioner of customs – a fact that should provide food for thought to those who want to recruit him to the ranks of the undifferentiated eulogists of the free market, usually quoting just one sentence from his large opus: the famous phrase about the self-interest of 'the butcher, the brewer, or the baker' that provides us with our dinner.

Smith's understanding of the market is, in many ways, the prototype for the 'classical liberal' approach to the market: the market creates riches and distributes goods and services to all members of society. It is a benevolent social order that leads societies to

[20] The authoritative biography is Ian Simpson Ross, *The Life of Adam Smith* (Oxford: Clarendon Press, 1995); it incorporates the earlier accounts by Dugald Stewart, "Account of the Life and Writings of Adam Smith, LL.D," in *Essays on philosophical subjects by Adam Smith*, ed. Ian Simpson Ross (Oxford: Clarendon Press, 1980), 264-353) and John Rae, *Life of Adam Smith* (London: Macmillan & co., 1895). The most recent biography is Nicholas Phillipson, *Adam Smith: An Enlightened Life* (New Haven: Yale University Press, 2010).

a state of opulence in which everyone is better off. In short, despite a number of preconditions and provisos, the market *solves* problems. This understanding of the market stands at the beginning of a narrative that includes thinkers like David Ricardo, J.S. Mill, F.A. von Hayek and James Buchanan, and focuses on keywords such as individualism, property rights and spontaneous order.[21] Especially in its 'Chicago' version this strand of economics has attracted considerable criticism, which has attacked Smith as if he were a co-conspirer of Chicago-style thinking.[22] But contrary to the caricature that Smith has become, his endorsement of the market is not unconditional, and his views of human nature and social interaction are much richer than is usually assumed – a lot of what is missing in contemporary economics, as a result of its mathematization and specialization, can in fact be found in Smith.[23] The blossoming of Smith scholarship in the last decades bears witness to the fact that he is an extremely interesting interlocutor for those who reflect on morality, human nature and society today.[24]

Georg Wilhelm Friedrich Hegel[25] was born in 1770 as the son of a civil servant at the court of Stuttgart. He studied at the University of Tübingen, a 'hotbed' of German Idealism in the aftermath of the Kantian philosophical revolution. He was a private tutor before starting his university career in Jena in 1801, which was interrupted by years as

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[21] For aspects of the line from Smith to von Hayek see e.g. L. Infantino, *Individualism in Modern Thought. From Adam Smith to Hayek* (London: Routledge, 1998). For an analyses of the *differences* between Smith, Mandeville, Hume and von Hayek, however, see Christina Petsoulas, *Hayek's liberalism and its origins: his idea of spontaneous order and the Scottish enlightenment* (London: Routledge, 2001), who argues that von Hayek's understanding of the development of norms differs from that of the Scots, and that the latter were far less opposed to government action than von Hayek.

[22] Cf. e. g. the episode recounted by McLean about the students of a school in Kirkaldy opposing its renaming after Adam Smith because of the negative associations that his name carries (Ian McLean, *Adam Smith: radical and egalitarian: an interpretation for the twenty-first century* (Edinburgh: Edinburgh University Press, 2006), xiiif.). On the reception of Smith by the older and younger generation of Chicago economists see Steven G. Medema, "Adam Smith and the Chicago School," in *Elgar Companion to Adam Smith*, ed. Jeffrey T. Young (Cheltenham / Northampton, MA: Edward Elgar, 2009), 346-357.

[23] For example, there are similarities between Smith and behaviour economics, see N. Ashraf, C. Camerer, and G. Loewenstein, "Adam Smith, behavioural economist," *Journal of Economic Perspectives* 19 (2005): 131-145 and Pia Maria Paganelli, "Smithian Answers to Some Experimental Puzzles," in *Elgar Companion to Adam Smith*, ed. Jeffrey T. Young (Cheltenham / Northampton, MA: Edward Elgar, 2009), 181-192.

[24] One strand of theorizing that might be adduced as a more faithful heir to Smith than mainstream economics is the 'Freiburg School' of 'ordoliberalism,' with includes authors like Walther Eucken or Wilhelm Röpke. Taking into account these contributions would, however, go beyond the scope of this study. The same holds for the thought of institutional economists like J.K. Galbraith or Elinor Ostrom.

[25] The classic account of his life is Karl Rosenkranz, *Georg Wilhelm Friedrich Hegels Leben* (Berlin: Duncker & Humblot, 1844); for a modern biography see Terry Pinkard, *Hegel* (Cambridge: Cambridge University Press, 2001).

editor of a daily journal and headmaster of a *Gymnasium*, and which then led him to Heidelberg and finally Berlin. Few of his writings – including the *Phenomenology of Spirit*, the *Encyclopaedia*, and the *Philosophy of Right* – appeared in print during his lifetime, but numerous lecture notes, both by himself and by his students, have been preserved and were edited in the 19th and 20th century. Hegel was one of the main representatives of German Idealism, and while the interest in his philosophy has ebbed and flowed, his importance for the history of European philosophy can hardly be denied – the disagreement being on whether his role was beneficial or not. Hegel has gained the reputation of 'being one of the most abstruse and impenetrable of thinkers,'[26] obsessed with logical categories and the history of *Weltgeist*. But this cliché sits uneasily with the fact that he also had a very down-to-earth side to him. He was an avid reader of newspapers and journals, following the political events of his time with great interest. He thought deeply about the young science of economics that had started to flourish at the turn of the 19th century. A central question of his political philosophy is how to understand a society in which the market, a distinctly modern institution,[27] has a place. Hegel's *Philosophy of Right* offers the prototype model of a market economy that is set free within its own 'realm,' but limited by other institutions, in particular the state that stands above the economic sphere. The market is here a necessary element of a modern society, embodying important values such as freedom – at least a certain kind of freedom – and individuality. But it is also deeply problematic: it unleashes powers that can disrupt the social order, and creates huge economic imbalances and inequalities. In short, the market, much as it is needed and valued, *creates* problems. A balance therefore needs to be found between giving it its proper due and limiting its impact.

[26] This quote is from the blurb of Pinkard's biography.
[27] When using the word 'modern' in the course of this study, it is usually understood in a way that makes Smith and Hegel part of modernity. Both use the term as a self-description of their own historical periods in contrast to 'ancient' societies, i.e. the Greek city states, the Roman Empire and the medieval world.

The tradition that builds on these themes is less clear-cut than the classical liberal one, but it would include, for example, the German 'historical school' in economics[28] and the beginnings of sociology,[29] and there is a 'family resemblance' with what has been labelled 'communitarianism.'[30] A second line leads from Hegel to British Idealism and from there to British social liberalism.[31]

In the search for thinkers that can be questioned about the meaning of the market it is hard to find more suitable candidates. Smith and Hegel conceptualize a social world which, in many respects, looks very much like our own: a 'market society' characterized by an exchange economy, in which social relations are fluid, rather than regulated by the static hierarchies of the feudal world. For Smith and Hegel, these phenomena were rather new, at least for their own countries. While Smith wrote before the first great wave of industrialization in Great Britain,[32] Hegel received the news about the development in the United Kingdom through newspapers and magazines, but the Germany of his day was still largely pre-industrial. Both studied the market society of their day with the alternative of pre-modern society at the back of their minds, endorsing, yet without taking for granted, the superiority of the modern model. Both, however, also shared a sense that this modern society was inherently stable, rather than being merely a transitional phase on the path towards other forms. Thus, for Smith and Hegel, what was at stake in moving towards a market society was not just a theoretical issue, but also something they experienced in their

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[28] For a line from Hegel to Schmoller see e.g. Birger Priddat, *Hegel als Ökonom* (Berlin: Duncker & Humblot, 1990), 175ff.

[29] Cf. also Ole Goos, *Zur Reproduktion der Philosophie G.W.F. Hegels bei Georg Simmel und Emile Durkheim. Studien zu den Begriffen Kultur und Gesellschaft* (Heidelberg: diss., 2006) on the structural similarities between Hegel, Durkheim and Simmel. The similarities in Hegel's and Durkheim's descriptions of those who are excluded from civil society (Hegel's 'rabble,' Durkheim's 'anomy') have often been noted (see e.g. Alan W. Wood, *Hegel's Ethical Thought* (Cambridge: Cambridge University Press, 1990), 241.

[30] It is striking that some of the most prominent thinkers of what has been called 'communitarianism,' in particular Charles Taylor and Alastair MacIntyre, have also made important contribution to Hegel scholarship. Some types of 'heterodox' economics that emphasise the social embeddedness and the cultural meaning of economic actions also show a 'family resemblance' to Hegelian thought (e.g. Etzioni's 'socioeconomics,' see e.g. *The Moral Dimension: Toward a New Economics* (New York: Free Press, 1988).

[31] An important figure in this context is Thomas Hill Green (1836-1882), who was introduced to idealist philosophy by Benjamin Jowett and influenced many social liberal politicians. Cf. Colin Tyler, "Thomas Hill Green," in *The Stanford Encyclopedia of Philosophy*, ed. Edward N. Zalta, Summer 2009 edition, <http://plato.stanford.edu/archives/sum2009/entries/green/>.

[32] Cf. e.g. C. P. Kindleberger, "The historical background: Adam Smith and the Industrial Revolution," in *The Market and the State: Essays in Honour of Adam Smith*, ed. Thomas Wilson and Andrew S. Skinner (Oxford: Clarendon Press, 1976), 3-25.

own life-time. Studying their writings can therefore help us to remind ourselves what it actually is that we have become so used to, and help us to gain a critical distance from our current situation.

In addition, what makes their writings especially valuable for us is that they wrote at a time when the division of labour in *academic* matters had only just begun, allowing us to profit from their extraordinarily broad perspectives, which cover economics, social theory more widely, history, moral philosophy, and psychology, to name just the most relevant areas. Both Smith and Hegel are systematic thinkers who aim at integrating these different subjects and their different vocabularies into a coherent whole that describes the natural and the social world, and man's place in it, from a unified perspective. Smith and Hegel therefore ask questions which today are often lost in the divide between disciplines and faculties. Specialization certainly has many advantages, but its price is that questions that lie at the borderline of different subjects often receive less attention than those that are central to the self-understanding of a discipline. But this does not mean that they are less important, both from a theoretical perspective and with regard to the most urgent 'real-world problems.'[33] Studying the broad intellectual systems of past thinkers is thus an opportunity to cross disciplinary borders. It helps to see certain problems and issues that otherwise remain invisible, and to reflect on how to further the dialogue between the disciplines.[34]

The fact that Smith and Hegel wrote before the fully developed division of labour in academic matters is also interesting from a second perspective: it helps us to raise questions about the way in which political theorists should think about 'practical' issues

[33] Geoffrey Brennan and Giuseppe Eusepi, reflecting on the problems of interdisciplinary work in today's academia, speak of a 'misallocation of intellectual effort' due to the exclusive focus on *intra*disciplinary discourses. ("Introduction: ethics vs economics – in praise of the 'disciplined' life?," in *The Economics of Ethics and the Ethics of Economics: Values, Markets and the State*, (Cheltenham: Edward Elgar, 2009), xi-xxii, xxiv.

[34] Of course even in today's academic environment there is a small but stubborn group of thinkers who cross the boundaries between philosophy and economics. The most prominent example is maybe Amartya Sen, others include David Schmitz, Elisabeth Anderson, Dan Hausman, James Otteson, Jacob Levy, Jon Elster, Eric Schliesser or Serena Olsaretti. In the German-speaking world the debates on economic ethics with authors like Karl Homann, Peter Ulrich or Peter Koslowski have included 'philosophical' as well as 'economic' questions.

such as the market. The political philosophy of the last decades has mostly been 'ideal theory,' operating at a high level of abstraction. This may have contributed further to the market not being addressed, as economic questions might have been taken to be concrete, down-to-earth issues, beyond the scope of pure political theory. But ideal theory comes at a price: it is not always clear how, if it all, it relates to the urgent political questions with which our societies are confronted. For this reason, ideal theory has increasingly come under pressure.[35] Smith and Hegel offer an interesting alternative to 'ideal' theory: they work at a level that is more concrete, consciously tuned to the political questions of their time, but nevertheless not uncritical or quiescent. They describe a society that is already realized in its basic principles, but open to further improvements, and in doing so they take into account a wide range of insights from areas such as history, sociology or social psychology. This approach may seem old-fashioned and difficult to revive, given the growth of knowledge in individual disciplines, but as I will discuss in the conclusion, it is a very interesting level for theorizing about questions of social justice that have to be approached from an interdisciplinary perspective.

Given these facts, it is surprising that a systematic comparison of Smith's and Hegel's views on the nature and meaning of the market has not hitherto been undertaken. The only major study on these two thinkers is Waszek's 1988 *The Scottish enlightenment and Hegel's Account of 'Civil Society'*.[36] It offers an extremely valuable and rich analysis of the transmission of Scottish thought into the German speaking countries and Hegel's reaction to it. In its contextualist method, however, it refrains from taking into account Hegel's *political* thought – most notably, it explicitly omits his discussion of the state[37]– and thus cannot do justice to Hegel's model of a modern market society as a whole. In addition, it

[35] I am referring not so much to the radical critique by post-modern thinkers as to the criticism raised within liberal political theory itself, e.g., by Amartya Sen, "What do we want from a Theory of Justice?," *The Journal of Philosophy* CIII, no. 5 (2006): 215-238, or Raymond Geuss, *Philosophy and Real Politics* (Princeton / Oxford: Princeton University Press, 2008).
[36] *The Scottish enlightenment and Hegel's Account of "Civil Society"* (Dordrecht / Boston / London: Kluwer, 1988). Other commentaries on Hegel's relation to Smith can be found in works on Hegel's intellectual development. Cf. fn. 14 in chap. III and the bibliography.
[37] Ibid., 231.

does not wish to make Smith's and Hegel's thought fruitful for contemporary problems in political theory; on the whole, Waszek's approach is historical rather than philosophical.

The reason why the potential of a systematic comparison of Smith and Hegel on the meaning of the market has not yet been recognized might lie in the history of their reception, which, again, is characterized by the division between academic disciplines. Smith has traditionally been seen as an economist, and the *Wealth of Nations* has often been read with the aim of finding the seeds of later economic theories. Philosophers have rediscovered Smith as one of their own only in the last decades of the 20th century; the mainstream perception, however, is still very much that of the 'father of economics' who is associated with neo-liberal ideologies and therefore not taken seriously as a philosophical thinker. Hegel, on the other hand, is often seen as the prototype model of a German 19th-century philosopher, exhibiting the typical characteristics of a strange technical language and wild metaphysical fantasies, and although there has been a revival of interest in his thought in Anglophone philosophy in the last few decades, much scholarship is still only published in German. Smith and Hegel are thus made to look very different, but this says more about the ways in which the academic disciplines have developed since their times than about Smith and Hegel themselves. If one puts them into their historical and intellectual contexts, it quickly appears that the preconceptions that make them look so different are anachronistic clichés. It is the merit of Waszek's study to have shown the massive influence of Smith, and Scottish thought more generally, on Hegel. This study will confirm Waszek's thesis in showing that Smith's and Hegel's views of the market and its place in society are much more similar than is often assumed. As befits the nature of a comparative study, however, the focus will also be on the ways in which they differ, and on their different premises with regard to human nature and the metaphysical bases of the social cosmos, which, in subtle ways, give their views of the market a rather different colour. Smith and Hegel are particularly suited for an in-depth comparative analysis because they stand at the two ends of a scale of views about how much scope the market

should be given, while sharing the assumption that the market has *some* arguments in its favour and should be given *some* place in a well-ordered modern society.

This is also why Hegel rather than Marx has been chosen as the counterpart to Smith: although Marx's writings on the market are full of inspiring insights, the modern market society is here diagnosed with the imminent implosion resulting from its internal contradictions, and is ultimately rejected. This has also given many later Marxian thinkers a reason for not treating the market in detail, as they hoped that it would be 'overcome' sooner rather than later. In Hegel's political theory, on the other hand, the problems and contradictions of the market are clearly seen, but they are analysed as capable of containment in a well-ordered society. This makes Hegel's views more relevant to us who, almost 150 years after the publication of Marx's *Capital*, have come to see that capitalism has not exploded, and can be more or less contained within political structures in a variety of ways. Smith and Hegel, despite the differences in their views, stand within a liberal tradition, broadly conceived, for which economic liberties are compatible with other kinds of liberties *within* a stable social whole. Analyzing their thought, and in particular their more critical remarks, thus allows us to develop *internal* criticisms of the liberal tradition, which seek to reform and improve it, while sharing its fundamental commitments.[38]

In line with what has long been a guiding assumption in liberal political thought, the focus of this study is on liberal societies considered as more or less closed systems. In recent years, there has been growing interest in questions of international justice, beyond the borders of the nation state. It is evident that these have a lot to do with markets, as the economic life of different states has more and more become entangled in the process of economic globalization. Different views of the market have different implications for how one sees this process. Nevertheless, it is useful first to focus on the role and significance of the market within one society, not only because nation states still play a considerable role in

[38] Cf. similarly Ralph Lindgren, *The Social Philosophy of Adam Smith* (The Hague: Nijhoff, 1973), xiv.

today's world, but also because this provides us with conceptual tools which can then be used for reflecting on international questions.

What emerges from the comparison of Smith and Hegel is a more nuanced and subtle view of how we can understand the nature and normative significance of the market and its role and place in a market society. It brings up a number of themes in their philosophy that have not been given the attention they deserve so far, for example the pervasiveness of 'contrivances of nature' in Smith, or the importance of the notion of *Bildung* for Hegel's view of the labour market. The comparison shows that both Smith and Hegel see the market as part of a differentiated society, in which different logics of agency belong to different social spheres. It also shows, however, that metaphysical assumptions about the nature of cosmos and society lead them to different answers with regard to the precise place that the market should have in this framework.

The study as a whole, however, demonstrates and argues for a claim that goes beyond the interest in Smith and Hegel: it shows that how we think about the market matters, because it makes a crucial difference for a number of dimensions of what we take to be a society worth living in. If we do *not* make our assumptions about the market explicit, it is likely that we simply drag along vague ideas stemming from 'some defunct economist' and are influenced by them without realizing it. Opening up this field for discussion can thus help us to gain insights into our own assumptions and into our reasons for agreement and disagreement. This is desirable not only for political theorists, but also for anyone who reflects about his or her own life in a market society – when thinking, for example, about the justice of how much we earn, about having or being 'human capital,' and about the kinds of freedom that the market gives us. The better we see what the market can or cannot do for us, the better we can recognize what can be done to build on its strengths, and to mitigate its problems.

A guiding theme of this study is the contrast between seeing the market as a natural 'problem solver,' as Smith does, broadly speaking, and seeing markets as a specific

historical achievement made possible by human institutions, which embodies certain valuable principles, but also creates problems, as Hegel does.[39] As already mentioned, and described in detail in the chapter outline below, three themes are discussed in detail in their relation to the market: the relation between individual and community; questions of justice, with a focus on the notions of desert and social inclusion; and the relation between negative and positive liberty. These are key categories for thinking about markets, but they are also topics of extensive debates in contemporary political theory. At many points lines will be drawn from Smith and Hegel to these discussions of the 20th and 21st century.

The study thus addresses two audiences: on the one hand, it offers an interpretation and discussion of Smith's and Hegel's accounts of the market and its place in society, in which the comparative approach brings to light new and interesting perspectives. This should be of interest to philosophers or historians of ideas working on Smith or Hegel, but also to economists interested in the thought of the founding father of their discipline and one of its early critics. On the other hand, the question of what it means to live in a market society, and what categories and concepts we can use to think about it, should be of interest to political philosophers who are involved in a number of contemporary debates, e.g. the 'liberal-communitarian' debate or the discussion about the notion of desert. These themes should indeed be of interest to all individuals living in a market society who wonder how to understand themselves, as beings who, whether they like it or not, live to a large degree 'by exchanging.'

I.2 A post-Skinnerian approach

This study happily and consciously crosses the borderlines of several disciplines. Its subject matter, the market, is taken from economics. But, as has been argued, it approaches it in a philosophical manner, and thus has little in common with economic theory as it is practised today. It deals with historical thinkers, which is the traditional domain of intellectual

[39] This does not mean that for Smith the institutions that make the market possible have not developed historically, but this is described as a *natural* development.

history. Connecting their thought to themes like identity, desert, or autonomy, it locates itself within political philosophy.

Such an approach can be extremely fruitful, as studies with a similar methodology have shown.[40] It is not, however, without pitfalls, and demands a clear statement of the methodological assumptions on which is based.

The dangers of reading historical authors with the aim of learning something for contemporary questions have been outlined most clearly in Quentin Skinner's famous essay of 1969 on the methodology of the history of ideas. Skinner claims that if texts are pulled away from their context, we cannot understand the intention behind the words, and thus have no access to the meaning of what is being said.[41] Rather than drawing on historical authors when dealing with contemporary issues, Skinner states, 'we must learn to do our own thinking for ourselves.'[42] The 'Cambridge School' that has developed out of this approach has made invaluable contributions to our understanding of the contexts in which many 'classical' thinkers lived and wrote. But recognizing these achievements does not imply that one has to limit one's reading of historical authors to a contextualist approach.

It is helpful to think about the different ways in which one can read a historical text as aligned on a scale which reaches from purely 'historical' to purely 'systematic' readings. At one end one finds interpretations that approach a text exclusively in the context of its own time. They try to reconstruct the original voice of the author, in order to gain insights into 'what he or she really meant,' but do not connect these insights to systematic questions. At the other end there are readings that take the historical context into no

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[40] To note just two examples: Fonna Forman-Barzilai, *Adam Smith and the Circles of Sympathy: Cosmopolitanism and Moral Theory* (Cambridge: Cambridge University Press, 2010) relates Smith's thought to contemporary issues in cosmopolitan thought; Axel Honneth, *Leiden an Unbestimmtheit. Eine Reaktualisierung der Hegelschen Rechtsphilosophie* (Stuttgart: Reclam, 2001) turns to Hegel out of an interest in a differentiated society with different spheres of 'communicative freedom.'

[41] Cf. in particular Quentin Skinner, "Meaning and Understanding in the History of Ideas," *History and Theory* 8, no. 1 (1969): 3-53; Quentin Skinner, *Visions of politics. Volume I: Regarding method* (Cambridge: Cambridge University Press, 2002). Skinner builds on a pragmatic theory of language, drawing on authors such as the late Wittgenstein, Grice, and Austin. If 'words are also deeds' (Wittgenstein, quoted in *Visions of Politics, Volume I*, 4), the 'intended force' of a speech act can only be understood if its context and the speech acts (or other events) it relates to are taken into account (cf. ibid., 119).

[42] Skinner, "Meaning and Understanding in the History of Ideas," 52.

account at all, either in an unconscious, naïve way, or in a conscious decision to give up the search for 'original meaning,' and to do whatever one likes with the texts.[43] These two extremes both have a monological structure: in one case, the ideal is to reconstruct the voice of the historical author; in the other case, the contemporary commentator does not make a serious attempt to understand the historical author and therefore cannot reject the charge that he or she merely projects his or her own ideas onto the text, using it as a 'sounding-board for current disciplinary preoccupations.'[44]

There is a middle ground, however, in which the ideal is not a monologue, but a 'dialogue across historical periods.'[45] This approach assumes that there are at least *some* concepts that we can understand, and *some* values that we can share, across the centuries.[46] Here the main interest is in philosophical ideas, rather than in historical developments or contexts. This is how I approach Smith and Hegel in this study: I focus on understanding the claims they make about the role of the market in modern society and the arguments they provide for these claims by drawing on a number of values and assumptions that we can understand today, even if we may not share all of them. This implies that I try to make as strong a case as possible for them, but also pay attention to tensions and weaknesses in their accounts, just as one does with contemporary fellow philosophers. This approach takes the historical authors seriously as thinkers who wrote in a wider intellectual context than just the immediate historical circumstances of their time, reacting to arguments made by Plato and Aristotle just as much as to those made by their contemporaries. Smith and Hegel, and many historical authors with them, wrote not only because they wanted to comment on current events, but also because they had something to say about fundamental problems of political theory. This is why they wrote long treatises rather than political

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[43] Cf. e.g. Richard Rorty, *Consequences of Pragmatism. Essays 1972-1980* (Minneapolis: University of Minneapolis Press, 1982), 151.
[44] Keith Tribe, "Review of Fricke/Schütt (eds.), Adam Smith als Moralphilosoph," *Adam Smith Review* IV (2008): 258-262, 259.
[45] Mark Philp, "Political Theory and History," in *Political Theory. Methods and Approaches*, ed. Marc Stears and David Leopold (Oxford: Oxford University Press, 2008), 128-149, 144f.
[46] Cf. similarly Mark Bevir, "Are there Perennial Problems in Political Theory?," *Political Studies* XLII (1994): 662-675.

pamphlets, and this is why they saw themselves as justified in engaging in a dialogue with those thinkers who, in the history of political thought, had done the same before.[47] Reading them *only* in a contextualist manner would, ironically, disregard their own intentions.

This approach offers the possibility of learning something which is relevant for our own questions, while at the same time gaining truly new insights from hearing *somebody else's* voice, not just the echo of our own voice. *Some* awareness of the context is crucial, even if the main interest is in philosophical claims and arguments, for understanding the historical texts as thoroughly as possible. But much contextualist research on Smith and Hegel has already been undertaken; drawing on it reduces the risk of merely reading one's own concerns into their works.[48] In addition, the challenge of relating Smith's and Hegel's concepts to one another, and to our contemporary notions, is facilitated by the fact that certain key concepts, e.g. the concept of 'the state,'[49] had already developed a common usage in their time. The reception of Smith's thought by Hegel, as analysed by Waszek, shows that they are talking about the same phenomena. Bringing them into dialogue is thus, in a way, much less anachronistic than treating them as belonging to completely different intellectual universes. The greatest differences between their views, and between theirs and ours, do not lie in the different use of certain concepts, but in the metaphysical background assumptions: Smith's deism and Hegel's metaphysics of *Geist*. In the course of the study, I will spend considerable time on drawing out the implications of these views for their conceptions of the market and of the nature of society more generally.

With regard to the questions and themes which I draw from Smith and Hegel, the process has in fact been a sort of dialogue: I came to their texts with a number of questions in mind, and while some of them proved fruitful, others turned out to be uninteresting. But

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[47] Cf. similarly Samuel Fleischacker, *On Adam Smith's Wealth of Nations: a philosophical companion* (Princeton: Princeton University Press, 2004), xvi.

[48] For a short overview of the relevant scholarship on Smith and Hegel see the respective footnotes in chap. II and III and the bibliography. It should be noted, however, that for the sake of conciseness I do not comment on the scholarly debates on Smith and Hegel unless they relate directly to the topic of this study.

[49] On the historical development of this concept see Quentin Skinner, "From the state of princes to the person of the State," in *Visions of Politics, Volume II: Renaissance Virtues* (Cambridge: Cambridge University Press, 2002), 308-413. Smith and Hegel share the notion of the state as an artificial legal identity, *not* identical with the ruler or the ruling class, that stems from the natural jurisprudence tradition.

in the course of studying their texts, new topics emerged and offered completely new perspectives on what I had taken to be uncontroversial aspects of their thought. Studying Smith's and Hegel's approach to the market has thus set me on an intellectual journey that took some rather surprising turns. It was a circular process between looking for answers to my own questions in their texts, trying to listen to the questions *they* were asking, and wondering why they differed on certain questions – a process very similar to contemporary philosophical discussions between people from different intellectual backgrounds, where the most interesting moments are often the points at which one understands *why* someone holds a position that seemed weird and illogical at first glance.

This kind of dialogue with historical authors possesses an emancipatory force: it can bring to light premises which one had taken over uncritically from the tradition and therefore offer one a conscious choice. And here we are back in line with Quentin Skinner, when he writes:

> one of the contributions that historians can make is to offer us a kind of exorcism. […] An understanding of the past can help us to appreciate how far the values embodied in our present way of life, and our present ways of thinking about those values, reflect a series of choices made at different times between different possible worlds. […] Equipped with a broader sense of possibility, we can stand back from the intellectual commitments we have inherited and ask ourselves in a new spirit of enquiry what we should think of them.[50]

I.3 Structure of the study

The study has two parts. The first part is mainly interpretive: it presents my reading of Smith's and Hegel's views of the market.

Chapter II explores Smith's construction of the market, which is epitomized in the famous metaphor of the 'invisible hand,' and argues that it needs to be read against the background of his deistic metaphysics. I share the view, by now almost commonplace in Smith scholarship, that there is no 'Adam Smith problem,' i.e. no gap between his moral philosophy, as developed in the *Theory of Moral Sentiments*, and his economics in the *Wealth of Nations*. Smith intended to create a coherent system, which, however, exhibits tensions

[50] *Visions of Politics. Volume I*, 6.

because of his complex notion of nature: he sometimes builds on natural mechanisms, and sometimes wants them to be channelled or corrected. This also applies to his view of the market, which he sees as functioning only against an institutional framework of property rights and impartial laws. Under these conditions, markets can lead to general 'opulence,' a state in which all members of society can flourish. Smith is, however, much more than an economist. His reflections on the relation between the market and society are of great interest for political philosophers; discussing them prepares the ground for arguments about core values and principles of political philosophy in the second part of the study.

Chapter III describes Hegel's view of the market, which he calls the 'relics of the state of nature.'[51] I first address the question of how to read Hegel today, given that the metaphysical tenets of his system are not only difficult to understand, but also hard to swallow. I argue for approaching Hegel's practical philosophy from the point of view of the free will, which is the starting point of the *Philosophy of Right*, and for remaining uncommitted with regard to his wider metaphysical claims. I then describe how Hegel takes up the economic theories of his time, and how he understands civil society, i.e. the market and the institutions that surround it, as a specifically modern sphere for 'subjective freedom.' At the same time, this economic system creates problems for the cohesion of society and results in chaos and instability. It therefore has to be embedded in the larger framework of *Sittlichkeit*, the most comprehensive institution of which is the state. Hegel's view of the market is thus a much more critical one: the market is necessary as a place of subjective freedom, but there is a price to be paid for it. It is, in fact, an open question whether for Hegel the state succeeds in mitigating the problems that the market creates.

The second part of the study is systematic: it takes up a number of core issues in political philosophy and compares Smith's and Hegel's views of these issues, showing the relevance of different images of the market for these questions. It addresses different concerns that have been raised with regard to the market even by those who otherwise

[51] PR §201.

endorse it: concerns about our social identities, about justice, and about autonomy and political freedom. Smith's and Hegel's views of the market are brought to bear on, and contrasted with, more recent discourses, such as the communitarian critique of liberalism, the debate about desert in the market, and the discussion about different notions of freedom.

Chapter IV deals with questions of identity and community. The concern about the market creating unencumbered, 'atomistic' selves has been raised in particular by thinkers labelled as 'communitarians.' While Hegel is often associated with the latter, Smith has the reputation of having invented 'economic man:' the isolated, self-interested individual. But in fact both Hegel and Smith see human beings as shaped in and through social contexts: there could be no relation *to oneself* without a relation to others; human beings are irreducibly social. In a market society, many intersubjective relations take place in the economic sphere, where people buy and sell not only goods, but also their labour. I argue that Smith and Hegel have different ways of conceptualising this process: in Smith, sovereign individuals sell their human capital, while their identity is mainly formed in pre-market relationships. In Hegel, in contrast, the individual's professional life has a deep influence on his or her identity, which means that when encountering each other in the market, individuals see themselves as 'particular' individuals – as butchers, brewers, or bakers. Hegel's notion of *Bildung* is central in this context, but it also relates to a view of human capital as much more specific than in Smith and as tied up with the question of who one is. These different conceptualizations have a number of implications for theorizing the relation between individual and community, where not only *degrees*, but also *kinds* of embeddedness need to be taken into account. The contrast between the liberal and the communitarian approaches cannot capture all that is at stake in the conceptualization of the relations between the individual and the community.

Chapter V deals with questions of (in)equality and desert, i.e. with questions of social justice. It has often been held, notably by F. A. von Hayek, that the notion of desert

cannot be applied to markets. As I will show, this makes sense on a Hegelian view of the market that strongly emphasises its *subjective* element. The Smithian approach, in contrast, provides a model for how one can think about market outcomes in terms of desert; similar arguments have recently been made, for example, by David Miller. The Smithian market, however, depends on extremely demanding assumptions, and the less these assumptions hold, the more problematic it is to apply the notion of desert to the market.

In addition to the question of desert, a central issue of social justice is the question of poverty and social exclusion, which has often been imputed to the market. I argue that one important sense in which markets can create, or *should* create, more equality, in Smith's and Hegel's views, is by eliminating discrimination on the basis of race or other personal features. Smith holds, in addition, that markets lead towards more equality and mutual respect, whereas in Hegel's approach the market creates both enormous luxury and a 'rabble' of paupers who might not be able to reintegrate themselves into society. In the conclusion, I reflect on the role that the notion of desert can play in discussions about social justice and about the importance of economic integration for addressing the non-material dimensions of poverty. I argue that rather than focussing only on surrounding institutions, the market *itself* also needs to be made an issue in discussions about social justice.

Chapter VI deals with the market and its relation to freedom. After Berlin's famous distinction between positive and negative liberty, it has usually been assumed that Smith belongs to the camp of negative liberty and that Hegel is a prototypical thinker of positive liberty. When one takes a closer look, however, it turns out that Smith and Hegel connect negative and positive aspects of liberty in more nuanced and subtle ways. I explore the ways in which the liberty one has in markets can be more than negative liberty, and can expand to individual *autonomy*. I analyse the chances and the risks that the market offers for autonomy: chances insofar as it educates people in autonomous behaviour, but risks insofar as it can undermine the *conditions* of autonomy, e.g. when the division of labour

affects the workers' intellectual abilities. The solutions Smith and Hegel offer to these problems, although different in focus, show that both of them aspire to a richer notion of individual freedom than the mere absence of obstacles. I then turn to the relation between negative freedom and the social whole within which it operates, arguing that Smith and Hegel develop contrasting models: whereas for Smith negative freedom is self-reinforcing and automatically leads to dimensions of freedom traditionally described as 'positive,' for Hegel the two notions of freedom need to supplement each other. I conclude by arguing that negative and positive freedom should not be viewed as completely separate concepts, but that there are a number of intrinsically related aspects or dimensions of freedom. *How* they are related crucially depends on the *contexts* of freedom, one of which is the market.

In the conclusion (chapter VII) I draw some more general lessons from the discussions of the previous chapters. Smith's and Hegel's pictures of the market have had a deep influence on our ways of conceptualizing the social world, and as such they have also had a lasting impact on political theory. Becoming aware of these pictures *as* pictures that are part of an intellectual inheritance helps us to open up new questions and to challenge unconsciously held assumptions. Taking the market seriously matters in particular for 'non-ideal' or 'less-ideal' theorizing, which is, as I argue, where many of the most relevant and most interesting discussions of political theory take place. In the search for social justice and other pressing questions, we need to engage more closely with real-life issues and with those who explore them empirically and conceptually. Understanding the intellectual heritage that has formed our conceptions of the market can be a first step on this path.

II SMITH'S CONSTRUCTION OF THE MARKET: NATURE'S WISE CONTRIVANCES

II.1 Introduction: Smith against the clichés

Adam Smith's reputation has for a long time been disputed. He was mainly seen as the author of the *Wealth of Nations*, the birth certificate of economics as a separate science. Stigler's description of the *Wealth* as 'a stupendous palace erected upon the granite of self-interest'[1] captures this perception of Smith among economists and the general public, economists usually being fonder of these granite foundations than others. It is the line about the self-interest of 'the butcher, the brewer, or the baker'[2] from which we 'expect our dinner,' that has made its way into many economics textbooks, and to which Smith's vast and complex system is often reduced.

In the last decades, however, a more differentiated picture has emerged. A large, interdisciplinary community of Smith scholars has developed; the 'International Adam Smith Society' was founded in 1995 and the journal *The Adam Smith Review* has been published since 2004.[3] This new wave of Smith scholarship has not only taken a fresh look at his unpublished works, and elaborated their relation to the *Theory* and the *Wealth.* It has

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[1] George Stigler, "Smith's Travel on the Ship of the State," *History of Political Economy* 3 (1971): 265-277, 265.
[2] WN I.II.2.
[3] To provide a complete overview over this literature lies beyond the scope of this chapter; instead, let me adduce some of the monographs (in chronological order) that have been important for my approach to Smith: Donald Winch, *Adam Smith's Politics: An Essay in Historiographic Revision* (Cambridge: Cambridge University Press, 1978), Knud Haakonssen, *The Science of the Legislator. The Natural Jurisprudence of David Hume and Adam Smith* (Cambridge: Cambridge University Press, 1981), Jeffrey T. Young, *Economics as a Moral Science: The Political Economy of Adam Smith* (Cheltenham: Elgar, 1997), Charles L. Griswold, *Adam Smith and the virtues of enlightenment* (Cambridge: Cambridge University Press, 1999), Samuel Fleischacker, *A third concept of liberty: judgment and freedom in Kant and Adam Smith* (Princeton: Princeton University Press, 1999), Emma Rothschild, *Economic Sentiments: Adam Smith, Condorcet and the Enlightenment* (Cambridge, MA.: Harvard University Press, 2001), Fleischacker, *On Adam Smith's Wealth of Nations*. For an overview of the Smith literature up to 1997 see Vivienne Brown, "'Mere inventions of the imagination': a survey of recent literature on Adam Smith," *Economics and Philosophy* 13 (1997): 281-312; for the recent literature on Smith as an economist see Anthony Brewer, "Let us now praise famous men. Assessments of Adam Smith's economics," *The Adam Smith Review* 3 (2007): 161-186. The rediscovery of Smith has been strongest in the Anglophone world; it was slower and less pronounced among Germano- and Francophone philosophers. Important publications in German include Arnold Meyer-Faje and Peter Ulrich, eds., *Der andere Adam Smith. Beiträge zur Neubestimmung von Ökonomie als Politischer Ökonomie* (Bern / Stuttgart / Wien: Haupt, 1991) and Christel Fricke and Hans-Peter Schütt, eds., *Adam Smith als Moralphilosoph* (Berlin / New York: de Gruyter, 2005); in France one finds, for example, Michaël Biziou, *Adam Smith et l'origine du liberalism* (Paris: Presses Universitaires de France, 2003).

also approached Smith from a vast variety of angles and disciplines, reaching from rhetoric to political theory and gender studies.[4] The year 2009, which marked the 250th anniversary of the *Theory*, saw a number of international conferences on Smith.[5] A steady flow of books and articles, as well as conference sessions and workshops, demonstrates the continuing interest in his thought. Scholarship on 'Smith the economist' equally continues to flourish, and draws a much more nuanced picture than the textbook cliché implies.[6] The Smith who emerges from this research is not the narrow-minded apologist of self-interest, but a moral philosopher and social scientist with a rich and complex system of thought, an 18th-century scholar of impressive breadth of knowledge and deeply humanistic convictions. This is the Adam Smith we will meet in the following pages. While the focus is on his view of the market, what makes Smith interesting and relevant today is precisely the fact that this view is embedded in a wider system.

In this chapter I discuss Smith's view of the market, arguing that the famous metaphor of the 'invisible hand' can only be understood correctly if it is read in the context of Smith's whole system. I first give a short overview of Smith's historical and intellectual contexts. Then I address the systematic nature of his thought, drawing on his understanding of scientific inquiry and on his deistic background, which both deliver strong arguments – in addition to the biographic evidence – against the existence of an 'Adam Smith Problem,' i.e. a gap between his moral and economic theory. Next, I address his conception of nature, arguing that it is complex and exhibits certain internal tensions, as Smith sometimes builds on nature, and sometimes wants to correct it. This prepares the ground for a discussion of his account of the market, which he sees as a wise contrivance of nature that can only function, however, within institutional structures that need to be

[4] Cf. e.g. the essays in Stephen Copley and Kathryn Sutherland, eds., *Adam Smith's "Wealth of Nations": New Interdisciplinary Essays* (Manchester / New York: Manchester University Press, 1995) and in Knud Haakonssen, ed., *The Cambridge Companion to Adam Smith* (Cambridge / New York: Cambridge University Press, 2006).
[5] E.g. in Oxford (January), Glasgow (March/April) and Oslo (August).
[6] See notably the contributions in two volumes of essays edited by Skinner and Wilson: *Essays on Adam Smith* (Oxford: Clarendon Press, 1975) and *The Market and the State: Essays in Honour of Adam Smith* (Oxford: Clarendon Press, 1976). The most recent collection of essays that explicitly address the *economic* side of Smith is Jeffrey T. Young, ed., *Elgar Companion to Adam Smith* (Cheltenham / Northampton, MA: Edward Elgar, 2009).

provided and supervised by a wise legislator. Under these condions free markets bring about a situation in which all members of society can lead a flourishing life. This state of 'opulence' is one of Smith's strongest arguments in favour of a market society.

II.2 Smith's contexts

Smith spent most of his life in his native Scotland, in Kirkaldy, Glasgow and Edinburgh. The Scotland of his day was a region in transition. United with England in 1707, its economy was still largely agrarian, dominated by family clans in the Highlands and by the landed gentry in the lowlands.[7] In the cities, however, colonial trade and proto-industrial forms of production brought new sources of income, as well as a change of mentality and social structures. These economic realities provided the writers of the Scottish Enlightenment with a panorama that reached from impoverished peasant societies to the 'commercial society' of Glasgow or Edinburgh. This influenced their theories of historical progress and the ways in which they weighed the pros and cons of commercial society. As we shall see, feudalism as a contrast to commercial society plays an important role in Smith's account.[8]

This economic development was paralleled by the intellectual movement now referred to as the 'Scottish enlightenment.' It comprised thinkers like Francis Hutcheson, David Hume, Adam Smith, Thomas Reid, Adam Ferguson and Henry Home (Lord Kames), to name just the most prominent.[9] The distance from the political powerhouse in London and the relative weakness of the Presbyterian Kirk may have helped to develop a

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[7] Cf. Jerry Muller, *Adam Smith in his Time and ours. Designing the decent society* (New York: The Free Press, 1993), 30ff. and in particular Richard F. Teichgraeber, *"Free Trade" and Moral Philosophy: Rethinking the Sources of Adam Smith's Wealth of Nations* (Durham: Duke University Press, 1986), xvii and 6. On the role of agriculture in Smith's thought see also fn. 141 below.

[8] On the Scottish economy of Smith's day see T. C. Smout, "Where had the Scottish economy got to by the third quarter of the eighteenth century?," in *Wealth and Virtue. The Shaping of Political Economy in the Scottish Enlightenment*, ed. Istvan Hont and Michael Ignatieff (Cambridge: Cambridge University Press, 1983), 45-72. On the importance of this socio-economic situation for Smith see also Muller, *Adam Smith in his Time and ours*, 23.

[9] For a concise overview over themes and figures see Alexander Broadie, "Scottish Philosophy in the 18th Century," in *The Stanford Encyclopedia of Philosophy*, ed. Edward N. Zalta, Fall 2008 edition, <http://plato.stanford.edu/archives/fall2009/entries/scottish-18th/>.

climate in which science and culture flourished.[10] A progressive spirit reigned among the educated classes; improvement was sought in all areas of life, in particular in agriculture and education. By the middle of the 18th century, Scotland had five universities.[11] Its intellectuals, as well as many merchants and country gentlemen, were members of educated clubs and societies where they exchanged ideas and discussed the latest writings of their continental counterparts.[12] The connection to continental Europe was much stronger than in England: Scotland not only shared the Calvinist creed and parts of Roman law, it also quickly took up the tradition of natural jurisprudence, developed by Grotius and Pufendorf.[13] The Scottish literati were interested in French literature and the latest developments in philosophy and the arts in Europe. They saw themselves as part of the European 'republic of letters.'[14]

Adam Smith was deeply embedded in these circles. One of his most influential teachers was 'the never to be forgotten Dr Hutcheson.'[15] Hutcheson introduced him to the moral theories of both the 'ancients' (thinkers like Aristotle, Cicero and notably the Stoics) and the 'moderns' (English sentimentalism and Hutcheson's own theory of an innate 'moral sense'). Smith was a close friend of Hume, whom he met in Edinburgh in the 1750's

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[10] Cf. e.g. Nicholas Phillipson, "The Scottish Enlightenment," in *The Enlightenment in national context*, ed. Roy Porter and R. Teich (Cambridge: Cambridge University Press, 1981), 19-40, 28.

[11] Glasgow, Edinburgh, St. Andrews, Marischall College (Aberdeen), King's College (Aberdeen). Cf. Roger Emerson, "The contexts of the Scottish Enlightenment," in *The Cambridge Companion to the Scottish Enlightenment*, ed. Alexander Broadie (Cambridge: Cambridge University Press, 2003), 9-30, 19f.

[12] Ibid., 17ff., cf. also Nicholas Phillipson, "Adam Smith as civic moralist," in *Wealth and Virtue. The Shaping of Political Economy in the Scottish Enlightenment*, ed. Istvan Hont and Michael Ignatieff (Cambridge: Cambridge University Press, 1983), 179-202.

[13] The continental jurisprudence tradition had first been brought to Scotland by Gershom Carmichael; see James Moore and Michael Silverthorne, "Gershom Carmichael and the natural jurisprudence tradition in eighteenth-century Scotland," in *Wealth and Virtue. The Shaping of Political Economy in the Scottish Enlightenment*, ed. Istvan Hont and Michael Ignatieff (Cambridge: Cambridge University Press, 1983), 73-87. Carmichael in turn influenced Smith's teacher Hutcheson. Smith mentions Grotius as the father of this science in TMS VII.IX.37 and the natural jurisprudence tradition in LJ(A)136ff. On Smith and the natural jurisprudence tradition see in particular Istvan Hont and Michael Ignatieff, "Needs and justice in the Wealth of Nations: an introductory essay," in *Wealth and Virtue. The Shaping of Political Economy in the Scottish Enlightenment*, ed. Istvan Hont and Michael Ignatieff (Cambridge: Cambridge University Press, 1983), 1-44; despite some criticisms of their account, the importance of the natural law tradition for Smith has hardly been disputed. (cf. e.g. Andrew S. Skinner, *A System of Social Science: Papers Relating to Adam Smith* (Oxford: Clarendon Press, 1979), chap. V, David Lieberman, "Adam Smith on Justice, Rights, and Law," in *The Cambridge Companion to Adam Smith*, ed. Knud Haakonssen (Cambridge: Cambridge University Press, 2006), 214-245.).

[14] Cf. Emerson, "The contexts of the Scottish Enlightenment," 17f.

[15] Corr. #274. Cf. Ross, *The Life of Adam Smith*, 48ff. on Hutcheson's influence on Smith. On Hutcheson's moral philosophy and social theory see e.g. T.D. Campbell, "Francis Hutcheson: 'Father' of the Scottish Enlightenment," in *The Origins and Nature of the Scottish Enlightenment*, ed. R. H. Campbell and Andrew S. Skinner (Edinburgh: John Donald Publishers, 1982), 167-186.

and with whom he stayed in correspondence until the latter's death in 1776.[16] The influence of these and other contemporaries on his moral philosophy can be seen in book VII of the *Theory*, where Smith discusses a large variety of positions in moral philosophy, in what almost amounts to an intellectual history of metaethics and normative ethics. Smith presents the strengths and weaknesses of different approaches, in an attempt to show the superiority of his own moral philosophy, which is based on the notions of 'sympathy' and the 'impartial spectator.'[17] Book VII also shows that while Smith was well aware of the philosophical debates of his time, he did not hesitate to draw on Plato or Aristotle when he found their arguments more convincing that those of his contemporaries.[18]

In his economic theory, Smith also drew widely on writers of his time.[19] He carefully studied James Steuart's *Inquiry into the Principles of Political Economy*, published in 1767, promising in a letter that 'every false principle in it' would 'meet with a clear and distinct confutation' in the work he planned, the *Wealth*.[20] He may also have been influenced by Mandeville, whose *Fable of the Bees* had caused a scandal in the 1720's by arguing that all human morality is based on self-interest and that commercial society flourishes *because of* human vice[21] – points that Smith rejects in the *Theory*, but not without showing great respect for their author.[22] Another source were the 'physiocrats,' a group of French economists under the lead of Francois Quesnay, whom Smith met during his stay in Paris in 1765. They presented him with a macroeconomic model – exemplified in the

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16 Ross, *The Life of Adam Smith*, 160ff., 289ff. Smith's student Stewart comments that 'The Political Discourses of Mr Hume were evidently of greater use to Mr Smith, than any other book that had appeared prior to his lectures' ("Account of the Life and Writings of Adam Smith, LL.D," iv.24). On Hume's influence on Smith see also Skinner, *A System of Social Science*, chap. X.

17 Cf. TMS VII.I.1. On his moral philosophy see e.g. Griswold, *Adam Smith and the virtues of enlightenment*; D. D Raphael, *The Impartial Spectator* (Oxford: Oxford University Press, 2007).

18 On the role of ancient philosophy in Smith see in particular Gloria Vivenza, *Adam Smith and the Classics. The Classical Heritage in Adam Smith's Thought* (Oxford: Oxford University Press, 2003).

19 For an overview of economic theory in the Scottish Enlightenment see Andrew S. Skinner, "Economic theory," in *The Cambridge Companion to the Scottish Enlightenment*, ed. Alexander Broadie (Cambridge: Cambridge University Press, 2003), 178-204. He emphasises the importance of Montesquieu and Newton for the economic thought of Hume, Hutcheson, Steuart and Smith.

20 Corr. #132. On Steuart see also Skinner, *A System of Social Science*, chap. XI. Skinner emphasises that despite Smith's claim his account shares a number of features with Stewart's, e.g. the theory of historical stages, the focus on self-interest and the systematic, 'Newtonian' approach.

21 Bernard Mandeville, *The Fable of the Bees, Part I (1714), Part II (1729)*, ed. F. B. Kaye (Oxford: Clarendon Press, 1924).

22 TMS VII.II.4. On the compatibility of virtue and commerce in Smith see chap. V.2 and VI.2 below.

famous *Tableau Économique* – that went beyond his earlier reflections on economic phenomena.[23] Smith's account of physiocrat thought in book IV of the *Wealth* is, on the whole, positive,[24] and it is reported that had Quesnay lived, Smith would have dedicated his *opus magnum* to him.[25] Far less positive, in contrast, is his account of what he calls the 'mercantile system': a bundle of economic doctrines turning around the idea that a country's wealth consists in its supplies of bullion, and that to augment it one should export as much, and import as little, as possible – assumptions which Smith takes to be intellectually flawed and politically harmful.[26] His criticism almost amounts to 'Ideologiekritik' *avant la lettre*, arguing that this 'system' serves as an ideological windscreen for 'merchants and manufacturers' who profit from it at the expense of other members of society.[27] As in the *Theory*, the discussion of other systems in the *Wealth* is an attempt to show the superiority of Smith's own account, as not only more intellectually sound, but also less ideologically biased.

These contexts – sketched here only in broad outline – provide the intellectual background against which Smith's theories have to be understood. They help to put into perspective what he attempted to do in the *Theory of Moral Sentiments* and the *Wealth of Nations.* Importantly, however, these two books should not be understood as separate works, but as integral parts of what was supposed to be a unified system.

II.3 Smith's system

The nature and coherence of Smith's thought have given rise to much controversy in the scholarship of the last 100 years. In the late 19th century, German commentators, who did not have any information about Smith's biographical context and his unpublished works,

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[23] Ross, *The Life of Adam Smith*, 216f. For an overview of physiocratic doctrines see Timothy Hochstrasser, "Physiocracy and the politics of laissez-faire," in *The Cambridge History of Eighteenth-Century Political Thought*, ed. Mark Goldie and Robert Wokler (Cambridge: Cambridge University Press, 2006), 419-442. On Quesnay's and Turgot's influence on Smith see also Skinner, *A System of Social Science*, chap. VI.
[24] Cf. in particular WN IV.IX.38, where he calls it 'the nearest approximation to the truth that has yet been published upon the subject of political oeconomy.'
[25] Stewart, "Account of the Life and Writings of Adam Smith, LL.D," III.12.
[26] WN IV.I-VIII.
[27] Cf. e.g. WN IV.I.6ff.

coined the term 'Adam Smith Problem.' It concerns the relation between Smith's moral philosophy and his economics: is the focus on sympathy and the sociality of human nature in the *Theory* compatible with the emphasis on self-interest and the strife for profit in the *Wealth*? Or had Smith changed his mind over the course of his life?[28]

There are indeed questions about the internal consistency of Smith's system. But these are endemic to his theory, and have nothing to do with a change of position between his two published works. As is known today, Smith kept revising the *Theory* until the end of his life, before *and* after the *Wealth* was published in its different editions; this is evidence against a 'shift' in his views.[29] The appearance of manuscripts from his time in Glasgow has made clear that he was interested in economic questions long before he met the physiocrats in France in the 1760's. Both his *Lectures on Jurisprudence* – of which two sets of notes by students have been found – and the manuscript known as 'Early Draft' contain substantial reflections on the division of labour, the price mechanism and other economic issues. Smith's own intention to produce a system is clearly stated in the advertisement to the sixth edition of the *Theory*:

> In the last paragraph of the first Edition of the present work, I said, that I should in another discourse endeavour to give an account of the general principles of law and government, and of the different revolutions which they had undergone in the different ages and periods of society; not only in what concerns justice, but in what concerns police, revenue, and arms, and whatever else is the object of law. In the Enquiry concerning the Nature and Causes of the Wealth of Nations, I have partly executed this promise; at least so far as concerns police, revenue, and arms.

The *Lectures on Jurisprudence* provide valuable insights into what Smith's account of the 'general principles of law and government' might have looked like, and it is for this reason

[28] Among these commentators were Hildebrand, von Skarzynski and Oncken. See e.g. Keith Tribe, "'Das Adam Smith Problem' and the origins of modern Smith scholarship," *History of European Ideas* 24 (2008): 514-525. For a discussion and overview of both the historical and the more recent debates see e.g. Leonidas Montes, *Adam Smith in Context. A Critical Reassessment of Some Central Components in His Thought* (Basingstock: Palgrave Macmillan, 2004), chap. II, and Forman-Barzilai, *Adam Smith and the Circles of Sympathy*, chap. I.

[29] The first edition of TMS appeared in 1759; Smith made some small changes in the following editions, sometimes in reaction to criticisms by friends and correspondents. A number of more substantial changes can be found in the sixth edition that appeared shortly before Smith's death: a new book (VI) on the character of virtue and a section on the 'corruption of our sentiments' (I.III.3) were added (cf. 'Advertisement of the sixth edition,' for a discussion see D. D. Raphael and A. L. Macfie, "Introduction," in *The Theory of Moral Sentiments by Adam Smith* (Oxford: Clarendon Press, 1976), 15ff., and James E. Alvey, "The 'new view' of Adam Smith and the development of his views over time," in *New Perspectives on Adam Smith's The Theory of Moral Sentiments*, ed. Geoff Cockfield, Ann Firth, and John Laurent (Cheltenham: Edward Elgar, 2007), 66-83). In this study I use the sixth edition, as is standard practice today, drawing attention to differences between the editions only where this plays a role for the interpretation.

that they are fully taken into account in this study. Thematically, they form a 'bridge'[30] between the *Theory* and the *Wealth*: they connect to Smith's intention to write a treatise on jurisprudence at the end of the *Theory*,[31] and lead, via reflections on legal history and various political themes, to his first sketches of economic theory. Had the *Lectures* been available to the German 19th-century Smith scholars, the 'Adam Smith Problem' would probably never have been born.[32]

These facts all point to Smith's plan to construct a unified system, an 'inquiry into jurisprudence and forms of government, with the whole edifice being underpinned by treatments of morals, metaphysics, or psychology,' which was, as Donald Winch points out, a 'general eighteenth-century practice.'[33] This view also receives support from Smith's conception of philosophy and from his theological background assumptions.

Smith laid down his conception of philosophy or science[34] in an essay called 'The Principles Which Lead and Direct Philosophical Enquiries; Illustrated by the History of Astronomy.' Written in 1758, Smith asked Hume to publish it in 1773, which indicates that

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[30] This term has first been used by Winch, *Adam Smith's Politics*, 10. Griswold and Fleischacker have recently argued that LJ cannot fulfil this role as a bridge, and that there are not only biographical, but *philosophical* reasons why Smith never published his jurisprudence. Griswold (*Adam Smith and the virtues of enlightenment*, 256ff.) focuses on what he sees as a tension between Smith's start from the standpoint of ordinary life as it has grown historically and the claim to discover eternal natural laws. This tension is dissolved, however, if one reads Smith as a deist, for which I argue below, or if one simply assumes that Smith sees a common core of human nature that is constant through different times and that provides Smith with an anchor for a theory of natural law (cf. similarly Young, *Economics as a Moral Science*, 42ff.). Fleischacker (*On Adam Smith's Wealth of Nations*, chap. VIII) plays on similar themes, challenging the idea that the rules of justice can be laid out with the precision that Smith assumes, a problem that he relates to the problematic distinction between acting and omitting (153ff.). While this may be a legitimate philosophical worry *in general*, it seems that Smith himself was rather optimistic about it, holding that the rules of justice are like rules of grammar that can be stated with sufficient clearness to discern violations (cf. TMS III.IV.11, VII.IV.1).

[31] TMS VII.IV.37.

[32] Nevertheless, some contemporary scholars still hold that there is an 'Adam Smith Problem,' e.g. Vivienne Brown (*Adam Smith's discourse: canonicity, commerce and conscience* (London: Routledge, 1994)). In Brown's case this has to do with her post-modern approach that uses Bakhtin's distinction between dialogism and monologism (cf. ibid. chap. I and II). Paganelli ("The Adam Smith Problem in Reverse: Self-Interest in The Wealth of Nations and The Theory of Moral Sentiments," *History of Political Economy* 40, no. 2 (2008): 365-382) argues that self-interest is presented in a more positive fashion in TMS than in WN, but overlooks the different aspects and functions of self-interest in the relevant passages – a child's 'self-interest' in wanting to gain the favour of other children cannot be put on a level with a rich and powerful merchant's self-interest in conspiring against the public.

[33] *Riches and Poverty. An intellectual history of political economy in Britain, 1750 – 1834* (Cambridge: Cambridge University Press, 1996), 22.

[34] The two terms are used almost synonymously, see e.g. HA II.12. For a discussion of Smith's terminology see W. P. D Wightman, "Introduction," in *Essays on philosophical subjects by Adam Smith* (Oxford: Clarendon Press, 1980), 5-28, 12f.

he held these views also later in life.[35] Smith describes how human beings perceive the world, and how things that are 'new and singular,' 'unexpected' or 'great and beautiful' produce the feelings of 'wonder,' 'surprise' and 'admiration' in them.[36] The human mind always looks for familiar patterns in what it experiences. New or unexpected experiences are like gaps in these patterns, and raise a spontaneous urge to fill them. The root cause of all scientific endeavours is not any practical need, but rather this feeling of wonder.[37] Scientists have acquired a 'nicer ear' than normal people for such gaps, and 'look for a chain of invisible objects to join together two events that occur in an order familiar to all the world.'[38] Smith speaks of 'that science which pretends to lay open the concealed connections that unite the various appearances of nature.'[39] These connections are like bridges on which ideas can 'as it were […] float through the mind of their own accord.'[40] This is how science achieves its aim of giving tranquillity to the mind, of 'introduc[ing] order into this chaos of jarring and discordant appearances, […] and restor[ing] [the imagination] […] to [a] tone of tranquillity and composure.'[41] Where several bridges, or chains, come together, a scientific system is formed, which Smith defines as an 'imaginary machine invented to connect together in the fancy those different movements and effects which are already in reality effected.'[42] His description of the historical progress in astronomy culminates in an account of Newton's system, which Smith praises for being so plausible that although it is, like all philosophical systems, a 'mere invention of the imagination,' one is led to think that it describes the 'real chains' of Nature.[43]

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[35] Corr. #37. Hume did not do this; the text was published by Joseph Black and James Hutton after Smith's death in 1790 (cf. Wightmann, "Introduction," 5).
[36] HA I.1.
[37] Cf. e.g. Eric Schliesser, "Adam Smith's benevolent and self-interested conception of philosophy," in *New Voices on Adam Smith*, ed. Leonidas Montes and Eric Schliesser (London: Routledge, 2006), 329ff., who draws a contrast to the Baconian thesis about the origin of science in the wish to control nature and to use it for one's own purposes.
[38] HA II.11.
[39] HA III.3, cf. similarly II.12.
[40] HA II.7.
[41] HA II.12.
[42] HA IV.19.
[43] HA IV.76. On Smith's 'Newtonian' method see T.D. Campbell, *Adam Smith's Science of Morals* (Glasgow: Glasgow University Press, 1971), chap. I, III, Eric Schliesser, "Some Principles of Adam Smith's Newtonian

Given this emphasis on systematicity it is likely that Smith's own ambition was systematic as well: to achieve for social science what Newton had achieved for astronomy.[44] This is also the most plausible conclusion that can be drawn from his metaphysical assumptions. Against the current mainstream of Smith scholarship I hold that a purely secular interpretation does not do justice to the deeply metaphysical dimensions of his system. We should be aware of this background precisely because we may not share it.

Smith's view of religion and the role it plays for his system are deeply contested.[45] He harshly criticizes aspects of existing religion, particularly the Roman Catholic Church,[46] which led some commentators to assume that he was an atheist or agnostic like his friend Hume. There are, however, no signs of atheism or deep scepticism in our evidence about his private life.[47] But the more substantial argument comes from his texts. The *Theory* contains numerous allusions to 'the Deity,' 'the Creator,' or the 'Author of Nature'[48] and unless one shrugs them off as rhetorical flourishes – for which they are rather too frequent –, they speak against seeing Smith as atheist or sceptic.[49] Given his interest in Stoicism,[50] and given the fusion of Stoic and Christian thought accomplished by many Scottish literati,[51] it is likely that he shared the views of many 18th-century deists who

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Methods in the Wealth of Nations," *Research in the History of Economic Thought and Methodology* 23 (2005): 35-77, and Montes, *Adam Smith in Context*, chap. V.

[44] Smith has indeed been called a 'Newton' of the 'History of Civil Society' (with Montesquieu being the 'Lord Bacon') by his student Millar (quoted in Ross, *The Life of Adam Smith*, 120).

[45] For an overview of the debate see Brendan Long, "Adam Smith's theism," in *Elgar Companion to Adam Smith*, ed. Jeffrey T. Young (Cheltenham / Northampton, MA: Edward Elgar, 2009), 73-99.

[46] Cf. in particular WN V.I.III.III.2ff.

[47] Ross (*The Life of Adam Smith*, 14) emphasises that Smith's mother, with whom he lived for most of his life, was deeply religious; Long ("Adam Smith's theism") mentions the fact that there were several high clergymen among his friends. The only exception is Hume, whose scepticism caused him considerable trouble during his lifetime. On his deathbed Hume asked Smith to publish his *Dialogues Concerning Natural Religion*, a request that Smith never fulfilled, maybe because he feared the consequences of Humean scepticism for his own system (cf. Ross, *The Life of Adam Smith*, 335ff., in particular 340).

[48] E.g. II.II.3.5, II.III.3.1ff., III.V, VII.III.3.20. Montes (*Adam Smith in Context*, 37, n. 43) provides numbers: 'nature with capital 'N' appears 53 times, God with capital 'G' 25, Deity with capital 'D'20, Divine Being 8, Providence 5, along with others: All-powerful Being, Supreme Being, Infinite Wisdom, Infinite Power, Creator, Great Superior, the Lord our God…'

[49] Cf. in particular TMS VI.II.3.2, where Smith famously speaks about 'the very suspicion of a fatherless world' being 'the most melancholy of all reflections.'

[50] Stoic thought forms an important part of Smith's cultural and intellectual background in the Scottish Enlightenment (cf. e.g. Muller, *Adam Smith in his Time and ours*, 40; Ross, *The Life of Adam Smith*, 12, 54, 103). The influence of Stoicism has been emphasised in particular by Raphael and Macfie ("Introduction").

[51] Cf. P. H. Clarke, "Adam Smith, Stoicism and religion in the 18th century," *History of the Human Sciences* 13, no. 4 (2000): 49-72.

believed in the ability of human reason to discover central tenets of a natural religion.[52] In one passage of the *Wealth* Smith speaks of 'that pure and rational religion, free from every mixture of absurdity, imposture, or fanaticism, such as wise men have in all ages of the world wished to see established.'[53] He holds that the 'happiness of mankind […] seems to have been the original purpose intended by the Author of nature:'[54] in 'every part of the universe' one finds means that are 'adjusted with the nicest artifice to the ends which they are intended to produce.'[55] As Smith's discussion of Stoicism makes clear, the aim of his moral philosophy is to discover and understand the 'plan and system which Nature has sketched out for our conduct.'[56] This concurs with his account of science as finding the 'hidden chains' of Nature, as described above. For the 'scientific' exploration of the causal laws that govern the world, the hypothesis of God's existence plays no direct role – once God has put the system in place, it works on its own principles.[57]

Where the deistic framework plays a role, however, is in the normative dimensions of Smith's system. The assumption that the world – including human nature – has been created by a benevolent deity forms the bridge from Smith's 'empirical' description of human nature and society to his normative moral theory that distils natural 'oughts' from the 'is': if there are *natural* moral sentiments, and nature has a normative status as created by

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[52] On deism in 18th-century Scotland see also M. A. Stewart, "Religion and rational theology," in *The Cambridge Companion to the Scottish Enlightenment*, ed. Alexander Broadie (Cambridge: Cambridge University Press, 2003), 31-59. Long ("Adam Smith's natural theology of society," *Adam Smith Review* 2 (2006): 124-148; "Adam Smith's theism") argues against the deistic reading and presents Smith as a theist. The difference between deism and theism is usually taken to be the denial of revelation. For Smith, revelation does not seem to be *necessary* as an access to God (cf. e.g. WN V.III.III.8), but there is no explicit denial of the truth of the Bible. For our present purpose, this question is of minor importance.

[53] WN V.III.III.8, cf. also TMS III.V.4, where Smith speaks about the right form of religion being 'confirmed by reason and philosophy.'

[54] TMS III.V.7.

[55] TMS II.II.3.5.

[56] TMS VII.II.1.43. Some commentators have taken this passage to imply that Smith does not see such a plan *at all* (or none that has been laid out by a benevolent deity), but this is clearly not implied in this remark. As Hill rightly argues, Smith wanted to 'modernize' rather than abandon the idea of a providential plan of Nature ("The Hidden Theology of Adam Smith," *European Journal of the History of Economic Thought* 8, no. 1 (2001): 1-29, 11).

[57] Similar accounts can be found e.g. in Biziou, *Adam Smith et l'origine du liberalism*, 216ff., 269ff. and Young, *Economics as a Moral Science*, 18ff. As Hill remarks, there is *general*, but never *special* providence in Smith ("The Hidden Theology of Adam Smith," 15). Teleology in Smith is thus a way of looking at things from a different perspective, which is compatible with a purely scientific discourse in which nothing 'hinges on teleological explanations' (Haakonssen, *The Science of the Legislator*, 77).

God, then men *should* indeed follow these sentiments.[58] As we shall see, the same holds for the natural social order that Smith uncovers in the *Wealth*, the 'system of natural liberty': it is good not only because it results in good consequences for human beings, but also because it has been created by benevolent nature. There is, however, an additional level of complexity in Smith's account of nature.

II.4 Smith's notion of nature

Starting from Smith's assumption that a benevolent deity has created the cosmos to further human happiness, it is tempting to think that in his system everything that is natural is therefore, by definition, good. But Smith's views are more complex, and a number of apparent tensions in his system – and between competing interpretations – can be dissolved if one takes into account a basic ambiguity in his conception of nature: some natural tendencies should be reinforced, while others should be curbed or channelled in certain ways.[59]

To address this issue we need to understand, first, how Smith analyses nature's benevolent work. It has often been described as one of the seminal discoveries of the Scottish Enlightenment that good purposes can be attained without good intentions.[60] This is the famous doctrine of unintended consequences: social order can, in Ferguson's words, be 'the result of human action, but not the execution of any human design.'[61] This idea has often been linked to Smith's metaphor of the 'invisible hand.' In Smith, however,

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[58] Cf. e.g. TMS III.II.31, where Smith says that the 'all-wise Author of Nature' has appointed man 'his vicegerent upon earth, to superintend the behaviour of his brethren,' which implies that the moral judgments of others are more than just conventions, and point towards what people *should* do. I thus disagree with Griswold's influential reading of Smith as a 'post-Enlightenment' thinker with a purely aesthetic interest in deism (*Adam Smith and the virtues of enlightenment*, 24; 330ff.). Griswold emphasises Smith's starting point in ordinary life; in my reading Smith chooses this starting point precisely because Nature has given human beings moral sentiments that enable them to live their ordinary lives in ways that can be normatively endorsed.

[59] On his complex notion of nature cf. also Campbell, *Adam Smith's Science of Morals*, chap. II and Laurence Dickey, "Historicizing the 'Adam Smith Problem': Conceptual, Historiographical, and Textual Issues," *The Journal of Modern History* LVIII (1986): 579-609, 603ff., where the development of Smith's notion of nature in the different editions of TMS is also discussed.

[60] Cf. in particular Ronald Hamowy, *The Scottish Enlightement and the Theory of Spontaneous Order* (Carbondale: Southern Illinois University Press, 1987). He argues that this doctrine was directed against the idea of a mythical legislator who would bring about a good social order.

[61] Adam Ferguson, *An Essay on the History of Civil Society, 1767*, ed. Duncan Forbes (Edinburgh: Edinburgh University Press, 1966), 122.

unintended good consequences can be found not only in the market, but also in a wide range of psychological and social mechanisms described in the *Theory*. The 'cunning of nature'[62] is for Smith a widespread phenomenon which he discovers in numerous places.

For example, men naturally care most for those around them: their family, friends and neighbours.[63] This means that people devote most energy to 'that little department in which [they] have some little management and direction'[64] rather than to those 'whom [they] can neither serve nor hurt.'[65] The 'very limited' 'powers of beneficence'[66] are thus optimally allocated, without anyone consciously intending it: individuals simply follow their natural tendencies. The 'circles of sympathy'[67] create a strong web of sympathy and support in which, ideally, every member of the society is embedded.[68]

A second example of the 'cunning of nature' can be found in Smith's theory of justice, although here the natural sentiments need to be channelled and guided by the impartial spectator – the key element of his moral philosophy – in order to arrive at normatively endorsable judgments. Justice, which Smith calls 'the main pillar' of society,[69] is based on natural 'resentment' against offenders;[70] resentment is the 'safeguard of justice and the security of innocence.'[71] As justice is crucial for social order, Smith holds that nature has not trusted the weak power of human reason alone, but has given men 'an immediate and instinctive approbation' of the punishment of injustice.[72] People have a

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[62] This term is also used by Michael Ignatieff, "Smith, Rousseau and the Republic of Needs," in *Scotland and Europa 1200 - 1850*, ed. T. C. Smout (Edinburgh: John Donald Publishers, 1986), 187-206, 191.
[63] TMS VI.II.1.
[64] TMS VII.II.1.44.
[65] TMS III.III.9, cf. VI.II.2.2.
[66] TMS VI.II.Intr.2.
[67] Cf. the title of Forman-Barzilai's *Adam Smith and the Circles of Sympathy*. See also R. Nieli, "Spheres of intimacy and the Adam Smith Problem," *Journal of the History of Ideas* 47 (1986): 611-624, who connects this phenomenon to the 'Adam Smith Problem' and argues that the relations based on self-interest in WN take place between humans 'who do not otherwise have a close intimate tie with one another' (619), and that WN and TMS are thus complementary. Cf. similarly James R. Otteson, *Adam Smith and the Marketplace of Life* (Cambridge: Cambridge University Press, 2002), 5, esp. 183ff.). Fonna Forman-Barzilai shows that the roots of this theory are in the Stoic doctrine of 'oikeiosis,' but whereas the Stoics wanted to *overcome* this human tendency, Smith applauds it as a wise contrivance of nature (*Adam Smith and the Circles of Sympathy*, chap. III-IV; cf. TMS III.III.11, VII.II.1.19ff.).
[68] Cf. also chap. IV.2 below.
[69] TMS II.II.3.4ff.
[70] TMS II.II.1.4.
[71] Ibid.
[72] TMS II.I.1.5.10.

natural sense of justice, a 'sense of ill-desert,'[73] which, together with the habitual reverence for just laws,[74] can stabilize society.[75] Although human action is needed for the enforcement of law, nature has provided additional resources – the natural sentiments – in order to facilitate the realization of justice.

Such 'cunning of nature' is necessary because the powers of intentional human planning are far too limited for the tasks at hand. Smith explicitly claims that 'the care of the universal happiness of all rational and sensible beings, is the business of God,' whereas to man is 'allotted a much humbler department, but one much more suitable to the weakness of his powers, and to the narrowness of his comprehension,' namely to look after his own interest and the well-being of his family and country.[76] This fact – and *not* an understanding of human nature as inherently selfish – is also why '[e]very man is, no doubt, by nature, first and principally recommended to his own care; […] *as he is fitter to take care of himself than of any other person*.'[77] The 'providential care' of the author of Nature can be seen even in the 'weakness and folly of man,' Smith holds.[78] His system never idealises human nature, but wants to take man 'as he really is.'[79] While he does not think that the 'bulk of mankind'[80] are Hobbesian egoists, he assumes that only a small minority are truly wise and virtuous.[81] When Smith reflects on the social world, he looks for those mechanisms that bring about social order *without* presupposing too much wisdom or virtue, working behind the agents' backs, through indirection.

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[73] TMS II.I.V.7, cf. also II.II.2.
[74] Cf. TMS VII.IV.36f.
[75] Cf. also Griswold, *Adam Smith and the virtues of enlightenment*, 237. On Smith's theory of justice see also Spencer J. Pack and Eric Schliesser, "Smith's Humean Criticism of Hume's Account of the Origin of Justice," *Journal of the History of Philosophy* 44, no. 1 (2006): 47-63.
[76] TMS VI.II.3.6.
[77] TMS II.II.2.1, italics added.
[78] TMS II.III.3.2.
[79] With this approach Smith stands in the tradition of a number of thinkers, such as Machiavelli, Hobbes and Spinoza, who argued for the use of a 'realistic' picture of human nature, emphasizing its darker sides; cf. e.g. Albert O. Hirschman, *The Passions and the Interests. Political Arguments for Capitalism before Its Triumph* (Princeton: Princeton University Press, 1977), 12ff. In general, however, Smith's picture of human nature is less negative than that of these thinkers; for him, men have an irreducible interest in society and the well-being of others (cf. chap. IV.2 below).
[80] TMS III.V.1.
[81] Cf. e.g. TMS I.I.2.4, II.I.5.9, III.IV.4, VI.III.25.

But this does not mean that *all* natural tendencies have good consequences and should therefore be followed. Sometimes such tendencies need to be curbed, or at least channelled. In the *Theory* Smith distinguishes between nature 'as such' and cultivated nature; for example, the 'natural' moral sentiments need to be developed and refined through the equally 'natural' faculty of reason and the impartial spectator.[82] Smith thus does not oppose 'nature' and 'artifice;' as Haakonssen puts it, for Smith artifice is 'natural' to humankind, as human beings always 'generate moral, aesthetic, and other conventions.'[83] What is 'natural' is not *automatically* better; there can be cases in which 'the wisdom of Nature needs help'[84] by conscious human action. In one place, Smith explicitly says that man 'is by Nature directed to correct, in some measure, that distribution of things which she herself would otherwise have made.'[85] Smith's strong focus on the naturalness of certain sentiments thus does not imply that they should always be passively accepted – sometimes nature needs not to be imitated, but rather 'amended.'[86]

This complex notion of nature also needs to be taken into account when one considers institutions. The fact that an institution has existed for a long time, maybe as a result of unintended consequences, does not *by itself* imply that it should be normatively

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[82] E.g. TMS I.II.1.1f., where he mentions the need to restraint violent hunger or sexual desire in public; or I.II.3.1, where he speaks of passions that must be 'brought down to a pitch much lower than that to which *undisciplined nature* would raise them' (italics added). In I.II.3.8 he says that resentment, despite being natural, needs to be checked by the 'sense of propriety' and by reflections on 'the sentiments of the cool and impartial spectator.' Cf. also Maria Alejandra Carrasco, "Adam Smith's Reconstruction of Practical Reason," *The Review of Metaphysics* 58, no. 1 (2004): 82-116 for a reading of Smith's moral philosophy as a theory of practical reason that arises from the refinement of natural tendencies.

[83] Knud Haakonssen, "Introduction. The Coherence of Smith's Thought," in *The Cambridge Companion to Adam Smith*, ed. Knud Haakonssen (Cambridge: Cambridge University Press, 2006), 1-21, 9.

[84] Cf. Laurence Brubaker's title "Does the 'wisdom of nature' need help?," in *New Voices on Adam Smith*, ed. Leonidas Montes and Eric Schliesser (London: Routledge, 2006), 168-193.

[85] TMS III.V.9. Another passage shows that Smith is aware that changing natural sentiments is not always easy: he holds that sometimes we cannot feel as much sympathy for a person as we should, despising her self-pity, 'unjustly, perhaps, if any sentiment could be regarded as unjust, to which we are by nature irresistibly determined' (I.III.1.15). But Smith almost never argues for a complete *eradication* of natural tendencies; it is rather a question of restraining and channelling certain sentiments while nurturing others (cf. e.g. TMS I.I.5.5). For Smith – in contrast to Mandeville, cf. TMS VIII.II.IV – virtue consists in guiding the natural sentiments by the impartial spectator, not in completely oppressing them. This saves him from the Mandevillian pessimism that virtue and natural tendencies – in particular self-love and the economic structures of modern society that build on it – are irreconcilable. On 'bourgeois virtue' cf. also below chap. V.2 and VI.2.

[86] Griswold, *Adam Smith and the virtues of enlightenment*, 328. Cf. also Hirschman, *The Passions and the Interests*, on the genesis of the idea that different parts of human nature – sometimes even elements of the very same passion – need to be pitched against each other, and that commerce can support this process.

endorsed. Just as there are natural tendencies in individuals that should be amended rather than imitated, there are also historical developments in the institutional structure of societies for which this is true.[87]

The emphasis on Smith-the-advocate-of-laissez-faire may have obscured the fact that he does not naïvely endorse all historical developments that look 'natural.' The clearest counter-example is slavery,[88] which he describes as flowing from the 'natural' (!) 'love of domination and authority,'[89] but clearly sees as unjust.[90] Thus the challenge is to distinguish the cases in which Smith endorses natural tendencies from those in which he rejects them.[91] It seems that Smith here relies on his notion of the impartial spectator. An impartial spectator can endorse an institution if it leads to good consequences for *everyone* concerned, without sacrificing the interests of some to the interests of others.[92] The 'man within the

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[87] Otteson argues that because the 'market principle' works in different social spheres, long-standing rules that embody the experience of many generations are, for Smith, superior to new legislation; he even sees an element of 'Burkean conservatism' in Smith (*Adam Smith and the Marketplace of Life*, 322). It is true that Smith sometimes argues that institutions, e.g. the English legal system, have improved, or will improve, over time (e.g. WN V.I.II.21; V.I.III.I.9, LJ(B) 426). But institutions can also decline: for example, the 'length of time' has 'introduced and authorized many abuses' in the office of customs (WN V.II.II.IV.62) and many laws 'continue in force long after the circumstances, which first gave occasion to them, and which could alone render them reasonable, are no more' (WN III.II.4). So the age of an institution does not automatically decide about its quality. For discussions of Otteson's reading see also the symposium on his work edited by Fonna Forman-Barzilai in *Adam Smith Review* vol. 2 (2006).

[88] His strongest statement about the injustice of slavery are in LJ(A) 181ff, cf. also LJ(B) 452f.

[89] LJ(A) 186, cf. LJ(B)451f.

[90] Other examples include the apprenticeship regulations and poor laws (cf. fn. 108 below), but also primogeniture and entail (WN III.II.6, LJ(A) 69, LJ(B) 468).

[91] On this question with regard to the Smithian state see also Young's interesting paper on different policy norms in Smith, "Unintended Order and Intervention: Adam Smith's Theory of the Role of the State," *History of Political Economy* 37, no. 1 (2006): 91-119.

[92] There is some disagreement, however, whether the emphasis on justice in WN is really based on the impartial spectator. Some commentators argue that Smith's criterion for the evaluation of legal or political institutions is not so much equality of rights, but rather a consequentialist reflection on their usefulness. Among those who argue for a reading of Smith as utilitarian are T.D. Campbell and Ian Simpson Ross, "The Utilitarianism of Adam Smith's Policy Advice," *Journal of the History of Ideas* 42 (1981): 73-92, who emphasise that Smith holds a version of rule- or 'system utilitarianism,' and David Levy, "The Partial Spectator Theory in the Wealth of Nations: A Robust Utiliarianism," *European Journal of the History of Economic Thought* 2 (1995): 299-326, who reads Smith as defending a median- (rather than means-) based utilitarianism. Among those who argue *against* an instrumental reading of justice in Smith are e.g. Emily R. Gill, "Justice in Adam Smith: The Right and the Good," *Review of Social Economy* 34 (1976): 275-94, D. D Raphael, "Hume and Smith on Justice and Utility," *Proceedings of the Aristotelian Society* 72 (March 1972): 87-103, Emma Rothschild and Amartya Sen, "Adam Smith's Economics," in *The Cambridge Companion to Adam Smith*, ed. Knud Haakonssen (Cambridge: Cambridge University Press, 2006), 320-365, 350, and Pack and Schliesser, "Smith's Humean Criticism of Hume's Account of the Origin of Justice." It is possible, however, to mediate between utilitarianism and spectator theory. An impartial spectator looks not only at an individual and what she has done, but also at the 'general interest of society' (TMS II.II.III.7) and the 'interest of the many' (II.II.III.11); consequentialist considerations can thus be integrated in a spectator theory.

breast'[93] is the internalized authority that takes into account the positions of *all* parties, without privileging any one of them.[94] This notion provides the criterion for deciding which natural tendencies should be followed and which should be curbed, and also which *institutions* are endorsable and which are unjust.[95] God has, as it were, left some tasks to human beings, but has given them the guidance of the 'impartial spectator,' which takes into account the equal rights of all human beings.[96] For example, many remnants from feudalism – which Smith calls an 'unnatural and retrograde order'[97] – clearly privilege some groups at the expense of others, and should therefore be abolished.

Smith does not oppose change as a matter of principle and is not in favour of letting things stay as they are. When existing institutions one-sidedly favour certain groups and suppress the rights of others, he argues for abolishing these 'evident violation[s] of natural justice and liberty.'[98] This approach of seeing institutions from the perspective of the impartial spectator coheres with Smith's egalitarianism, which has been much noticed in recent commentaries.[99] As Stephen Darwall argues, equality is inscribed in the very method by which Smith reconstructs moral judgment, i.e. sympathy and the impartial spectator, because sympathy 'implicitly recognizes the other as having an independent [and as such an equal] perspective.'[100] Smith's argument for the free market relies on the fact that

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[93] TMS VI.Concl.1

[94] It teaches us that we are 'but one of the multitude, in no respect better than any other in it' (TMSIII.III.4, cf. similarly I.I.1.5, II.III.1.5). The idea of the 'impartial spectator' is based on the human ability of sympathy, of 'changing places in fancy' (TMS I.I.1.3) with others. On sympathy see also chap. IV.2 below.

[95] Cf. also Amos Witztum and Jeffrey T. Young, "The Neglected Agent: Justice, Power, and Distribution in Adam Smith," *History of Political Economy* 38, no. 3 (2006): 437-471. Cf. Young, *Economics as a Moral Science*, on the distinction between a 'benevolent' and a 'malevolent' path of development in both the economic and the political sphere (58ff., 178ff.). Young points out that a central factor in the distinction between these two developments is whether individuals are treated as equals or not, and notes that the equality of all human beings might, for Smith, ultimately depend on the Christian idea that God has created all men equal (206f.).

[96] Smith's notion of rights has its roots both in the natural jurisprudence tradition and in his moral theory of the impartial spectator. For a helpful discussion see Lieberman ("Adam Smith on Justice, Rights, and Law").

[97] WN III.I.9.

[98] WN I.X.II.59, referring to the poor laws that restricted the freedom of movement.

[99] E.g. Fleischacker, *On Adam Smith's Wealth of Nations*, 73. Fleischacker is right to point out that there is also an 'elitist strain' in Smith, which, however, does not contradict his egalitarianism, because an aspect of moral superiority is precisely *not* to see oneself as superior (ibid., 74, cf. also Norbert Waszek, "Two concepts of morality: A distinction of Adam Smith's ethics and its Stoic origin," *Journal of the History of Ideas* 45, (1984): 591-606), who compares Smith's views on this topic to those of Dostoevsky).

[100] Stephen Darwall, "Equal dignity in Adam Smith," *The Adam Smith Review* 1 (2004): 129-134, 131.

markets can be endorsed by an impartial spectator, because they do not violate rights and bring opulence to *all* members of society.

II.5 Smith's account of the market society

Thus, for Smith the task of science is to uncover the 'hidden chains' behind phenomena and to unite them into a coherent system; the cosmos in which these 'hidden chains' are to be found has been created by a benevolent deity. His account of 'nature' is complex and does not imply that everything that comes about through 'natural' tendencies is thereby justified. These dimensions of his thought are easily overlooked in ahistorical readings that focus exclusively on the *Wealth* and approach Smith with the models of contemporary economics in mind. They are central, however, for understanding the meaning and place of the market in Smith's theory. In one passage of the *Theory* Smith speaks of moral behaviour as 'co-operat[ing] with the Deity.'[101] The 'system of natural liberty,' the politico-economic order Smith describes in the *Wealth*, builds on a similar cooperation between natural tendencies (created by the Deity) and human voluntary actions – in particular, as we shall see, actions by virtuous politicians.

The 'division of labour' between nature and institutions in Smith's model of commercial society can be described in three steps. The first dimension is an institutional framework that provides external defence and secures property rights. Smith describes these as two of the tasks of government:

> According to the system of natural liberty, the sovereign has only three duties to attend to […]: first, the duty of protecting the society from the violence and invasion of other independent societies; secondly, the duty of protecting, as far as possible, every member of the society from the injustice or oppression of every other member of it, or the duty of establishing an exact administration of justice…[102]

Governments develop 'naturally' in the course of human history when people settle down and acquire property that is beyond the 'value of two or three days labour'[103] and therefore

[101] TMS III.V.7.
[102] WN IV.IX.51.
[103] Cf. WN V.II.I.2, where Smith holds that the existence of such property creates incentives for crimes that need to be counterbalanced by the threat of punishment.

requires protection.[104] It is much less natural that governments should protect everyone, especially the poor, *equally*, by taking up the position of an impartial spectator and realising 'natural justice,' including fair legal procedures.[105] As Smith describes in the *Lectures on Jurisprudence*, it had been a slow and tedious process until England arrived at the degree of justice and security of property it had in his day.[106] Many other countries were still stuck in feudal structures, with the rich and powerful, rather than independent judges, having judicial power over the poor.[107] But even in 18th-century Great Britain, there are institutions, often stemming from feudal times, which unfairly disadvantage certain groups, e.g. the apprenticeship regulations or the poor laws.[108] In addition, powerful groups like the 'merchants and manufacturers,' supported by the ideology of mercantilism, guard their privileges and put pressure on the government to grant them more. Smith sharply criticizes such practices: they contradict the natural equality that the sovereign owes to all subjects:

> To hurt in any degree the interest of any one order of citizens, for no other purpose but to promote that of some other, is evidently contrary to that justice and equality of treatment which the sovereign owes to all the different orders of his subjects.[109]

The challenge is thus to keep up legal equality in the face of vast inequalities of property and to make sure that 'the power of purchasing' does not lead to 'political power, either civil or military.'[110] This is not only a matter of justice, but also of making the market work: without secure property rights, people do not have incentives to work in socially useful –

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[104] Ibid., cf. LJ(A) 107, 208.

[105] In fact, Smith describes the origin of government as a conspiracy of the rich against the poor: 'Laws and government may be considered […] as a combination of the rich to oppress the poor, and preserve to themselves the inequality of the goods which would otherwise be soon destroyed by the attacks of the poor...' (LJ(A) 208). But this remark concerns only the *origin* of government; as we shall see below, property rights nevertheless lead to a situation in which the poor are better off. In LJ(A) 104 Smith states explicitly that the 'magistrate' *should* act 'in the character of an impartial spectator;' the idea is also present in many other passages (e.g. LJ(A) 17, 32, 87, LJ(B) 434, 438, 475f). On different courts and legal procedures see LJ(A) 274ff., LJ(B) 422ff.

[106] He states that the 'equal and impartial administration of justice […] renders the rights of the meanest British subject respectable to the greatest' (WN IV.VII.III.54), as is appropriate for a system of justice that takes on the perspective of an impartial spectator.

[107] Cf. e.g. WN III.II.3, LJ(A) 49f., 203.

[108] WN I.X.I.14ff., I.X.II.41ff.

[109] WN IV.VIII.30. This can be seen as a parallel, at the level of laws and institutions, to the passage in TMS II.II.2.1 that says that we have no right to disturb the happiness of others just in order to promote our own happiness. Cf. also Bhanu Pratap Mehta, "Self-Interest and Other Interests," in *The Cambridge Companion to Adam Smith*, ed. Knud Haakonssen (Cambridge: Cambridge University Press, 2006), 246-269, 252 for a discussion.

[110] WN I.V.4.

marketable – ways, but rather minimize their efforts.[111] This problem had marred feudal agriculture; it is a strong – purely economical – argument against slavery.[112] To 'give *each one* the secure and peacable possession of his own property'[113] is thus a precondition for the free market that needs to be secured by conscious human effort, rather than waiting for it to happen naturally.[114] The tendency of the legal and political system to be captured by those who are powerful in the *market* – a 'natural' tendency, in a sense – needs to be amended rather than imitated.[115]

The second dimension of the cooperation between nature and institutions is the free market, as a sphere of production and exchange. It takes place within the framework of personal rights and property rights; in this sense, it can be said that justice is a basic principle of the *Wealth of Nations*.[116] As long as he does not violate the rights of others, every invidivual is 'free to pursue his own interest his own way, and to bring both his

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[111] 'When people find themselves every moment in danger of being robbed of all they possess, they have no motive to be industrious' (LJ(B) 522), whereas 'when they are secure of enjoying the fruits of their industry, they naturally exert it to better their condition' (WN IIII.III.12). The importance of secure property rights for economic development has been confirmed by recent historical research, see e.g. Eric Jones, *The European Miracle. Environments, economies and geopolitics in the history of Europe and Asia.* (Cambridge: Cambridge University Press, 2003), 85ff. Interestingly, even Mandeville, in the *Fable of the Bees*, admits the importance of justice for 'vice' to do its beneficial work: 'Vice is beneficial found, / When it's by Justice lopt and bound.'

[112] Cf. e.g. WN III.II.9, LJ(A) 185ff., LJ(B) 522ff. Cf. also WN IV.VII.II.53ff., where Smith remarks that only the extremely productive sugar plantations can be run by a slave system, whereas the less productive grain plantations need to be run by free labour.

[113] LJ(A) 5, italics added.

[114] In this sense, Buchanan describes 'laws and institutions' as 'public goods' that are 'antecedent to market-coordination' and need to be provided by political action ("Public goods and natural liberty," in *The Market and the State: Essays in Honour of Adam Smith*, ed. Thomas Wilson and Andrew S. Skinner (Oxford: Clarendon Press, 1976), 271-86, 277).

[115] This topic will be taken up in chap. VI.4 below. As to external defence, Smith argues for a standing army, as a militia will not be able to defend the growing riches of a commercial society against envious neighbours (WN V.I.I.39, LJ(B) 541ff.); he argues that the power of a country rises or falls 'in proportion to the value of its annual produce (WN II.V.31), which determines the ability to pay for the army and its equipment. Although there are some republican overtones in Smith's discussion of the militia issue, these refer mainly to the loss of martial spirit in commercial society through the division of labour (cf. below chap. VI, fn. 28). For discussions see e.g. Winch, *Adam Smith's Politics*, chap. V, and Montes, *Adam Smith in Context*, chap. III, who both see strong connections between Smith and the civic republican tradition on this issue. Fleischacker (*On Adam Smith's Wealth of Nations*, 249ff.) in contrast, argues that Smith's commitment to civic republican principles is rather 'tepid' (249); cf. similarly Edward J. Harpham, "Liberalism, Civic Humanism, and the Case of Adam Smith," *American Political Science Review* 78, no. December (1984): 764-774. For a detailed account of the 'militia issue' in Scotland in the 17th and 18th century see John Robertson, *The Scottish Enlightenment and the Militia Issue* (Edinburgh: John Donald Publishers, 1985).

[116] Cf. e.g. L. Billet, "The Just Economy: The Moral Basis of the Wealth of Nations," *Review of Social Economy* 34, no. 3 (1976): 295-315. As Berry points out, this distinguishes Smith's account from ancient and civic humanist accounts in which public spirit and benevolence were core virtues ("Adam Smith and the Virtues of Commerce," *NOMOS* XXXIV, Virtue (1992): 69-88.) The topic of the bourgeois virtues will be taken up in chap. V.2 and VI.2 below.

industry and capital into competition with those of any other man.'[117] Smith compares this to a race:

> In the race for wealth, and honours, and preferments, he may run as hard as he can, and strain every nerve and every muscle, in order to outstrip all his competitors. But if he should justle, or throw down any of them, the indulgence of the spectators is entirely at an end. It is a violation of fair play, which they cannot admit of.[118]

In commercial society individuals pursue their interests through the propensity to 'truck, barter, and exchange one thing for another.'[119] Smith connects this principle to the human 'faculties of reason and speech.'[120] In the *Lectures* he emphasises the 'naturall inclination every one has to persuade.'[121] When we offer another person 'a shilling' in a purchase we are 'in reality offering an argument to persuade one to do so and so as it is for his interest.'[122] Trade is thus the expression of a deeply human desire, which is unique among all animals.[123] Equally unique is the fact that what human beings desire in order to 'better their condition' is often not the satisfaction of biological needs. They care about the social meaning of goods and the attention from others that they can gain by acquiring certain things.[124] What individuals really desire is '[t]o be observed, to be attended to, to be taken notice of with sympathy, complacency, and approbation.'[125]

The 'desire of bettering our condition' is a very powerful force: it 'comes with us from the womb, and never leaves us till we go into the grave.'[126] It is the driving force behind the division of labour, which Smith sees as the main factor in the 'progress of opulence:' it allows workers to improve their specialized abilities, to save time, and to

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[117] WN IV.IX.51.
[118] TMS II.II.2.1. Here we see again that the 'Adam Smith Problem' is a myth, as Smith in the *Theory also* holds that 'regard to our own private happiness and interest […] appear[s] upon many occasions to be very laudable principles of action' (cf. TMS VII.II.3.6).
[119] WN I.II.1.
[120] WN I.II.2.
[121] LJ(A) 352, cf. LJ(B) 493f.
[122] LJ(A) 352.
[123] WN I.II.5, cf. also chap. IV.3 below.
[124] This propensity – which Smith does not see as purely positive – will be discussed in more detail in chap. VI.2.
[125] TMS I.III.2.1. It has to do with the fact that people sympathize more with joy than with sorrow (TMS I.III.1.5), and hence more with the rich and powerful than with the poor and powerless (TMS I.III.2.1). If it were otherwise, people would, in the hunt for attention, drag each other down in a race to the bottom, whereas given that the sympathy with the rich is stronger, the social development becomes a race to ever more refinement and luxury. Cf. also Hont and Ignatieff ("Needs and justice in the Wealth of Nations: an introductory essay," 10), who connect this point to Smith's rejection of Stoic *ataraxia*.
[126] WN II.III.28.

invent useful machines.[127] The division of labour is thus 'not originally the effect of any human wisdom;' but rather 'the necessary, though very slow and gradual consequence' of the human 'propensity to truck, barter, and exchange one thing for another.'[128]

The division of labour depends on markets, because people who specialise in one branch of industry have to acquire all other goods they need by exchange. When specialized workers exchange their products among each other, trade is no longer a zero-sum game. Rather, 'the gains of both [sides] are mutual and reciprocal.'[129] For Smith, all voluntary, uncoerced exchanges of goods and services count as market transactions: from the import of colonial luxury goods to the exchange of service for money between a street porter and a philosopher.[130] Smith describes how the size of a market depends on the means of transportation that determine the number of potential exchanges; this explains the significance of rivers and coastlines for commerce.[131]

In a free market the price mechanism adjusts the quantities of goods. If demand is higher than supply, the price will rise, and this will entice more people into this trade, until the price is lowered again; and vice versa, if supply is higher than demand.[132] Thus,

> [t]he quantity of every commodity brought to market naturally suits itself to the effectual demand. It is the interest of all those who employ their land, labour, or stock, in bringing any commodity to market, that the quantity never should exceed the effectual demand; and it is the interest of all other people that it never should fall short of that demand.[133]

Markets thus take over a task of coordination which could never be accomplished by an individual human being or a government, as 'no human wisdom or knowledge could ever be sufficient' for it.[134] Individuals only need to make judgements about their local situation,

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[127] WN I.I.5, cf. LJ(A) 344f.
[128] WN I.II.1. As Winch notes, similar reflections on the division of labour can already be found in Mandeville and in the *Encyclopédie* (*Riches and Poverty*, 88). For a discussion see also Craig Smith, *Adam Smith's Political Philosophy: The Invisible Hand and Spontaneous Order* (London: Routledge, 2005), 68ff.
[129] WN III.I.1, cf. IV.III.II.2, LJ(A) 390. The only case in which trade is *not* mutually advantageous is when 'one of them be a fool and makes a bargain plainly ruinous' (LJ(A) 390). But normally this is not the case, and 'betwixt prudent men [a free commerce] must always be advantageous' (ibid.).
[130] WN I.II.5; cf. also Muller, *Adam Smith in his Time and ours*, 69; Rothschild and Sen, "Adam Smith's Economics," 322.
[131] WN I.III.
[132] WN I.VII, cf. LJ(A) 357ff., LJ(B) 496ff.
[133] WN I.VII.12. By 'effectual demand' Smith means demand that is backed up by purchasing power, not mere wishful thinking.
[134] WN IV.IX.51.

about how to make the best use of their human capital and money.[135] What makes markets so efficient is not only that people are highly motivated to further their own interests. It is also that markets create conditions in which competent judgments are made, as each individual knows his or her own situation best, and has incentives to acquire the information needed for making the right decisions.[136]

But Smith ascribes even more functions to markets: they not only coordinate supply and demand, they also maximize the national product and distribute wealth in society. The free market is a race in which not only the winner, but also everyone else can profit. These two additional functions of markets can be ascribed to the two 'invisible hands' that appear in the *Wealth* and the *Theory*.[137]

The invisible hand of the *Wealth* leads to a large 'annual produce.' It appears in a discussion of the use of capital in agriculture, manufacturing, and trade, which have a descending order of productivity.[138] It is most beneficial for a country if capital is invested in these different sectors in this order, because

> [t]he most advantageous employment of any capital to the country to which it belongs, is that which maintains there the greatest quantity of productive labor, and increases the most the annual produce of the land and labor of that country.[139]

Nature achieves this outcome without any central planning. Investors usually have in mind 'their own advantage, indeed, and not that of the society.'[140] By giving the highest return to investments in agriculture,[141] and then in a descending order to the other sectors, nature

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[135] Cf. also Haakonssen's distinction between 'contextual' and 'system' knowledge – ordinary people in a Smithian market only need to have contextual knowledge, not knowledge about the wider system within which they operate (*The Science of the Legislator*, 79).
[136] See e.g. WN IV.V.Digr.25, I.X.II.12. For a discussion see Mehta, "Self-Interest and Other Interests," 251. This argument was later made famous by von Hayek: see in particular "The Use of Knowledge in Society," *The American Economic Review* XXXV, no. 4 (1945): 519-530.
[137] This distinction between the two invisible hands can also be found in Young, *Economics as a Moral Science*, 169ff. For a discussion of the different versions of invisible hands in Smith see also A. L. Macfie, "The Invisible Hand of Jupiter," *Journal of the History of Ideas* 32 (1971): 595-599. Rothschild (Rothschild, *Economic Sentiments*, chap. V) has recently argued that the idea of the invisible hand is no more than a 'mildly ironic joke' (116). This may be true for the *rhetorical guise*, but her arguments do not prove that the *phenomenon* is not taken seriously by Smith. For discussions see McLean, *Adam Smith: radical and egalitarian*, 87f. and Smith, *Adam Smith's Political Philosophy*, 82f.
[138] WN II.V.12ff.
[139] WN IV.VII.III.35.
[140] WN IV.II.4.
[141] David McNally, *Political Economy and the Rise of Capitalism. A Reinterpretation* (Berkeley: University of California Press, 1988) reads Smith as a proponent of 'agrarian capitalism' (cf. similarly Lindgren, *The Social*

leads investors by the 'study of [their] own advantage' to 'that employment which is most advantageous to society.'[142] It is this mechanism which Smith describes by the metaphor of the 'invisible hand':

> He generally, indeed, neither intends to promote the publick interest, nor knows how much he is promoting it. By preferring the support of domestick to that of foreign industry, he intends only his own security; and by directing that industry in such a manner as its produce may be of the greatest value, he intends only his own gain, and he is in this, as in many other cases, led by an invisible hand to promote an end which was no part of his intention.[143]

This 'invisible hand' is no mystical intervention by a deity, but rather a happy coincidence of private interest and common good. Smith, in his deistic framework, describes it as a wise contrivance of nature, while also providing an analysis of the causal mechanism that brings it about. The free market leads to a 'natural, healthful, and proper proportion' between different branches of business, which is optimal for the country.[144]

Whereas the first invisible hand deals with investment and production, the second deals with distribution. It describes what has later been called the 'trickle down' effect: the transfer of wealth from the rich to the poor, so that all can profit from an increase in the 'annual produce.'[145] For Smith, the basic mechanism is simple: the rich man cannot consume all he acquires, as 'the capacity of his stomach bears no proportion to the immensity of his desires.'[146] What a rich man owns but cannot consume, 'he is obliged to distribute among those, who prepare […] that little which he himself makes use of…'[147]

Philosophy of Adam Smith, 127ff.; Brown, *Adam Smith's discourse*, chap. VII). While McNally is right to emphasise the importance of agriculture in Smith against those who anachronistically see him as a defender of 'Manchester capitalism,' he assimilates him too much to the physiocrats, who took agriculture to be the *only* productive branch of the economy, a position from which Smith clearly distances himself (WN IV.IX).

[142] WN IV.II.4.

[143] WN IV.II.9.

[144] WN IV.VII.III.44.

[145] This notion has been used, in particular, for justifying tax cuts for the rich in the 1980s in the United States (cf. e.g. John Quiggin, *Zombie Economics: How Dead Ideas Still Walk among Us* (Princeton: Princeton University Press, 2010), chap. IV for a critical discussion). As Quiggins rightly points out (147), the idea that everyone profits from a successful capitalist system does not mean that the poor could not profit even *more* from a capitalist system with more egalitarian features (e.g. through redistribution). Whether it would be right to claim Smith's name for the call for lower taxes for the super-rich in the 1980's can be doubted (cf. e.g. his remarks in WNV.I.III.I.5 and V.II.II.I.c.6 that it may well be appropriate for the rich to pay disproportionately higher taxes than the poor). For the preconditions of Smith's model and the question whether they may still hold today see chap. V.3 and V.5 below.

[146] TMS IV.I.10.

[147] Ibid.

The rich, in their 'selfishness and rapacity,' thus unintentionally serve the poor and bring about an egalitarian distribution of goods:

> They are led by an invisible hand to make nearly the same distribution of the necessaries of life, which would have been made, had the earth been divided into equal portions among all its inhabitants, and thus without intending it, without knowing it, advance the interest of the society, and afford means to the multiplication of the species.[148]

This 'trickle down effect' works either because the poor profit directly from the goods the rich do not use any more,[149] or, more importantly, because the rich give them employment, and thus income.[150] No altruism on the part of the rich is needed: the poor 'derive from [the rich man's] luxury and caprice that share of the necessaries of life, which they would in vain have expected from his humanity or his justice.'[151] Smith can put so much weight on self-interest in the market precisely because he thinks that a central task that other writers ascribe to benevolence, namely to take care of the poor and property-less, is fulfilled by the market process itself. If all can take part in the rising tide, inequality is not very problematic; what matters is that the poor profit, and are much better off than in any other social order Smith could think of.[152] The 'establishment of perfect justice, of perfect liberty, and of perfect equality' is therefore the 'very simple secret which most effectually secures the highest degree of prosperity to all […] classes.'[153] Because of these *natural* mechanisms, no conscious attempts to 'trade for the publick good,' are needed, of which Smith claims 'never [to have] known much good done.'[154]

I have argued earlier that the metaphysical background of Smith's system includes the assumption that a benevolent deity has created the world, but also that Smith always provides causal explanations for the 'wisdom of nature.' If one abstracts from his optimistic deism, one is led to look in more detail at the conditions that must be fulfilled for the market to do its beneficial work, mention of which is scattered in the *Wealth* and the

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148 Ibid.
149 TMS IV.I.10, cf. also WN II.III.39.
150 Cf. e.g. WN IV.III.II.11.
151 TMS IV.I.10.
152 This topic will be taken up in chap. V.3.
153 WN IV.IX.17.
154 WN IV.II.9.

Lectures. First of all, the economy must be growing – otherwise the employers will press wages down to subsistence level, or even lower, when the economy is declining.[155] But even in a rich country, 'if it has been long stationary, we must not expect to find the wages of labour very high in it.'[156] Only constant growth keeps up the demand for workers, and thus also high wages. Another striking detail is that for Smith the 'annual produce' of a country is simply the sum total of individuals' profits.[157] He seems to assume that if an economy is growing all additional investments bring *new* profits rather than just a redistribution of the existing ones. A related point is that Smith hardly worries about what has later been called 'externalities,' i.e. effects on third parties that are not captured in property rights and hence market prices.[158] He mentions that the state can demand the erection of 'party walls, in order to prevent the communication of fire,' and can also limit the issuing of small bank notes that would destabilize the financial system.[159] But apart from that, his view heavily depends on the assumption that if one person strives to improve his or her situation, this does not have harmful effects on others – his argument about the 'invisible hand' is precisely that the others will *also* be better off.

A condition that Smith discusses in the *Lectures*, but not in the *Wealth*, is that there be a 'graduall declension and subordinate degrees of wealth,' so that the 'progress of arts, manufactures, and industry' can 'easily pass' from one rung of the social ladder to the next, and every social group can spend all their money on goods, rather than gather dependants, as happened in feudal times.[160] This is not mentioned in the *Wealth*, which may show that Smith did not see this as a danger any more; after all, he states in the *Lectures* that in England the fortunes are 'gradually descending from £40,000 to 2 or 300.'[161]

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155 WN I.VIII.26.
156 WN I.VIII.24.
157 WN IV.II.9.
158 Cf. also Muller, *Adam Smith in his Time and ours*, 199.
159 WN II.II.90. Smith's argument that interest rates should be limited so that funds go to 'sober people' rather than 'prodigals and projectors' (WN II.IV.15) can also be understood as preventing externalities, as 'prodigals and projectors' pose a risk to the whole economic system that is greater than the risk they themselves carry (cf. Buchanan, "Public goods and natural liberty" for a discussion).
160 LJ(A) 262f.
161 LJ(A) 196.

In addition to these structural conditions for 'trickle down,' Smith makes a number of implicit assumptions about the economic realm which allow him to pass over problems that have occupied later thinkers. As Eric Schliesser points out, Smith does not see the possibility of 'a negative trade-off between efficiency and welfare;' for him, all improvements on efficiency also raise welfare.[162] This makes sense if one assumes that economic activity usually creates employment and that workers can easily switch into these new jobs. Smith is also greatly optimistic about people's ability to look after their own interests and to 'better their condition' in prudent ways. There will always be some who ruin themselves, e.g. in cockfighting,[163] but in the Smithian society this seems to be a tiny minority. As he notes with regard to the use of capital, 'the profusion or imprudence of some [is] always more than compensated by the frugality and good conduct of others.'[164] Trusting in the natural prudence of most people,[165] Smith did not seem to worry much about the question as to what a liberal commercial society should do with those who are unable or unwilling to look after their own interests, nor about how to make the trade-off between interests when their relationship is zero sum.

These optimistic assumptions need to be scrutinized in more detail if one abstracts from the deism that props them up. Those who want to argue that a broadly Smithian view is applicable to today's market economies have to pay particular attention to problems that arise from the fact that these assumptions may not always be fulfilled.

But even for Smith, the optimistic deist, it would be wrong to leave *everything* to the market. Although the Smithian sovereign is 'completely discharged from […] the duty of

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[162] Schliesser, "Some Principles of Adam Smith's Newtonian Methods," 63. Cf. also Campbell, *Adam Smith's Science of Morals*, 212, who argues that apart from the centinel example in TMSII.II.3.11 Smith does not say much about potential clashes between fairness and utility: 'he tends to assume that there is no conflict between them.'

[163] WN V.III.1.

[164] WN II.III.27. Another problem that Smith mentions is that high wages may lead workers to overwork themselves, risking their health for the sake of money (WN I.VIII.44). But Smith seems to assume that this is not very likely and thus not very problematic.

[165] As will be discussed in chap. V.2 and VI.2, he also holds that the market itself incentivizes prudent behaviour.

superintending the industry of *private* people,'[166] he still has a considerable number of tasks. Smith summarizes them as

> the duty of erecting and maintaining certain publick works and certain publick institutions, which it can never be for the interest of any individual, or small number of individuals, to erect and maintain; because the profit could never repay the expence to any individual or small number of individuals, though it may frequently do much more than repay it to a great society.[167]

This is the third dimension in the division of labour between nature and institutions: some things that are desirable for the common good are *not* delivered by the market, and negative consequences of the market need to be mitigated.[168] Smith sees the need for state action mainly in two areas: 'those for facilitating the commerce of the society, and those for promoting the instruction of the people.'[169] The first category includes infrastructure such as roads, canals or ports,[170] but also a stable financial system, in which credits go to 'sober people' rather than 'prodigals and projectors.'[171] These institutions are beneficial for society because they enlarge the market, deepening the division of labour and thus raising productivity,[172] but they are not provided by private agents, as they are typical 'public goods' from which others cannot be excluded. The state has the task of coordinating the provision of, and payment – through taxes – for these socially useful goods.

The second category of state intervention concerns education and the physical and psychological well-being of the population. The issue Smith is most worried about are the negative consequences of the division of labour on the human mind. This problem is not only *not solved* by commercial society, but is *caused* by it, which makes it particularly pressing. It will be discussed in detail in chapter VI; at this stage, let me simply point out that Smith does not neglect these aspects, demonstrating that his commitment is not to economic growth as such, but rather to its consequences for people's lives. Just as the state should

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166 WN IV.IX.51, italics added.
167 WN IV.IX.51.
168 One can understand such cases as market failures (cf. Andrew S. Skinner, *Adam Smith and the Role of the State* (Glasgow: University of Glasgow Press, 1974), 9) – not in the technical sense of neoclassical economics, but in the wider sense that something that is socially desirable is not brought about by spontaneous individual action that is mediated through markets.
169 WN V.I.III.2.
170 Cf. LJ(A) 372, WN I.IV.7, WN II.II.90ff.
171 WN II.IV.15.
172 Cf. WN I.III.

take measures to prevent the spread of 'leprosy or any other loathsome and offensive disease,' – a statement not typically associated with Smith – it should monitor the psychological and intellectual health of its subjects, which is threatened by the consequences of the division of labour.[173]

Rather than rejecting any government action whatsoever, Smith thus argues for a clear delineation of the spheres in which the sovereign should be active, and those that should be left to 'private people' and the coordination through markets.[174] In his vision of 'natural liberty' the relation between the market and the state is a question of knowing what tasks have been taken care of by Nature's wise contrivances and what tasks need to – and can – be fulfilled through intentional political action.

II.6 Conclusion: the vision of general opulence

Smith's 'system of natural liberty' presents us with a subtle vision of the interplay between 'nature' and 'artifice,' between the market and political and judicial institutions. It acknowledges inequality, but sheer unequal market power does not translate into inequality before the law, because impartial judges treat everyone equal. This, together with its good consequences, makes the 'system of natural liberty' the social order that an impartial spectator would be most likely to endorse, in contrast to the relevant alternatives, namely feudalism or mercantilism.

All people are thus free to earn their living, and will usually be able to make enough money to support themselves and their families. A well-ordered commercial society naturally arrives at 'opulence,' a situation in which prices are low and wages are high, so

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[173] WN V.I.III.II.60. As Cairncross underlines ("The Market and the State," in *The Market and the State: Essays in Honour of Adam Smith*, ed. Thomas Wilson and Andrew S. Skinner (Oxford: Clarendon Press, 1976), 113-134, 113), Smith's criteria for state activity 'could be used to justify an extensive programme under modern conditions, however slight the programme he approved of in his own time.'

[174] Cf. also Winch, *Riches and Poverty*, 114, who expresses this point by saying that arguing for limited government intervention in the *economic* sphere is not the same as arguing for 'weak government' as such. Cf. also Satz, *Why Some Things Should Not Be for Sale*, 43f., who argues that Smith's approach is characterized by anti-feudalism rather than an opposition to government. This also corresponds to the political position that has been ascribed to Smith: several authors agree that he was a moderate, non-dogmatic or 'sceptical' Whig (cf. in particular Duncan Forbes, "Scientific Whiggism: Adam Smith and John Millar," *Cambridge Journal* 7 (1954): 643-670), and as such 'a supporter of a strong central government dominated by a modernizing and commercialized aristocracy' (Muller, *Adam Smith in his Time and ours*, 171).

that goods are 'easy to come at' for the bulk of the population, in particular the lower classes.[175] Again, Smith is concerned with the effects of institutions on people's *lives*; he vehemently argues against the mercantilist idea that the wealth of a country consists in money, which he takes to be at the root of many wrong-headed policies.[176] What matters is that the economy is growing in real terms, as this is 'in reality the cheerful and the hearty state to all the different orders of the society.'[177] The 'liberal reward of labour' 'encourages the propagation' and 'increases the industry of the common people,' so that the workmen are 'more active, diligent, and expeditious' than when wages are low.[178]

In a well-ordered market, human self-interest is led into the right channels: it motivates people to better their condition in ways that are useful not only to themselves, but also to society as a whole, as they let the economy grow. Self-interest, however, must *not* reign in the spheres of law and politics.[179] Judges and politicians need to take on an impartial stance: they must resist pressure by powerful sub-groups and keep in mind the good of *all*. Smith's system does not demand a lot of virtue in ordinary citizens, but it does rely on virtuous politicians who can move a society closer to the 'system of natural liberty,' rather than giving in to the lobbying by 'merchants and manufacturers' to restrain the open market by privileges and monopolies.[180] This would destroy its beneficial distributive consequences and lead society back into a quasi-feudal state.[181] As Mehta puts it, '[e]stablishing the "system of natural liberty" […] is a *task* rather than something that

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[175] WN I.VIII.36, cf. Fleischacker, *On Adam Smith's Wealth of Nations*, 133.
[176] WN II.II.18ff., II.II.86, IV.I.12ff., LJ(A) 378, LJ(B) 503. This point had already been forcefully argued by Hume in his essay *On Money* (*Essays*, (Indianapolis: Liberty Classics, 1985).
[177] WN I.VIII.43.
[178] WN I.VIII.44.
[179] And, as we shall see in chap. IV, it must not destroy the personal ties people have in the private 'circles of sympathy.'
[180] Smith is well aware that institutional structures like parliamentary control and the independence of judges play a central role in making sure that economic influence does not impinge on political and legal issues. On parliamentary control see LJ(A) 260ff., LJ(B) 419f., on judges see e.g. LJ(A) 271ff., 313. But the question is who would put in place such institutions if they are not already there.
[181] WN IV.VII.II.44, IV.VII.III.97, cf. Young, *Economics as a Moral Science*, 146. Politicians also need to resist the temptation to simply follow their *own* interests, a problem that Smith discusses time and again in the *Wealth* and in the *Lectures* (e.g. WN II.III.36, IV.I.30, V.II.I.6, V.III.26, V.III.59ff., LJ(A) 100f., LJ(B) 414; for a discussion see e.g. Fleischacker, *On Adam Smith's Wealth of Nations*, 229ff. Smith's call for virtuous politicians is a theme that he shares with the civic republican tradition (cf. his praise of the virtuous politician in TMS VI.I.15; for discussions see Winch, *Adam Smith's Politics*, 159f., McNally, *Political Economy and the Rise of Capitalism*, 191ff., Young, *Economics as a Moral Science*, 164).

comes naturally;'[182] there is no 'invisible hand' in politics. The *Wealth* can in fact be read as a guidebook for a sovereign on how to establish a successful commercial society – after all, Smith calls political economy 'a branch of the science of a statesman or legislator.'[183] The art of good government consists in seeing where the market can solve problems on its own, and in intervening *only* when there are good reasons to doubt its ability to bring about the desired results. All interventions that go beyond this not only threaten to reduce the market's efficiency,[184] but also unjustifiably violate the liberty of individuals.

As has been shown, Smith makes a number of factual assumptions about the free market that may not always be fulfilled – in particular, he assumes that it will usually lead to economic growth, and that this is a good thing. His optimistic deism may have led him to paint his picture of the market in more enthusiastic terms than the pure factual analysis would allow. If one does not share his metaphysical outlook, it is in particular the rich details and observations about economic life that are interesting for contemporary theorists. But Smith also holds that a political system does not have to be perfect for the market forces to do a lot of good.[185] If a country could only prosper under a perfect regime, no country 'could ever have prospered.'[186] The 'wisdom of nature,' however, has made 'ample provision for remedying many of the bad effects of the folly and injustice of man,' in the political body just as in the natural body.[187] Smith is no dogmatist of 'laissez-faire,'[188] on the contrary: he argues for the 'principle of Solon': '[w]hen [a wise politician] cannot

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[182] Mehta, "Self-Interest and Other Interests," 257, referring to WN IV.IX.51.
[183] WN IV.Intr.1. This has been emphasized in particular by Winch (*Adam Smith's Politics*) and Haakonssen *The Science of the Legislator* and *Traditions of Liberalism* (Sydney: The Centre For Independent Studies, 1988).
[184] It can even lead to negative unintended consequences: people will try to circumvent such policies, especially if they find them unjust. See e.g. Smith's discussion of misguided tax policies and trading bans that lead to smuggling, which then leads to more controls and higher punishments, which further increase the perception of injustice (WN V.II.II.IV.61ff.).
[185] WN IV.IX.28. These remarks are directed against Quesnay (cf. WN IV.IX and the editors' notes). Quesnay, who was a physician by training, may have been one of the sources for Smith's use of body metaphors for the economy (cf. WN IV.II.36).
[186] WN IV.IX.28.
[187] Ibid. Note that here the notion 'wisdom of nature' appears in WN, contrary to claims that the language of providentialism is *only* present in TMS (brought forward e.g. by Jacob Viner, "Adam Smith and Laissez-Faire," *The Journal of Political Economy* 35, no. 2 (1927): 198-232).
[188] Even in the case of bounties, which he usually rejects in the strongest voice, he admits the possibility of cases in which they could be reasonable (WN V.II.II.IV.12). Viner also remarks that '[k]nowledge of the success of some of the German principalities in managing the public domain, and in other phases of public administration would perhaps have lessened Smith's opposition to government ventures into industry' ("Adam Smith and Laissez-Faire," 48).

establish the right, he will not disdain to ameliorate the wrong; but like Solon, when he cannot establish the best system of laws, he will endeavour to establish the best that the people can bear.'[189] Politics is, for Smith, 'largely […] a matter of balancing, checking and harnessing interests,' as Winch puts it.[190] The more a politician knows about the 'contrivances of nature' and the ways in which they work for the public good, but also about their limits and the need for human initiative, the better he can fulfil this task. This is precisely the kind of knowledge that Smith provides in the *Wealth*, making it substantially more than an economics textbook. It is also a political programme: how best to govern a society in which *some* mechanisms are provided by nature, but in which institutions and regulations must be added by human action. The vision sketched in the *Wealth* is 'an attempt to widen his contemporaries' imagination about what [commercial] society could be'[191] – a society that is freer, more just, and more opulent.

Amartya Sen has distinguished between justifications of the market in purely instrumental terms, based on good results, and arguments that build on people's antecedent rights and freedoms.[192] In Smith, we clearly find both kinds of arguments: the free market allows people to make use of their property rights in socially productive ways, *and* it also leads to a 'liberal reward of labour' which is 'the natural symptom of increasing national wealth.'[193] With secure property rights – as well as other rights such as the liberty of speech and freedom of religion – and confident that the administration of justice will enforce their rights, all members of society can prosper. A *feeling* of security and confidence in a just legal framework are for Smith essential aspects of commercial society.[194] As Rothschild puts it, freedom is a 'sort of feeling: in the words of the *Theory of Moral Sentiments*, to "breathe the

189 TMS VI.II.2.16.
190 Donald Winch, "Adam Smith's 'enduring particular result': a political and cosmopolitan perspective," in *Wealth and Virtue. The Shaping of Political Economy in the Scottish Enlightenment*, ed. Istvan Hont and Michael Ignatieff (Cambridge: Cambridge University Press, 1983), 253-269, 266, cf. also *Adam Smith's Politics*, 177.
191 Haakonssen, "Introduction. The Coherence of Smith's Thought," 21.
192 Amartya Sen, "The Moral Standing of the Market," *Social Philosophy and Policy* 2 (1985): 1-19.
193 WN I.VIII.27.
194 WN V.I.II.25, LJ(A) 119, cf. Rothschild and Sen, "Adam Smith's Economics," 336.

free air of liberty and independence."'[195] This freedom, *and* the opulence it brings, mark Smith's commercial society, and thus make it superior to all relevant alternatives.

All this shows that Smith is an interlocutor worth taking seriously for contemporary political theorists. He is a systematic thinker who conceptualizes the market as part of a society, not as a separate entity. Rather than putting him into the box of 'economics' and ignoring him, it is worth reopening the question about Smith as a social theorist in a wider sense. At the same time, one has to be aware of the theological background of his system, and careful about the generalizability of his claims. But what his system offers is a nuanced, multifaceted view of the market and its place in a modern society. In this sense, it is a gross over-simplification to assume that Smith theorizes in more or less the same way as later economists who have worked with abstract, formal models. What we can learn from Smith is that there are much wider, more existential dimensions of the market than are present in the smooth algebra of contemporary textbook economics. This is what makes exploring Smith's thought so worthwhile from the perspective of political theory.

[195] TMS VII.II.I.40; cf. Rothschild, *Economic Sentiments*, 70.

III HEGEL'S CONSTRUCTION OF THE MARKET: THE 'RELICS OF THE STATE OF NATURE'

III.1 Introduction: Hegel then and now

Adam Smith composed his major works before the two great political revolutions of the 18th century, the American and the French Revolution, and also before the take-off of the third great 'revolution' of that era, the so-called Industrial Revolution. Georg Wilhelm Friedrich Hegel published his *Philosophy of Right*[1] in 1820, having seen not only these events, but also the rise and fall of Napoleon and the return of conservative forces in the German states. In philosophy, a 'revolution' in the form of Immanuel Kant's transcendental idealism had led to a completely new way of thinking about the relation between mind and world. Philosophy flourished in Germany at the turn from the 18th to the 19th century; thinkers like Johann Gottlieb Fichte, Friedrich Wilhelm Schelling, Friedrich Heinrich Jacobi and Hegel himself took up Kantian insights and transformed them into their own versions of 'idealism.' At the same time, the movement of Romanticism in art and literature left its own mark on the philosophy of this period.

Hegel is a child of this time, and it is extremely helpful to approach his vast intellectual system as 'its own time apprehended in thoughts,' which was what Hegel took philosophy to be about.[2] But even when one takes into account the intellectual currents and historical events to which he reacted, his philosophy is often complex and obscure. Interpreters have contested almost every aspect of his system. Shortly after his death, his

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[1] In this and the following chapters, I draw mainly on the *Philosophy of Right*. Having worked mainly with the German original, I stick to the Knox translation for its stylistic elegance and wide availability. I also use the lectures notes, mainly those by Hotho and Grisheim, as they contain most details on economic issues. To my knowledge, they have not been translated into English, so all translations are my own. Occasionally, I draw on material from the *Phenomenology* or the Jena manuscripts. On the whole, however, the focus is on the late Hegel.

[2] PR Preface, 11. Pinkard's biography is a great introduction to Hegel's time and thought. On the young Hegel's intellectual development see also H. S. Harris, *Hegel's Development: Toward the Sunlight, 1770 - 1801* (Oxford: Clarendon Press, 1972), Laurence Dickey, *Hegel: religion, economics, and the politics of spirit 1770-1807* (Cambridge: Cambridge University Press, 1987), or Keiji Sayama, *Die Geburt der bürgerlichen Gesellschaft. Zur Entstehung von Hegels Sozialphilosophie* (Berlin / Wien: Philo, 2004).

followers split into left-wing and right-wing Hegelians, all claiming to be his true heirs. This split still surfaces in contemporary clichés about Hegel: some see him as the forerunner of Marx and critical theory, others as a right-wing defender of the Prussian police state, who saw the state as the 'march of God in the world'[3] and thus paved the way to fascism.

Nevertheless – or precisely *because* he is so obscure and multi-faceted[4] – the interest in Hegel's philosophy has seen a revival in the last two or three decades. Hegel has long been influential in the German-speaking philosophical world, as is evident in two of the most important strands of post-WWII German thought: the 'Frankfurt School' with authors like Max Horkheimer, Theodor W. Adorno, Jürgen Habermas, and Axel Honneth, and the more conservative 'Muenster School'[5] initiated by Joachim Ritter. After the end of the cold war, the strong contrast between left-wing and right-wing Hegelians weakened, but the interest in his thought has remained vivid. While more 'historically' orientated research by scholars like Otto Pöggeler, Dieter Henrich or Walter Jaeschke continues to flourish,[6] younger scholars, often trained in 'analytic' philosophy, take a more 'systematic' interest in Hegel, working on topics such as his philosophy of language or collective intentionality.[7]

In the English speaking world, the revival of interest in Hegel started with J.N. Findlay's 're-examination'[8] and Charles Taylor's influential work on his political philosophy

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[3] PR §258Z.

[4] Cf. e.g. Katerina Deligiorgi, "Introduction: On Reading Hegel Today," in *Hegel: New Directions*, ed. Katerina Deligiorgi (Chesham: Acumen, 2006), 1-15, who writes that maybe the very complexity of his thought makes him 'a particularly apt object for interpretative ingenuity' (2). Deligiorgi's introduction provides a short but very helpful overview of contemporary ways of reading Hegel. See also Simon Lumsden, "The Rise of the Non-Metaphysical Hegel," *Philosophy Compass* 3, no. 1 (2008): 51-65.

[5] This term has also been used for the more recent wave of Hegel scholarship in Muenster initiated by Ludwig Siep (cf. in particular *Anerkennung als Prinzip der praktischen Philosophie. Untersuchungen zu Hegels Jenaer Philosophie des Geistes.* (Freiburg / München: Alber, 1979)).

[6] See e.g. Otto Pöggeler, *Hegels Kritik der Romantik* (München: Wilhelm Fink Verlag, 1956), Dieter Henrich, *Hegel im Kontext* (Frankfurt am Main: Suhrkamp Verlag, 1971), Walter Jaeschke, *Die Religionsphilosophie Hegels* (Darmstadt: Wissenschaftliche Buchgesellschaft, 1983).

[7] Cf. e.g. Pirmin Stekeler-Weithofer, *Hegels Analytische Philosophie. Ein Kommentar zu Hegels "Logik der Wissenschaft"* (Padernborn u.a.: Schöningh, 1992), Michael Quante, *Hegels Begriff der Handlung* (Stuttgart-Bad Cannstatt: frommann-holzboog, 1993).

[8] *Hegel: a re-examination* (London: Allen & Unwin, 1958).

as a theory of modernity.[9] These works paved the way for a wide range of scholarship that focuses on Hegel's moral and political philosophy, trying both to understand the historical Hegel and to relate his philosophy to contemporary problems and debates.[10] More recently, his epistemology and metaphysics have attracted new attention through the neo-pragmatism of Robert Brandom and John McDowell.[11] So-called 'continental' philosophy cannot claim a monopoly on Hegel any more; both 'analytic'[12] and 'poststructuralist'[13] thinkers – for what these labels are worth – engage with Hegel in constructive ways.

The literature on Hegel's political philosophy has grown extremely broad. Hegel's view of the economy has been examined in both the German and English context.[14] My account builds on insights from this literature, as well as the wider literature on Hegel's philosophy, but adds a new focus, since the place and role of the market in the structure of Hegel's political system – and its relevance for contemporary issues – have not been

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[9] *Hegel* (Cambridge: Cambridge University Press, 1975); *Hegel and Modern Society* (Cambridge: Cambridge University Press, 1979).

[10] To list just some of the monographs I draw on in this study: Shlomo Avineri, *Hegel's theory of the modern state* (Cambridge: Cambridge University Press, 1972), Wood, *Hegel's Ethical Thought*., Alan Patten, *Hegel's Idea of Freedom* (Oxford: Oxford University Press, 1999), Frederic Neuhouser, *Foundations of Hegel's Social Theory: Actualizing Freedom* (Cambridge, MA: Harvard University Press, 2000), Dudley Knowles, *Routledge Philosophy Guidebook to Hegel and the Philosophy of Right* (London: Routledge, 2002). See also the bibliography below. A comprehensive online-bibliography of (mainly English) works on Hegel can be found at <http://www.sussex.ac.uk/Users/sefd0/bib/hegel.htm> (25 May 2011).

[11] Cf. e.g. Robert Brandom, *Tales of the mighty dead: historical essays in the metaphysics of intentionality* (Cambridge, MA: Harvard University Press, 2002), esp. chap. VI & VII; John McDowell, *Having the World in View: Essays on Kant, Hegel, and Sellars* (Cambridge, MA: Harvard University Press, 2009).

[12] E.g. most recently Angelica Nuzzo, ed., *Hegel and the Analytic Tradition* (London: Continuum Books, 2010).

[13] E.g. Judith Butler, *Subjects of Desire: Hegelian Reflections in Twentieth-Century* (New York: Columbia University Press, 1987); Jacques Derrida, *Glas*, trans. John P Leavey (Lincoln: University of Nebraska Press, 1986).

[14] Lukács's (*The Young Hegel* (Zürich [u.a.]: Europa Verlag, 1948)) was the first to analyse the economic aspects of Hegel's writings before the *Phenomenology* from a Marxist perspective. Early post-WWII contributions include Chamley's work on Stewart's influence on Hegel (*Économie politique et philosophie chez Steuart et Hegel* (Paris: Dalloz, 1963); "Les origines de la pensée économique de Hegel," *Hegel-Studien* III (1965): 225-61) and Riedel's discussion of the economy and 'civil society' in *Studien zu Hegels Rechtsphilosophie* (Frankfurt am Main: Suhrkamp, 1969). Since then, a large number of publications have discussed Hegel's economic thought, sometimes explicitly referring to Smith's influence. The research up to 1991 is summarized by James P. Henderson and John B. Davies ("Adam Smith's influence on Hegel's philosophical writings," *Journal of the History of Economic Thought* 13, no. 2 (1991): 184-204); see also the bibliography for more recent contributions. Commentaries on Hegel's economic theory more generally include, for example, Ritter's discussion of Hegel's notion of property ("Person and Property," in *Hegel and the French Revolution: Essays on the Philosophy Of Right*, (Cambridge, Mass: MIT Press, 1982), 124-150), the essays in William Maker, ed., *Hegel on Economics and Freedom* (Macon, GA: Mercer University Press, 1987), Priddat's analysis of Hegel's economic thought (*Hegel als Ökonom*), Schmidt am Busch's discussions of Hegel's account of labour and the role of 'recognition' in his economic thought (*Hegels Begriff der Arbeit* (Berlin: Akademie-Verlag, 2002); *"Anerkennung" als Prinzip der kritischen Theorie* (Frankfurt am Main: habil., 2009)) and Neschen's exploration of the development of Hegel's economic views (*Ethik und Ökonomie in Hegels Philosophie und in modernen wirtschaftsethischen Entwürfen* (Hamburg: Meiner, 2008).

discussed in desirable depth so far.[15] Contrasting his model with the Smithian 'system of natural liberty' throws new light on Hegel's economic theory, but also on the *Philosophy of Right* as a whole.

With Hegel, it is of particular importance to be clear about one's interpretative strategy, as his claim to have constructed a philosophical system is a challenge for commentators who want to focus on particular aspects of his thought. As I argue in the next section, there are nevertheless strong reasons for focussing exclusively on his practical philosophy, especially if one aims at relating his thought to contemporary questions. In fact, this does not contradict Hegel's own intentions as much as some commentators have held. In the third section, two key concepts of Hegel's practical philosophy are discussed: *Geist* and *Sittlichkeit*. I argue that we can make sense of them without falling into obscurantism or quietism; I also take the occasion to comment on Hegel's own political views. I then discuss his account of the market, which builds on insights from political economy, but describes a sphere that is much more chaotic and Dionysian than the Smithian market. I conclude by reflecting on the ways in which Hegel characterizes the market as a specifically modern achievement, which, despite all its problems, has to be endorsed because it embodies subjective freedom.

III.2 The living and the dead in Hegel[16]

Hegel is convinced that philosophy can only be written in the form of a system. Only in a system can contents be seen 'as a moment of the whole,'[17] and thus be more than 'personal peculiarities of mind.'[18] The Hegelian system, however, and in particular its foundation, the

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[15] The most detailed account of this kind is maybe Avineri, *Hegel's theory of the modern state*, in particular chap. VII; Priddat (*Hegel als Ökonom*) focuses on Hegel's view of the economy *only*, without dealing with its place in his wider political philosophy; Neschen (*Ethik und Ökonomie in Hegels Philosophie und in modernen wirtschaftsethischen Entwürfen*) focuses on the development of Hegel's thought on economic issues, which she relates to modern approaches in economic ethics. In contrast to my approach, however, she emphasises the metaphysical aspects of Hegel's thought and does not make clear how to relate to Hegel's economic thought when one does not share his metaphysics.

[16] This line is, of course, an allusion to Croce's *What Is Living and What Is Dead of the Philosophy of Hegel*, transl. by Douglas Ainslie (London: Macmillan, 1915).

[17] Enc §14Z.

[18] Enc §14.

Logic, are notoriously obscure and difficult, and 'metaphysical' in a problematic sense – 'sheer Neo-Platonic fantasy,' as a sceptical commentator puts it.[19]

Some earlier commentators held that something truly valuable can be found in the *Logic*.[20] Today, however, there is a widespread consensus, even among Hegel's most sympathetic readers, that the *Logic* fails to fulfil its self-imposed aspirations.[21] Hegel *himself* rejects 'metaphysics,' at least in its pre-Kantian dogmatic form,[22] and claims that his *Logic* begins without any preconditions, dealing with the pure 'thinking of thinking.'[23] But it is hard to avoid the conclusion that in trying to overcome the one-sidedness and weaknesses of previous philosophies, Hegel ends up with something even harder to swallow.

This leaves modern readers of Hegel with a problem. Some of Hegel's writings on historical, cultural and social issues are quite accessible and full of inspiring insights. But Hegel takes it that their complete philosophical understanding is possible only if all parts of his interrelated system are taken into account. So there seem to be only two options. Either we return to Hegel's system and try harder to understand it as a whole. Or we take a piece-meal approach, picking and choosing from his system what we take to be its most interesting or inspiring aspects – but then, can we claim that this is *Hegel's* philosophy?[24]

Commentators on Hegel's political philosophy are indeed divided between what Thom Brooks calls 'systematic' and 'non-systematic' readings.[25] While the former (e.g.

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[19] Michael Rosen, *Hegel's Dialectic and Its Criticism* (Cambridge: Cambridge University Press, 1982), 179.
[20] Cf. e.g. John Mctaggart Ellis McTaggart, *A Commentary on Hegel's Logic* (Cambridge: The University Press, 1910).
[21] For statements cf. e.g. Findlay, *Hegel: a re-examination*, 23f.; Taylor, *Hegel and Modern Society*, 66f.; M. J. Inwood, *Hegel* (London: Routledge, 1983), 291; Wood, *Hegel's Ethical Thought*, 4f.; Thom Brooks, *Hegel's Political Philosophy: A Systematic Reading of the Philosophy of Rights* (Edinburgh: Edinburgh University Press, 2007), 129ff. As both Rosen (*Hegel's Dialectic and Its Criticism*, 50ff.) and Forster ("Hegel's dialectical method," in *The Cambridge Companion to Hegel*, ed. Frederic C. Beiser (New York: Cambridge University Press, 1993), 130-170, 137f.) discuss, the *Logic* is supposed to meet too many demands at once, such as forming a system that contains *everything*, providing a unity of content and method, integrating all potential criticisms, producing positive results from internal criticism, starting without presuppositions, generating its own content through 'determinate negation,' etc. While Rosen holds that these demands could only be met by a obscure 'hyperintuitionism' (73ff.), Forster argues that Hegel's approach might be defended in theory, but that what Hegel *de facto* presents us with is insufficient (154f).
[22] Cf. Frederick C. Beiser, "Introduction: Hegel and the problem of metaphysics," in *The Cambridge companion to Hegel*, ed. Frederick C. Beiser (Cambridge: Cambridge University Press, 1993), 1-24 for a discussion.
[23] Cf. Enc §1.
[24] Cf. in particular Rolf-Peter Horstmann, "What is Hegel's Legacy and What Should We Do With It?," *European Journal of Philosophy* 7, no. 2 (1999): 275-287.
[25] *Hegel's Political Philosophy*, 5ff.

Stephen Houlgate, Michael Inwood, Michael Rosen, Robert Stern and Brooks himself) interpret Hegel from the point of view of his system, and by and large forego the attempt to gain insights for *contemporary* questions, the latter (e.g. Frederick Neuhouser, Alan Patten, and Alan W. Wood) deal with Hegel's practical philosophy separately – they practise what Frederick Beiser has described as separating the 'rational core' from the 'mystical shell.'[26] The charge raised against the latter strategy is, of course, that it fails to take seriously Hegel's own self-understanding.[27]

A detached interpretation of Hegel's political philosophy with an eye to its contemporary relevance, however, is less in contradiction to the spirit of Hegel's system than some commentators have claimed. Hegel's central claim is that the universe has a rational structure. The philosopher's task is to explore this structure: '[t]o comprehend what is, this is the task of philosophy, because what is, is reason.'[28] This implies that the rational structure of the real – what Hegel calls the 'actual' – must show up in all parts of reality, and hence in all areas of philosophy. The different parts of reality, which are covered in the different parts of Hegel's system, all have a 'logic' of their own: the rationality of this particular sphere, which has a certain completeness. As he says:

> Each of the parts of philosophy is a philosophical whole, a circle rounded and complete in itself. In each of these parts, however, the philosophical Idea is found in a particular specificality or medium. The single circle, because it is a real totality, bursts through the limits imposed by its special medium, and gives rise to a wider circle. The whole of philosophy in this way resembles a circle of circles.[29]

The structure of reality is mirrored in Hegel's philosophy, which forms a 'system of nested triads'[30] or inter-related circles. This provides a justification for focussing on one of these

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[26] Beiser, "Introduction," 3.
[27] Cf. e.g. Brooks, *Hegel's Political Philosophy*, 13ff. For a discussion see also Thomas E. Wartenberg, "Hegel's idealism: The logic of conceptuality," in *The Cambridge Companion to Hegel*, ed. Frederic C. Beiser (Cambridge: Cambridge University Press, 1993), 102-129, 121, who suggests that a different understanding of what it means to do history of philosophy in analytical circles has inspired the non-metaphysical readings of Hegel.
[28] PR Preface, 11. Cf. also the famous *Doppelsatz* '*What is rational is actual and what is actual is rational*' (PR Preface 10, cf. Enc §6). My interpretative strategy is in line with Stern's reading of the *Doppelsatz* as a *metholdogical* statement in which Hegel reminds 'his readers that philosophy has a basic commitment to reason as the proper way to engage with the world at a fundamental level' ("Hegel's Doppelsatz: A Neutral Reading," *Journal of the History of Philosophy* 44, no. 2 (2006): 235-266, 236).
[29] Enc §15, italics added.
[30] Inwood, *Hegel*, 262.

'circles,' in our case, the circle that Hegel calls 'objective' *Geist:* the social and political world. Its rational structure is explored in Hegel's political philosophy.[31]

The central idea of Hegel's political philosophy is the idea of right, the basis of which is the free will:

> The subject-matter of the philosophical science of right is the Idea of right, i.e. the concept of right together with the actualization of that concept.[32]
>
> The basis of right is, in general, mind; its precise place and point of origin is the will. The will is free, so that freedom is both the substance of right and its goal, while the system of right is the realm of freedom made actual, the world of mind brought forth out of itself like a second nature.[33]

The *Philosophy of Right* thus deals with a specific subject matter that is developed in a rational way: it asks how freedom can be realized in the world through right. Patten calls this approach a 'self-actualizing' reading: it understands Hegel as exploring the conditions for human freedom in the modern state.[34] The *Philosophy of Right* is understood as a 'demonstration that existing institutions and practices promote, or provide the locus for, human self-actualization.'[35]

Such a reading consciously restrains itself to what Hegel has to say about the question of how human freedom can be realized in a society.[36] It remains agnostic on the wider claims of his system and their contemporary significance. As commentators such as Wood, Neuhouser or Patten show, many of the claims of Hegel's practical philosophy are intelligible without delving into the muddy waters of his logic. At the same time, one needs to be aware that some steps in the argument of the *Philosophy of Right* are difficult to

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[31] PR, Preface 11. As Neuhouser argues, the claim that the modern social order is rational is 'logically prior to his grander claim that reason (or God) pervades all of reality,' so if the former can be shown, it might serve as a proof for the latter (*Foundations of Hegel's Social Theory*, 271). Similarly, Wood, relying on Lukács, argues that 'often Hegel's treatment of metaphysical issues is best viewed as an attempt to interpret [them] as an expression of cultural and existential concerns,' and that 'the principal aim of Hegel's metaphysics is to address the predicament of modern humanity in modern society' (Wood, *Hegel's Ethical Thought*, 6).
[32] PR §1.
[33] PR §4. Cf. also §31, where Hegel says that 'mind in its freedom, the culmination of self-conscious reason […] gives itself actuality and engenders itself as an existing world.' On Hegel's account of the will see e.g. Honneth, *Leiden an Unbestimmtheit*, 22ff., Schmidt am Busch, *"Anerkennung" als Prinzip der kritischen Theorie*, 157ff., Knowles, *Routledge Philosophy Guidebook to Hegel and the Philosophy of Right*, chap. II, or Patten, *Hegel's Idea of Freedom*, chap. II.
[34] *Hegel's Idea of Freedom*, chap. I. Neuhouser similarly holds that Hegel's practical philosophy can be 'made plausible and compelling in detachment from his secular theodicy simply by articulating how [it has its] source in the ideal of practical freedom' (*Foundations of Hegel's Social Theory*, 270).
[35] Patten, *Hegel's Idea of Freedom*, 9.
[36] This also means that *political and social* aspects of freedom are at the centre of this reading; it does not discuss 'absolute' *Geist* and the freedom that is realized in art, religion, philosophy.

understand without taking into account the wider context of his system. If some logical structure from the larger system is the *only* argument for a claim, then it is likely that we will find it problematic from a modern point of view. We must find other reasons to support it, or reject it.

By approaching Hegel in this way, we can engage with his arguments about freedom and the way in which it can be realized in the world – *not* only because, as Rosen holds, reading Hegel teaches us something about ourselves,[37] but also because he is one of the most serious and interesting thinkers on this topic.[38] To do this, however, two Hegelian concepts need to be addressed explicitly, as one cannot make sense of his approach and strategy without taking these into account: *Geist* and *Sittlichkeit.*

III.3 *Geist* and *Sittlichkeit*

The German term *Geist* means both 'spirit' and 'mind,' and also has religious connotations, as in 'the Holy Spirit.'[39] It is a key concept of Hegel's practical philosophy, but it has also been prone to numerous misunderstandings. In the *Phenomenology*, in which Hegel describes the development of consciousness towards absolute knowledge, *Geist* appears at the stage at which consciousness becomes *self*-conscious, and then 'finds satisfaction' in (i.e. can only be complete in) another self-consciousness.[40] *Geist* describes this self-conscious and intersubjective dimension of consciousness:

> …this absolute substance which is the unity of the different independent self-consciousnesses which, in their opposition, enjoy perfect freedom and independence: 'I' that is 'We' and 'We' that is 'I'.[41]

The stage of *Geist* is reached after the unsuccessful attempts of *one-sided* demands for recognition, which lead to the life-and-death struggle and the dialectic of lordship and bondage.[42] Whereas in this struggle each individual tries to subjugate the other, in *Geist* they

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[37] *Hegel's Dialectic and Its Criticism*, 180.
[38] Cf. similarly Wood, *Hegel's Ethical Thought*, 5.
[39] I use the German word as a technical term (except for direct quotes where I stick to the translation).
[40] PS #176.
[41] PS #177.
[42] PS #187ff., cf. also Enc §436 and Z.

recognize each other as free and equal.[43] In this mutual recognition, individuals can be united in a way that does not threaten their separate existence, and yet makes them part of a larger unit.[44] Examples of this can be found in the family, in sexual love, patriotism, love towards God, honour, or the bravery of 'risking […] one's life in a universal cause.'[45] The individuals are 'sublated' (*aufgehoben*) in such social units in the double sense of being 'set aside' *and* being 'preserved.'[46] Pippin holds that in these different sorts of 'collectively achieved […] human mindedness' normativity is created: in their intersubjective relations, men give themselves norms, follow them and hold each other responsible for observing them.[47] In this sense, *Geist* is autonomous: its 'essence' is freedom,[48] and the individuals in it are free because they obey only laws that they themselves have agreed to.

Hegel holds that *Geist* forms a conception of itself, i.e. is self-conscious. This has sometimes been interpreted as equating *Geist* with the transcendent, personal God of Christianity. One can indeed find some passages that support this interpretation: for example, Hegel talks about God 'ruling the world' and describes history as 'the execution of his plan.'[49] It is more plausible, however, to read these passages as metaphorical, and to rely on those passages that describe *Geist* as immanent to the world. For Hegel, *Geist* realizes itself in human consciousness, as passages such as the following show:

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[43] Cf. in particular Wood, *Hegel's Ethical Thought*, 78; Frederick C. Beiser, "Hegel's historicism," in *The Cambridge Companion to Hegel*, ed. Frederick C. Beiser (Cambridge: Cambridge University Press, 1993), 270-300, 292.

[44] I assume, with Williams (*Hegel's ethics of recognition* (Berkeley / London: University of California Press, 1997) and Pippin (*Hegel's Practical Philosophy: Rational Agency as Ethical Life* (Cambridge: Cambridge University Press, 2008), esp. chap. VII), and *pace* Habermas (*Der philosophische Diskurs der Moderne: zwölf Vorlesungen* (Frankfurt am Main: Suhrkamp, 1985), 55ff.) and the early Honneth (e.g. *The struggle for recognition: the moral grammar of social conflicts* (Cambridge: Polity, 1995), 61), that recognition remains an important aspect of Hegel's philosophy throughout his life, not just in his early writings. Hegel's early theory of recognition has been at the centre of much 'Hegelian' or 'Hegel-inspired' political philosophy in the last decades. These authors mainly refer to the *Phenomenology*, and rightly so: in Hegel's later political writings, recognition is not a main theme, it is rather *presupposed* as a basic feature of a free society that individuals recognize each other as free and equal (cf. e.g. Enc §432 Z) as the *Geist* of a modern society is constituted by free and equal recognition of its citizens.

[45] Cf. Enc §436Z.

[46] Enc §96.

[47] Pippin, *Hegel's Practical Philosophy*, 16, 65, 113.

[48] E.g. PS #584.

[49] PS #36. Cf. Joseph McCarney, *Routledge Philosophy Guidebook to Hegel on History* (London: Routledge, 2000), 40ff. for a discussion.

> The province of the spirit is created by man himself; and whatever ideas we may form of the kingdom of God, it must always remain a spiritual kingdom which is realised in man and which man is expected to translate into actuality.[50]
>
> The universal spirit is essentially present as human consciousness. Knowledge attains existence and being for itself in man. The spirit knows itself and exists for itself as a subject, and its nature is to posit itself as immediate existence: as such, it is equivalent to human consciousness.[51]

According to such an 'immanent' reading, God is nothing other than the whole of the universe, constituted by the realms of nature and of *Geist*, where it becomes self-conscious.[52] The meaning of Christianity, in this context, is that it brought to light the unity of the divine and the human, 'the infinite and the finite,' in the person of Christ. This is, for Hegel, 'the true Idea of religion.'[53]

Geist is thus always embodied and expressed in the minds of historical individuals and communities. As Beiser points out, Hegel, in an Aristotelian fashion, 'insists that no universal can exist on its own apart from, and prior to, particular things.' Beiser draws attention to the Aristotelian distinction between being first 'in order of explanation' and being first 'in order of existence.'[54] It certainly sounds, in many places, as if Hegel is making *Geist* an explanatory principle, but this does not mean that *Geist* is *ontologically* separate. *Geist* is no supra-human entity for which individuals merely serve as 'vehicles;'[55] fears that individuals might be sacrificed for the sake of *Geist* are out of place. Rather, as Joseph

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[50] PH (Nisbet), 44.
[51] PH (Nisbet), 95, cf. also Enc §378Z.
[52] Cf. McCarney, *Routledge Philosophy Guidebook to Hegel on History*, 40ff. Arguments for an 'immanent' reading can also be found, e.g., in Duncan Forbes, "Introduction," in *G.W.F. Hegel: Lectures on the Philosophy of World History. Introduction: Reason in History*, trans. H.B. Nisbet (Cambridge: Cambridge University Press, 1975), vii-xxxv, xxix, or Stephen Houlgate, "World history as the progress of consciousness: an interpretation of Hegel's philosophy of history," in *G.W.F. Hegel: critical assessments*, ed. Robert Stern (London: Routledge, 1993), 402-416, 409. The most detailed 'non-metaphysical' account of Hegel's practical philosophy is Pippin's account, which, building on Sellars, McDowell and Brandom, reads *Geist* as the mutual ability to make normative claims on one another and to take and give reasons (*Hegel's Practical Philosophy*, esp. part I).
[53] PS #106, cf. also Enc §564ff. and PR §358f. on the 'Germanic realm.'
[54] Beiser, "Hegel's historicism," 290ff. Cf. e.g. Enc §24 Z, where this is discussed this with regard to the notion 'animal.'
[55] This phrase from Taylor's influential account has become famous (e.g. *Hegel*, 90, 380; *Hegel and Modern Society*, 11, 26.). Taylor himself emphasises the necessity of *Geist* being embodied, but as a number of commentators have pointed out, the danger of Taylor's reading is that it makes the individuals *nothing but* vehicles (Patten, *Hegel's Idea of Freedom*, 17ff.; Neuhouser, *Foundations of Hegel's Social Theory*, 47ff.). There are indeed some passages that seem to indicate that individuals can be sacrificed for the sake of *Geist* (e.g. PR §323, §344, PH (Sibree) 19f. As Neuhouser points out, however, one has to distinguish Hegel's claims about *history* from his claims about the fully developed *Sittlichkeit* of the modern state (Ibid., 217) – in the modern state, individual freedom is precisely *preserved* (see e.g. PR §265, 268, cf. below and chap. VI.4). This reading leaves open the possibility that Hegel may *also* have a story about the development of *Geist* itself that takes place on a different ontological level, as it were (cf. also fn. 31 above).

McCarney puts it, 'Hegel's God is the product of human history.'[56] In his social and political philosophy, Hegel explores the development of *Geist* as this collective mindedness of human beings.

A second concept, related to *Geist*, that is central for making sense of Hegel's political philosophy is *Sittlichkeit*. It stems from the word 'Sitte,' which means custom, and describes the customary roles of individuals in the institutions of family, civil society and state.[57] Hegel says that it is *Geist* 'living and present as a world'[58]: social norms and institutions, and the attitudes people nurture in them, are the result of a historical development in which human beings have come to grant each other rights and freedoms, creating a stable and lasting social whole. Not just *any* set of institutions count as *Sittlichkeit* for Hegel; rather, they need to be 'reasonable,' embedding the most advanced conception of human freedom present in a historical period.[59] The *Sittlichkeit* of the modern state described in the *Philosophy of Right* is a constitutional state that includes the realms of the family and of the private economy, in which individuals are given a broad range of rights and liberties. It thus embodies the most developed insights into the rights of individuals to 'subjective' freedom. As Hegel says, in a key passage on his understanding of the modern state:

> The principle of modern states has prodigious strength and depth because it allows the principle of subjectivity to progress to its culmination in the extreme of self-subsistent personal particularity, and yet at the same time brings it back to the substantive unity and so maintains this unity in the principle of subjectivity itself.[60]

The fact that Hegel chooses *Sittlichkeit* as the level of analysis has often been associated with his criticism of Kant's moral philosophy.[61] Hegel discusses 'Morality' in §105ff. of the *Philosophy of Right*. It describes the standpoint of the self-determining will, in

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[56] *Routledge Philosophy Guidebook to Hegel on History*, 170. Cf. also Houlgate, "World history as the progress of consciousness: an interpretation of Hegel's philosophy of history," 409f.
[57] Cf. PR §151.
[58] Ibid.
[59] Cf. Michael O Hardimon, *Hegel's Social Philosophy: The Project of Reconciliation* (Cambridge: Cambridge University Press, 1994), 110.
[60] PR §260. Cf. also below, in particular chap. VI.4.
[61] Cf. in particular Joachim Ritter, "Morality and Ethical Life," in *Hegel and the French Revolution: Essays on the Philosophy Of Right*, trans. Richard Dien Winfield (Cambridge, Mass: MIT Press, 1982), 151-182, who speaks of a 'sublation' of Kant's theory.

the sense of Kantian autonomy.[62] As abstract reason, however, it cannot generate concrete moral principles; the principle of non-contradiction, on which Kant's categorical imperative is based, is compatible with a wide range of different social norms.[63] The abstract good will is left with an empty 'ought-to-be, or demand;'[64] a phenomenon which Hegel sometimes associates with the 'beautiful soul' that wants to do good but does not know how.[65] In addition, the social world to which one would, on a Kantian model, 'apply' the categorical imperative, is not normatively empty. As expressions of *Geist*, constituted by the mutual recognition of individuals, social rules and institutions have a normativity of their own.

What is needed, Hegel argues, is therefore a structure in which the 'good' (morality) and the 'right' (abstract law) are fused, or 'dialectically sublated': the good needs to be realized through the legal and customary structures of a society. If this happens, the individuals can see the rules and institutions under which they live as emanating from their own will, and thus not as a limitation of their freedom, but as the *social* realization of their freedom.[66] The 'system of rights' is thus 'the realm of freedom made actual, the world of mind brought forth out of itself like a second nature.'[67] In the 'reasonable' *Sittlichkeit* of the modern state described in the *Philosophy of Right*, individuals realize the good by fulfilling the duties that their social roles impose on them; in this sense Hegel says that the individual 'finds his liberation' in doing his or her duty.[68] In doing one's duty one is free, as one is not driven by biological needs and instincts any more; the conflict between reason and inclination – which Hegel sees as a great challenge in Kant's moral philosophy – is overcome, as is the passivity and paralysis of the 'beautiful soul.'[69] In a social whole that the individuals can recognize as reasonable, the social order is experienced by the individuals

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[62] Cf. PR §107.
[63] Cf. PR §135: 'no immanent doctrine of duties is possible' from this standpoint; cf. also Enc §508. Hegel's example is the compatibility of both a system of private property and a system of communal property with the categorical imperative (ibid.).
[64] PR §108.
[65] E.g. Griesheim, 402. Cf. Taylor, *Hegel*, 194, for a discussion.
[66] Cf. Enc §431Z. This will be discussed in chap. VI.4.
[67] PR §4.
[68] PR §149, cf. PR §261, Enc §538f., Griesheim, 403. For a discussion see e.g. Honneth, *Leiden an Unbestimmtheit*, chap. III-IV.
[69] For this, the notion of *Bildung* is important, which will be discussed in chap. IV.3 below.

not as something externally imposed, but as the realization 'of their own essence or their own inner universality.'[70] In *Sittlichkeit* one can thus be 'with oneself in the other,'[71] and thus truly free.

For Hegel this is the only way in which human freedom – including freedom in the sense of 'doing what one wants' – is possible. As Patten emphasises, the development of thought in the *Philosophy of Right* presents different attempts to describe what human freedom is. All turn out to be deficient or self-contradictory, until the movement arrives at modern *Sittlichkeit*. In it, all these previous forms are 'sublated,' i.e. negated as self-sufficient principles, transformed, and preserved as part of the larger whole.[72]

The task of philosophy vis-à-vis the *Sittlichkeit* of the modern state is to show the reasonableness, i.e. conduciveness to freedom, of these normative structures, and thus to reconcile individuals with their situation.[73] Hegelian philosophy does not draw utopian visions of what things *might* look like;[74] rather, as he famously puts it, 'the owl of Minerva spreads its wings only with the falling of the dusk.'[75] This has brought upon him the charge of quietism and of a submissive acceptance of traditional hierarchies. But the 'actual' which Hegel equates with the 'rational' is not everything that exists. As he says in the *Encyclopaedia*, the actual needs to be distinguished 'not only from the fortuitous, which, after all, has existence, but even from the cognate categories of existence and the other modifications of being.'[76] As numerous commentators point out, this distinction creates a critical space for reform.[77] For Hegel, no state is ever perfect, implying that there is always room for improvement:

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[70] PR §153, cf. also §147.
[71] Enc §24Z.
[72] PR §141f., cf. Patten, *Hegel's Idea of Freedom*, 179ff.
[73] The aspect of reconciliation in Hegel's philosophy has been emphasised in particular by Hardimon, *Hegel's Social Philosophy*.
[74] PR, Preface, 11, cf. Enc §6.
[75] PR Preface 12f.
[76] Enc §6.
[77] For discussions see e.g. Neuhouser, *Foundations of Hegel's Social Theory*, 257ff.; Wood, *Hegel's Ethical Thought*, 8ff.; Patten, *Hegel's Idea of Freedom*, 12; Avineri, *Hegel's theory of the modern state*, 127; Knowles, *Routledge Philosophy Guidebook to Hegel and the Philosophy of Right*, 69ff.

> The state is no ideal work of art; it stands on earth and so in the sphere of caprice, chance, and error, and bad behaviour may disfigure it in many respects. But the ugliest of men, or a criminal, or an invalid, or a cripple, is still always a living man.[78]

Reconciliation is thus not incompatible with criticism. Hegel himself engages in critical discussions of political questions of his time, e.g. in his essay on the Wuerttemberg Estates and the reflections on the English Reform Bill.[79] Taking into account the difference between 'actuality' and 'existence' helps to avoid reading Hegel as a political conservative with fascist affinities. The charges of anti-liberalism or even totalitarianism, brought forward in the 19th century and the first half of the 20th century by thinkers like Rudolf Haym or Karl Popper, are now widely recognized as unfair to the spirit of Hegel's political philosophy, even if his views may not seem sufficiently liberal from a contemporary perspective.

Hegel believes in the principle that the state should be founded on reason, not on tradition or mere power.[80] But he also sees the danger of a political system that is built *exclusively* on the principle of individual autonomy. His aim is to combine 'modern' subjective freedom with the 'ancient' principle of *Sittlichkeit*, the substantial ethical life of the Greek polis.[81] His concrete political suggestions are closest, in his time, to those by statesmen like Karl August von Hardenberg, Wilhelm von Humboldt or Heinrich vom und zum Stein, who wanted to reform Prussia along liberal lines.[82] The institutional structure

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[78] PR §258Z. Note, however, that the potential for *reform* is not the same as the potential for a full-scale revolution; the French Revolution, which Hegel takes to be *the* breakthrough to modernity, has after all already taken place (cf. Beiser, "Hegel's historicism," 293f.).

[79] *Hegel's Political Writings*, 243-294 and 295-330. In the Preface of the PR, however, Hegel warns that it is not task of philosophy to deal with 'the infinite variety of circumstances,' criticizing Plato for giving recommendations about nursing and Fichte for having developed passport regulations (Preface, 11); as Waszek and Priddat point out, Hegel is clearly opposed to the 'constant petty surveillance of everyday life that he associates with Fichte's state' (Waszek, *The Scottish enlightenment and Hegel's Account of "Civil Society,"* 186, cf. Priddat, *Hegel als Ökonom*, 94). So although there is room for reform, Hegel does not see philosophy as engaged in day-to-day improvement (cf. also Wood, *Hegel's Ethical Thought*, 11ff.).

[80] Cf. e.g. PR §258. For a discussion see in particular the influential account by Joachim Ritter, *Hegel and the French Revolution: Essays on the Philosophy Of Right*, trans. Richard Dien Winfield (Cambridge, Mass: MIT Press, 1982).

[81] Cf. e.g. PR §260.

[82] Wood, *Hegel's Ethical Thought*, 13. Daniel Lee ("The legacy of medieval constitutionalism in the Philosophy of Right: Hegel and the Prussian reform movement," *History of Political Thought* 29 (2008): 601-634) argues, however, that in contrast to these reformers, Hegel puts a stronger emphasis on estates and intermediary institutions that have their origin in medieval constitutionalism.

described in the *Philosophy of Right* is not that of any existing state,[83] least of all of the Prussia of his day, which was already on the brink of relapsing into conservatism.[84] Hegel's political system comprises numerous liberal elements, such as the rule of law,[85] free choice of profession,[86] extensive religious toleration and liberty of conscience,[87] and freedom of opinion and of the press.[88]

Of course, there are aspects of Hegel's social philosophy that do not seem defensible from today's perspective, such as his views on gender and on the character of the different estates (in particular his view of the 'substantial' character of the rural population), his defence of a constitutional monarchy without general suffrage, his views on war and international conflict, or his ambiguous views on poverty, to name just the most obvious candidates. But it is plausible that one can find modern equivalents for these views that do not require the metaphysical background of Hegel's *Logic*, which he often employs when arguing for these. For example, it is possible to see the family as a place where a specific kind of liberty is realized while at the same time rejecting Hegel's views on women.[89] One can thus keep a 'broadly Hegelian' view,[90] without accepting all the details of his account, which remains, after all, a text from the early decades of the 19th century.

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83 Cf. e.g. T. M. Knox, "Hegel and Prussianism," *Philosophy* 15, no. 57 (1940): 51-63, 55.
84 Ilting, in the introduction to his edition of lecture notes, has brought forward the thesis of Hegel's 'accommodation' to the censorship in the time after the Carlsbad degrees of 1819, according to which Hegel was much more liberal in his lectures, but made himself appear more conservative in the published text of PR for reasons of 'self-protection.' This is implausible, however, given that many of the positions of PR (e.g. on the role of the monarch, the evaluation of the French Revolution, his interpretation of natural right, or his attitude to Fries) can already be found in earlier writings. For a discussion see Henning Ottmann, "Hegels Rechtsphilosophie und das Problem der Akkomodation. Zu Iltings Hegelkritik und seiner Edition der Hegelschen Vorlesungen über Rechtsphilosophie," *Zeitschrift für philosophische Forschung* 33, no. 2 (1979): 227-243, cf. also Ludwig Siep, "Vernunftrecht und Rechtsgeschichte. Kontext und Konzept der Grundlinien im Blick auf die Vorrede," in *Klassiker auslegen: G.W.F. Hegel, Grundlinien der Philosophie des Rechts*, ed. Ludwig Siep (Berlin: Akademie Verlag, 1997), 5-29, 5ff., who equally holds that there is no 'hidden' Hegel who would become visible in the lectures from 1817 to 1820.
85 PR §34ff., 209ff.
86 PR §185, §206, §236Z, §299, cf. also Hotho, 634. This will be taken up in chap. IV.3 below.
87 PR §270.
88 PR §308, 319f.
89 Cf. Neuhouser, *Foundations of Hegel's Social Theory*, 273ff. for a discussion.
90 Hardimon, *Hegel's Social Philosophy*, 256, cf. similarly Patten, *Hegel's Idea of Freedom*, 166.

III.4 Hegel's account of the market society

Having clarified the approach to Hegel taken in this study, we can now turn to his views on the market. When describing the market economy as part of *Sittlichkeit*, Hegel draws widely on what had become a separate scientific discipline, 'political economy.' In Hegel's time, the writers of the Scottish Enlightenment were widely read among the German intelligentsia, and were 'recognized as a major intellectual force of the day.'[91] Hegel first encountered Scottish thinkers such as Ferguson and Hume during his studies in Tübingen.[92] In his years in Berne and Frankfurt his interest in economic and social questions grew, and he naturally turned to British political economists.[93] As his biographer Karl Rosenkranz tells us, in 1799 Hegel read a German translation of Steuart's *Principles of Political Economy* and wrote a now lost commentary.[94] There is no evidence as to when exactly Hegel read Smith;[95] it probably happened no earlier than during the Jena years.[96] The first appearance of Smith in Hegel's writing is a discussion of a pin factory as an example for the division of labour, which appears in his Jena manuscripts, and then time

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[91] Waszek, *The Scottish enlightenment and Hegel's Account of "Civil Society,"* 82. For details about the translation of Scottish works and their reception in Germany see ibid., chap. II; Keith Tribe, *Governing Economy: The Reformation of German Economic Discourse 1750-1840* (Cambridge: Cambridge University Press, 1988), chap. 6-8; Fania Oz-Salzberger, *Translating the Enlightenment. Scottish Civic Discourse in Eighteenth-Century Germany* (Oxford: Clarendon Press, 1995), pt. I; Keith Tribe, "The German Reception of Adam Smith," in *A Critical Bibliography of Adam Smith*, ed. Keith Tribe (London: Pickering and Chatto, 2000), 120-152. One paper on Smith and Hegel should be mentioned in this context: Angelica Nuzzo, "The standpoint of morality in Adam Smith and Hegel," in *The Philosophy of Adam Smith. The Adam Smith Review, volume 5: Essays commenmorating the 250th anniversary of The Theory of Moral Sentiments*, ed. Vivienne Brown and Samuel Fleischacker (London / New York: Routledge, 2010), 37-55. Nuzzo argues that Hegel took up Smith's *moral* philosophy in the kind of morality that he describes as typical of 'civil society.' This argument builds on structural similarities more than on hard textual evidence, which makes one wonder whether Hegel could not also have meant other forms of 'everyday morality.' The emphasis on sentiments in Smith sits uneasily with the Hegelian assumption that sentiments and love have their place in the *family* (the realm of women) rather than civil society (the realm of men). I am therefore not convinced that Nuzzo's argument is compelling; it is, in any case, not central to the comparison of Smith's and Hegel's pictures of the *market* which is undertaken in this study.

[92] E.g. the discussion of Ferguson by the protagonists of Jacobi's popular novel 'Woldemar,' cf. Waszek, Waszek, *The Scottish enlightenment and Hegel's Account of "Civil Society,"* 103ff.

[93] Rosenkranz, *Georg Wilhelm Friedrich Hegels Leben*, 85.

[94] Ibid., 86. According to Rosenkranz, for Hegel Steuart was 'still a mercantilist.' Hegel wanted to fight what was dead in it, and was concerned to save the 'Gemüth' of man under the conditions of contemporary ways of production (ibid.). As Waszek notes, this indicates that Hegel saw man's 'wholeness' as 'being threatened by the unchecked mechanisms of the modern exchange economy' (*The Scottish enlightenment and Hegel's Account of "Civil Society,"* 115).

[95] Cf. ibid., 112.

[96] Chamley, "Les origines de la pensée économique de Hegel," 253; Waszek, *The Scottish enlightenment and Hegel's Account of "Civil Society,"* 113.

and again in his lectures.[97] In the *Philosophy of Right* Hegel mentions 'Smith, Say, and Ricardo' as examples of political economists:

> Political economy is the science which starts from this view of needs and labour but then has the task of explaining mass-relationships and mass-movements in their complexity and their qualitative and quantitative character. This is one of the sciences which have arisen out of the conditions of the modern world. Its development affords the interesting spectacle (as in Smith, Say, and Ricardo) of thought working upon the endless mass of details which confront it at the outset and extracting therefrom the simple principles of the thing, the Understanding effective in the thing and directing it.[98]

The search for general laws in the confusing and chaotic appearances of economic life is similar to astronomy, where the laws of the solar system are sought in the 'irregular movements' that the planets 'display to the eye.'[99] As we shall see, Hegel recognizes the achievements of political economy, without sharing all its assumptions.

Hegel's view of the market, however, needs to be seen in the larger context of his political philosophy. When one scrapes off the idealist language, one finds a similar tripartite scheme of the division of labour between the political and the economic realm as in Smith. But the fact that Hegel has a different picture of the market leads him to a different focus and to a different balance between these levels.

Hegel discusses the market as part of 'civil society,' which he characterizes as

> an association of members as self-subsistent individuals in a universality which, because of their self-subsistence, is only abstract. Their association is brought about by their needs, by the legal system – the means to security of person and property – and by an external organization for attaining their particular and common interests.[100]

For Hegel civil society includes the 'system of needs,' the 'administration of justice,' and the 'police and corporations;' it can thus be described as the market economy together with the institutions that make it possible and that grow out of it.[101] Civil society is the sphere of the principle of 'particularity': 'Particularity' is here 'given free rein in every direction to

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[97] *Jenenser Realphilosophie I*, 248. For a discussion see Norbert Waszek, "Miscellanea: Adam Smith and Hegel on the Pin Factory," *Owl of Minerva* 16 (1985): 229-33.
[98] PR §189. For Ricardo and Say there is no evidence that Hegel read them in the original; he may have read about them in newspapers or review journals (Waszek, *The Scottish enlightenment and Hegel's Account of "Civil Society,"* 116).
[99] PR §189Z.
[100] PR §157. It should be noted that Hegel's term is *not* identical with the contemporary usage in political philosophy, as understood e.g. in Jean L. Cohen and Andrew Arato, *Civil Society and Political Theory* (Cambridge, MA / London: MIT Press, 1994). On the development of the concept of 'civil society' in Hegel's intellectual development see Rolf-Peter Horstmann, "Über die Rolle der bürgerlichen Gesellschaft in Hegels politischer Philosophie," in *Materialien zu Hegels Rechtsphilosophie Band II*, ed. Manfred Riedel (Frankfurt am Main: Suhrkamp, 1975), 276-311.
[101] Cf. Patten, *Hegel's Idea of Freedom*, 175.

satisfy its needs, accidental caprices, and subjective desires.'[102] As Hegel says, *Sittlichkeit* is here 'split into its extremes and lost,'[103] as the relations between individuals are purely instrumental. Individuals relate to one another not as family members or fellow citizens, but simply as 'particular persons' or 'burghers' who meet each other in the 'attainment of selfish ends.'[104] Thus,

> there is formed a system of complete interdependence, wherein the livelihood, happiness, and legal status of one man is interwoven with the livelihood, happiness, and rights of all.[105]

For human beings to meet as self-sufficient individuals, however, there needs to be a system of rights which grants each of them an independent status. Hegel discusses the rights of individuals in two places in the *Philosophy of Right*. In 'Abstract Right' he develops the theoretical principles of individual rights, in particular property rights. The 'basis of right' is the free will of human individuals.[106] A free human being needs to 'translate his freedom into an external sphere,' which is why there have to be individual property rights.[107] But right is an abstract concept that must be concretely realized in the *Sittlichkeit* of modern society. Right must be known, and it must be valid,[108] or as Hegel puts it in the *Encyclopaedia*, it must have 'publicity' and 'authority.'[109] It then becomes positive law,[110] and 'by taking the form of law, right steps into a determinate mode of being.'[111] The 'Administration of Justice' that secures property rights and settles legal conflicts is thus part of civil society.[112]

Within this framework of property rights, the market economy – or 'system of needs,' as Hegel calls it[113] – has its place. Individuals are free to pursue their interests,

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[102] PR §185.
[103] PR §184, cf. §189Z, §357, Hotho, 566, Griesheim, 415.
[104] PR §183, §187.
[105] Ibid.
[106] PR §4, §36.
[107] PR §41, §40. Cf. Ritter, "Person and Property," for a discussion.
[108] PR §210.
[109] Enc §529.
[110] PR §211.
[111] PR §219.
[112] PR §209ff.
[113] PR §189ff.

whether they are based on 'caprice' or 'physical necessity' or a 'mixture' of both.[114] In contrast to the biological needs of animals, human needs are not naturally limited; rather, they are influenced by social factors like fashion and the wish to occupy a certain social position.[115]

This pursuit of self-interest leads to a situation that looks chaotic and disorganized at first glance, an 'apparently scattered and thoughtless sphere.'[116] But Hegel also emphasises that there is a 'necessary element,' a 'show of rationality' in it.[117] It is here that he takes up insights from 'political economy': he sees something like the Smithian 'invisible hand' in the economic sphere. Through the market mechanism, 'subjective self-seeking turns into a contribution to the satisfaction of the needs of everyone else.'[118] Hegel calls this a 'dialectical advance,' rather than an invisible hand, but the similarities with Smith are striking.[119] The result is that 'each man in earning, producing, and enjoying on his own account is *eo ipso* producing and earning for the enjoyment of everyone else.'[120] The modern economy is characterized by a highly developed division of labour,[121] which 'makes necessary everywhere the dependence of men on one another and their reciprocal relation in the satisfaction of their other needs.'[122]

But Hegel's market is not the peaceful, self-adjusting mechanism that Smith had described. Instead, it is a battlefield of everyone against everyone else – and hence the 'relict of the state of nature'[123] – and of each against the common interests of the community:

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114 PR §182.
115 Cf. PR §190.
116 PR §189Z.
117 PR §189 and Z.
118 PR §199.
119 Cf. e.g. Henderson and Davis, "Adam Smith's influence on Hegel's philosophical writings," Avineri, *Hegel's theory of the modern state*, 146f. and Peter G. Stillman, "Hegel's Civil Society: A Locus of Freedom," *Polity* XII, no. 4 (1980): 622-46 for discussions.
120 PR §199, cf. Hotho, 581, 614f., where this is called a 'wonderful entanglement and mediation' (615).
121 PR §191, 196, Enc §525. Cf. Waszek, *The Scottish enlightenment and Hegel's Account of "Civil Society,"* chap. VI, for a discussion of the similarities between Smith's and Hegel's accounts of the division of labour.
122 PR §197, Griesheim, 486, 504, Hotho, 568, 587f., cf. Henderson and Davis, "Adam Smith's influence on Hegel's philosophical writings," 189.
123 PR §200.

> Just as civil society is the battlefield where everyone's individual private interest meets everyone else's, so here we have the struggle (a) of private interests against particular matters of common concern and (b) of both of these together against the organization of the state and its higher outlook.[124]

For Hegel markets are inherently unstable and unpredictable. Human needs in their 'particularity' lead to an endless pursuit of commodities, and as preferences are arbitrary and shifting,[125] market outcomes are inherently unknowable. The sway of ever-changing fashions and caprices brings insecurity to those who produce such goods. This insecurity results from 'the variability of the wants themselves,' from 'circumstances of locality,' 'errors and deceptions' and the 'unequal capacity of individuals' to find a place where they can take part in the production process and acquire a share of the produced wealth.[126] For example, changes in fashion can let 'entire branches of industry' go bankrupt, and thus throw a 'huge population […] into helpless poverty.'[127] Through the international division of labour, men's fates depend on factors they cannot control; they are exposed to 'blind dependence' and a forceful dynamic that can overthrow their lives.[128] In the Jena manuscripts, Hegel calls the exchange economy

> a monstrous system of community and mutual interdependence in a great people; a life of a dead body, that moves itself within itself, one which ebbs and flows in its motion blindly, like the elements, and which requires continual strict dominance and taming like a wild beast.[129]

In the *Philosophy of Right*, the formulations are less drastic, but the diagnosis is essentially the same: with individuals' interests given free rein, 'accidental caprices and subjective desires' put people at risk, and make the satisfaction of their needs a matter of luck.[130] This turns civil society into 'a spectacle of extravagance and want' and can lead to 'the physical and ethical degeneration common to them both.'[131]

The greatest problem of the Hegelian market economy is that those who fall into unemployment cannot free themselves from it any more. They become a 'rabble,' whose

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[124] PR §289, cf. also Griesheim, 495.
[125] Enc §533.
[126] Ibid.
[127] *Jenenser Realphilosophie II*, 139f.
[128] *Jenenser Realphilosophie I*, 248, cf. Norbert Waszek, "The Division of Labor: From the Scottish Enlightenment to Hegel," *Owl of Minerva* 15 (1983): 51-75, 66f.
[129] *Jenenser Realphilosophie* I, 249.
[130] PR §185.
[131] PR §185.

mentality is in uproar against society.[132] While Hegel thus adopts the idea that in the market people unintentionally serve one another's interests, he denies that *everyone's* interests will be served: the poor are unable to 'enjoy the broader freedoms and especially the intellectual benefits of civil society.'[133] Even those who remain in employment may find that the unpredictable fluctuations of the free market make it difficult for them to plan their lives rationally.[134]

For Hegel, the economic sphere is not as harmonious as it is for Smith; it is much closer to Steuart's metaphor of a watch that is 'continually going wrong.'[135] But even this characterization seems too positive for the Dionysian, chaotic process that Hegel describes, which is 'teeming with caprice,' as he formulates in one lecture,[136] and where 'all waves of fortune and misfortune and of all passions pour out,' as he says in another.[137] His discussion of the labour market, and in particular of the inability to create enough work for everyone,[138] implies that the market economy is *not* endlessly growing, but that it comes to an upper limit, which exacerbates the struggles for everything that can be gained within these limits.

The news of mass pauperization, in particular in London,[139] which Hegel gathered from newspapers and magazines from England, certainly played an important role in shaping his views.[140] He might also have been influenced by the first criticisms of the early

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132 PR §240ff.
133 PR §243, cf. also Avineri, *Hegel's theory of the modern state*, 148.
134 This has been emphasised in particular by Schmidt am Busch (*Hegels Begriff der Arbeit*, 78ff.). He develops this argument relying on the *Jensenser Realphilosohie II*, and then extends it to PR. It applies in particular to those who depend on selling their labour in the labour market, less to the agricultural class and the civil servants.
135 Sir James Steuart, *An Inquiry into the Principles of Political Economy* (Edinburgh / London: Oliver & Boyd, 1966), 217.
136 Griesheim, 487.
137 Hotho, 567.
138 PR §242ff., cf. also chap. V.3 below.
139 Cf. Griesheim, 494: 'in this endlessly rich city, misery, destitute and poverty are so dreadful that we can hardly imagine it.' Cf. also Hotho, 599.
140 Cf. Rosenkranz, *Georg Wilhelm Friedrich Hegels Leben*, 59f., 85. See Waszek, *The Scottish enlightenment and Hegel's Account of "Civil Society,"* 215ff., for a detailed account of the newspapers and magazines Hegel read. On Hegel's reading of English newspapers and journals see also M. J. Petry, "Propaganda and analysis: the background to Hegel's article on the English Reform Bill," in *The State and Civil Society: Studies in Hegel's Political Philosophy*, ed. Z. A. Pelczynski (Cambridge: Cambridge University Press, 1984), 137-158. As Petry argues, one of Hegel's most important sources was the *Morning Chronicle*, which was edited by members of the Utilitarian movement. It tended to present developments in a way that 'contributed to the creation of a general

optimism of 'political economy' that were raised by writers like Jean Charles Léonard de Sismondi and Thomas Malthus.[141] In any case, when Hegel took over the idea that self-interest can serve the public good, he did not rely on Smith's (or other writers') arguments about how exactly the market could be self-adjusting. There is no hint in the *Philosophy of Right* or the lectures that Hegel adopted the idea of the market price 'gravitating' towards an adjustment of supply and demand through the adaptive behaviour of individuals.[142] In particular, as we shall see in more detail in chapter V, he does not have a detailed theory about how wealth 'trickles down' from the rich to the poor, and thinks that the poor will often *not* be able to free themselves from their misery. The Smithian vision that economic growth would expand the cake for all is absent from Hegel's view of the modern economy.[143] He also lacks any discussion of the role of capital accumulation for economic growth.[144]

Given how problematic the market is for Hegel, it is not surprising that he puts a stronger focus than Smith on the institutions that limit and correct market outcomes. In the initial description of civil society Hegel speaks of 'an external organization for attaining [the citizens'] particular and common interests,'[145] and as becomes clear in the subsequent discussion, the elements of this external organization – in addition to the administration of justice that has already been mentioned – are the police and the corporations.

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impression of imminent revolution' (153) in order to press for reform. Thus, Hegel might have received a rather dramatic impression of the situation in England.

[141] Douglas Moggach argues, e.g., that Hegel might have been influenced by Sismondi's views on the need to regulate the market ("Introduction: Hegelianism, Republicanism, and Modernity," in *The New Hegelians: Politics and Philosophy in the Hegelian School*, ed. Douglas Moggach (Cambridge: Cambridge University Press, 2006), 1-23, 19). Priddat (*Hegel als Ökonom*, 68ff.), following Chamley (Chamley, *Économie politique et philosophie chez Steuart et Hegel*, chap. III) speculates that Hegel might have been influenced by Malthus's arguments about recurring crises of overpopulation. There is, however, no direct evidence for either of these influences.

[142] In the Griesheim lectures (597) he notes that in England all taxation of groceries is abolished and the setting of prices is left to 'the bakers, brewers, etc.' – evidently an allusion to Smith's famous quote – in the hope that competition will on average lead to a low price. Hegel is sceptical about this; he argues that as it is costly and complicated to examine the quality of groceries, market surveillance is needed.

[143] Cf. Priddat, *Hegel als Ökonom*, 52. Priddat thus rightly denies the adequacy of Marx's statement that Hegel fully mastered the economic theory of his time, emphasising the influence of German (rather than British) economic thought with which Hegel was familiar (ibid., 9ff.).

[144] Cf. ibid., 26, 152.

[145] PR §157.

Hegel describes the 'police' as a public authority in the market sphere: 'the universal [the concern for the public good] which acts with regard to civil society.'[146] As such, it has two essential functions: first, to remove 'accidental hindrances to one aim or another' and to attain 'undisturbed safety of person and property,' and, second, to realize the right of 'every single person' to 'livelihood and welfare,' i.e. to fight dire poverty.[147] The measures through which these aims are achieved comprise market surveillance through 'contrivances and organizations' which have the 'general utility' in view,[148] the arbitration of disputes caused by the 'differing interests of producers and consumers,' the oversight of 'the larger branches of industries' that are especially vulnerable to 'conditions abroad,' and, in extraordinary circumstances, the fixing of prices for 'the commonest necessaries of life.'[149]

The 'corporations,' the professional associations of those who work in the same branch of industry, are the second instrument for overcoming the 'particularity' of civil society.[150] They offer a place where individuals with their capabilities and skills are recognized, and every person can 'command the respect due to one in his social position.'[151] The corporations are a 'second family' in civil society, the 'son' of which the individual has become.[152] If the members of a corporation fall into distress, they are supported by the richer members without the 'accidental character and the humiliation' that

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146 Hotho, 587. For a detailed discussion see Priddat, *Hegel als Ökonom*, 88ff. It should be noted that Hegel's term 'police' is broader than in today's use and includes numerous tasks that are today undertaken by different government authorities. On the intellectual traditions behind the concept of 'police' see Schmidt am Busch, *"Anerkennung" als Prinzip der kritischen Theorie*, 224ff. and Mark Neocleous, "Policing the System of Needs: Hegel, Political Economy, and the Police of the Market," *History of European Ideas* 24, no. 1 (1998): 43-58.

147 PR §230.

148 PR §235.

149 PR §236, cf. Raymond Plant, "Economic and Social Integration in Hegel's Political Philosophy," in *Hegel's Social and Political Thought*, ed. Donald Phillip Verene (New Jersey: Humanities Press, 1980), 59-90, 78. In the Griesheim lecture notes (695f.) Hegel even seems to claim that there is a right to labour (cf. also PR §236Z). What Hegel seems to have had in mind is not so much the idea that the state should employ its citizens in public works (as in the construction of the pyramids in ancient Egypt, cf. PR §236), but rather that the state should create conditions under which individuals can easily find employment, a thought for which Steuart might have been the source (cf. Waszek, "The Division of Labor," 76f.).

150 PR §250, cf. Griesheim, 588ff, Hotho, 709ff. Schmidt am Busch (*"Anerkennung" als Prinzip der kritischen Theorie*, 229f.) is right to point out that Hegel does not seem to have in mind any concrete historical institution; he uses different terms, including the term for a *local* (rather than professional) community, 'Gemeinde,' which can also signify 'parish.'

151 PR §253, for a discussion see Michael Wolff, "Hegel's Organicist Theory of the State: On the Concept and Method of Hegel's 'Science of the State'," in *Hegel on Ethics and Politics*, ed. Robert Pippin and Otfried Höffe (Cambridge: Cambridge University Press, 2004), 291-322.

152 PR §238, §252.

private charity has outside of this social context; the corporations thus provide a social insurance.[153] Hegel notes, however, that they need to stand under the 'surveillance of the public authority,' otherwise they might 'ossify, build themselves in, and decline into a miserable system of castes.'[154]

The Hegelian labour market is thus rather strictly regulated through the system of corporations. It is not quite clear, however, how these structures can co-exist with economic freedom in other parts of the economy. As Schmidt am Busch argues, Hegel wants to organize *production* along the principles of the corporations, so that the free market can only reign in the sphere of *circulation*, in Marx's terms.[155] The question is, however, whether such a mixed system is viable. It could either mean that goods and services are produced *only* by the corporations – but then the question is whether this would still be a free market economy. Or it could mean that there can also be other economic agents – then the market is really free, but it is an open question whether the corporations can compete with these other agents.[156] It seems that Hegel does not *really* want to leave the economy free, in a way that builds on economic growth through the accumulation of capital. His focus is more on the distribution of work and the necessities of life, and on questions like the 'honour' of individuals in the corporations; he does *not* build on labour as a mobile factor.[157] As we shall see, this plays an important role in how his understanding of the market relates to questions of identity and justice.

Hegel makes clear that the institutions that check the market, the police and corporations as well as the administration of justice, are not part of the state proper, but only of a state of a special kind:

> This system may be prima facie regarded as the external state, the state based on need, the state as the Understanding envisages it.[158]

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153 PR §253, cf. Schmidt am Busch, *Hegels Begriff der Arbeit*, 148f.
154 PR §252.
155 Schmidt am Busch, *Hegels Begriff der Arbeit*, 139ff.
156 Ibid., 150ff.
157 Cf. also Priddat, *Hegel als Ökonom*, 189ff.
158 PR §183.

For Hegel the institutions that make possible a smoother functioning of the market – which are all *coercive* functions[159] – are insufficient to keep a society together and to embed the market in a social whole. For this, the real state is necessary, the 'actuality of the ethical Idea.'[160] It is the place where 'freedom comes into its supreme right;'[161] as such it is more than a contractual unity that would be based on the individuals' private interests.[162] Hegel is here a good Aristotelian: it is a *telos* of human beings to live (also) a political life, and to be part of a community with a common understanding of good and evil, just and unjust.[163]

The Hegelian idea of the state has been subjected to much ridicule and scorn, but the central idea is a very simple one: there needs to be a level of social unity that goes *beyond* the instrumental ties of the economics sphere and the institutions that stabilize it by force. In chapter VI, I will discuss a reconstruction of Hegel's notion of the state that illustrates the importance of this insight for contemporary political theory. Even if the Hegelian state may, in the end, depend on some metaphysical underpinning, we can gain from his discussions crucial insights about the necessity of political forces that balance the dynamics of the economic realm.

In any case, Hegel's account is quite understandable *given* his view of the market, which presents us with a chaotic, Dionysian play of forces that lead some people to immense riches, while casting others into desperate poverty. It subjects everyone to the insecurity and unpredictability of an economy in which everything is connected with everything; and hardly anyone can oversee, let alone control, this swirl of phenomena. For Hegel the political unity of the state is a counter-force to this centrifugal economy, which

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159 Cf. Alan W. Wood, "Hegel's ethics," in *The Cambridge Companion to Hegel*, ed. Frederick C. Beiser (New York: Cambridge University Press, 1993), 211-233, 230f., Patten, *Hegel's Idea of Freedom*, 167.
160 PR §257.
161 PR §258, cf. chap. VI.4 below.
162 PR §75Z, §100Z, §183, §258, §281, cf. Enc §523. For a discussion of Hegel's criticism of contract theory see e.g. Patten, *Hegel's Idea of Freedom*, chap. IV.
163 *Politics* 1253a, cf. Ritter, *Hegel and the French Revolution*, 48f.; Ludwig Siep, "Hegels Rezeption der aristotelischen Politik," in *Aktualität und Grenzen der praktischen Philosophie Hegels. Aufsätze 1997-2009* (München: Wilhelm Fink Verlag, 2010), 59-76, 69. In his account of Aristotle in his *History of Philosophy*, Hegel runs together two of the Aristotelian characterizations of human beings, *zoon politikon* and *zoon logon echon*, sharing Aristotle's view of human nature as essentially directed towards living in an ethical community (cf. ibid., 68).

amends many of the problems the economy creates, although it remains open whether it can amend them all.

III.5 Conclusion: the modernity of the market

Given all the problems of the free market that Hegel analyses why does he endorse it at all? Why does he not argue for the return to a pre-modern, more embedded form of economic life?

Hegel is in fact in favour of a much stronger regulation of the market than Smith. Priddat argues that at its heart the Hegelian economy is an 'exchange economy based on the division of labour, an Aristotelian model transformed by German cameralism.'[164] But although Hegel lacks a discussion of what one would later call macroeconomic phenomena, as Priddat rightly points out, and although he is in favour of a strong control of the labour market through the corporations, he is *against* a complete regulation of economic activities and a suppression of the internal dynamics of the market sphere.

Unlike Smith, Hegel cannot – and indeed never attempts to – argue for the market from its beneficial consequences.[165] History, for Hegel, is not the 'progress of opulence,' but the 'progress of the consciousness of Freedom;'[166] and this is also the light in which he sees the market. He endorses it for the sake of the realization of subjective freedom, the form of freedom specific to modern societies. It provides individuals with a sphere in which they can act as they like: as separate individuals, unbound by rules and regulations, but also by social expectations and pressures.[167] This is possible because individuals are given property rights and economic liberties. But as a consequence, they can enter into contractual relationships with others, and thus a market develops. This exchange economy

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[164] Priddat, *Hegel als Ökonom*, 27, own translation.
[165] The only way in which Hegel could stitch together an argument from outcome would be to argue that as a result of the redistributive measures undertaken by the police and the corporations the poor are still better off than they would be in feudalism or in any other economic order. But his reflections on poverty as having to do not so much with the absolute level of income as with social recognition and the *kind* of income one receives would make this difficult for him (cf. below chap. V.3).
[166] PH (Sibree) 19, cf. also 63.
[167] Cf. in particular Ritter, *Hegel and the French Revolution*. As he argues, the Reformation, the rise of capitalism and the French Revolution are for Hegel three key developments of modernity.

may lead to economic growth, but this point is not central to Hegel; which makes sense given his assumption that despite its higher productivity, the market does *not*, as does the Smithian market, improve the situation of *everyone*. What really matters is that the economic sphere offers a realm in which the 'particularity' of individuals, their different needs, wishes and desires can develop, and in which different ways of life can be chosen, through the choice of consumption and profession. This is a specific feature of *modern* societies:

> … his right to be satisfied, or in other words the right of subjective freedom, is the pivot and centre of the difference between antiquity and modern times. This right in its infinity is given expression in Christianity and it has become the universal effective principle of a new form of civilization.[168]

The modern economy is one of the forms in which this subjective freedom finds expression: here people are liberated from the subordination under feudal lords and, more generally, the power of tradition. Hegel accordingly calls 'political economy' 'one of the sciences which have arisen out of the conditions of the modern world.'[169] From the perspective of the *ancient* states, notably the Greek polis, the principle of subjective freedom appeared as 'corruption,' as something 'hostile' to the social whole.[170] Rather than naïvely yearning for a return to the Greek polis, the mature Hegel rejects the polis because of its indifference to the individual.[171] Only the *modern* state has the strength to admit this principle, and to give it a place in which it does not *threaten* the social whole.[172]

As we shall see in the following chapters, *given* Hegel's characterization of the market and its different deficiencies and weaknesses, it is indeed plausible that a political sphere of the kind he envisages is needed. The question is, of course, how successful this mediation is – whether Hegel can have his cake and eat it. Hegel in a way tries to 'sublate' *both* Smith and Steuart,[173] the free market *and* its control through social and political institutions. The market, this Dionysian monster, is cherished for the individual freedom it

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168 PR §124, cf. also PR §62, §185, Enc §552.
169 PR §189.
170 Cf. PR §185, §206, cf. Hotho, 577.
171 Cf. Avineri, *Hegel's theory of the modern state*, 92.
172 Cf. PR §260, cf. also Philip J. Kain, "Hegel's political theory and philosophy of history," in *G.W.F. Hegel: critical assessments*, ed. Robert Stern (London: Routledge, 1993), vol. 4, 361-383.
173 The 'sublation' of Steuart has been suggested by Chamley ("Les origines de la pensée économique de Hegel," 255), that of Smith by Avineri (*Hegel's theory of the modern state*, 147). See also Waszek (*The Scottish enlightenment and Hegel's Account of "Civil Society,"* 186f.) on Hegel's relation to Steuart and Smith.

brings, but it needs to be limited and controlled by the state, otherwise it will blow up the society in which it exists. Whether this can work is an open question, in particular with regard to the problem of poverty, as will be discussed in detail below.[174] But it should already have become clear that the free market for Hegel is not a problem-solver, as it is in Smith, but a sphere that *creates* problems – and yet at the same time it must be part of a free modern society. It is, for him, a challenge that every political philosophy that claims to deal with *modern* society has to accept.

With Hegel, we thus have a second model of how the market and its place in society can be conceptualized. Hegel is not just the thinker of 'the political state,' and much less the thinker of the 'authoritarian' state. The *Philosophy of Right* provides deep and extended reflections about how the different spheres of a liberal society hang together. In this sense, its systematic level is the same as Smith's different books – the *Theory*, the *Wealth* and the *Lectures on Jurisprudence* – taken together.[175] This is what makes the comparison of Smith and Hegel so suitable for reflecting about the relation of the market to other spheres, principles and values. This task will be undertaken in the following chapters.

[174] See chap. V.3.
[175] Cf. also Jerry Muller, *The Mind and the Market. Capitalism in Western Thought* (New York: Anchor Books, 2002), 140.

IV THE SELF IN THE MARKET: IDENTITY AND COMMUNITY

IV.1 Introduction

In the political theory of the last decades the old question about the relation between individual and society has re-emerged: it has been one of the bones of contention in the so-called 'liberal-communitarian' debate. Michael Sandel, in his criticism of Rawls' and other theorists' 'procedural' liberalism, has coined the term 'unencumbered self': a self that has no 'constitutive goals,' that is prior to and separate from all commitments, relations, and desires, freely choosing between them.[1] Sandel takes this to be an unrealistic and even dangerous basis for political theories and instead suggests a view of human beings as shaped by social ties in constitutive ways.

This debate concerns the very foundations of liberal political theory, and numerous attempts have been made to mediate between Rawls's and Sandel's positions.[2] Nevertheless, the question about the social embeddedness of the modern self remains relevant, both for real-life issues and for political theory. In discussions of the topic, one often finds an implicit or explicit suspicion that the 'unencumberedness' of the modern self and the decrease of social cohesion have something to do with economic forces and the power of an ever more dominating market. This chapter therefore discusses the relation between individual and society, and the question of social embeddedness, with regard to the different views of the market in Smith and Hegel.

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[1] Cf. in particular "The Procedural Republic and the Unencumbered Self," *Political Theory* 12, no. 1 (1984): 81-96; see also *Liberalism and the Limits of Justice* (Cambridge: Cambridge University Press, 1982), 19. I take Sandel as an example for this type of criticism which has been raised by a number of so-called 'communitarians.' It has been brought forward much earlier by Marxist thinkers; for example, Horkheimer argues in the *Critique of instrumental reason* that the 'monad' from Leibniz's metaphysics has become the predominant social type of liberalism (*Gesammelte Schriften, Bd. 6. Zur Kritik der instrumentellen Vernunft und Notizen 1949-1969* (Frankfurt am Main: Fischer, 1991), 145).

[2] Cf. e.g. Charles Taylor, "Cross purposes: The liberal-communitarian debate," in *Liberalism and the moral life*, ed. Nancy Rosenblum (Cambridge, MA.: Harvard University Press, 1989), 159-182; Richard Dagger, "The Sandelian Republic and the Encumbered Self," *The Review of Politics* 61, no. 2 (1999): 181-208; Martin Rechenauer, "Kontraktualistische Gerechtigkeitstheorien und die Idee eingebetteter Selbste," *Archiv für Rechts- und Sozialphilosophie* 95, no. 1 (2009): 62-78.

At first glance, it seems that Smith and Hegel represent prototypical cases of the most extreme positions in this debate. Smith, as the 'father' of economics, is often seen as having invented 'economic man,' the paradigm of an 'atomistic' self free from any commitment, choosing strategically between different options. Hegel, the thinker of *Geist*, is taken to have what Christopher Berry calls a 'contextualist' view of the individual: an understanding of humans as deeply embedded in the language and culture of their time, related to the social whole in an organic way that does not even allow for a complete conceptual separation between human nature and society.[3] With his focus on the family, the corporations and the state, Hegel is often taken to be a proto-communitarian thinker.[4]

This chapter challenges this understanding. As I will show, Smith and Hegel *both* have a view of the self as shaped by interaction with others *and* conceptualize social spheres in which individuals act in more or less 'atomistic' ways. But there is a kernel of truth in the clichés, which becomes clear when one asks how interactions in the *market* influence individuals' identities and their relations to society. In market societies, people need to enter into exchange relationships with others. They have to offer goods, money, and their labour, which means, in a sense, that they have to sell *themselves.* The question thus is how this process of selling oneself influences people's identity and their relation to society. As we shall see, Smith and Hegel have different ways of conceptualizing the relation between the self and what it offers in the labour market. While Smith developes a theory of 'human capital' *avant la lettre*, for Hegel their professional activity educates and forms individuals in a much deeper way, influencing their identity and the recognition they receive from others. These different models have a number of implications for the way in which the relation between individual and society is conceptualized, which will be discussed in the conclusion

[3] Cf. Christopher Berry, *Hume, Hegel, and Human Nature* (The Hague: M. Nijhoff Publishers, 1982), especially 25, 36, 148. Berry emphasises the importance of Herder and of romanticism more generally for these organic models (31ff.). Cf. also Hardimon, *Hegel's Social Philosophy*, 106ff.

[4] Or at least as a *political* communitarian who adopts a purely *economic* liberalism, see e.g. Mark R. Greer, "Individuality and the economic order in Hegel's Philosophy of Right," *The European Journal of the History of Economic Thought* 6, no. 4 (1999): 552-580. Taylor's reading of Hegel also shows strong similarities to communitarian thinking, cf. also Neuhouser, *Foundations of Hegel's Social Theory*, 15f. and Paul Franco, "Hegel and Liberalism," *The Review of Politics* 59, no. 4 (1997): 831-860, 834f., who strongly criticizes this reading.

of this chapter. As will turn out, not only different *degrees*, but also different *kinds* of embeddedness have to be distinguished. Recognising these different dimensions of embeddedness is crucial for thinking more constructively about the otherwise relatively sterile debate of individualism versus communitarianism in contemporary political theory.

IV.2 The social self

In the history of philosophy the contrast between a social and an atomistic conception of human nature can be illustrated by the positions of Aristotle on the one hand, and Hobbes or the early Rousseau on the other. For Aristotle, only beasts or gods can live without a community; men need to be 'part of a city.'[5] In contrast, for the Rousseau of the *Second Discourse*, strongly influenced by Hobbes, the ideal of human nature is presented in the image of the lonely savage of an early state of nature. There, man was healthier, more innocent, blessed with a 'celestial and majestic simplicity,'[6] whereas '[a]s he becomes sociable and a slave, he becomes weak, timorous, grovelling, and his soft and effeminate way of life completes the enervation of both his strength and his courage.''[7]

Smith and Hegel firmly take Aristotle's side in this dispute: men *qua* men cannot exist without society. This is true not only from a pragmatic point of view, since human beings need to cooperate with others to live safely and to acquire the necessities of life, but also in an ontological sense: individuals could not realize what is essential about human nature without society.

This may come as a surprise in the case of Smith. Economists and economically inclined philosophers often work with 'Robinsonades,' the scenario of what the lonely Robinson Crusoe – by definition an 'atomistic' self – would do on his island, which is then presented as the ideal of human rationality.[8] But it would be wrong to ascribe this view to Smith. To be human for Smith means to share other people's passions through sympathy,

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[5] Aristotle, *The Politics* (Cambridge: Cambridge University Press, 1988), 1253a27.
[6] Jean-Jacques Rousseau, *The Discourses and Other Early Political Writings*, ed. Victor Gourevitch (Cambridge: Cambridge University Press, 1997), 124.
[7] Ibid., 138f.
[8] See, e.g., Gauthier, *Morals By Agreement*, 90ff.

the 'fellow-feeling with any passion whatever'[9] that is pleasurable both for the sympathizer and the one sympathized with.[10] Men stand in numerous relations of differing kinds and intensity with each other. The very first sentence of the *Theory* makes clear that human beings are genuinely interested in others:

> How selfish soever man may be supposed, there are evidently some principles in his nature, which interest him in the fortune of others, and render their happiness necessary to him, though he derives nothing from it except the pleasure of seeing it.[11]

It is only by help of these relations and the mirroring of one's own emotions in others that human beings can develop self-consciousness and self-command, the preconditions for human action. But not only as children, but also as adults they are embedded in numerous relations of sympathy, which is central for their ability to lead a moral life.

For Smith isolated human beings could not develop self-consciousness, as they would always direct their consciousness to external 'object[s] of [their] passions.' It is only through the 'looking-glass'[12] of other people, and *their* view of them, that they can turn their view back on themselves, and develop an attitude towards their own passions:

> Were it possible that a human creature could grow up to manhood […] without any communication with his own species, he could no more think of his own character, of the propriety or demerit of his own sentiments and conduct, of the beauty or deformity of his own mind, than of the beauty or deformity of his own face. […] Bring him into society, and he is immediately provided with the mirror which he wanted before.[13]

Individuals need others in order to become conscious of themselves. It is only in society that they can divide themselves 'as it were, into two persons'[14] in order to reflect on their own behaviour. The gaze of others is 'internalized' in the self[15] both on the fundamental,

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[9] TMS I.I.1.5. Sympathy is based on the ability of 'changing places in fancy' with others (I.I.1.3); this has been associated with the 'mirror-neurons' that have been discovered by contemporary neuroscientists (cf. e.g. Robert Urquhart, "Adam Smith's problems: individuality and the paradox of sympathy," in *The Philosophy of Adam Smith. The Adam Smith Review, volume 5: Essays commenmorating the 250th anniversary of The Theory of Moral Sentiments*, ed. Vivienne Brown and Samuel Fleischacker (London / New York: Routledge, 2010), 181-197, 184).
[10] Cf. e.g. TMS I.I.1.2.
[11] TMS I.I.1.1. Cf. also his rejection of the idea that sympathy might be conceived of as purely self-interested (VII.II.1.4), his criticisms of Hobbes (VII.III.1.2ff.) and his critical discussion of Mandeville (VII.II.4.1ff.).
[12] TMS III.I.5.
[13] TMS III.I.3.
[14] TMS III.I.6.
[15] Griswold, *Adam Smith and the virtues of enlightenment*, 107.

formal level of *being able at all* to relate to oneself in a critical way, and on the level of the *contents* of consciousness, insofar as they are influenced by the views of others.[16]

In addition to self-consciousness, human action requires self-command, which, for Smith, can also be acquired only in society. This happens in particular when one is among *equals*, as Smith makes clear by using the example of a child that begins school after having been raised by an indulgent mother:

> When it is old enough to go to school, or to mix with its equals, it […] naturally wishes to gain their favour, and to avoid their hatred or contempt. Regard even to its own safety teaches it to do so; and it soon finds that it can do so in no other way than by moderating, not only its anger, but all its other passions, to the degree which its play-fellows and companions are likely to be pleased with. It thus enters into the great school of self-command, it studies to be more and more master of itself.[17]

Self-command is a precondition for living in a community and acting responsibly in it. But the community also teaches human beings to control their instincts and emotions.[18] Although Smith also describes cases in which agents are sympathized with without even noticing it, in many cases the agent has to contribute to making sympathy possible through self-control. Because the sentiments of the sympathetic observer are never as strong as those of the person originally concerned,[19] an agent who feels a strong passion and wants to be sympathized with has to moderate it:

> he can only hope to obtain [sympathy] by lowering his passion to that pitch, in which the spectators are capable of going along with him. He must flatten, if I may be allowed to say so, the sharpness of its natural tone, in order to reduce it to harmony and concord with the emotions of those who are about him.[20]

Smiths speaks of the 'harmony'[21] of sentiments in society, which makes clear that what is needed is not complete consonance, but a joining into the sentiments of the whole. Thus in order to be a human individual in the full sense, acting responsibly and living in a human community, self-consciousness and self-control have to concur: by *sympathy* one assumes

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16 TMS III.I.3.
17 TMS III.III.22. Paganelli has pointed out that self-interest ('regard even to its own safety') also plays a role in this process ("The Adam Smith Problem in Reverse," 369); for Smith, however, the motive of gaining the others' favour seems to be the stronger one, safety being only an afterthought.
18 TMS I.I.4.7.
19 TMS I.I.1.2.
20 TMS I.I.4.7.
21 TMS I.I.4.7.

the standpoint of others, *self-consciously* toning down one's emotions to the level they can share through *self-control*.[22]

Education is needed to enable children to become full-grown human beings in this sense; it is a topic of high importance for Smith, who did not have children himself, but was active as a teacher and educator during much of his life.[23] He emphasizes that to 'bring down [one's] passion and [to] curb [one's] desires to such a pitch as [others] can go along with,' is 'a chief and most essentiall part of education;' and praises the fact that children depend on their parents for so long, which makes it likely that they will acquire this ability.[24] It is telling that he considers public education worthy of government intervention and public funding, in particular in order to counteract the negative effects of the division of labour on the workers' minds.[25] This is important not only for political reasons – because an 'instructed and intelligent' population is 'always more decent and orderly,'[26] – but also because their happiness is at stake and the workers might otherwise lose the ability to share 'any generous, noble, or tender sentiment.'[27]

A defender of 'Robinsonades' might reply, however, that this does not constitute an objection to his model: the individuals described here are children, after all. Once they are adults, he might say, they have indeed become independent and autonomous, and can reason and act as 'atomistic' selves. This, however, is not Smith's view; for him the sympathy-based connections between individuals remain an important force during all of

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[22] The socializing function of this sympathy-based process is emphasized in particular by Forman-Barzilai, *Adam Smith and the Circles of Sympathy*, chap. III and IV, who uses Foucault's concepts of 'surveillance' and 'discipline' to describe it (76ff.). What is misleading about this comparison, however, is that in Foucault's description of the panoptic the surveillance is not mutual, and is exercised with an explicit wish to control the other, whereas in Smith's description the surveillance is in most cases mutual and *all* individuals have power over others insofar as they can withdraw their sympathy.

[23] As a professor, he taught students from the age of 14 (see Ross, *The Life of Adam Smith*, chap. VIII-X); he was a travelling tutor to the teenage Duke of Buccleuch (ibid., chap. XIII), and later in life cared for the son of a cousin, David Douglas (ibid., 311).

[24] LJ(A) 142f. On moral education see also chap. VI.3 below.

[25] WN V.I.Concl.5. Smith also notes that the expenses for education might 'perhaps with equal propriety' be born by those who profit from it or by voluntary contributions, but adds in the next paragraph that when those funds are insufficient 'the deficiency must in most cases be made up by the general contribution of the whole society.' Cf. also his long discussion of different forms of funding for universities and what effects they have on the quality of education and research (WN V.I.III.II).

[26] WN V.I.III.II.61.

[27] WN V.I.III.II.50. This will be taken up in chap. VI.2-3 below.

their adult lives. As already mentioned, Smith describes human sympathy and benevolence as spread out in concentric circles of declining strength to those around oneself: one's family, neighbours, friends and acquaintances. Individuals remain embedded in these 'circles of sympathy' for all their lives. Smith in fact holds that a person who would never be believed by others – one very basic form of social interaction – would 'feel himself the outcast of human society, would dread the very thought of going into it, or of presenting himself before it, and could scarce fail, I think, to die of despair.'[28]

The circles of sympathy also play an important role for moral reflection. As Smith states, the 'man within the breast, the abstract and ideal spectator of our sentiments and conduct' often has to be 'awakened and put in mind of his duty, by the presence of the real spectator.'[29] He takes it as a matter of fact that human beings live in communities in which this 'awakening' can take place. The only reference to another form of life and the dangers he associates with it can be found in a remark about the anonymity of the 'great cities,' where poor labourers are 'sunk in obscurity and darkness,' and thus do not have a 'character to lose,' as they had in their 'country village.'[30] This is a risk for even the most basic standards of morality: such a worker is 'very likely to neglect himself, and to abandon himself to every sort of low profligacy and vice.'[31] It is, however, a dangerous anomaly; normally individuals are 'embedded' in social structures in their private lives. Smith does not *exclude* the possibility of a society without benevolence, based merely on justice, 'as among different merchants, from a sense of its utility, without any mutual love or affection,' built on 'mercenary exchange of good offices according to an agreed valuation.'[32] But this is not the normal case: he contrasts it with a society in which people also grant one

[28] TMS VII.IV.26.
[29] TMS III.III.38.
[30] WN V.I.III.III.12.
[31] Ibid. Smith adds that in order to leave this 'obscurity' it is best to become 'the member of a small religious sect' – these, however, often offer *too much* supervision, and thus have morals that are 'rather disagreeably rigorous and unsocial.' Cf. also Phillipson ("Adam Smith as civic moralist") on the importance of face-to-face relationships in Smith's moral thought, which he relates to the culture of clubs and societies in the Scottish Enlightenment. One might say that the religious sect is for the poor worker what a learned society is for a member of the 'better circles' of society.
[32] TMS II.II.3.2.

another assistance 'from love, from gratitude, from friendship, and esteem;' this society 'flourishes and is happy.'[33] A normal society can build on strong ties based on 'mutual good office,'[34] mainly in the private realm where individuals are embedded in the circles of family, friends, and acquaintances.

Sympathy-based relations thus continue to be relevant after the individuals have achieved maturity, and have a deep and lasting impact on them. '[L]iving only in the opinion of others,'[35] which Rousseau had decried as an aspect of the moral corruption of modern society, is for Smith the very condition of being human; [36] the important question being *how* individuals mirror themselves in the eyes of others, and whether they do so in morally adequate ways. But as we shall see, Smith's account of the *economic* realm has a different structure, so that it is justified to speak of 'atomistic' individuals there. But this has a different flavour, and is much less implausible and problematic, if one takes into account that the Smithian individuals are always embedded in the private 'circles of sympathy.'

In Hegel's case it may be less surprising than in Smith's to speak of a 'social' self. As we have seen, his notion of *Geist* as '"I" that is "We" and "We" that is "I"'[37] expresses the intimate relation and organic unity between individual and community. *Geist* is constituted by the mutual recognition of individuals, after the unsuccessful one-sided attempts to be recognized as a self-sufficient individual in the 'struggle for recognition' and the dialectic of lordship and bondage.[38] Hegel makes clear that in his account of modern *Sittlichkeit* in the

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33 TMS II.II.3.1.
34 Ibid.
35 Rousseau, *The Discourses and Other Early Political Writings*, 187.
36 Cf. Dennis Rasmussen, *The Problems and Promise of Commercial Society: Adam Smith's Response to Rousseau* (University Park, PA: Penn State University Press, 2008), 115. But Smith nevertheless shares some of the Rousseauean worries about *specific ways* of trying to attract the views of others. This will be discussed in chap. VI.2. For discussions of Rousseau and Smith see e.g. Edwin G. West, "Adam Smith and Rousseau's Discourse on Inequality: inspiration or provocation?," *Journal of Economic Issues* 5 (1971): 56-70, Michael Ignatieff, "Smith and Rousseau," in *The Needs of Strangers* (New York: Viking Penguin Inc., 1985), 105-131, and Phillipson, *Adam Smith*, chap. VII.
37 PS #177.
38 PS #187ff, cf. also III.3 above.

Philosophy of Right this stage has already been overcome, and the 'concept of right' is taken as given, which presupposes that individuals *grant* each other rights, i.e. *mutually* recognize each other.[39] What continues to be important, however, is how *Geist* is transmitted from one generation to the next. For this purpose, education is central: it turns children from natural beings into members of *Geist* who recognize others and are recognized by them.

In the *Philosophy of Right* Hegel describes education as one of the central tasks of the family and a 'right' of the child.[40] Not unlike Smith, Hegel maintains that an essential aspect of education is to learn self-command and thus to liberate oneself from the 'instinctive, physical, level.'[41] The biological drives are to be replaced by obedience to social norms, first in the form of feelings: parents 'instil […] ethical principles into [the child] in the form of an immediate feeling;'[42] the education in the family is thus a 'formation of the heart.'[43] Hegel speaks of 'personal idiosyncrasy' being replaced by 'universality': young people need to develop certain 'universal characteristics,' because persons without this universality are 'apt to hurt the feelings of [their] neighbours' with their unpredictable and erratic behaviour.[44] This corresponds to the Smithian thought of learning to tone down one's passions so that they become harmonious with the sentiments of others.[45] Through education, individuals learn to follow social norms; they become members of an ethical community. Hegel calls this a 'second birth,' in which the struggle with natural instincts is overcome and a 'second, intellectual nature' is acquired.[46] By becoming habituated to social

[39] PR §2, cf. also Enc §433ff.
[40] PR §174. For a detailed discussion of Hegel's views of education see Neuhouser, *Foundations of Hegel's Social Theory*, 150ff.
[41] PR §175.
[42] Ibid.
[43] Griesheim, 459.
[44] PR §187. Cf. also Hotho, 583, where Hegel speaks of the 'smoothing' of particularity.
[45] More than Smith, Hegel emphasises the need for 'discipline' and punishment in this process: the aim of punishment is 'to deter [children] from exercising a freedom still in the toils of nature and to lift the universal into their consciousness and will' (PR §174). Discipline is needed to 'break' this natural will (Hotho, 551; Griesheim, 457). The aim of punishment remains, however, to 'lead the individual to the moral and the ethical.' Hegel rejects blind obedience for obedience's sake and maintains that all discipline must aim at developing the child's 'free independence' (Griesheim, 457).
[46] PR §151, cf. also PR §148ff. and Enc §485, where Hegel uses the Aristotelian conception of a 'second nature' (cf. also Muller, *The Mind and the Market*, 153, on the importance of this notion for Hegel).

norms and practices, children become, as it were, 'children of their time,'[47] and the *Geist* of their time is transmitted and sustained.[48] Education prepares children to leave their families,[49] and to 'become recognized as persons in the eyes of the law and as capable of holding free property of their own and founding families of their own.'[50] The (male) individual then becomes a 'son of civil society.'[51]

As legal subjects, individuals are in effect treated as independent, self-sufficient and, as it were, 'atomistic' beings: they own property that they can use as they like, and can engage in purely instrumental relations with others.[52] But this is not the only relation between the individual and civil society. The phrase 'son of civil society' is telling: it implies that the process of formation (*Bildung*) is not finished when individuals leave the family. Essential aspects of this further formation take place in the labour that individuals have to perform in a market economy, as we shall shortly see. The relevance of labour for the formation of the self is already indicated, however, in the fact that in the constitution of *Geist* in the *Phenomenology* labour plays an important role. It is through labour that the bondsman learns to control his passions: work is 'desire held in check' that teaches him to become 'conscious of what he truly is.'[53] When labouring on external material, it becomes clear to him that nature is not something alien and inimical, but something that can be transformed according to his will and used for his own purposes.[54] When pulling the object of his work out of the causal chains of nature and turning it into something independent, the worker comes to see his own independence as an individual being.[55] Historically, men have shaped nature in various ways in order to 'liberate themselves from its dominance;'

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[47] Cf. PR Preface, 11.
[48] This explains why Hegel rejects the educational principles of Rousseau's *Émile*, in particular the idea of 'withdrawing children from the common life of every day and bringing them up in the country' (PR §153Z). Put in slightly paradoxical terms: it is unnatural for children to be kept in a natural state, because it is part of human nature to move towards its *telos*, freedom, and as this freedom is a *social* freedom, it is unnatural to keep children away from the common life in which it is embodied.
[49] PR §175, cf. also Hotho, 554.
[50] PR §177, cf. also §181.
[51] PR §238. Women are, for Hegel, confined to the household; they leave the family by becoming wives (PR §177).
[52] Cf. also Muller, *The Mind and the Market*, 154.
[53] PS #195, cf. also Enc §435 and Z.
[54] PS #196.
[55] PS #195.

this historical labour has contributed to the development of human self-consciousness.[56] It is this emphasis on labour as a formative power on the human mind that we will also encounter in Hegel's description of labour in civil society.

IV.3 Identity in the market

Smith's and Hegel's basic assumption about the sociality of human nature and their description of the socialization process thus show a striking similarity. As Angelica Nuzzo puts it, '[t]he point, for Hegel as for Smith, is that only through society can we gain access to ourselves.'[57] Against Rousseau's image of the lonely 'noble savage' they hold on to the claim that humans can be human only in society, embedded in the family and the 'circles of sympathy.' Robinson could live on his island *as a human being* only because he had been socialized earlier in life, and his situation remains a precarious exception; whereas the Wild Boy of Aveyron and other feral children never had a chance to turn into fully developed human beings. Smith and Hegel follow the Aristotelian line that man is 'the best of the animals when completed' by society, but 'when separated from law and adjudication he is the worst of all.'[58]

The social world that the Smithian and Hegelian individuals inhabit, however, is different from the Aristotelian polis, in which economic activities had been circumscribed by the sphere of the household, the *oikos*. In Smith's and Hegel's time economic life has become a 'political economy,' an independent public sphere in which individuals encounter each other as vendors and customers, colleagues and employees. Given that men are formed in interaction with others and normally cannot live without them, the question arises as to what impact these interactions in the market have on the individuals' identity and their relations to society. More concretely, how does their professional role relate to

[56] Cf. also Peter G. Stillman, "Partiality and Wholeness: Economic Freedom, Individual Development, and Ethical Institutions in Hegel's Political Thought," in *Hegel on Economics and Freedom*, ed. William Maker (Macon, GA: Mercer University Press, 1987), 65-96, 78.
[57] Nuzzo, "The standpoint of morality in Adam Smith and Hegel," 46.
[58] *Politics* 1253a30.

their other roles and their place in society? Smith and Hegel answer this question in different ways.

Selling one's labour

As we have seen, for Smith all social phenomena that have to do with the exchange of goods and services fall under the notion of 'market,' from local exchanges of agricultural goods to the colonial trade with luxury items. Exchange is profitable because different people offer different things, complementing each other. This ability to exchange is a unique ability of the human species: although the differences between different races of animals, e.g. between different breeds of dog, are much greater than between different men,[59] animals lack the ability to unite their different strengths and to 'contribute to the better accommodation and conveniency of the species' jointly, through 'barter and exchange.'[60] Humans are much more similar than different kinds of dogs – differences arise 'not so much from nature, as from habit, custom and education'[61] – but the ability to exchange makes these differences useful:

> …the most dissimilar geniuses are of use to one another; the different produces of their respective talents, by the general disposition to truck, barter, and exchange, being brought, as it were, into a common stock, where every man may purchase whatever part of the produce of other men's talents he has occasion for.[62]

It is striking how much dignity and respect Smith sees in this mutual usefulness of human beings for one another. The famous passage about the self-interest of the butcher, brewer or baker is rhetorically contrasted with a puppy that 'fawns upon its dam' and a spaniel that 'endeavours by a thousand attractions to engage the attention of its master who is at dinner, when it wants to be fed by him.'[63] Men, Smith holds, sometimes also rely on the benevolence of others within the circles of their family and friends. In the economic realm, however, which puts them into contact with a much wider group of people, they act as

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[59] WN I.II.5f.
[60] Ibid., cf. also LJ(B) 493.
[61] WN I.II.4, cf. also LJ(A) 348f. Smith thus reverses the Platonic logic according to which different professions are founded on innate differences (cf. Fleischacker, *A third concept of liberty*, 134).
[62] WN I.II.5, cf. LJ(A) 348, LJ(B) 488f.
[63] WN I.II.2.

equal exchange partners: they have something to offer, and can thus enter into contractual relations that are useful to *both* sides. Smith illustrates this with the example of a street porter and a philosopher: the street porter helps the philosopher with his purchases and contributes to the provision of cheaper goods in the market by transporting them carefully; the philosopher is useful to the street porter not only as an occasional customer, but also because he helps to invent and improve different techniques and preserves and enlarges society's knowledge.[64]

Conscious that they all contribute to the 'common fund' of society, the citizens of a market society recognize and respect each other.[65] Importantly, not only those who have goods or capital to offer, but *everyone* can join the market and is respected as someone who makes valuable contributions: those who have no material goods to offer – and in Smith's time this would have been the bulk of the population[66] – can offer their labour. By getting trained, collecting experience and developing expertise, they can even invest in its improvement. Smith anticipates the notion of 'human capital' when arguing that the 'improved dexterity of a workman' is similar to 'a machine or instrument of trade,' because 'though it costs a certain expence, [it] repays that expence with a profit.'[67] The acquisition of human capital is a route to 'bettering one's condition' which is open to almost

[64] LJ(A) 349, cf. also LJ(B) 493, ED I.19, II.11. Smith here uses the term 'philosopher' in the wider sense of 'scientist.' The fact that he uses a philosopher – his own profession – as an example might result from rhetorical considerations: it underlines the fact that he sees himself as part of 'general humanity' (cf. Fleischacker, *On Adam Smith's Wealth of Nations*, 75), creating a common point of view with the reader.
[65] Cf. also Andreas Kalyvas and Ira Katznelson, "The Rhetoric of the Market: Adam Smith on Recognition, Speech, and Exchange," *The Review of Politics* 63, no. 3 (2001): 549-579, who argue that for Smith the market is a place where people strive for recognition, replacing the political or military sphere in which this striving had taken place in earlier societies. They show how this is reflected in the rhetoric practiced in the market, drawing on Smith *Lectures on Rhetoric and Belles Lettres* (LRBL). Two things need to be distinguished, however: the mutual recognition in which all are seen as equal in their role as potential trading partners, as has been described here, and the desire to gain *higher* esteem and respect through the possession of material goods. Those who strive for the latter are not content with the former kind of generalised recognition, but want to stand out and be admired for having *more* than others (cf. chap. VI.2 below).
[66] Cf. e.g. WN I.VIII.36.
[67] WN II.I.17. Cf. Pedro N. Teixeira, "Dr Smith and the moderns: Adam Smith and the development of human capital theory," ed. Vivienne Brown, *Adam Smith Review* 3 (2007): 139-158, on the beginnings of human capital theory, in which several authors explicitly referred to Smith.

everyone.[68] The right to the fruits of one's labour is, for Smith, therefore 'the most sacred and inviolable' of man's properties.[69]

The significance of this argument becomes clear when one compares Smith's position to one of the most important alternatives in his time, civic humanism. Civic humanists ascribe a special dignity and capacity for virtue to the possession of property, in particular landed property (not so much financial capital).[70] By expanding the notion of capital, Smith turns civic humanism against itself, as it were:[71] commerce and exchange, seen by civic humanists as corrupting the moral bases of society, lead to a situation in which *everyone* can participate, on an equal legal footing, in the independence that the civic humanists value. Not everyone has the independence that comes from landownership, but almost everyone has, or can acquire, human capital. This allows people to choose freely whom to work for and with whom to enter into exchange relationships, rather than depending on one single employer, as had been the case in feudalism.[72] These one-sided dependencies, with all their opportunities for personal animosities and sadism, are replaced by the 'cash-nexus,'[73] which connects people of equal legal standing, and by an 'exit option'[74] for any particular relationship, because every customer contributes 'but a very small proportion' to a person's subsistence.[75]

This description is fascinating with regard to how much dignity and competence it ascribes to all citizens: sovereign individuals encounter each other as equals and exchange

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[68] Cf. also Edwin G. West, "Adam Smith and Alienation: Wealth Increases, Men Decay?," in *Essays on Adam Smith*, ed. Andrew S. Skinner and Thomas Wilson (Oxford: Clarendon Press, 1975), 540-551, 545ff.
[69] WN I.X.II.12.
[70] Cf. J.G.A. Pocock, *The Machiavellian Moment. Florentine Political Thought and the Atlantic Republican Tradition* (Princeton: Princeton University Press, 1975); J.G.A. Pocock, "Cambridge paradigms and Scotch philosophers: a study of the relations between the civic humanist and the civil jurisprudential interpretation of eighteenth-century social thought," in *Wealth and Virtue. The Shaping of Political Economy in the Scottish Enlightenment*, ed. Istvan Hont and Michael Ignatieff (Cambridge: Cambridge University Press, 1983), 235-252.
[71] Cf. Christopher Berry, *The Idea of Luxury. A conceptual and historical investigation* (Cambridge: Cambridge University Press, 1994), 154ff.; cf. also Fleischacker, *A third concept of liberty*, 157ff., who takes it that the reason why Smith says little about Harringtonian (or Rousseauan) worries might be that 'he takes his whole work to be an indirect answer to those concerns.'
[72] WN III.IV.11ff., cf. LJ(A) 50ff..
[73] This term has been coined by Thomas Carlyle, *Chartism* (London: J. Fraser, 1840), 66.
[74] The term is from Albert O. Hirschman, *Exit, Voice, and Loyalty: Responses to Decline in Firms, Organizations, and States* (Cambridge, MA.: Harvard University Press, 1970).
[75] WN III.IV.11ff., cf. LJ(A)50ff.

goods and services, each one recognizing that the others also have something to offer and respecting them as potential trading partners. It is important to note, however, how Smith conceptualizes this process. The Smithian individuals treat their ability to work as human capital, i.e. something they have at their disposal and can sell in the market – human capital is something they *have*, not something they *are*. As Patricia Werhane emphasises, this conceptual distinction between the labourers and their productivity is a crucial move in the architecture of Smith's system: it allows him to describe how the workers sell their productivity without thereby selling themselves.[76] They freely choose between different options and sell to the highest bidder.

Without this assumption, the price mechanism could not function as Smith describes it. He analyses the movement of the market price to the 'natural price,' the price at which all components of the price (rent, wages and profits) receive their usual recompense,[77] as a consequence of the adaptive behaviour of the market participants:

> The quantity of every commodity brought to market naturally suits itself to the effectual demand. […] If at any time [the quantity brought to the market] exceeds the effectual demand, some of the component parts of its price must be paid below their natural rate. If it is rent, the interest of the landlords will immediately *prompt them to withdraw* a part of their land; and if it is wages or profit, the interest of the labourers in the one case, and of their employers in the other, will *prompt them to withdraw a part of their labour or stock* from this employment. […] If, on the contrary, the quantity brought to market should at any time fall short of the effectual demand, some of the component parts of its price must rise above their natural rate. If it is rent, the interest of all other landlords will naturally *prompt them to prepare more land* for the raising of this commodity; if it is wages or profit, the interest of all other labourers and dealers will soon *prompt them to employ more labour and stock in preparing and bringing it to market*.[78]

Market prices could not 'gravitate'[79] to natural prices, which align supply and demand, if people did not follow their interests in these ways. This presupposes, however, that all factors of production are flexible, so that individuals are not stuck in a specific investment. Smith notes in one place that when the rules and regulations of the economic system are changed, this needs to be announced well in advance, so that those who have invested in 'warehouses and in the instruments of trade' of one particular industry and will therefore

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[76] Patricia Werhane, *Adam Smith and his Legacy for Modern Capitalism* (New York: Oxford University Press, 1991), 132, cf. similarly Griswold, *Adam Smith and the virtues of enlightenment*, 299, and Haakonssen, "Introduction," 19.
[77] WN I.V.
[78] WN I.VII.12-14, italics added.
[79] WN I.VII.15.

be affected by the changes have time to adapt to them.[80] He does *not* give a similar warning with regard to *human* capital – he rather seems to assume that people are flexible enough to change into other branches easily.

This assumption, however, only makes sense when certain conditions are fulfilled. There needs to be, firstly, demand for human capital; Smith seems to assume that this is indeed the case when an economy is growing.[81] Secondly, the workers need to be *able* to work in these other jobs, which presupposes that their human capital is not as specific as to allow only for one unique activity. From remarks scattered in the *Wealth* one can gather that Smith thinks that this is the case:[82] human capital is either transferrable to other areas, or workers can easily acquire new skills and competences, as a series of small investments rather than one large investment that lasts for a lifetime. Last but not least, however, the individuals must also be *willing* to change between different jobs when the market gives them incentives to do so. This means that they must not see their professional activity as 'constitutive' for their identity, at least not the activity in one particular branch or company. In this sense, they must *not* be embedded in the social structures of their professional lives nor regard them as an essential part of themselves; these must *not* 'define [them] so completely that [they] could not understand [themselves] without [them],'[83] as Sandel writes with regard to 'constitutive' goals. Workers must have their human capital at their disposal, without losing their identity when deciding to put it to a different use.

This does not mean, however, that Smithian individuals can be described as completely 'unencumbered.'[84] They are socially embedded elsewhere, each in his or her

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[80] WN IV.II.44.
[81] Cf. e. g. WN I.VIII.43.
[82] He holds, e.g., that long apprenticeships are superfluous, because the trade of a watchmaker can be learned within 'a few weeks' (WN I.X.II.16). Similarly, he mentions traders who easily switch between different markets: such a trader is 'a corn merchant this year, and a wine merchant the next, and a sugar, tobacco, or tea merchant the year after' (I.X.I.38, he also notes that this is possible only in great cities with a large market) and explicitly notes that '[t]o the greater part of manufactures […] there are other collateral manufactures of so similar a nature, that a workman can easily transfer his industry from one of them to another' and that the 'greater part of such workmen too are occasionally employed in country labour' (IV.II.42).
[83] Sandel, "The Procedural Republic and the Unencumbered Self," 86.
[84] Interestingly, when Sandel talks about constitutive ends he says that the 'loyalties and convictions' that are inseparable from our understanding of ourselves are developed 'as members of this family or community or

own 'circles of sympathy,' where they have 'constitutive' aims and commitments, as brothers and sisters, parents and children, or as friends with a shared understanding of virtue.[85] As Smith's remark on the fate of the worker in the anonymity of the big city has shown, these circles are necessary for the individuals' ability to follow basic moral rules and social norms. Without this embedding, it is questionable whether they would be psychologically able to make use of their human capital in the prudent, sovereign way that Smith describes. But if they were similarly embedded in the labour market itself, they would not be flexible enough to allow the price mechanism, and thus the self-regulation of the market, to work.

Nevertheless, one finds a number of remarks in Smith that gesture to the possibility that their professional roles might mean more to individuals than the selling of 'human capital.' He talks about habitual sympathy that creates a kind of friendship between 'colleagues in office' or 'partners in trade' that is 'not unlike that which takes place among those who are born to live in the same family.'[86] He calls man 'of all sorts of luggage the most difficult to be transported,'[87] which points to regional embeddedness; it explains why there can be geographical variation in wages. He is conscious that different 'passions,' 'characters,' and 'manners' belong to different 'professions and states of life,' sometimes as a result of social expectations and fashions, sometimes caused by the nature of the activity.[88] He also assumes that professional groups and associations arise naturally, and that individuals are attached to them because '[their] own interest, [their] own vanity, the interest and vanity of many of [their] friends and companions, are commonly a good deal connected with [them].'[89] But these remarks about social ties in the economic realm

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nation or people, as bearers of that history, as citizens of this republic' (ibid., 86). He does *not* mention professional identities (unless these are subsumed under 'communities').

[85] Cf. TMS VI.II.17.

[86] TMS VI.II.15. I am grateful to Eric Schliesser for drawing my attention to this passage.

[87] WN I.VIII.31.

[88] TMS V.II.3ff, cf. also WN III.IV.3.

[89] TMS VI.II.2.7. Smith, the spotter of beneficial unintended consequences, sees a positive effect of this fact as well: if different groups defend their traditional interests, this 'checks the spirit of innovation,' preserving 'whatever is the established balance among the different orders of societies into which the state is divided,' thus contributing to the 'stability and permanency of the whole system' (TMS VI.II.2.10). It is questionable,

represent the unofficial side of Smith's picture. The official side shows his account of the price mechanism, and describes capital and labour force as 'flowing'[90] into different sectors. The social ties people might have in the economic realm must not keep them back when there are incentives to venture into a new job or a new kind of investment. In order to make wise use of one's capital, human or other, one needs to stand apart from it, serenely choosing the usage that leads to the highest return.

Choosing one's place

In Hegel's conception of civil society, the relation between a person and his or her labour is constructed differently. The central elements of his view are captured in a quote from §207 of the *Philosophy of Right*:

> A man actualizes himself only in becoming something definite, i.e. something specifically particularized […]. In this class-system, the ethical frame of mind therefore is rectitude and *esprit de corps*, i.e. the disposition to make oneself a member of one of the moments of civil society by one's own act, through one's energy, industry, and skill, to maintain oneself in this position, and to fend for oneself only through this process of mediating oneself with the universal, while in this way gaining recognition both in one's own eyes and in the eyes of others.

Hegel emphasises that individuals need to find their place in the social system.[91] In contrast to pre-modern times – Hegel thinks in particular of the Platonic polis – they choose it themselves: this is an aspect of modern freedom.[92] In this choice, different factors like 'natural capacity, birth, and other circumstances' play a role. But the 'essential and final

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however, whether this scenario is a very common one: often, there might not be a 'balance' among different groups at all, and even if there is, it might be profoundly unjust. I suggest, therefore, that one should not put too much weight on this passage, and that its main thrust consists in the warning against the 'spirit of system' of the surrounding passages (cf. chap. VII.2 below). In WN, Smith is usually very sceptical about professional groups trying to distort the market in order to further their own interests at the cost of the public interest (e.g. WN I.X.II.27).

[90] Smith often uses metaphors of water and of 'flowing' when describing markets: capital 'flows into' certain areas, the productive powers of a country will 'flow into some branch of trade,' when a government tries to domesticate this energy by banning, e.g., the export of bullion, pressure will build up as in a dam, etc. (e.g. WN IV.V.19, WN II.II.30, LJ(A) 387). This metaphor was common in the 18th century; it can already be found in Fénélon's *Les Aventures de Télémaque* (Paris: Editions Gallimard, 1995), chap. III. Defoe, to take another example, compares an estate to a pound and trade to a spring (quoted in Thomas Rommel, *Das Selbstinteresse von Mandeville bis Smith. Ökonomisches Denken in ausgewählten Schriften des 18. Jahrhunderts* (Heidelberg: Universitätsverlag Winter, 2006), 95).

[91] Cf. also Muller, *The Mind and the Market*, 141.

[92] PR §185, §206, §236Z, §299, cf. also Hotho, 634.

determining factors are subjective opinion and the individual's arbitrary will.'[93] Individuals, however, choose not only which kind of human capital to invest in. Rather, they choose whom to *become* and which place to take up in civil society: they choose an essential aspect of their identity. They thus become members of the different 'moments' of civil society: of the different classes – agrarian, commercial or 'universal,' i.e. civil service –,[94] and, within the commercial class, of the different corporations.[95] The corporations form 'small circles in the large circles;'[96] together with the classes they constitute the differentiated structure of civil society.

For Hegel the choice of one's occupation is thus far more important than for Smith – in Sandel's terms, their professional identities are 'constitutive' for Hegelian individuals. When asking why Hegel chooses this model, two levels of an answer can be distinguished. There is, first of all, a practical argument: in contrast to Smith, Hegel thinks that switching between different professions is difficult, if not impossible. This can be seen in his remarks about the unemployment, and hence misery, of those who lose their job: their skills are so specific that they cannot use them in other branches of industry.[97] As Priddat emphasises, Hegel's conception of the market economy does not include a market for 'abilities;' the thought that those who become unemployed, e.g. as a result of technical progress, can find

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[93] PR §206, cf. Hotho, 633. In the Griesheim lectures notes Hegel states that 'one cannot say that the individual is bound by his social class, because he can free himself from this bound – but this can only happen through his particularity, the energy of his spirit, his character, for which again he is to be blamed himself' (514).

[94] PR §201ff. It is telling that whereas Smith distinguishes classes with respect to kinds of income (wages, rents and profits), Hegel sticks to the much more traditional distinction of agricultural class, business class, and 'universal' class. As Waszek shows, he is here much closer to Steuart than to Smith, and might also have drawn on Prussian law and the historical reality in Germany in his time (*The Scottish enlightenment and Hegel's Account of "Civil Society,"* 171ff.). Waszek characterizes Hegel's theory of the social classes as 'much more hesitant and traditional' than Smith's (ibid., 176). On Hegel's account of classes and estates see also Neschen, *Ethik und Ökonomie in Hegels Philosophie und in modernen wirtschaftsethischen Entwürfen*, 193ff.

[95] PR §250ff.

[96] Hotho, 713.

[97] Hotho, 610, cf. similarly Griesheim, 600. Later in the Hotho lectures Hegel explicitly discusses the assumption of 'liberalism' that if a trade is crowded, individuals will leave it on their own. He argues that the individuals have only 'those abilities,' having dedicated 'the capital both of their talents and of their money' to this particular trade; thus they can only 'leave' it with 'sorrow and misery,' through 'perdition.' (698f.). In the Griesheim lectures, Hegel connects this problem to the stultification through the division of labour that Smith also fears (cf. chap. VI.2), arguing that it is *because* their minds have become dull that workers cannot find new jobs, becoming the 'most dependent' of all human beings (503). In addition, Hegel mentions age and habituation as factors that make it difficult or impossible for individuals to change into another industry (Griesheim, 625).

work elsewhere seems to be foreign to him.[98] This is why for Hegel the labour market needs to be regulated by the corporations, even if, as we have seen, it is not quite clear how these can co-exist with free markets for goods and services.

Priddat holds that this element in Hegel's thought has its origins in the German cameralist tradition.[99] This may well be the case, but as I will argue in what follows, there is a second, more philosophical dimension to this problem that leads Hegel to hold that one's profession is something one *is*, rather than as something one *has*. What is at stake here is the specific way in which 'particularity' and 'universality' are connected in civil society. Hegel describes civil society as follows:

> This is the stage of difference. This gives us, to use abstract language in the first place, the determination of particularity which is related to universality but in such a way that universality is its basic principle, though still only an inward principle; for that reason, the universal merely shows in the particular as its form.[100]

The sphere of civil society is what differentiates modern societies from their ancient and medieval predecessors. It is marked by the principle of particularity: here each individual is given 'the right to develop and launch forth in all directions.'[101] 'Man as man, that is as particular individual' must have his right in civil society,[102] as 'infinitely independent free subjectivity.'[103]

This particularity expresses itself in the individuals' ability to satisfy their needs and desires, and even their 'caprice': people here act as 'a totality of wants and a mixture of caprice and physical necessity.'[104] This is the dimension of the market society that gives them the opportunity for 'atomistic' and independent choices. But the differentiation of needs implies the differentiation of the ways in which they are satisfied, i.e. the division of

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[98] Priddat, *Hegel als Ökonom*, 202ff., Schmidt am Busch, *Hegels Begriff der Arbeit*, 139ff. Cf. also chap. III.4 above.
[99] Priddat, *Hegel als Ökonom*, 202ff.
[100] PR §181.
[101] PR §184, cf. also Hotho, 501, 620. For the relation to Hegel's discussion of the will see Schmidt am Busch, *"Anerkennung" als Prinzip der kritischen Theorie*, 180ff.
[102] Griesheim, 509.
[103] PR §187.
[104] PR §182, cf. also §194 for the role of opinion for human desires. More precisely, this 'particularity' concerns individuals as heads of families; the choice of occupation, in contrast, really concerns them as single individuals – at least this is true for *male* individuals; for women the only choice seems to be whether to be a butcher's, a brewer's, or a baker's wife.

labour and the development of different professions.[105] Here, individuals also have to make a choice: everyone has to 'turn himself into that which he takes to be his calling,'[106] guided by his particular 'talents, plans and self-interest.'[107] Through this choice, man becomes 'something definite,' 'something specifically particularized.'[108] Hegel observes that young people, driven by idealistic thinking,[109] often resent this choice, seeing it as 'a restriction on [their] universal character and as a necessity imposed on [them] purely *ab extra.*'[110] But in Hegel's eyes this is a misunderstanding, a result of 'abstract' thinking: in order to be something, one must become something determinate that can win 'actuality and ethical objectivity.'[111] The universal, in order to be real, must 'unfold itself'' in its different moments,[112] and in order to be a member of civil society, one cannot remain something 'general,' but has to choose one particular position.[113] An individual 'is something' only by becoming a member of a social class, Hegel holds, noting that among 'us Germans' the question 'what is he?' is answered by stating the social class ('Stand') to which someone belongs.[114] Without such an affiliation, he is 'merely a private person,' a 'single one,' whereas in a professional position he is lifted into a 'particularity which is universally recognized and valid:'[115] his particularity takes on the 'form of universality.'[116]

The importance of the choice of place can be made clear if one recalls Hegel's criticism of 'abstract morality' and the reasons he gives for the superiority of *Sittlichkeit*: in their social roles, individuals are provided with concrete moral tasks, rather than being left alone with an abstract rule, and as they become habituated to these roles, it becomes natural for them to fulfil their duties, so that the struggle between duty and inclination is

[105] PR §196ff.
[106] Griesheim, 509.
[107] Griesheim, 481.
[108] PR §207.
[109] Cf. Hotho, 526.
[110] PR §207.
[111] Ibid.
[112] Hotho, 526.
[113] Hotho, 638.
[114] Griesheim, 525, cf. also Hotho, 635.
[115] Hotho, 637.
[116] Hotho, 635.

overcome.[117] The choice of one's profession therefore plays an important role in determining what one's duties are: 'my station and its duties,' as Francis Herbert Bradley famously puts it,[118] are partly chosen in the choice of profession. Hegel explicitly notes that in civil society morality has its place in the particularity of professional life: once the essential duties have been fulfilled, there are still 'a large number of chances left for which the moral disposition is responsible.'[119] This corresponds to the task of the corporations – i.e. the *professional* associations – to care for the individual needs of their members, a moral task that can be fulfilled without 'either pride or envy' for both sides, because it is organized in recognized social roles and routines.[120] The *political* participation of individuals – as far as Hegel provides for it – is equally organized through the classes and corporations. The estates, through which representatives of the different social groups participate in the legislation, bring to the political sphere 'a knowledge in particular of what the state's power needs;'[121] they are a 'mediating organ' between the government and the population.[122]

But civil society is also a sphere of the universal, albeit in a specific sense. In the passage from §207 quoted at the beginning of this section, Hegel speaks about the 'process of mediating oneself with the universal,'[123] and it is this 'mediated' form of the universal that is relevant here. In an economy characterized by the division of labour, 'subjective self-seeking' is 'by a dialectic advance' directed towards the satisfaction of the interests of other persons.[124] Universality is therefore the second principle of civil society:[125] it is 'the ground and necessary *form* of particularity, but also the authority standing over it and its final end.'[126] But this universality is only formal; it is the 'inward principle'[127] of the 'system of

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117 PR §146f., cf. chap. III.3 above.
118 Francis Herbert Bradley, "My Station and its Duties," in *Ethical Studies* (Oxford: Oxford University Press, 1876), 160-213.
119 Hotho, 639.
120 PR §253, Hotho, 710.
121 PR §300.
122 PR §302. For a discussion see e.g. Herbert Schnädelbach, "Die Verfassung der Freiheit," in *Klassiker auslegen: G.W.F. Hegel, Grundlinien der Philosophie des Rechts*, ed. Ludwig Siep (Berlin: Akademie Verlag, 1997), 243-265, 257f.
123 PR §207.
124 PR §199, Hotho, 567, 581.
125 PR §182.
126 PR §184, italics added.

complete interdependence, wherein the livelihood, happiness, and legal status of one man is interwoven with the livelihood, happiness, and rights of all.'[128]

The particularity that the individuals choose for themselves needs to stand in this connection with 'the universal': they must produce sellable goods or services, and thus – without this necessarily being part of their intention – contribute to the welfare of others, becoming a 'link in this chain of social connexions.'[129] At this point we encounter, for a second time in the *Philosophy of Right*, the topic of education, or rather formation (*Bildung*[130]): because civil society contains this element of universality, it can guide its members towards it. This happens through the labour that individuals have to perform.[131] Here men learn to control themselves and to accommodate themselves to the interests and desires of other workers,[132] and they develop a 'recurrent need for something to do and the habit of simply being busy.'[133] Insofar as it contributes to the liberation from biological drives, there is thus a 'moment of liberation intrinsic to work.'[134] In modern society, this experience is something almost all (male) citizens undergo, because labour is not delegated to foreigners

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127 PR §184.
128 PR §183.
129 PR §187. As such, other differences between men – e.g. ethnicity and religion – do not matter any more, cf. PR §209 and chap. V.3 below.
130 *Bildung* is here translated as 'formation,' which partly captures the German connotations of 'forming' or 'moulding.' *Bildung* was a key term in German enlightenment discourse (cf. Rudolf Vierhaus, "Bildung," in *Geschichtliche Grundbegriffe. Historisches Lexikon zur politisch-sozialen Sprache in Deutschland*, ed. Otto Brunner, Werner Conze, and Reinhart Koselleck (Stuttgart: Klett-Cotta, 1990), Band 1, 508-551). It was understood as making human beings both better and happier (ibid., 512). But the notion went beyond this instrumental aspect, especially for thinkers like Herder and Goethe: *Bildung* (which was then contrasted with mere 'education') was understood as a living 'self-formation' that helps people to develop their individuality. It carried connotations of culture and humaneness. In Hegel's *Phenomenology* a long section bears the title *Bildung*, which is translated as 'culture' by Knox. It describes how self-conscious individuality develops through a number of 'alienations' and differentiations in the development of modern European culture, from Roman law, the arrival of Christianity and the Reformation to the Enlightenment and the French Revolution. Hegel describes this process, in most general terms, as the recognition that the world is a 'spiritual entity' and a 'work of self-consciousness' (PS #484). While this process takes place at the level of cultures and societies, what I am concerned with in the present context is the *individual's* process of *Bildung* through which it comes to live up to the *Geist* of modern *Sittlichkeit*. For the importance of *Bildung* for Hegel's self-understanding cf. also Pinkard, *Hegel*, passim.
131 PR §187. For a discussion see also Neschen, *Ethik und Ökonomie in Hegels Philosophie und in modernen wirtschaftsethischen Entwürfen*, 182f., 187f., and Greer, "Individuality and the economic order in Hegel's Philosophy of Right," 564ff.
132 PR §197. As Neuhouser emphasises, the kind of work that is performed in civil society demands a systematic attention to the will of other people, which distinguishes it from premodern forms of work (*Foundations of Hegel's Social Theory*, 161).
133 PR §197.
134 PR §194.

or slaves.[135] As Alfredo Ferrarin notes, Aristotle had not seen the dignity of labour; this view was developed by Luther and Calvin and taken up by Hegel.[136] For him, labour is 'one of the highest forms of spirit's practical education of itself.'[137] The fact that it is not forced labour means that the workers cannot interpret it as something externally imposed and purely evil, but can learn to see it as a necessary burden of human life, 'the thorn of a rose,' as William Ver Eecke puts it.[138]

One might think that this universality of *Bildung* contradicts the particularity which Hegel adduces as the principle of civil society, and some elements of *Bildung* are indeed universal, such as the 'flexibility and rapidity of mind, [the] ability to pass from one idea to another [and] to grasp complex and general relations.'[139] But Hegel emphasises that this universality concerns only the *form* in which individuals live their particularity: 'it is the stage of formation, in which the particular receives the *form* of universality.'[140] As such, it does not determine the particular purposes of the individuals.[141] Hegel's reflections on the process of formation in civil society thus stand in no contradiction to the claim that it is the sphere of particularity, on the contrary: as this kind of formation takes place in different professions, one can assume that there is also a *particular* aspect of formation, as everyone acquires 'his own form of formation.'[142] When one acquires abilities and skills, one becomes a 'master of [one's] own job,' and finds satisfaction in 'produc[ing] the thing as it ought to be.'[143] To the degree that there is a particular element in formation, specific to particular professions, it reinforces the identity of individuals *as* those particulars as which they participate in the economic life of the whole. Hegel explicitly rejects an understanding of formation as something external, as a means towards 'needs, their satisfaction, the

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135 Cf. e.g. Griesheim, 512.
136 Alfredo Ferrarin, *Hegel and Aristotle* (New York: Cambridge University Press, 2001), 353.
137 Ibid., 350.
138 William Ver Eecke, "Hegel on Freedom, Economics, and the State," in *Hegel on Economics and Freedom*, ed. William Maker (Macon, GA: Mercer University Press, 1987), 127-157, 147.
139 PR §197.
140 Hotho, 479, Griesheim, 417.
141 Hotho, 584.
142 Griesheim, 513.
143 PR §197Z.

pleasures and comforts of private life.'[144] This is a clear contrast to the Smithian notion of human capital, and describes the thorough-going development that individuals undergo when they turn themselves into a particular 'somebody' and receive 'universality' in this form. The relation between the individual and his work is here much deeper than in the Smithian conception: individuals are tied to their professions because they are 'formed' by them.

When individuals encounter each other in civil society, they accordingly do so *as* somebody, as particular members of social classes and corporations – *as* butchers, brewers, or bakers. Hegel explicitly notes that the recognition individuals receive in civil society is bound to their profession: one gains 'recognition both in one's own eyes and in the eyes of others' by making 'oneself a member of one of the moments of civil society.'[145] The social space in which this recognition takes places is provided by the corporations: there, an individual can 'command the respect due to one in his social position;'[146] the members are recognized as 'somebody,' and their economic activities receive 'rank or dignity.'[147] Hegel speaks of 'rectitude' and the 'honour' of one's social position (*Standesehre*) that is connected to one's skills as the ethical attitude in civil society.[148] In the corporation, 'the bourgeois is a master, a man of honour, and is recognized as such.'[149] What is recognized in these social roles is the ability to contribute something useful to the social whole, [150] but also the particular abilities of individuals; the recognition also comprises, in a sense, their decision to choose this kind of profession, and hence their free will. Hegel says that the individual's 'arbitrary will' wins 'right …, merit, and … dignity' in civil society,[151]

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[144] PR §187.
[145] PR §207.
[146] PR §252.
[147] PR §253.
[148] Hotho, 635, 714; Griesheim, 523, 623.
[149] Griesheim, 627.
[150] This ability can also be a ground for recognition among those who do not have *specific* abilities (e.g. day labourers, cf. PR §252) – but for Hegel they are not part of a corporation, and thus lack the recognition *as* someone particular with specific abilities. For a discussion of the difference between recognition as someone who does socially useful work and as someone with specific abilities see Schmidt am Busch, *"Anerkennung" als Prinzip der kritischen Theorie*, 45ff.
[151] PR §206.

and one form that this dignity takes is to be recognized as a particular somebody, who has chosen this profession for himself and now excels in it.

All this shows that for Hegel one's professional identity is in a deep sense part of who one is. Individuals are not merely selling their labour, but are embedded in the social structures of the classes and the corporations. In Sandel's terms, their professional activities are partly 'constitutive' of who they are. This resonates with the Lutheran tradition and its conception of the 'universal priesthood of all believers': the jobs of lay people are a 'service' to God in the same sense in which a priest's activity is *his* service.[152] The term 'Beruf' in German has long had a religious connotation, which shows up in the etymological connection to 'Berufung' ('calling' or 'vocation'). The strong religious sense of 'vocation' may have been lost in the course of the 18th century, but the connotations of 'doing one's duty' and 'being someone' remained vivid in Hegel's time.[153] To a certain degree they are still present today, which may explain the unease among Germans with regard to the notion of 'human capital.'[154]

What follows from this for Hegel's conception of the market is that the individuals are much less 'unencumbered' than in Smith's account. Hegelian individuals also have a sphere for 'atomistic' behaviour: in the sphere of *consumption* they are free to live out their individualistic preferences, without being constitutively determined by anything.[155] But in the sphere of *production*, in the labour market, they are not conceptualized as sovereign, self-sufficient individuals who chose where best to invest their 'human capital,' uninhibited by social ties or the specificity of their human capital. Rather, by choosing their profession they choose their place in society. They are formed by their profession and live in the

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[152] Cf. e.g. Gustaf Wingren, *The Christian's Calling: Luther on Vocation* (Edinburgh: Oliver and Boyd, 1958).
[153] Werner Conze, "Beruf," in *Geschichtliche Grundbegriffe. Historisches Lexikon zur politisch-sozialen Sprache in Deutschland*, ed. Otto Brunner, Werner Conze, and Reinhart Koselleck, (Stuttgart: Klett-Cotta, 1990), Band 1, 508-551, in particular 503.
[154] This term was chosen as the 'ugliest word of the year' (*Unwort des Jahres*) in 2004. See e.g. Frankfurter Allgemeine Zeitung, 18. Januar 2005: "Das „Unwort des Jahres": „Humankapital"", <http://www.faz.net/s/RubCC21B04EE95145B3AC877C874FB1B611/Doc~E6612EBCE2DCF4D69AC6CBB0296B09833~ATpl~Ecommon~Scontent.html> (25 May 2011).
[155] Hegel also notes, however, that the members of a corporation will normally adapt their fellow members' consumption patterns, cf. PR §253. Cf. chap. VI.3 below.

contexts of their professional associations, in ways that are very much 'embedded,' with both the protection and the dependence that this term implies. By choosing their profession, individuals thus choose where to be embedded.

IV.4 Conclusion: self and society

As this discussion has shown, the cliché of Smith as presenting a completely 'atomistic' view of human nature and of Hegel as having an 'embedded' account *tout court* is misguided, but it is to some degree justified with regard to the labour market. Both describe 'embedded' forms of life in the family and the private 'circles of sympathy' as being different from, and previous to, any activity in the market. To reduce Smith to the inventor of 'economic man' is thus an anachronistic caricature, one that goes hand in hand with the general tendency to isolate his economic theory from his wider system. Smith and Hegel both see the possibility of 'atomistic' behaviour in the market as far as *consumption* is concerned; this 'individualist' aspect of Hegel's system is overlooked if he is understood only as a communitarian thinker. Where their views differ is with regard to the labour market: in Smith's account, sovereign individuals sell their human capital, choosing freely where best to use it. In Hegel's account, individuals choose to be, and then *are* butchers, brewers, or bakers; they are recognized as such and embedded in the social contexts of these roles.

This means, however, that the relations between individual and society are much more complex and diverse than the contrast between 'individualism' and 'communitarianism' or between 'embedded' and 'unencumbered' implies. As has already been pointed out, some attempts have been made to mediate between the antagonists of this debate, Sandel and Rawls. Rawls has clarified that his political liberalism does not aim at making people 'unencumbered,' endorsing Kymlicka's argument that what matters is not to be an 'atomistic' self, but to be able to examine critically one's constitutive goals, maybe

not all at once but at different points in time.[156] Dagger, in turn, has argued that Sandel's own republicanism does not make sense without the assumption that people are at least 'partly' (as Sandel himself puts it) able to distance themselves from their social relations.[157] So rather than talking simply about the contrast of 'atomistic' and 'embedded' selves, the important question is to find the right point on the scale between being embedded and being unencumbered.[158]

This scale, however, seems to have a lower and an upper boundary. *Some* embeddedness is undeniably part of human reality, especially in the form of family ties through which children are educated and socialized. Without this formation, individuals would not be able to develop the capacities that are needed for acting in other spheres, such as the market, where they act independently and 'atomistically.' The family sphere is thus not only valuable in itself; it is also a logical precondition for a coherent view of a liberal society that presupposes agents who have acquired self-consciousness and self-command. Individuals that have not learned to act in their own long-term interest cannot profit from the opportunities that a liberal market society offers; they are likely to end up being exploited by others and cannot contribute to making the market a place where people's collective judgements lead to a socially useful allocation of goods and services.

But people continue to be embedded in social structures of different kinds later in life. We are no Robinson Crusoes, and it is likely that we would suffer from severe psychological afflictions if we lived in a world that was no more than a sum of Robinson Crusoes. Theories that *presuppose* atomistic individuals cannot be theories of a society as a whole; they are more appropriate as theories about an *aspect* or *part* of a modern society in which these kinds of social relations are appropriate. This has been the model of classical economics, before its 'colonization' of other areas of life, and *if* people indeed behave as

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[156] Will Kymlicka, *Liberalism, Community, and Culture* (Oxford: Clarendon Press, 1989), 52-53, to which Rawls refers in *Political Liberalism* (New York: Columbia University Press, 1993), 27 and n. 39. All quoted in Dagger, "The Sandelian Republic and the Encumbered Self," 187.
[157] Dagger, "The Sandelian Republic and the Encumbered Self,"' especially 190ff.
[158] Ibid., 193.

unencumbered atoms in the economic realm, this may be a sensible way of capturing economic phenomena. Theories about a society as a *whole*, however – and this is what most theories of justice aspire to be – need to ask how people can become such sovereign atoms, and it seems unlikely that this process can be described without taking into account dimensions of sociality that look rather 'embedded.'[159] But to my knowledge, in *this* form embeddedness has never been rejected by liberal thinkers, even if they may be guilty of not having made clear enough that by not giving them a central place, they did not intend to deny the importance of these structures. The charges raised against them are, in a sense, similar to the one-sided reception of Smith: readers have focussed on what has been said in *one* part of a theory while neglecting what has been said in another part or what has not been discussed explicitly, and then charged the authors with a one-sided vision. Just as one needs the whole Smith, one needs liberal theories that do justice to those parts of a liberal society that have not been in the centre of theoretical interest so far, but are nevertheless crucial for its functioning and for theorizing about it in a coherent way.

On the other hand, embeddedness must not go too far. Certain liberal rights and freedoms must be part of any theory of a modern, liberal society. This holds no matter whether one sees the underlying normative view of the free, independent individual as natural and self-evident, or as a historical achievement that is made possible through structures of mutual recognition.[160] The respect for the dignity of individuals as bearers of rights and liberties that is expressed by treating them as basic 'elements' of a *theory* should not, and does not have to be, given up when one draws attention to the numerous and diverse ways in which people are socially embedded. What contemporary communitarians

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[159] Another possibility is that theories that build on atomistic premises are *ad hominem* theories that analyse how far one can get when starting from certain minimal assumptions. A good example is Gauthier's theory of moral contractarianism (*Morals By Agreement*) that attempts to prove *to the moral sceptic* that morality makes sense *even if* one assumes that people are interested only in their own well-being. The main charge against such theories is that they neglect important dimensions of social life; Gauthier himself carefully emphasises that his theory is compatible with, but does not capture, all that is going on in our normal understanding of morality (cf. in particular his last chapter).

[160] For the latter view see especially Pippin, *Hegel's Practical Philosophy*. Pippin neglects the question, however, to what degree one can emancipate oneself from these social ties *once* one has been socialized in a certain way, and is then able *oneself* to interpret one's actions as that of a responsible agent (maybe in an inner dialogue with imaginary others).

can learn from Hegel is that individuality and community – 'particularity' and 'universality,' in his terms – hang together in complex ways, and are both necessary elements of a modern society. What his theory of professional identity and of the corporations shows is that individuals, whilst *choosing themselves* where to be embedded, can be embedded in very strong ways, which also means a considerable risk if these structures break down. Also, individuals can reflect on the ways in which they 'belong,' and can retrospectively endorse them – or maybe reject them, if they turn out to be irreconcilably at odds with their liberties or with other elements of their identity.[161] Hegel holds, after all, that 'faith and trust [in such institutions] emerge *along with reflection.*'[162] If some basic rights and liberties and the possibility of individual justification *within* embedded social structures are not recognized, communitarian thinking risks sliding into a conservatism that justifies *any* form of embeddedness and provides no lever for criticizing injustices that communities might commit against individuals.[163]

What matters is thus the right balance between embedded and disembedded social relations, while certain liberal rights of the individual form a minimum condition that cannot be undercut. Importantly, however, this balance is not a question of finding the right point on a one-dimensional scale. There are not only different degrees, but also different *kinds* of embeddedness. As the discussion has shown, Smith and Hegel conceptualize embeddedness in the private realm and in the labour market in rather different ways. Communitarian thinkers often focus on *institutional* forms of social cohesion, which may explain why they have not recognized Smith, with his focus on *private*

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[161] This has been emphasised in particular by Knowles, *Routledge Philosophy Guidebook to Hegel and the Philosophy of Right*, 229f.; cf. also Neuhouser, *Foundations of Hegel's Social Theory*, 232, and Franco, "Hegel and Liberalism.", 833f., 857f., who argues that communitarian readings of Hegel overlook his ties to Kant and the enlightenment.

[162] PR §147, italics added.

[163] Hegel himself may well have fallen short of this ideal, as it is not quite clear whether he thinks that all individuals really do reflect about their social position and come to the conclusion that the social whole is 'rational.' He seems to hold that the level of consciousness varies in different groups, but that *if they wished to do so*, all individuals could arrive at a full justification and thus be 'reconciled' to their position (for discussions see e.g. Knowles, *Routledge Philosophy Guidebook to Hegel and the Philosophy of Right*, 196, 311ff., Wood, *Hegel's Ethical Thought*, 217ff., or Siep, "Hegels Rezeption der aristotelischen Politik," 66).

embeddedness, as one of their own.[164] Yet another form of embeddedness can be found in the Hegelian theory of the state, where individuals are not *bourgeois*, but *citoyens*;[165] where their recognition does not depend on the ebbs and flows of the capitalist economy[166] and is not limited to the social space of one particular corporation.

These distinctions between different social spheres and the ways in which individuals are embedded in them are neglected in most contemporary theories, liberal or communitarian. Here, the analysis of the labour market in Smith's and Hegel's different conceptualizations offers us valuable tools that can complement contemporary theoretical endeavours. The contemporary theory that comes closest to acknowledging these differences is Walzer's account, which distinguishes a wide range of 'spheres of justice' according to different goods with different social meanings.[167] Although Walzer's approach has been strongly criticized,[168] an important lesson can be drawn from it: different social spheres have a normativity and specificity of their own, and theorists of justice do well to take these into account. This does not mean that one has to make these different spheres the *only* basic elements of a theory of justice; they can well be combined with other principles or considerations, as Smith's and Hegel's theories show. But if one does not take them into account, one risks overlooking essential dimensions of the social world. In particular, many social phenomena and developments arise from the *interplay* between the principles of these different spheres, and thus only become visible if one takes them into account.

A prominent example of such an interplay is the danger that principles that are quite appropriate in one sphere, e.g. the market, might expand into other spheres where

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[164] Griswold's claim (*Adam Smith and the virtues of enlightenment*, 210) that the society that Smith describes is no 'organic' face-to-face society, but an 'assembly of strangers' (TMS I.I.4.9) is thus only partly true: in the market, face-to-face relationships are not necessary, but the wider society is structured by circles of sympathy that are 'face-to-face.'

[165] Hotho, 580.

[166] Cf. Enc §432Z.

[167] See *Spheres of Justice*. The basic idea is taken up by Miller (*Principles of Social Justice*), whose defence of desert as the appropriate principle for the labour market is discussed in chap. V.2 below.

[168] Cf. e.g. the essays in David Miller and Michael Walzer, eds., *Pluralism, Justice and Equality* (Oxford: Oxford University Press, 1995), or Ronald Dworkin, "What Justice Isn't," in *A Matter of Principle* (Harvard University Press, 1985), 214-220.

they are highly problematic, e.g. the private sphere. Worries about such phenomena seem to be an important aspect of the liberal-communitarian debate.[169] Smith and Hegel did not yet seem very worried about pressures from the market on the private sphere, and in their time this concern may not have been as relevant as it has become since then.[170] Karl Marx's and Friedrich Engels's *Communist Manifesto*, published 27 years after the *Philosophy of Right*, charges capitalism with destroying the workers' families and with reducing the bourgeois family to an instrument of procreation.[171] In the twentieth century, it was maybe Polanyi's vision of society as a mere 'accessory of the economic system' that most clearly expresses the fear that all private relations might be completely dominated by the forces of the market.[172] Both Smith and Hegel would clearly not favour such a model; rather, they did not see this as a relevant alternative, nor indeed as viable in any way. But one does not have to give up liberal principles in order to share this worry: one can be committed to the importance of individual rights and liberties and yet recognize that families and private ties between citizens play a crucial role in a modern society and need to be protected from economic pressures.

Importantly, however, different societies with different historical trajectories can vary enormously with regard to these different principles in different spheres and the ways in which they hang together. In this chapter, I have discussed the different models of the labour market developed by Smith and Hegel. The empirical research on 'varieties of capitalism,' spearheaded by Hall and Soskice, confirms, interestingly, that there are massive

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169 Cf. also Sandel's reflections on the 'moral limits of the market' in *What Money Can't Buy*, which mainly concern the interplay between the economic and the political sphere.

170 The only hint in Smith is the passage about the workers in the anonymous cities quoted above. See also Fred Hirsch, *Social Limits to Growth* (London: Routledge & Kegan Paul, 1977), 11f., who argues that in Smith's time the economy was still embedded in social relationships of a 'pre-market ethos' which 'provided the necessary social binding for an individualistic, nonaltruistic market.' In Hegel, the problem of the dissolution of familial structures might be connected to the broader problem of the rabble (cf. chap. V.3 below).

171 *Karl Marx: A Reader*, ed. Jon Elster (Cambridge: Cambridge University Press, 1986), 259.

172 Karl Polanyi, *The Great Transformation* (Boston: Beacon Press, 1944), 75; cf. chap. III-VI on the 'commodification' of labour, land and money. Granovetter (see in particular "Economic Action and Social Structure: The Problem of Embeddedness," *The American Journal of Sociology* 91, no. 3 (1985): 481-510) has revived the language of 'embeddedness' and shows empirically that market activities are much more embedded than neo-classical theory assumes, drawing attention to the importance of long-term relations, e.g. between producers and suppliers, and to the relations between people working in different companies in the same industry. This does not so much concern the question, however, of how the market affects people's families and private social relations.

differences between the ways in which the labour market is organized in different types of market economies. In so called 'liberal' market economies, as can be found mainly in Anglo-American countries, labour contracts are, on average, much shorter and there is little protection for workers; in 'coordinated' market economies, as exemplified by the continental European economies, contracts are longer and there is more protection. Hall and Soskice argue that this has to do with the structures of companies and the kinds of human capital they need: in coordinated market economies, many firms rely on very specific skills, so there has to be more protection for workers to make it worthwhile to invest in these skills. In the more 'fluid' markets of liberal market economies, in contrast, economic agents have 'greater opportunities to move their resources around in the search of higher returns, encouraging them to acquire switchable assets, such as general skills or multi-purpose technologies.'[173] The authors describe how the structures of educational and other institutions (e.g. employee representatives in company boards in Germany) mirror these differences; they argue that with the right mixture of institutions and forms of production, both models can be successful. Hall and Soskice do not address the question of people's deeper conceptions of their professional identities in the way that has been discussed here. Anecdotal evidence, however, gestures towards the fact that there are indeed differences in people's self-interpretation with regard to their professional identity in different countries. The close correspondence between the contrast of liberal and coordinated market economies and Smith's and Hegel's conceptualization of professional identities is striking.

The labour market is not the only way in which different cultures vary with regard to embeddedness and disembeddedness and the relations between different social spheres; other examples can be found in religious life, educational structures, or the formal and informal organization of different ethnic groups. These factors vary widely even if one only

[173] Peter A. Hall and David Soskice, "An Introduction to Varieties of Capitalism," in *Varieties of capitalism: the institutional foundations of comparative advantage*, ed. Peter A. Hall and David Soskice (Oxford University Press, 2001), 1-68, 17.

takes into account Western societies, and they make one wonder whether it makes sense at all to develop one single theory of justice, rather than 'theories' in the plural. Just as there are 'varieties of capitalism,' there are 'varieties of liberalism,' and it seems worth taking these varieties seriously from a theoretical perspective.

It thus turns out that the old battle between 'atomism' and 'community' is in some sense misguided. This debate has created the impression that what is at stake are two alternative theoretical foundations for social theory that are mutually incompatible. It is much more appropriate to describe these as two poles or antagonistic principles *both of which* must be part of theories of justice for contemporary societies. Smith's and Hegel's[174] theories cut across the dividing lines of the 'liberal-communitarian debate,' integrating insights about the need for social embeddedness *and* about the importance of 'atomistic' rights and liberties. They help us to see that what matters is the right balance between these, and the interrelation between spheres in which these different principles have their appropriate place. One may disagree on whether Smith and Hegel have been successful in integrating these different social spheres, and one may also disagree on where exactly different contemporary societies veer off towards one extreme or the other – but in any case, allowing for the varieties of embeddedness, in the labour market and otherwise, and taking into account the cultural differences in the ways in which these spheres function, can help us to overcome the stale contrast between 'liberalism' and 'communitarianism,' and to think about our identities and their relation to our societies in fresh ways.

[174] For claims about Hegel in this respect see also Hardimon, *Hegel's Social Philosophy*, 142, Neuhouser, *Foundations of Hegel's Social Theory*, 15.

V JUSTICE IN THE MARKET

V.1 Introduction

Many political thinkers have ambivalent feelings about the distributive effects of the market. The market may be an instrument for efficiency, but can its outcomes be described in any sense as just? Can the notion of justice even be applied to the market, and in particular to the labour market? And what about those who end up at the bottom end of the income scale? Does the market inevitably bring inequality and social exclusion?

This chapter addresses these worries, while the question about liberty in the market is postponed to the next chapter. Political theorists have mostly focused on what justice is or means. In comparison, much less attention has been given to the question of what 'the market' is. But in order to ask how 'the market' relates to question of justice, both sides of the relationship need to be addressed. In what follows, I argue that different views of the market lead to very different answers to the questions raised above about justice, inequality and social exclusion. For Smith, the market is a panacea for these problems, whereas for Hegel, it is a threat on all these counts. Comparing Smith's and Hegel's views of the market helps to analyse the conditions for making sense of the notion of justice, in particular the notion of desert, as applied to markets, and to reflect on its relation to the problems of poverty and social exclusion.[1] As the discussion will show, it is crucial for debates about these issues – which are often summarized under the heading of 'social justice' – to make explicit one's assumptions about the nature of markets and their effects on distribution and poverty. Analysing Smith's and Hegel's models as two paradigm cases can help to clarify what is at stake in many debates about social justice.

The next section addresses the central candidate for a principle of justice in the market: the notion of desert, and the question whether it can be applied to market

[1] The focus of this chapter is on poverty and social exclusion *within* market societies, rather than on questions of global justice. Some of the arguments, especially in section V.3, can also be related to questions of justice on an international scale, but this is not discussed explicitly.

outcomes, in particular labour market outcomes. On a Hegelian account, this does not make much sense, but for a reason that needs to be taken very seriously by liberal thinkers: the market is the sphere where subjective freedom, including all its arbitrariness and 'caprice,' has its place. In Smith's account, in contrast, we find a model for the idea that labour market outcomes can be called 'deserved': a well-ordered market rewards certain forms of behaviour that can be described as virtuous, and these results can thus be called 'deserved.' The reward of virtue only works, however, when certain assumptions about the nature of labour markets hold. These have to do with the flexibility of human capital and with the absence of imbalances of power. The analysis shows that the Smithian model is an idealization that may not often be instantiated in real markets.

I then address the questions of poverty and social exclusion. Smith's and Hegel's views of the market's effects on poverty stand in stark contrast to each other. They share a sense of the importance of non-material dimensions of poverty, but their reactions to it are very different. Whereas Smith trusts in the power of the market to bring about more equality, and hence more mutual respect, in Hegel's account the problem of poverty seems almost impossible to overcome, as the poor turn into a 'rabble' and cannot free themselves from this situation any more.

In the last section I draw some conclusions on the notion of desert and on the immaterial aspects of poverty, and reflect on strategies of theorizing 'social justice.' I argue that political theorists, who, when debating social justice, have often addressed the institutions that *surround* markets, should focus more on markets themselves, both in order to clarify their debates and in order to arrive at solutions for real-world problems.

V.2 Are market outcomes deserved?

When approaching the question of social justice and the market, two strategies of theorizing can be distinguished. On the one hand, a market *society* as a whole can be considered in the light of principles of justice, *à la* Rawls. Markets can be seen as the

outflow of just institutional structures, without principles of justice being applied to markets themselves. Markets could then be said to be *justified*, but it would be odd to call them 'just' in a stronger sense. On the other hand, markets themselves can be scrutinized from the point of view of justice; this second strategy is discussed in this section. For this purpose, it suggests itself to turn to the notion of 'desert' and to the age-old idea that justice demands that people get 'what they deserve.' Markets clearly do not produce justice in the sense of perfect material equality, but can their results nevertheless be called just because they are deserved?

The idea that markets match achievement and reward is a powerful one. Today, birth and status play a much smaller role in determining people's place in society than in earlier epochs.[2] It is part of the progressive narrative of the West that it is, instead, desert that determines who ends up in which position.[3] 'La carrière ouverte aux talents' was the battle cry of the Napoleonic era against inherited privileges, in favour of a society in which talent and achievements decide about a man's place. While this slogan mainly referred to positions in public service, civil or military, the idea of desert has also been applied to the free market: shouldn't a man's achievements be reflected in his position on the income scale as well? In popular perception such a notion of desert plays an important role;[4] it is regularly evoked in public discourse, e.g. when a CEO's income is many times higher than that of a worker – can he or she 'deserve' so much more?[5] But it should not be left unsaid that it is an idea that is particularly attractive for those who in fact *are* successful in market societies, because it provides a flattering justification for their above-average position.[6] For the impartial observer this fact should be a reason for caution, because it raises the

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[2] Cf. Miller, *Principles of Social Justice*, 125ff.
[3] Cf. e.g. Nancy Fraser and Axel Honneth, *Redistribution or Recognition?: A Political-Philosophical Exchange* (London: Verso, 2003), 140ff.; Miller, *Principles of Social Justice*, 125f., 177.
[4] Cf. Miller, *Principles of Social Justice*, chap. VI, for a discussion of social scientific evidence.
[5] For an example see N. Gregory Mankiw, "Presidential Address: Spreading the Wealth Around: Reflections Inspired by Joe the Plumber," *Eastern Economic Journal* 36 (2010): 285-298. Mankiw indeed presupposes a very 'Smithian' picture of the market (which I discuss below); in particular, he assumes that individuals have the 'freedom to exit' from employment relationships (295).
[6] Cf. also Friedrich August von Hayek, *Law, Legislation and Liberty. Volume 2: The Mirage of Social Justice* (Chicago: University of Chicago Press, 1978), 74f.

suspicion that the idea of desert might be an ideological smokescreen put up by precisely those groups.

It is thus not surprising that desert has been a topic of ongoing controversy in political philosophy. On the one hand, there are questions about the philosophical bases of ascriptions of desert that include, for example, the question whether desert always has to do with responsible agency and how it relates to notions of intrinsic value and entitlement.[7] On the other hand, there is the more specific question whether it makes sense to use the notion of desert in discussions about social justice and the market: can statements of the form 'person A deserves outcome x in virtue of y' – where is y usually taken to be something that A has done and can be held responsible for – be part of a theory of social justice? Can y be something people do in *markets*, and does it make sense to say that markets do – or should – reward people for it because they deserve this? Discussing the answers to this question that can be found in Smith's and Hegel's accounts of the market helps to explain why we may have rather ambiguous intuitions about this topic: on the one hand, why would one ever *think* that markets could do this; on the other hand, don't we have an implicit expectation that the free market provides an impartial judgement of people's achievements, giving everyone a chance to prove what they are able to do, evaluating not origin, gender, or eye colour, but performance?

The discussion about justice and the market has become too broad and complex to summarize it here, so let me outline only some of its main lines. The idea that markets somehow match achievement and desert has been under fire from thinkers who otherwise have very little in common. Among libertarians, the idea of applying *any* notion of 'social justice' to a market society has been under attack at least since von Hayek.[8] From this perspective, the idea of asking about the justice of a distribution that results from market interaction is flawed from the outset, as such a distribution stems from voluntary

[7] For an overview cf. Owen McLeod, "Desert," in *The Stanford Encyclopedia of Philosophy*, ed. Edward N. Zalta, Winter 2008 edition, <http://plato.stanford.edu/archives/win2008/entries/desert/>.
[8] Cf. in particular von Hayek, *The Mirage of Social Justice*, chap. IX.

exchanges, the resulting patterns of which are both unpredictable and indifferent from the point of view of justice. What matters is that the rules of the game are just[9] – that everyone has secure property rights, for example – and that there have been no violations of these rules in the history that led to the current distribution.[10]

From a leftist perspective, the idea of desert as applicable to market outcomes has been rejected for a different reason: many thinkers have argued that there is no fair starting point for measuring it, as agents do not have full control over the factors that could serve as bases for desert, such as their own productivity or even their own effort. Rawls famously bans the idea of meritocracy from *A Theory of Justice*, because he takes it that talents and character as the basis of 'effort' are part of a 'natural lottery,' and thus cannot be the basis of desert.[11] Brian Barry, building on extensive empirical research on the lack of equality of opportunity in many countries, takes the same line when he denounces the 'cult of personal responsibility.'[12] Serena Olsaretti, who provides the most thorough-going analytical discussion of the relation between markets and desert,[13] concludes by rejecting the idea that one could justify markets by appealing to a 'pre-institutional' notion of desert, one of her key arguments being that the 'fair opportunity requirement' for ascribing desert is almost never fulfilled.[14]

But the rejection of the notion of desert has not been unanimous. David Miller has recently argued *for* endorsing desert as a principle of social justice, holding that despite certain problems, labour market outcomes can be seen as a rough approximation of what people deserve for their contribution to the social whole.[15] Axel Honneth equally accepts the principle of desert in the market;[16] he and Miller do not take it to be the *only* principle

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[9] Ibid., 70.
[10] See Robert Nozick, *Anarchy, State, And Utopia* (New York: Basic Books, 1974), chap. II.
[11] Rawls, *A Theory of Justice*, 73f., 104.
[12] Brian Barry, *Why Social Justice Matters* (Cambridge: Polity, 2005), chap. IV.
[13] See Serena Olsaretti, *Liberty, Desert and the Market: A Philosophical Study* (Cambridge: Cambridge University Press, 2004), 9ff., for an overview of other contributions to this discussion.
[14] Olsaretti, *Liberty, Desert and the Market*, chap. III.
[15] Miller, *Principles of Social Justice*, chap. VIII-IX.
[16] Fraser and Honneth, *Redistribution or Recognition?*, 137ff.

of justice, but hold that it is appropriate for certain contexts, notably the distribution of jobs, and hence income.

The question about the applicability of the notion of desert to markets is thus a live issue in political theory. In order to reflect about it, it is helpful to clarify what picture of the market one has to presuppose in order to think about it in terms of desert. One minimal condition for this attempt should be noted straight away: one needs to assume, *pace* Rawls, that it makes sense to describe individuals' effort and strategic decisions as the results of responsible agency, rather than as being predetermined by external circumstances like genes or education, and to ascribe moral significance to them.[17] This, however, is an assumption we often make, especially in legal contexts, and, as will become clear below, certain assumptions about the structure of labour markets can underpin the thought that market outcomes largely depend on factors for which it is justified to hold people responsible. Comparing Smith's and Hegel's views of the market shows that a number of conditions need to be fulfilled to make sense of the idea that its results are deserved. It also shows that, ironically, libertarians are wrong to reject the notion of desert in markets in the name of Adam Smith; for Smith it is almost a metaphysical requirement that markets reward virtuous behaviour. His model can be seen as an important moment in the development of the idea that market outcomes can be described in terms of desert.

It is, in fact, the Hegelian account that accords with arguments by libertarians about the market as a place for voluntary exchange, in which outcomes cannot be judged from the point of view of justice.[18] As we have seen, for Hegel the 'system of needs' is the sphere of subjective freedom, and hence also of 'caprice.' He refers to the 'arbitrariness and accident

[17] Cf. Miller, *Principles of Social Justice*, chap. VII, for a defence of the notion of desert against this and other charges.
[18] The similarity of von Hayek and Hegel on the question of whether principles of social justice can be imposed on markets is also discussed by Knowles, *Routledge Philosophy Guidebook to Hegel and the Philosophy of Right*, 270.

which this sphere contains,'[19] and calls 'subjective opinion and the individual's arbitrary will' the 'essential and final determining factors' in the exchange economy.[20] One way in which subjective freedom is exercized is the free choice of consumption and investment. This implies that market prices are the result of the concurrence of two (or more) free wills, not limited by any inherent characteristics of goods or services or by any long-term tendencies of the market. External property is justified by the fact that human individuals need to 'translate [their] freedom into an external sphere,'[21] and it is this free will that also determines whether, and for what price, things are up for sale and transferred to others through contracts.[22] As several commentators point out,[23] this marks a stark contrast between Hegel and Marx: for Marx, market prices are determined by the relation of the values of goods, which stem from the amounts of labour they embody – this is the famous, or infamous, labour theory of value that forms the basis of his theory of exploitation.[24] For Hegel, in contrast, prices result exclusively from the free will of the market participants; there is no inherent 'givenness' in things that would determine their value.[25] Market participants have the freedom to agree or disagree with a suggested price, to negotiate or to walk away, and they do not even have to reveal their underlying motives.[26] Exchanges in markets are thus really 'free' in the sense that they give people no prescriptions about how much, when, and where to buy and sell.

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19 PR §200.
20 PR §206.
21 PR §41.
22 PR §43, §65ff.
23 E.g. Richard Dien Winfield, "Hegel's Challenge to the Modern Economy," in *Hegel on Economics and Freedom*, ed. William Maker (Macon, GA: Mercer University Press, 1987), 32-64; Seyla Benhabib, "The Logic of Civil Society: A reconsideration of Hegel and Marx," *Philosophy and Social Criticism* 8 (1981): 151-166, especially 159f.; Thomas Krämer-Badoni, *Zur Legitimität der bürgerlichen Gesellschaft: eine Untersuchung des Arbeitsbegriffs in den Theorien von Locke, Smith, Ricardo, Hegel and Marx* (Frankfurt am Main: Campus-Verlag, 1978), 84ff.
24 *Karl Marx, Friedrich Engels. Werke* (Berlin: Dietz, 1961), vol. 23, chap. VIIff. It should be noted that Smith does not hold a labour theory of value either. In an 'early and rude state of society' the 'proportion between the quantities of labour necessary for acquiring different objects' determines the relation in which they are exchanged (cf. the famous example of the beaver and the deer in WN I.VI.1). But as soon as other factors of production such as land or capital are introduced, these simple proportions do not hold any more (WN I.V.5ff); Smith does *not* condemn this as unjust exploitation, but rather sees it as part of the normal development in the 'progress of opulence' (WN I.V.5ff.) Cf. also Mark Blaug, *Economic theory in retrospect (Fifth edition)* (Cambridge: Cambridge University Press, 1996), 38, 51f., for a discussion of why Smith was often taken to hold a labour theory of value.
25 Cf. Winfield, "Hegel's Challenge to the Modern Economy," 45ff.
26 Cf. Schmidt am Busch, *"Anerkennung" als Prinzip der kritischen Theorie*, 190.

But the more this voluntarist element comes into a social system, the less we can speak of an ordered whole in which achievement and reward could be matched. If customers can walk away from a meritorious artisan simply out of 'caprice,' or when fashions change,[27] his deserving behaviour might not get him any reward at all.[28] If human needs were all natural and biological, free human will might not play this central role in the market process. Hegel is aware, however, that in a modern commercial society both human desires and the means for satisfying them are largely a human creation, so that 'man is concerned with his own opinion, indeed with an opinion which is universal, and with a necessity of his own making alone, instead of with an external necessity, an inner contingency, and mere caprice.'[29] This is, for Hegel, a liberating moment in human history.[30] But there is a price to be paid for it, namely the impossibility of finding any regularity that could establish patterns of desert in a system of free exchange.[31]

This emphasis on freedom in the market is shared by libertarian thinkers like von Hayek and Robert Nozick, who reject the idea that it makes sense to apply 'patterned' ideas of justice to the market. Rejecting the idea of desert, Nozick has made famous the example of the basketball player Wilt Chamberlain, who earned high wages because his fans were happy to pay a premium for seeing him play. What could be wrong, Nozick asks, with Chamberlain's high income if it has come about entirely by voluntary transactions?[32] Why should we expect the market to 'care' at all about the resulting distribution? It is, after all, not an individual human being with benevolent intentions, but a complex social system.

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[27] The phenomenon of changing fashions, and more broadly the human interest in features of goods that are irrelevant from a purely utilitarian point of view – colour, form, rarity – is also described in Smith (cf. TMS VI, LJ(A) 335ff.). Hegel might have taken over some of these reflections from Smith; as Waszek shows, however, his account is closer to Ferguson's (*The Scottish enlightenment and Hegel's Account of "Civil Society,"* 147ff.).

[28] Cf. also Nozick, *Anarchy, State, And Utopia*, 223, who writes: '… if I go to one movie theatre rather than to another adjacent to it, need I justify my different treatment of the two theatre owners? Isn't it enough that I felt like going to one of them?'

[29] PR §194, cf. also Griesheim, 492.

[30] Ibid.

[31] Hegel does say that 'political economy' tries to find general principles in the market sphere (PR §189), but his remark at the conclusion of this paragraph is telling: 'this is the field in which the Understanding with its subjective aims and moral fancies vents its discontent and moral frustration.' 'Moral frustration' might refer to the impossibility of seeing desert rewarded in this sphere.

[32] Nozick, *Anarchy, State, And Utopia*, 156ff, 161.

On a Smithian view of the market, things look different; he might hold, indeed, that Chamberlain's high income is justified *precisely* because it is, in part at least, deserved. Smith certainly also values the freedom individuals have in the market. But his view of markets allows for the idea that they justly reward certain actions. The basic argument is that in markets the free decisions by a large number of individuals result in patterns that resemble the judgements of an impartial spectator, and that this impartial spectator makes judgments based on an idea of desert: he holds that persons deserve certain rewards in virtue of having behaved in certain ways. Analysing this account helps to bring out some of the conditions for, as well as the limits of, applying the notion of desert to markets, and thus helps to get a clearer view of the intuitions we might have about desert in the market.

Smith's system is pervaded by a strong sense that 'virtue pays'[33]: behaviour that follows the dictates of the impartial spectator should be rewarded, and this will indeed happen. In the last edition of the *Theory* Smith adds a new book, 'Of the Character of Virtue,' which discusses the 'character of the individual,' 'so far as it affects his own happiness' and 'so far as it can affect the happiness of other people,' as well as 'self-command,' which is needed to follow the precepts of the other virtues.[34] In addition, numerous remarks on virtuous behaviour are scattered in the other books of the *Theory*. Smith's reflections on the virtues and their place in society have to be seen in the context of his optimistic deism; as he notes in one place, 'we may on this, as well as on many other occasions, admire the wisdom of God even in the weakness and folly of man.'[35] Although he vehemently rejects the idea of *reducing* the virtues to their usefulness for the individual or for society, this usefulness clearly exists for him: it 'stamps an additional beauty and propriety' upon the virtues.[36] For a well-ordered society it is important that most individuals, most of the time, behave according to these virtues, not in their highest form, which only a few wise and virtuous men attain, but in their everyday version, the standard

[33] Haakonssen, *The Science of the Legislator*, 73.
[34] Cf. the chapter headings of book VI of TMS.
[35] TMS VI.III.30.
[36] TMS VII.II.2.13.

'the actions of the greater part of men commonly arrive at.'[37] What makes this possible is that for Smith the virtues, at least in this everyday version, have a 'pull' of their own: virtuous behaviour is rewarded, not only in the hereafter, but also in very concrete, down-to-earth ways in this world.[38] Virtuous behaviour thus serves as the basis for claims about what people deserve, and the social world is structured such that they will usually receive it.

Not *every* virtue is rewarded in *every* part of life, however. In Smith's system there is an outright 'division of labour' in the way in which different virtues are rewarded in the different social spheres to which they belong. Virtuous behaviour with regard to one's family and friends, for example, is rewarded by being 'beloved, and to know that [one] deserve[s] to be beloved,'[39] which is, for Smith, a central component of happiness.[40] Other virtues pay in the market. Adopting a term from McCloskey,[41] these can be called the 'bourgeois virtues;' they include character traits like industry, frugality and honesty in dealing with one's business partners. A central bourgeois virtue is prudence, the 'care of the health, of the fortune, of the rank and reputation of the individual.'[42] Several commentators point out that the 'prudent man' of the *Theory* is the agent described in the *Wealth*.[43]

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37 TMS I.I.5.9.
38 Cf. TMS VI.III.11.
39 TMS III.I.7.
40 Ibid.
41 Deirdre McCloskey, *The Bourgeois Virtues: Ethics for an Age of Commerce* (Chicago, Ill: University of Chicago Press, 2006). When reading Smith as a virtue ethicist, however, ("Adam Smith, the Last of the Former Virtue Ethicists," *History of Political Economy* 40, no. 1 (2008): 43-71), she applies the scheme of the seven cardinal and Christian virtues to Smith, which seems somewhat forced. For a more balanced discussion of the virtues in Smith see Ryan Patrick Hanley, *Adam Smith and the Character of Virtue* (New York: Cambridge University Press, 2009).
42 TMS VI.I.5. For a discussion of the contrast between Smith's theory of virtue and classical accounts see Berry, "Adam Smith and the Virtues of Commerce."
43 E.g. Raphael and Macfie, "Introduction." In the last edition of TMS, however, Smith distinguishes between 'lower' and 'higher' prudence; arguing that the former, 'directed merely to the care of the health, of the fortune, and of the rank and reputation of the individual,' is 'respectable,' and 'in some degree' 'amiable and agreeable,' but is not 'considered as one, either of the most endearing, or of the most ennobling of the virtues.' The latter only holds for 'higher' prudence, which is 'the most perfect wisdom combined with the most perfect virtue,' which 'necessarily supposes the utmost perfection of all the intellectual and of all the moral virtues' (TMS VI.I.14f., see Dickey, "Historicizing the 'Adam Smith Problem'," for a discussion of the development of Smith's views on this issue). 'Higher' prudence, however, has a distinctively *political* note, whereas 'lower' virtue clearly is a *private* virtue (cf. TMS VI.I.13, 15), and most men in a commercial society are private men who need this virtue. On the meaning of private virtue in the Scottish Enlightenment see also John Dwyer, *Virtuous Discourse: Sensibility and Community in Eighteenth-Century Scotland* (Edinburgh: John Donald Publishers, 1987), chap. IV.

By holding that only some, not all, virtues are rewarded in the market,[44] Smith from the outset addresses a worry that has also been raised by modern commentators: what markets reward is not desert in any highly moralized sense.[45] But for Smith moral desert, or higher virtue, is not the only form of virtue, and it is bourgeois virtue that can and should be rewarded in markets.

In his account of the reward of virtues, Smith has to make a crucial assumption: he holds that human beings usually evaluate other people's behaviour correctly, at least on average. Smith evidently takes this to be the case: '[p]articular actions' may be misjudged by others, but this is 'scarce possible […] with regard to the general tenor of [one's] conduct.'[46] A similar 'on average'-correspondence also holds for the reward of the bourgeois virtues in markets:

> If we consider the general rules by which external prosperity and adversity are commonly distributed in this life, we shall find, that notwithstanding the disorder in which all things appear to be in this world, yet even here every virtue naturally meets with its proper reward, with the recompense which is most fit to encourage and promote it […] What is the reward most proper for encouraging industry, prudence, and circumspection? Success in every sort of business. And is it possible that in the whole of life these virtues should fail of attaining it? Wealth and external honours are their proper recompense, and the recompense which they can seldom fail of acquiring.[47]

The market economy thus rewards bourgeois virtue, which provides an incentive for people to behave accordingly, making them more orderly and decent.[48] At least this holds,

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[44] He notes, however, that we often *wish* that '[m]agnanimity, generosity, and justice' were 'crowned with wealth, and power, and honours of every kind' – but these are the consequence of a different set of virtues, namely 'prudence, industry, and application,' which means that if we compare an 'industrious knave' and an 'indolent good man' we wish for the latter to 'live in plenty,' but the 'natural course of things decides it in favour of the knave' (TMS III.V.9).

[45] E.g. Rawls, *A Theory of Justice*, 310ff., Olsaretti, *Liberty, Desert and the Market*, 15ff., Miller, *Principles of Social Justice*, 134ff. As Miller rightly points out, this is also an argument against von Hayek's argument that markets do not reward 'merit,' as von Hayek's notion of 'merit' and his related notion of 'value' are too demanding: they are concepts appropriate for the moral realm, not the realm of the market. A market would, e.g., reward the supply of matches more than that of wisdom – and Miller argues that for the *market* this is just the right thing to do (ibid., 180ff.).

[46] TMS III.V.8, cf. also VI.II.1.19 and VII.II.2.13.

[47] TMS III.V.8.

[48] This was in fact 'almost a commonplace' among the literati of the 18th century, shared not only by Hume but also by many other members of the Scottish Enlightenment (cf. Muller, *Adam Smith in his Time and ours*, 95). The argument that 'virtue pays' is related to the 'doux commerce' doctrine about the milder 'interest' for material gain taming the more violent belligerent 'passions' (cf. Hirschman, *The Passions and the Interests*). To say that modern society offers incentives to be virtuous is the other side of the coin of saying that men's interests are channelled in socially useful ways. Muller calls this 'the institutional direction of the passions' (*Adam Smith in his Time and ours*, 6, cf. also 135ff.), referring to Nathan Rosenberg's famous account of WN as providing 'details of the institutional structure which will best harmonize the individual's pursuit of his selfish interests with the broader interest of society' ("Some Institutional Aspects of the Wealth of Nations," *Journal of Political Economy* 18, no. 6 (1960): 557-570, 559).

according to Smith, for the 'middling and inferior stations' of society, where 'the road to virtue and that to fortune, […] are, happily in most cases, very nearly the same.'[49] It therefore suggests itself to assume that the Smithian labour market can be understood as just in the sense of giving everyone what he or she deserves. A word of caution, however, is needed with regard to the meaning of the notion of desert in this context.

Smith discusses this notion in Part II of the *Theory*.[50] He argues that it is based on an 'indirect sympathy with the gratitude of the person who is, if I may say so, acted upon,'[51] which differentiates it from the notion of propriety, which stems from sympathy with the actor.[52] Someone deserves reward when he or she is 'the natural object of gratitude,' as seen from the perspective of an impartial spectator.[53] In parallel, demerit or ill-desert, the basis for deserving punishment, can be recognized by a feeling of resentment in an impartial spectator.[54]

Although Smith emphasises that gratitude and resentment are 'counterparts to one another,'[55] his notion of *justice* relies exclusively on the latter. Justice consists in not violating the rights of others; it is a 'negative virtue' that can often be fulfilled by 'sitting still and doing nothing.'[56] Beneficence and gratitude, in contrast, are positive virtues which people can expect from one another, but have no right to enforce.[57]

This asymmetry between gratitude and resentment implies that when one speaks of desert with regard to the market, what is at stake for Smith is not a matter of rights and

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[49] TMS I.III.3.5. In the 'superior stations' of society this is not necessarily the case: in the 'courts of princes' and 'drawing-rooms of the great' success depends not on virtue, but on 'flattery and falsehood' and the 'ability to please' (TMS I.III.3.6, cf. Hanley, *Adam Smith and the Character of Virtue*, 41, for a discussion of the court as a 'corrupt society' in which 'advancement and merit have been separated'). The reason Smith gives for this is telling: there, 'success and preferment' depend 'not upon the esteem of intelligent and well-informed equals, but upon the fanciful and foolish favour of ignorant, presumptuous, and proud superiors' (TMS I.III.3.6). This is a situation in which no impartial judgement is possible, and so we cannot expect the results to be just in the sense that virtue is rewarded (cf. below).
[50] It is entitled 'Of MERIT and DEMERIT; or, of the Objects of REWARD and PUNISHMENT…,' but Smith's usage makes clear that he uses the terms 'merit' and 'desert' (sometimes also 'good desert') interchangeably (cf. e.g. II.I.2, II.V.3).
[51] TMS II.I.5.1.
[52] Ibid.
[53] TMS II.I.2.2f.
[54] Ibid.
[55] TMS II.I.5.7.
[56] TMS II.II.1.9.
[57] TMS II.II.1.3, II.II.1.7.

their enforcement. It is a rather a question of the structural features of the system being such that desirable behaviour is *de facto* rewarded. In a well-ordered Smithian market, people who practise the bourgeois virtues can *expect* to be successful in their professional lives, but they cannot claim a *right* to being rewarded merely on the basis of desert, unless some right has been fixed contractually. Desert is thus, for Smith, not a legal category; it rather describes the ways in which people – and, as I will discuss shortly, the market – *should* react to certain kinds of behaviour: as he says, some actions 'demand, and, if I may say so, […] call aloud for a proportionable recompense.'[58]

The idea that markets should, and do, reward virtue is powerful in Smith's thinking, and analysing how he underpins this claim can help us to understand how the idea that market outcomes have something to do with desert could ever have developed.

For this purpose, it is worth emphasising two socio-economic features of the Smithian commercial society that distinguish it from earlier feudal societies.

In a well-ordered commercial society, everyone has property rights that can be enforced by law; these form the legal basis for all claims about the rewards of the bourgeois virtues. In an impartial legal system, industry and parsimony are 'rewarded' simply as a matter of commutative justice: those who offer more in the market get more in return,[59] and those who spend less in the present can enjoy the fruits of this virtue in the future. With secure property rights, it makes sense for people to focus on their long-term interest rather than indulge in short-lived pleasures, while the latter is in fact the most reasonable thing to do if one might at any moment be robbed of one's possessions by criminals or by a greedy landlord. Income and wealth that are the result of the practice of 'industry' and 'parsimony' can thus be justified by pointing to a person's (past) behaviour, whereas poverty that is the result of the *inability* to enforce one's rights is clearly unjust.

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[58] TMS II.I.4.2

[59] Interestingly, in the Jena manuscripts Hegel holds that this is *not* the case, because when the workers work more, the value of labour sinks (*Jenenser Realphilosophie II*, 138), presumably because the value of a good in the market is determined by its relative scarcity. This argument does not hold in a growing economy, which is Smith's optimistic scenario.

A second effect of the market society is that people stand 'at all times in need of the co-operation and assistance of great multitudes.'[60] As there is legal equality, they have to awaken other people's interests to do so, rather than compel them by force. They need to find customers and suppliers, employees and colleagues, and treat them in ways that make successful business relations possible. This, however, forces them to put themselves into other people's shoes, assuming their point of view and reflecting on how best to meet their needs, which has a disciplining effect: 'the fear of losing their employment […] restrains [the workman's] frauds and corrects his negligence.'[61] When the members of the 'middling and inferior stations' of society enter the market, they are judged by equals: their success 'almost always depends upon the favour and good opinion of their neighbours and equals; and without a tolerably regular conduct these can very seldom be obtained.'[62] The local customers can tell quite well how the butcher, brewer or baker behave, and can take into account their character in deciding where to buy and with whom to cooperate.[63] It is thus important for people to develop a reputation as reliable and honest. Smith holds that when 'dealings are frequent,' it is in men's 'real interest' to stick to 'probity and punctuality;' this will, in the long run, lead to higher gains than giving 'any ground for suspicion.'[64] A dealer is therefore 'afraid of losing his character, and is scrupulous in observing every engagement.'[65] The greater economic success of a more 'scrupulous' and reliable dealer can

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[60] WN I.II.2.

[61] WN I.X.II.31.This disciplining effect of the market is the source of Joseph Cropsey's claim that Smith wants to replace virtue by self-interest (*Polity and Political Economy: An Interpretation of the Principles of Adam Smith* (The Hague: Nijhoff, 1957). Cropsey reads Smith as a Hobbesian who solves the 'problem of freedom' by replacing authority by 'the passionate pursuit of interest under the aegis of free competition' (xii). This element is certainly present in Smith; Cropsey goes too far, however, in reducing Smith's picture of human nature to biological drives and by claiming that there is no teleology *at all* in Smith (viii). Rather than saying that in Smith self-interest *replaces* virtue, it is more correct to say that self-interest can, in a good institutional framework, *support* virtue. For a critical discussion of Cropsey's interpretation see also Fleischacker, *On Adam Smith's Wealth of Nations*, 101ff.

[62] WN I.X.II.31. The ability of the market to teach people to be 'other-directed' is also emphasised in Fleischacker, *A third concept of liberty*, 155.

[63] Interestingly, in the quote on the 'industrious knave' and the 'indolent good man' (TMS III.V.9, cf. fn. 44 above), Smith speaks about 'cultivat[ing] the soil,' *not* about dealing with customers and cooperating with other people – in dealing with *human beings* it might be much harder for the 'industrious knave' to be successful.

[64] LJ(B) 539.

[65] LJ(B) 538.

thus be understood as a reward for practising these bourgeois virtues that an impartial spectator would wish him to receive.

In a perfectly competitive market in which all participants have an equal legal standing it does not go too far to say that those who offer something are seen by others from an impartial perspective, so that the rewards they receive resemble judgments by an impartial spectator. Some may evaluate certain features too highly, and others too lowly, but on average – and this is what the market price provides – these judgements get it right.[66] Or so Smith's argument seems to work.

An objection presents itself, however. Markets are determined by anonymous forces of demand and supply that seem to have nothing to do with the responsible agency of individual persons. How can these forces reward virtuous behaviour? What happens, for example, if a competitor enters a market, pushing down the wages and profits of those previously employed in a certain business?[67] Would this not be a reduction of the reward for virtue that an impartial spectator could not accept?

But Smith's theory of the price mechanism provides an argument why this scenario will not occur. If the market price is either lower or higher than the 'natural price' – the price that pays for the wages, rent and profit which are 'ordinary' in a certain region[68] – some producers will enter into, or leave, the market, and thus the amount of goods will adjust itself to the quantity at which the natural price is reached.[69] Those who have worked virtuously in a certain industry and are threatened by increased competition would, on a Smithian account, simply switch into another kind of employment, where their industry and honesty continue to be rewarded. The natural price is thus one which an impartial

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[66] The parallel between the impartial spectator mechanism and the price mechanism has been noted repeatedly in Smith scholarship; the most detailed discussion is provided by Otteson, *Adam Smith and the Marketplace of Life*, who sees the 'market principle' as active not only in the formation of social norms, but also in other phenomena, e.g. the development of language (cf. also fn. 87 in chap. II above).
[67] Cf. Olsaretti's discussion of this point; she reads it as an argument *against* the applicability of the notion of desert to markets (*Liberty, Desert and the Market*, 70ff.).
[68] WN I.VII.1ff., cf. LJ(A) 357ff. What is 'ordinary' is determined by the long-term development of a society – the relevant case is that of a growing society, cf. chap II.5 – and the differences between jobs, which are discussed below.
[69] Cf. chap. II.5.

spectator can endorse, and *if* there is full flexibility in markets, this is the price the market price 'gravitates' towards.[70]

The market process also balances out the net advantages of *different* jobs and investments. In his theory of relative wages, Smith argues that in free markets differential wages reflect differences in the non-monetary characteristics of jobs, because otherwise people would leave one employment and crowd into another one:

> The whole of the advantages and disadvantages of the different employments of labour and stock must, in the same neighbourhood, be either perfectly equal or continually tending to equality. If in the same neighbourhood, there was any employment evidently either more or less advantageous than the rest, so many people would crowd into it in the one case, and so many would desert it in the other, that its advantages would soon return to the level of other employments.[71]

These net advantages include non-material factors such as 'the agreeableness or disagreeableness of the employment,' the costs involved in learning a profession, the 'constancy or inconstancy of employment,' the degree of 'trust which must be reposed in those who exercise them,' and the 'probability or improbability of success.'[72] The market, thanks to the individuals' arbitration, thus creates equality of *net* advantages, which include monetary as well as non-monetary elements.[73] Smith calls the differences that result from these factors 'natural,'[74] and they can also be called 'deserved' in the sense described above: they are compensations for non-monetary costs or benefits linked to different activities. An impartial spectator can fully endorse the 'premium for being a steeplejack or an embalmer or working on the night shift.'[75]

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[70] WN I.VII.1ff., cf. LJ(A) 357ff. This implies that market prices can be called just in the sense of commutative justice, as Young and Barry Gordon have pointed out, connecting Smith to the 'just price' tradition in scholastic social thought ("Natural Price and Commutative Justice: Adam Smith and the Just Price Traditions," chap. V of Young, *Economics as a Moral Science*).

[71] WN I.X.1.

[72] WN I.X.I.1. Similar considerations play a role for differences in profit, see WN I.X.I.34. For a contemporary discussion of the market's tendency to equalize net profit rates see e.g. Johannes Berger, *Der diskrete Charme des Marktes: Zur sozialen Problematik der Marktwirtschaft* (Wiesbaden: VS Verlag, 2009), chap. III.

[73] As Berger notes, this kind of equality is also the background assumption in the theory of human capital as pioneered by Mincer: in equilibrium, the life-time income of educated and uneducated workers is assumed to be the same; education is more costly first, but leads to higher incomes later on; but the assumption is that it does *not* leave the well-educated better off *overall* (ibid., 75f.).

[74] He contrasts them with the inequalities that are 'occasioned by the Policy of Europe,' which he condemns sharply (WN I.X.II).

[75] Arthur M. Okun, *Equality and Efficiency: The Big Tradeoff* (Brookings Institution Press, 1975), 72, who endorses this point. There is one potential problem in this context: differences between professions might be specific to different cultures. Smith notes that 'players, opera-singers, opera-dancers, &c.' receive a higher remuneration not only because of the rarity of their talents, but also because these professions are publicly

If this holds, there are indeed patterns in market outcomes that can be related to desert. This idea has been taken up by modern theorists who hold that market outcomes are justified as deserved. Often, it is expressed in the – more formal – idea that market wages reflect marginal productivity, which is similar in structure: it holds that wages are deserved if they roughly express the additional output of one additional worker.[76] Even Nozick, a strong opponent of the idea of desert, admits that in such a situation 'heavy strands of patterns' will appear in market outcomes.[77] He argues, however, that there are also other forms of income in a market society: gifts, inheritances or lottery wins cannot be ascribed to desert. Smith and other desert theorists would certainly not deny this. But the existence of these incomes provides no argument against the *labour market*'s ability to reward virtue.[78] The scope of the principle that 'virtue pays' is limited to those who actually practise the virtues; someone who simply *is* rich and does not show any active engagement does not fall under it.[79] It is telling that modern discussions of desert in the market usually restrict themselves to labour income; to apply the underlying idea to *all* aspects of distribution in a market society would not make sense.[80] The existence of undeserved forms of income and wealth requires a separate discussion, and means that one cannot simply infer from the fact that a person is rich or poor that this is deserved – one needs to know more in order to judge whether he or she deserves what he or she possesses as a

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despised so that wages need to be higher in compensation (WN I.VIII.I.25), a statement that depends very much on the cultural norms of his time. More generally, different evaluations may depend on normatively problematic traditions, e.g. traditional gender stereotypes (cf. also Fraser and Honneth, *Redistribution or Recognition?*, 140ff.). Often, however, this will have to do with imbalances of power, which are discussed as a more general problem for the application of the notion of desert to the market below.

[76] Cf. e.g. Miller, *Principles of Social Justice*, 8f., Nozick, *Anarchy, State, And Utopia*, chap. II. Smith himself does not have a theory of marginal productivity determining wages (cf. e.g. E. H. Phelps Brown, "The Labour Market," in *The Market and the State: Essays in Honour of Adam Smith*, ed. Thomas Wilson and Andrew S. Skinner (Oxford: Clarendon Press, 1976), 243-259, 254). He simply holds that the market produces wages that an impartial spectator could endorse. Given, however, that his argument depends on people's adaptive behaviour, which concerns decisions *at the margin*, there clearly is a structural similarity. The conditions for the applicability of the Smithian model also hold for marginal productivity theory; the additional assumptions (and problems) of marginal productivity theory cannot be discussed here.

[77] Nozick, *Anarchy, State, And Utopia*, 157.

[78] The notion of 'labour market' here includes independent artisans and workmen who sell the product of their labour directly. The assumption is that all wages are determined by the market, *not* by different logics such as hierarchy, status or age that might be used for determining wages *within companies*. For a discussion of this problem see Miller, *Principles of Social Justice*, 181.

[79] *Maintaining* a stock of capital could also be a basis for desert, insofar as it presupposes active management and prudent usage of one's resources.

[80] This applies to Miller's and Olsaretti's accounts.

reward for having practized the bourgeois virtues.[81] The 'great mob of mankind' may admire 'wealth and greatness' without asking this question,[82] but an impartial spectator can see the differences, e.g. between someone who has worked hard all his life and someone who has won the jackpot in a lottery or inherited a fortune.[83]

This is an optimistic view, and it seems that those who defend the notion of desert as applicable to markets – such as Miller, Honneth, and Nozick to the degree that he admits 'patterns' – have this view in mind. It should be made clear, however, that Smith relies on a number of rather problematic assumptions about the structure of the labour market; these must also hold, in addition to further assumptions, if the idea that wages mirror marginal productivity is to make sense. To invoke the parallel between the judgments of an impartial spectator and market outcomes presupposes that markets are 'impartial' in a particular sense: individuals must be free to decide between options whenever they like. In the labour market this means that they must be able to switch employers whenever they deem it appropriate. As has been discussed in the previous chapter, this not only presupposes that there are enough options to choose from, but also that the workers' human capital is flexible enough to be used in different jobs. Smith explicitly notes that the equalization of net advantages only comes about 'where every man [is] perfectly free both to chuse what occupation he [thinks] proper, and to change it as often as he [thinks] proper.'[84] If markets are flexible, individuals can leave situations in which they are exploited or treated in morally problematic ways, and the consciousness of this fact will often prevent others from doing this. Let us assume that in a free market the

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[81] Smith's reservations about the relation between virtue and achievement in the 'superior stations' of society (cf. fn. 49 above) might be connected to the fact that with an inherited fortune one has less incentives to be virtuous.

[82] TMS I.III.3.2.

[83] Except for celebrities, these life stories will usually only be known to a small circle of friends and colleagues. In this sense, desert might be honoured (although not necessarily rewarded in monetary terms) even in the Hegelian economy, namely by one's colleagues in the corporation who are able to evaluate the achievements of different workers (cf. Schmidt am Busch, *"Anerkennung" als Prinzip der kritischen Theorie*, 235ff.). Cf. also von Hayek, *The Mirage of Social Justice*, 90, who similarly holds that his picture of the market does not rule out the notion of desert in the context of small groups.

[84] WN I.X.1. The contrast is with the situation in Europe, where these changes are prevented by numerous laws and regulations, *not* with a Hegelian market in which people are tied to particular jobs because of the specificity of their human capital and its meaning for their identity (cf. chap. IV.3 above).

baker from whom people buy their bread abuses and exploits his apprentice in order to raise his profits. Two things will happen: the apprentice will look for another employer (and maybe sue the baker, if he has violated rules of justice), and the people in the neighbourhood, who are outraged at the baker's behaviour, will buy their bread from his competitor. This gives the baker incentives to treat his employees with respect in the first place.[85] In such a situation, the baker cannot earn more by exploiting the apprentice – whereas this may well be the case if the apprentice is completely dependent on him and the customers side with the baker, because the apprentice does not possess full legal standing, and thus is not seen as 'one of them.'[86] In the second scenario, it is the *obstruction* of the free play of market forces, e.g. through apprenticeship regulations, that leads to situations in which virtue is *not* rewarded; income that is earned in this way *cannot* be said to be deserved.

The flexibility of human capital also reduces the influence of luck on market outcomes.[87] Smith is well aware that the market price gravitates towards the natural price only 'in the ordinary,'[88] sometimes extraordinary events distort prices. But if individuals are flexible and can move from one job to another, this is less likely to concern them: they may be lucky in one job, and unlucky in another, but on average, virtuous behaviour will pay more than vicious behaviour.[89] Under such circumstances it is also quite plausible that

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[85] This presupposes, however, that when individuals enter the market, their natural moral sentiments are not overridden by the desire to maximize their material gains, e.g. by buying wherever they can buy cheapest, not matter how many moral failures accompany the production process of a commodity. Smith would certainly have considered such a behaviour as corrupted; his reflections on the weakening of sympathy with people in foreign countries implies, however, that if goods come from distant parts of the world, it is more likely that buyers will not pay attention to the conditions of production (cf. e.g. TMS III.III.4).

[86] Cf. in particular Rothschild (*Economic Sentiments*, 27) on how a free market society abolishes the 'petty and personal despotism' that can occur in relations of personal dependence without legal bases. Cf. also Berger, *Der diskrete Charme des Marktes*, 51, who points out that 'power, discrimination, oppression and exploitation' have no place in perfect markets, but rather in families, companies or the political sphere.

[87] Cf. Miller, *Principles of Social Justice*, 188ff., for a discussion of von Hayek's argument on this. As Miller points out, the more the market is seen as conveying information and channelling goods and services into the right places, the less does it make sense to assume that market outcomes are largely a matter of luck. On this topic, von Hayek is thus closer to the Smithian than to the Hegelian picture.

[88] WN I.VIII.I.44.

[89] Even so, however, Smith was aware that no human society could ever *precisely* match virtues and rewards. Ultimate justice – punishment for injustices and reward for virtue – can only be hoped for in the hereafter (TMS II.II.3.12, III.II.12). Smith mentions the case of a person who has no opportunity to display his or her true 'moral and intellectual qualities,' because he or she is 'depressed by fortune.' He holds that in the hereafter such a person will be ranked with those who 'enjoyed the highest reputation, and who, from the advantage of their situation, had been enabled to perform the most splendid and dazzling actions' (TMS III.II.33.). It is well possible that he wrote this passage with commercial society in mind – even there, such

market outcomes depend on factors that human beings can control and be held responsible for, such as effort and choice, rather than inherited talents and chance – as mentioned above, this is the great worry of many leftist critics of the notion of desert. Smith does not address this problem, but one can see why for him it is not as urgent as it may be today. First, he thinks that people are by nature very equal,[90] and by arguing that the state should provide basic education for all, he makes sure that no one is left behind without acquiring the basic abilities – reading, writing, and accounting[91] – that are needed in commercial society. Secondly, insofar as he assumes that human capital can easily be acquired and that people can switch between jobs, choice and effort do indeed play a great role in determining one's success. To invest one's monetary and human capital in the right ways is part of what the market rewards – and in Smith's account this is a continuous process over the course of one's adult life, so that it seems quite plausible that people can to a large degree be held responsible for it.[92]

This harmonious picture is threatened, however, when the market is less-than-perfectly competitive, and in particular when there are imbalances of power between different parties. Smith himself discusses this problem with regard to the relation between employers and employees in wage negotiations.[93] The employers can hold out longer without the workers than the other way round; in addition, they can 'combine much more

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cases cannot be excluded. But a well-ordered commercial society is suited better than any other social system to minimize the likelihood of such cases (cf. also Spencer J. Pack, *Capitalism as a Moral System: Adam Smith's Critique of the Free Market Economy* (Aldershot: Elgar, 1991), 67). Smith's hope for true justice in the hereafter should not be mistaken for a Feuerbachian consolation for those whose life is a failure: Smith emphasises that it is 'not only by the weaknesses, by the hopes and fears of human nature, but by the noblest and best principles which belong to it, by the love of virtue, and by the abhorrence of vice and injustice' that we are led to belief in a future state (TMS III.V.10; for a discussion of the parallels to Kant see Lindgren, *The Social Philosophy of Adam Smith*, chap. VII).

[90] Cf. chap. IV.3.

[91] WN V.I.III.II.16.

[92] Cf. also Miller, *Principles of Social Justice*, 145, who holds that '[d]esert is strengthened when opportunities to become deserving themselves depend on the initiative and choice of individuals, and are not artificially distributed by some other human agency.'

[93] WN I.VIII.12. In these passages it is obvious that he writes before the time of labour unions, which makes a direct application to today's world problematic. But on a structural level, his arguments apply to *any* imbalances of power between different groups in markets.

easily,' as they are fewer in number, and often have the law on their side.[94] Wages are thus determined not by the free play of the market forces, but by the 'bargaining power' of the different parties.[95] It should be clear, however, that prices that have come about in this way can hardly be seen as embodying the judgement of an impartial spectator – or, for that matter, marginal productivity. The picture Smith draws of these wage negotiations is more akin to the relations between feudal lords and their dependants than to the 'haggling and bargaining' of a free market. More generally, whenever there is one-sided power that distorts prices, market outcomes cannot be justified as rewards for virtue along the line pursued here.[96]

In the Smithian market, the pressure on workers is considerably diminished, however, if the employers have to compete for labourers as much as the workers for jobs. This is the case in a growing economy, as for example the American colonies of Smith's day.[97] If the workers have a meaningful[98] choice between different options, the wage setting mechanism becomes more similar to the judgement of an impartial spectator than when they are forced, by sheer necessity, to take the first offer they can get, or when the employers conspire to lower wages.

The Hegelian market is completely different in this respect. As we have seen, his Dionysian picture of the market makes it problematic to search for *any* orderly patterns in the economic realm. The decisive factor is, however, that Hegel's individuals do *not* have the broad choice between different occupations that Smith assumes them to have. In the Hegelian account, people are caught in one profession, which makes them vulnerable to

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[94] Cf. also WN I.XI.Concl.9ff. on the differences in the ability of these groups to influence the legislator in their favour.
[95] Cropsey, *Polity and Political Economy*, 75.
[96] For a discussion of the contemporary relevance of this problem, in particular in the form of voluntary bondage, child labour and dept peonage see Debra Satz, "Liberalism, Economic Freedom, And The Limits Of Markets," *Social Philosophy and Policy* 24, no. 1 (2007): 120-140, who emphasises that Smith saw the problem of unequal power in labour markets in a much more differentiated way than many other classical liberal thinkers and mainstream economists.
[97] WN I.VIII.22. For a discussion of Smith's position on the American question see e.g. Skinner, *A System of Social Science*, chap. IX, who writes that 'America […] had acquired the status of an experiment which "confirmed" Smith's theses' (227).
[98] I.e. not only equally bad options, e.g. to be exploited in either this or that factory.

the caprice of others.[99] They make a once-for-all-decision which profession to choose and it is clear that their family background, as well as good or back luck, can have a great influence on it[100] – but in contrast to the Smithian individuals they cannot liberate themselves from it by choosing a different position later in life. It is thus the combination of subjective freedom in *consumption and investment*, and less-than-perfect freedom in people's choices of *occupations*, that leads to a situation in which ascriptions of desert in the market become extremely difficult.

Subjective freedom, however, is itself an important value. For Hegel, there is thus an inevitable tension between the market as a realm of subjective freedom and the idea that it could reward virtue. If *all* citizens were *always* free to change jobs whenever they liked, this problem could be circumvented. But as this hardly ever is the case, for many practical questions this is a very real tension. Both principles, subjective freedom *and* the idea that income should track desert in some sense, are key elements of the vision of a modern society, and as such they still have considerable force. For Hegel and Smith, they have a deep, even metaphysical, dimension that supports the claims they make about the superiority of modern society.

As we have seen,[101] for Hegel the question of how to integrate subjective freedom into a social whole without undermining it is *the* question of modern society. For Smith, on the other hand, the question of the just reward for virtue is central for the construction of his whole system.[102] Commercial society is, for Smith, the *natural* order of the social cosmos; this is expressed, in particular, in the legal equality of all citizens which

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[99] Cf. also Miller, *Principles of Social Justice*, 133ff., who argues that for the notion of desert to be applicable, actions must not be coerced or manipulated. It depends on someone's notion of coercion whether economic necessities count at coercion, but on the Hegelian picture, this is quite plausible.

[100] Olsaretti in fact discusses this example – the choice to train in a certain profession – as one of the ways in which luck enters the market process and destroys the applicability of the notion of desert (*Liberty, Desert and the Market*, 73).

[101] Cf. chap. III.4-5.

[102] How much Smith cared about this principle can be seen from a letter to Edmund Burke written in 1783, in which he congratulated him on his appointment as Paymaster General, writing '…it gives me […] great satisfaction to see, that what was so agreeable to the highest principles of honour may in the end prove not inconsistent with interest' (Corr. # 226, cf. also Hanley, *Adam Smith and the Character of Virtue*, 126f., for a discussion).

corresponds to the perspective of the impartial spectator. It *does* admit differences in wealth and rank – but these have to be distributed in ways that can be endorsed by an impartial spectator. The above-average rewards must go to those whose behaviour supports and stabilizes the social order, i.e. those who live virtuously; or at least they must *also* go to the virtuous, in addition to inherited fortunes and instances of pure luck. If this were not the case, if all prizes went to the most vicious, the social order would undermine exactly those character traits of its citizens that it relies on for a peaceful and flourishing existence. Moreover, if the market systematically led to the flourishing of the vicious and the decay of the virtuous, it could not be seen as just, and this would make it difficult to describe its creator as benevolent. So for Smith it is a requirement almost at the level of a theodicy that in commercial society virtue pays, at least for most people, most of the time, in the long run.[103] For Hegel, in contrast, the theodicy lies in understanding that world-history, with all its injustices and cruelties, is the development of *freedom*. Just as people and civilizations have to be sacrificed on the path to freedom, the principle of subjective freedom is so central that concerns about justice in commercial society have to be sacrificed to it.

These findings leave us in a dilemma. The idea that markets should reward certain forms of behaviour rather than others is immensely powerful – but can we still make sense of the Smithian model today? Or is the market such that *if* we want to preserve it as a space for subjective freedom, we have to give up the notion of desert? This question, as well as some broader reflections on the role of the notion of desert in the market, will be taken up in the conclusion. Before, however, a second aspect of the question of social justice, the problem of poverty and social exclusion, needs to be addressed.

[103] There is a passage in the *Early Draft* which seems to speak against my reading, however. Smith argues that 'those who labour most get least,' comparing a rich merchant and his 'clerks and accountants,' as well as an artisan and a poor agricultural worker (ED I.5). The rich merchant, however, might have acquired his advantage through unequal market power, as has been discussed earlier. As far as the artisan and the labourer are concerned, the remark is problematic for my reading. It might be accommodated, however, as describing a certain stage in the development of commercial society rather than its long-run tendency – a vicious artisan should, in the long-run, fall below the station of a virtuous, hard-working labourer in agriculture, or the labourer should be able to work his way up to other jobs.

V.3 What about the poor?

Arguments for social justice are often voiced out of a concern for the poor. This is particularly plausible when one holds that markets do *not* reward desert, or that desert is not a normatively relevant category at all. But even when one thinks that a notion of desert can, with qualifications, play a role in markets, this is not incompatible with worrying about the market's effects on the worst-off, either because one holds that not *all* poverty is deserved (and maybe we cannot tell the difference), or because one holds that poverty should be alleviated, whether deserved or not. The question is, however, how exactly the problem of poverty relates to the market. The answer I provide in this section has two parts: on the one hand, not all kinds of poverty and social exclusion can be ascribed to the *market*, on the other hand, it depends on one's view of the market whether it is seen as a panacea for, or a threat to, the poor.

Often, social exclusion and poverty hit certain social groups particularly hard, e.g. racial or religious minorities, and this kind of discrimination is sometimes imputed to the market. One has to ask, however, in what sense the market could be responsible for it. It is helpful to distinguish between the market in the sense of a set of formal rules and institutions, and the market participants' *choices* within this framework – as we shall see, the market in the former sense can eventually even work *against* such discrimination.

As has been emphasized, for Smith and Hegel the market functions against a background of equal rights, which protect *everyone*'s person and property.[104] The Smithian sovereign owes 'justice and equality of treatment' to 'all the different orders of his subjects.'[105] For Hegel, 'abstract right' protects all citizens equally: 'a man counts as a man in virtue of his manhood alone, not because he is a Jew, Catholic, Protestant, German, Italian, &c.'[106] Thus, in the market individuals meet as persons with equal rights who need

[104] Unless, that is, some groups are not even given legal equality; in this case, however, the problems are much deeper and cannot be imputed to the market alone.
[105] WN IV.VIII.30.
[106] PR §209, cf. Enc §488, §539. Cf. Ritter, *Hegel and the French Revolution*, 76ff., for a discussion that connects this topic to Hegel's views of the French Revolution.

to recognize each other as such in order to enter into reciprocal exchange relations.[107] Moreover, these equal rights are the *only* rights that play a role in the market. One might expect, therefore, that market interactions can help to grind down inequalities that result from *other* factors, such as race, gender, or religion, which are irrelevant for one's ability to trade in the market. After all, social relations in a market society are fluid, and such differences cannot be cemented by legal protection.[108] In Smith, we find a strong sense that those who have arrived at a position of wealth are not – or should not be – able to secure it against the forces of the market.[109] If this is the case, markets not only *presuppose* legal equality, and thus the negative liberty of *all*, but might also *strengthen* it.[110]

However, the power of the market to strengthen equality should not be overestimated, and Smith is quite aware of this. For one thing, the challenge to maintain legal equality in the face of large inequalities of wealth and income is considerable, as the pressures by those who are *economically* powerful on those who are *politically* powerful – and thus should take on an impartial perspective – can be immense, as can be the temptations for those in political power to abuse it in order to improve their economic position.[111] When this happens, rather than *strengthening* legal equality, the market and the inequalities it creates *undermine* it.

As a matter of fact, market economies have co-existed with blatant discrimination of minorities. The relations between economic motives and racial prejudices have even been turned into a whole research programme on 'economics of discrimination,' spearheaded by Gary Becker.[112] It deals not so much with the legal framework of the

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[107] For a discussion of exchange as a 'form of reciprocally recognizing, second-person interaction' in Smith see Darwall, "Equal dignity in Adam Smith," 133; cf. also Thomas J. Lewis, "Persuasion, Domination and Exchange: Adam Smith on the Political Consequences of Markets," *Canadian Journal of Political Science / Revue canadienne de science politique* 33, no. 2 (2000): 273-289, who contrast the egalitarian ethos of exchange with the domination and dependence of feudal society. Hegel emphasises the equality of men in civil society who encounter each other in reciprocal relations in which they are all 'being recognized' in PR §192.
[108] Cf. in particular Young, *Economics as a Moral Science*, 139f.
[109] He argues that in 'commercial countries' (in contrast to feudal societies) it is unlikely that families stay rich for very long, as in some generation or other some profligate will squander the money and the families have no means of cementing their position through legal regulations (WN III.IX.16).
[110] Cf. chap. VI.4.
[111] Cf. chap. II.5.
[112] Gary S. Becker, *The Economics of Discrimination* (Chicago: University of Chicago Press, 1957).

market, but with the preferences of the market participants. Becker shows that there can be a 'taste' for discrimination, and people may even be willing to accept material disadvantages in order to nurture it.[113] This shows that the assumption that people are interested only in material gain is problematic even in cases in which this might actually lead to beneficial outcomes. In order to address problems of ethnic or religious discrimination, it is thus important to distinguish the cause of this kind of inequality – namely people's 'taste' for discrimination – from inequalities caused by the market as such; the market can *perpetuate* inequalities based on the discriminatory choices of its participants, but if its framework is just, it does not *cause* them.

Within a framework of equal laws, however, commercial society allows massive inequalities of income and wealth. As Hegel notes, from the point of view of the law, 'what and how much I possess […] is a matter of indifference.'[114] The question we need to address, therefore, is how the market affects the distribution of income *within* this set of equal rights. Smith's and Hegel's views of the market vary widely with regard to this question.

For Smith, the economic growth of commercial society is a tide that lifts all boats, and creates unprecedented wealth even for those in the lowest echelons of society:

> …the accommodation of an European prince does not always so much exceed that of an industrious and frugal peasant, as the accommodation of the latter exceeds that of many an African king, the absolute master of the lives and liberties of ten thousand naked savages.[115]

This 'paradox of civil society'[116] can already be found in Locke's *Second Treatise*,[117] and many 18th-century writers mused about it.[118] What particularly strikes Smith is that the poor

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[113] A similar phenomenon is discussed by Smith: the case of the 'colliers and salters' in Scotland, who were paid higher wages than the colliers elsewhere, but suffered from considerable restrictions on their liberty. Smith argues that it is the 'love of domination and authority over others, which I am afraid is naturall to mankind,' which makes the employers accept having to pay the higher wages rather than giving the workers full liberty and paying lower wages (LJ(A)192, cf. Lewis, "Persuasion, Domination and Exchange," 285f. for a discussion).
[114] PR §49.
[115] WN I.I.11, cf. ED I.1, LJ(A) 337, 340.
[116] Cf. e.g. Istvan Hont, *The Jealousy of Trade* (Cambridge, MA.: Harvard University Press, 2005), 92.
[117] According to Locke 'a king of a large and fruitful territory there [in America] feeds, lodges, and is clad worse than a daylabourer in England (chap. 5 sec. 41 of John Locke, *The second treatise on government; and A letter concerning toleration* (Mineola, N.Y.: Dover Publications, 2002).
[118] E.g. Mandeville, Hutcheson, Hume, Johnson, cf. Winch, *Riches and Poverty*, 57f.

members of commercial society are better off than those in a 'savage state' *despite* the fact that their labour supports not only themselves, but also has to carry the weight of all those who do *not* work, or do not work 'productively.'[119] Smith is more radical in his formulations in the *Early Draft* and the *Lectures on Jurisprudence* than in the *Wealth*, claiming that 'he who, as it were, bears the burthen of society has the fewest advantages'[120] – and *yet* such persons are better off than they would be in a 'savage state' in which the fruits of their labour would all fall to themselves.

Economic growth is a 'consequence of the division of labour,' which leads to 'that universal opulence which extends itself to the lowest rank of the people.'[121] To allow for the full development of the division of labour, however, inequalities need to be admitted: they necessarily arise from 'the various degrees of capacity, industry, and diligence in the different individuals.'[122] But these inequalities are 'useful,' because they lead to the 'assistance and co-operation of many thousands' in providing men with the necessities and luxuries of life.[123] As the economy is a win-win-game, rather than a zero-sum-game, it is no loss to society that some have a larger piece of the cake than others – this helps to make the cake larger, and thus is beneficial for everyone.[124]

That the poor are better off in commercial society is one of Smith's main arguments for endorsing it. As we have seen, he sees the 'liberal reward of labour' as 'the natural symptom of increasing national wealth,'[125] and understands 'opulence' as a state in which prices are low and wages high, so that the members of the working class can live comfortably.[126] The progressiveness of this view becomes clear when one takes into

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[119] WN II.III.1; Smith emphasises that both types of labour, productive and unproductive, can be socially useful, but only 'productive' labour 'fixes and realizes itself in some particular subject or vendible commodity, which lasts for some time at least after that labour is past' (ibid.). The point is thus a distinction of investive versus consumptive behaviour. For a discussion see e.g. Blaug, *Economic theory in retrospect*, 53ff.
[120] LJ(B) 489.
[121] WN I.I.10, cf. ED I.10.
[122] LJ(A) 337f.
[123] WN I.I.11.
[124] Cf. WN IV.III.II.11, LJ(A) 50.
[125] WN I.VIII.27.
[126] WN I.VIII.36, cf. also ED I.12, where he calls the 'high price of labour' 'the essence of public opulence.' Cf. chap. II.5-6 above.

account that Smith writes at a time when poverty was still widely considered an ineradicable social reality, and when many thought that the poor needed to be *kept poor* because of society's need for cheap labour.[127] Smith explicitly rejects this view:

> Servants, labourers and workmen of different kinds, make up the far greater part of every great political society. But what improves the circumstances of the greater part can never be regarded as an inconveniency to the whole. No society can surely be flourishing and happy, of which the far greater part of the members are poor and miserable. It is but equity, besides, that they who feed, cloath and lodge the whole body of the people, should have such a share of the produce of their own labour as to be themselves tolerably well fed, cloathed and lodged.[128]

Smith was optimistic that high wages would not make the poor go idle; he thought, on the contrary, that the 'liberal reward of labour' would 'increase[…] the industry of the common people,' improve their 'bodily strength,'[129] and make them 'more active, diligent, and expeditious.'[130] The better position of the poor is a central aspect of Smith's answer to the Rousseauan critique of modern society: the alternative of going back to a more equal society would leave the poorest members of society – and indeed everyone else – much worse off than they are in commercial society.[131] Smith's arguments for the 'system of natural liberty' can thus be seen as a kind of 'maximin'-concern for the poor in Rawls's sense: they fare better in a free market than under all relevant alternatives Smith can imagine.[132]

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[127] Cf. Gertrude Himmelfarb, *The Idea of Poverty* (New York: Knopf, 1983), chap. II, who calls Smith's views 'genuinely revolutionary' (46); cf. also Fleischacker, *On Adam Smith's Wealth of Nations*, 205ff. As Fleischacker notes, Smith might have been silent on additional political measures against poverty because he found the literature of his time on this topic, 'nauseatingly patronizing' and wanted to distance himself from it (*A third concept of liberty*, 167). What is less revolutionary, and more within the spirit of his time, is that Smith also equates the growth of the population with 'public prosperity' (WN I.VIII.37ff.), and also has a Malthusian notion that 'the demand for men, like that for any other commodity, necessarily regulates the production of men' (I.VIII.40). This does not contradict his concern for the material well-being of the poor, however, if only because dire poverty is bad for bringing up children.

[128] WN I.VIII.36. It is interesting to note that Smith uses the term 'equity' rather than 'justice.' As other usages of these terms in WN and LJ show, he uses 'justice' for commutative justice, and 'equity' when a certain outcome is desirable from the perspective of an impartial spectator, but not necessarily codified (or codifiable) in positive law (cf. e.g. WN III.IV.8, LJ(A) 105, LJ(A) 119).

[129] WN I.VIII.44.

[130] Ibid. The only risk of high wages is that they may lead workers to overwork themselves, risking their health for the sake of money (ibid.).

[131] Cf. in particular Ignatieff, "Smith and Rousseau," 116ff., and Rasmussen, *The Problems and Promise of Commercial Society*, 101ff. There is a remark in TMS IV.I.10 that might seem to be at odds with the concern for the material situation of the worst-off: 'In ease of body and peace of mind, all the different ranks of life are nearly upon a level, and the beggar, who suns himself by the side of the highway, possesses that security which kings are fighting for.' Starting from a low level, however, improvements of the material situation can have a value in itself even if they do not change people's *subjective* well-being; in addition, there is the social-psychological effect of an improvement of the situation of the worst-off discussed below.

[132] Cf. e.g. Fleischacker, *On Adam Smith's Wealth of Nations*, 225.

In our present context it is important to emphasise that this improvement of the situation of the poor is brought about *without* any infringements of 'strict justice,' i.e. individual property rights.[133] Some commentators discover concerns in Smith that point to redistributive measures by the *state*, e.g. in his remark about public subsidies for schools.[134] On the whole, however, Smith is clearly committed to a strict defence of property rights, and to the abolition of unjust, one-sided privileges for the rich, and assumes that the beneficial workings of free markets would then help the poor to provide for themselves. It is not because Smith did not care for the fate of the poor that the state should abstain from interventions in the market, on the contrary: he takes it that as a rule of thumb the free market is *better* suited to improve their situation than any redistributive measures.

Whereas in Smith's picture the free market helps to overcome poverty, for Hegel the market *creates* poverty. This change of vision may have been influenced by the onset of the 'industrial revolution' and mass pauperism in England, which was seen as having the most 'advanced' economy.[135] In Hegel's eyes, the market has the effect described in the gospel according to St Matthew: 'For to all those who have, more will be given, and they will have an abundance; but from those who have nothing, even what they have will be taken away.'[136] Hegel quotes the first half of this verdict in the 1805/06 Jena manuscripts with regard to the rich in commercial society;[137] in the published version of the *Philosophy of Right*

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133 Cf. in particular Hont and Ignatieff, "Needs and justice in the Wealth of Nations." As they argue, WN was centrally concerned with a question inherited from the natural jurisprudence tradition, namely how to combine secure property rights (which imply inequality of property) with an adequate provision for those without property. For a critical discussion see e.g. Samuel Fleischacker, *A Short History of Distributive Justice* (Cambridge, MA: Harvard University Press, 2004), 18, 32ff.

134 WN V.I.III.II.55, cf. Fleischacker, *On Adam Smith's Wealth of Nations*, 205. Among commentators Fleischacker has put most emphasis on redistributive concerns to Smith, but he rightly underlines that a large part of them have to do with *abolishing* measures such as the apprenticeship regulations or the poor laws that *hinder* the economic activities of the poor, so that they can take their fate into their own hands. For a discussion see also Gordon and Young, "Distributive Justice" (chap. VI in Young, *Economics as a Moral Science*.).

135 Cf. chap. III.4.

136 Matthew 25:29, New Revised Standard Edition. The term 'Matthew effect' has been coined by Robert Merton, who applied it to the sociology of science and argued that successful, well-known scientists tend to reap disproportionally more fruits than less well-known ones with equally important contributions ("The Matthew Effect in Science," *Science* 159, no. 3810 (1968): 59-63).

137 *Jenenser Realphilosophie II*, 140.

it is the second half that seems particularly relevant for considering the situation of the poor.

Hegel shares Smith's views about the necessity of inequality as resulting from the principle of 'particularity' in civil society: men differ with regard to their 'subjective aims, needs, arbitrariness, abilities, external circumstances and so forth,'[138] which also leads to an unequal distribution of income and wealth. The problem is, however, that the tendency towards more inequality is self-reinforcing: wealth tends to flow to those who already have something. In the Jena manuscripts Hegel compares wealth to physical mass: 'a greater mass attracts the smaller ones to itself;'[139] and in later lectures he holds that those who have a large capital stock are automatically privileged in the market, as they can afford lower profits per unit of capital.[140] What separates Hegel even more from Smith, however, is the fact that he does *not* assume that the wealth created by the rich 'trickles down' to the poorer strata of society. Civil society is 'a spectacle of extravagance *and want*,'[141] and there is nothing in the working of the market as such that would reduce this want. Although he does not make it explicit, Hegel seems to assume that rather than employers competing for workers, workers compete for jobs, which pushes wages down – something that for Smith only happens in the 'declining' or 'stationary' scenario.

The greatest problem, however, is that the market can throw people into desperate poverty, so that they do not have any chance of working their way up again. Hegel is not quite clear whether this can happen *only* when workers lose their jobs, but this is certainly the greatest risk to which they are exposed. As we have seen, their human capital usually qualifies them to work in one particular industry – but in the chaotic play of the market forces, any branch of industry can 'go dry,' for example when fashions change or when there are 'inventions in other countries.'[142] These risks increase when those who are rich

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138 PR §49.
139 *Jenenser Realphilosophie II*, 140.
140 Griesheim, 494, 609.
141 PR §185, italics added.
142 *Jenenser Realphilosophie II*, 139f.

become ever more reckless, and invest in ever riskier business opportunities: if these fail, more workers are thrown into despair.[143]

For Smith, poverty can be overcome if the market is liberated from unjust remnants of feudal times; for Hegel, solving the problem of poverty is much harder. He is clear that as civil society has disrupted the bonds of the family, the 'public authority takes the place of the family'[144] and is thus responsible for the care of the poor. The problem, however, is not so much that there are not enough material resources to do this. Rather, there is not enough *work*. Private charity, in addition to being 'dependent on contingency,'[145] can provide an income, but it cannot create new jobs. The same is true if 'the burden of maintaining [the poor] at their ordinary standard of living' is laid either directly on the rich, or on 'rich endowments, monasteries or other foundations.'[146] This leads to an income that is not 'mediated' by work, which means that it would 'violate the principle of civil society and the feeling of individual independence and self-respect in its individual members.'[147] But if the state authorities (or private benefactors) provided opportunities to work just for the sake of creating employment, this would increase overproduction, and thus intensify the problem of poverty rather than alleviate it.[148] The dialectic of overproduction drives civil society to other continents, where it looks for new markets in colonies[149] – but this only underlines the fact that it does not have a solution for the problem of poverty *within* its own boundaries.[150]

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143 PR §241, Griesheim, 495. The process is self-reinforcing: the more people fall into poverty, the easier it becomes for those in the higher echelons of society to concentrate 'disproportionate wealth in a few hands' (PR §244, cf. Hotho, 608).
144 PR §240.
145 PR §242.
146 PR §245.
147 PR §245, cf. also Griesheim, 498. As Priddat notes, from his earliest political writings onwards Hegel holds that it is more dignified to earn money through one's own work than to receive alms (*Hegel als Ökonom*, 38ff.).
148 PR §245. This argument shows that despite quoting Say as an author of political economy, Hegel does not believe in Say's famous law, according to which supply creates its own demand. This law only holds, however, if all income is used for consumption rather than hoarding. Hegel might have found the idea that the use of money makes possible imbalances between global supply and demand in Steuart (cf. Chamley, "Les origines de la pensée économique de Hegel," 254). For a discussion of Say's law see e.g. Blaug, *Economic theory in retrospect*, chap. VI.
149 PR §246ff.
150 This has been emphasised in particular by Avineri (*Hegel's theory of the modern state*), who argues that there is no comparable place in Hegel's system where he leaves a problem open without providing a 'sublation'

One might think that for Hegel the only solution to the problem of poverty lies in the corporations, the 'second famil[ies]'[151] of civil society. One of their roles is, after all, to offer a social insurance: if some members fall into distress, they are supported by the richer members. Moreover, Hegel discusses them *after* having described the failure of the police's measures to fight poverty, which might indicate that they present a response to the problems discussed earlier; Hegel also argues that the wretched poverty in Great Britain is a result of the 'abolition of the Guild Corporations.'[152] The question is, however, whether the corporations can be reintroduced when a certain proportion of the population have already fallen into poverty; in addition, not every worker is a member of a corporation.[153] In the end, Hegel resignedly notes that the best solution might be to let the poor beg for themselves,[154] as all other measures fail. '[H]ow poverty is to be abolished' remains 'one of the most disturbing problems which agitate modern society.'[155]

To understand why this is so problematic for Hegel, one has to take into account the non-material dimensions of poverty, which both Smith and he see very clearly. They share a sense that poverty, even when it is only relative, is a problem not only of material deprivation, but also of social exclusion and the attitude towards society and towards oneself, respect from others and self-respect. Smith speaks about the shame which the poor feel when they are despised and overlooked,[156] and holds that everyone should have the minimum of material goods that is needed in order 'to appear in public' without shame.[157] Hegel is even more explicit about the non-material consequences of poverty. The poor of civil society may be better off than the inhabitants of a 'savage' state, but Hegel,

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(151f.); for discussions see, e.g. Plant, "Economic and Social Integration in Hegel's Political Philosophy;" Robert Fatton Jr., "Hegel and the Riddle of Poverty: The Limits of Bourgeoise Political Economy," *History of Political Economy* 18, no. 4 (1986): 579-600; Hardimon, *Hegel's Social Philosophy*, 241ff.; Neuhouser, *Foundations of Hegel's Social Theory*, 173f.; Wood, *Hegel's Ethical Thought*, 250ff. and Neschen, *Ethik und Ökonomie in Hegels Philosophie und in modernen wirtschaftsethischen Entwürfen*, 202ff.

151 PR §252.

152 PR §245, cf. Hotho, 711. Hegel also indicates that the 'luxury of the business classes and their passion for extravangance' play a role in the creation of the rabble; the corporations could thus also play a role in fighting poverty in preventing such excesses (PR §253, cf. also chap. VI.3).

153 Day labourers and unskilled workers are no members, cf. PR §252.

154 PR §245, Griesheim, 611f.

155 PR §244Z, cf. also Hotho, 703.

156 TMS I.III.2.1. Cf. Hanley, *Adam Smith and the Character of Virtue*, 50, for a discussion.

157 WN V.II.II.IV.3.

like Smith, accepts that poverty is relative to the prevailing conditions, with the minimum subsistence level varying 'considerably in different countries.'[158] The poor do not compare their situation to that of earlier epochs, but to that of the richer strata of their own society.[159] Thus, the bitter irony of poverty in civil society is that the *desires* of the poor are as much socially determined as those of the rich; they see all the luxury that they might acquire, but know that these objects are other people's property, inaccessible for them.[160] Many poor[161] therefore resent the society which denies them access to these riches, and develop a 'rabble' mentality, consisting in a 'loss of the sense of right and wrong, of honesty and the self-respect which makes a man insist on maintaining himself by his own work and effort.'[162]

Hegel seems to be in two minds in his evaluation of this mentality. On the one hand, he rejects it, on the other, he sees very clearly that the poor cannot 'enjoy the broader freedoms and especially the intellectual benefits of civil society,'[163] which seems to justify their indignation. Maybe the most important benefit of civil society that the members of the 'rabble' lack is a professional identity, 'honour' and the *Bildung* that one acquires through work, and it is quite plausible that without these they also lose the willingness to work for their subsistence.[164]

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158 PR §244Z, Griesheim, 608, cf. Avineri, *Hegel's theory of the modern state*, 149; Richard A. Davis, "Property and Labor in Hegel's Concept of Freedom," in *Hegel on Economics and Freedom*, ed. William Maker (Macon, GA: Mercer University Press, 1987), 183-208, 201ff.

159 In a state of nature the poor cannot accuse nature of their misery, because 'nature' is not a responsible agent, but 'once society is established, poverty immediately takes the form of a wrong done to one class by another' (PR §244Z). This issue becomes particularly urgent when one considers that the subjective freedom and 'caprice' of *some* can throw *others* into misery, as the passage in PR §240 seems to imply.

160 PR §195. In addition, in civil society the producers arouse ever new and ever more refined desires in the customers, which diminishes the subjectively felt situation of the poor even more (Griesheim, 493).

161 It is not poverty itself that turns someone into a member of the rabble, but rather 'a disposition of mind, an inner indignation against the rich, against society, against the government, &c.,' joint with 'frivolity' and 'idleness' (PR §244Z, cf. also his remark that there can also be rich rabble in Griesheim, 608), but Hegel does not give a reason for why some poor individuals would turn into 'rabble' and others not.

162 PR §244.

163 PR §243.

164 PR §244Z, Hotho, 703, Griesheim, 606ff. In the Griesheim lectures Hegel notes that without a profession one cannot teach one's children abilities and knowledge, one depends on charity for medical and legal services and one cannot even enjoy the consolation of religion, as one cannot go to church 'in rags' (ibid.).

While the material side of poverty has to some degree been overcome by social insurance and the welfare state,[165] the question of its non-material effects is still very much with us.[166] Smith's and Hegel's answers, again, differ. For Smith, a well-ordered market society in which there is economic growth[167] has an inherent tendency to curb these problems. Not only, as we already have seen, does it improve the situation of the poor, because wealth trickles down to all classes. In addition, profits will sink in the long run, as a result of increased competition for less and less profitable outlets of investment.[168] As with the rise of wages, Smith holds that this development has already started in England, and can be expected to continue.[169] The rents for land rise with a growing economy as land gets scarcer;[170] they go down, however, when the productivity of the land cannot be increased any more.[171] If one adds up these remarks, it is clear that the long-run tendency in commercial society is towards more material equality,[172] and towards a situation in which more of the differences in income are the result of desert, as capital income declines. More equality, however, can lead to more sympathy and more mutual respect between the different strata of society. For Smith, to feel sympathy with others one has to be 'in some measure […] at ease [oneself];'[173] a condition that is fulfilled even for the poorest citizens in a well-ordered commercial society. When men are very unequal, they may be unable to put

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165 Ideas about social insurance had already been discussed by Enlightenment thinkers like Paine and Condorcet (cf. Gareth Stedman Jones, *An End To Poverty? A Historical Debate* (New York: Columbia University Press, 2004), chap. I), but it only became widespread in the late 19th century.

166 Cf. e.g. Frazer's and Honneth's debate in *Redistribution or Recognition?* on whether recognition and redistribution should be seen as two different aims of social justice (Frazer) or whether questions of redistribution can be subsumed under a theory of recognition (Honneth). They share the assumption that *both* aspects are central in addressing the problem of poverty and inequality.

167 Cf. Smith's remarks on the growing, stationary and declining state WN I.VIII (cf. chap. II.6). In the stationary or declining state, wages are pressed down to subsistence level, and the population shrinks, but this is not the relevant case for the countries of Europe (cf. WN I.XI.15). On China, which is his example for a stationary state, he notes that this is not so much a result of its 'soil, climate, and situation' but of its 'laws and institutions' (ibid.).

168 WN I.IX.2ff., cf. also II.IV.5ff. In the 'ruin of their country,' on the contrary, manufacturers can flourish (IV.I.29). Smith holds that the interests of merchants and manufacturers are therefore always to a certain degree opposed to that of the country as a whole (I.XI.Concl.10). The only exception to this rule are new colonies, in which there can be *both* high wages and high profits (I.XI.11).

169 WN I.IX.6. Secure property rights reinforce this development: the more legal security, the lower the interest rates, as traders do not need to demand a risk premium any more (I.XI.16f.).

170 WN I.XI.Concl.8.

171 WN II.III.9.

172 Cf. also Schliesser, "Some Principles of Adam Smith's Newtonian Methods," 37.

173 TMS V.II.9, for discussions cf. Robertson, *The Scottish Enlightenment and the Militia Issue*, 223; Billet, "The Just Economy," 300ff.

themselves into the other person's shoes.[174] But if their material situations become more and more similar, it is likely that they will feel more and more sympathy with one another, and thus also more mutual respect. In Smith's optimistic vision, the poorer layers of commercial society are materially better off, but also more independent-minded and better educated.[175] They are recognized as equal members of society, as 'responsible, moral agents'[176] in a 'culture of respectability which [extends] to all social orders.'[177] There will never be complete equality, but all can afford the leather shoes without which one would be 'ashamed to appear in public'[178] – and the long-term tendencies are towards even more equality, and hence even more mutual respect and recognition of all citizens.[179]

All this hinges, however, on the optimistic assumption that the economy is growing, and that what the bulk of the population has to offer – their labour – is sought after, so that the wages are driven upwards.[180] This assumption thus carries immense weight in the architecture of the Smithian system. In the Hegelian picture, in contrast, the problem of the rabble is to be solved, or attenuated, by the police and the corporations, but it remains unclear whether this will be successful. The weight which in Smith's system rests on the assumption of economic growth thus rests on these institutions and their ability to integrate the poor.

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[174] Cf. Smith's remarks on the fate of slaves being much worse in a rich than in a poor society, because in the former their owners are at such a distance from them with regard to their way of life that they do not even consider them to be human beings (LJ(A) 184).
[175] Cf. WN IV.VII.III.54, where Smith holds that if the lower classes are 'instructed and intelligent,' they 'feel themselves, each individually, more respectable, and more likely to obtain the respect of their lawful superiors, and they are therefore more disposed to respect those superiors,' which is an additional reason for the sovereign to care about public education (V.I.III.II.61).
[176] Himmelfarb, *The Idea of Poverty*, 63.
[177] Muller, *Adam Smith in his Time and ours*, 95.
[178] WN V.II.II.IV.3. Smith here explicitly defines 'necessities' as 'not only the commodities which are indispensably necessary for the support of life, but whatever the custom of the country renders it indecent for creditable people, even of the lowest order, to be without.' Cf. also Rothschild and Sen, "Adam Smith's Economics," 360, for a discussion.
[179] There is one remark in WN that seems to contradict this reading: 'Wherever there is great property, there is great inequality. For one very rich man, there must be at least five hundred poor, and the affluence of the few supposes the indigence of the many' (V.I.II.2). The question is, however, *how* poor these poor are – cf. the remarks about the social relativity of what a 'necessity' is – and the fact that this is the *only* remark of this kind in all of LJ and WN means that it cannot carry too much weight in an overall reading of Smith.
[180] Cf. also West, "Adam Smith and Alienation," 545.

Hegel's silence about the problem of poverty indicates that despite his awareness of the contemporary situation in England he did not anticipate how pressing the 'social question' would become in the decades after his death.[181] It was Marx who, a couple of decades later, theorized the *necessity* of capitalism to produce a proletariat, which would carry the flag of the socialist revolution.[182] The historical path in the Western capitalist economies has been different, however: in a long historical process and through a bundle of measures – labour unions, factory legislation, progressive taxation, social insurance systems, etc. – a greater part of the material resources was gradually directed towards the poorer members of society. It was not quite 'voluntary' trickling down alone, as Smith had predicted – although one might also find instances of that –, but it seems fair to say that without the growth of the cake (which Smith also predicted) it would have been more difficult to achieve a redistribution in the ways in which it has happened. What seems to have lingered on, however, are the lines of the debate about how to fight poverty: whereas right-wingers (and many economists) argue that this needs to be done *through* the market, the political left looks to the state for redistributive measures. Smith's and Hegel's heritage is here very much with us.

V.4 Conclusion: how to theorize justice and the market

In the conclusion of this chapter, let me draw some broader conclusions about the notion of desert and about the immaterial aspects of poverty and their relation to the market, before reflecting on different strategies for theorizing social justice.

Smith's account of how the market rewards the bourgeois virtues provides a powerful model for how a principle of desert might be realized in markets. The market as

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[181] Cf. Gareth Stedman Jones, "Hegel and the Economics of Civil Society," in *Civil Society: History and Possibilities*, ed. Sudipta Kaviraj and Sunil Khilnani (Cambridge: Cambridge University Press, 2001), 105-131, 129f.

[182] Cf. *Karl Marx*: *A Reader*, e.g. 81 (*Critique of Hegel's Philosophy of Right*), 251ff. (*Communist Manifesto*). For Marx, however, a much larger proportion of the population, including workers ('small tradespeople, shopkeepers, and retired trademen generally, the handicraftsmen and peasants,' (ibid., 251) are part of the proletariat. What he calls the 'social scum, that passively rotting mass thrown off by the lowest layers of old society' – and what would thus correspond to Hegel's 'rabble' – is, for Marx, more likely to become 'a bribed tool of reactionary intrigue' (ibid., 254).

the good natural order of the economic realm entices people to contribute to the 'common stock' by furthering other people's interests and their own interests in prudent and honest ways. Whereas in feudal times a person's worth and social position were determined by birth and by the partial judgment of feudal lords, in the market people's behaviour is evaluated by equals, from an impartial perspective. It is hard to imagine a more optimistic vision of the market with regard to its ability to reward desert.

The question is, however, what we should do with this model today, once we dispense with the metaphysical background of Smith's system and his assumptions about the 'naturalness' of markets. Without this background, is there any reason to assume that markets ever take the perfect form Smith describes, so that we could somehow 'find' desert in them? Can we still make sense of the idea of applying a principle of desert to the market, or have we retained an intellectual habit without realizing that its bases have been eroded? Should we assume, with Hegel, that markets are marred by one-sided dependencies and unpredictable outcomes and thus lack any pattern that could be related to notions of desert in any way?

This would be a hasty conclusion, however, and one that would take 'the market' as given in a sense that we do not have to accept. Once we realize to what degree a Smithian model of the market – which has to some degree become the model of mainstream economics – depends on metaphysical assumptions that we may not want to share, we see that markets depend on political and cultural institutions that are to some degree shaped by us. Markets always have their own inner dynamic that cannot be controlled in the sense of moving a lever; this problem is exacerbated by the international dimension of contemporary economies.[183] But there are nevertheless institutions like the legal system, the tax system, or the cartel office that can influence their outcome to some degree; for example, the marginal productivity of workers depends not only on 'pure' market forces, but also on factors such as regulations on workplace security, export subsidies, or the

[183] This topic will be taken up in chap. VII.2 below.

availability of affordable education and training. My suggestion is to see the principle of desert as a principle – one among others – to be applied to the ways in which these institutions should be used to influence market outcomes.

As we have seen, for Smith desert does *not* form a direct part of the framework of property rights and other *enforceable* regulations of the market. Any desert claim must arise *within* the rules of justice, as a result of voluntary transactions within their boundaries; the same holds for the structurally similar idea that wages are deserved if they are determined by marginal productivity or indeed other versions of a principle of desert that is to be applied to markets. *Any* system of rules, by providing incentives and disincentives, rewards certain forms of behaviour and punishes others, whether or not this has been intended by those who set the rules. What Smith cares about is that the incentives in commercial society are the *right* kinds of incentives, that the behaviour that people are drawn towards is not morally appalling, but can be endorsed by an impartial spectator. The idea that 'virtue should pay' is thus a kind of regulatory ideal about how this *system of rules* should work. It is this idea that we can still make sense of, even if – or indeed precisely because – we do not hold any more that these rules are a question of the 'natural order' of the social cosmos, but depend to some degree on human action.

Other things being equal, markets are more just if they reward behaviour that can be endorsed from a normative perspective than when they reward behaviour that is morally appalling. The point is not so much about the highest moral qualities an exceptional human being could ever achieve, but about the down-to-earth ways in which the majority of people behave in order to succeed in markets and how these are rewarded by market outcomes. If one gives up the notion of desert, one can describe these only as a matter of legitimate expectations within a normatively neutral social system.[184] But then we would

[184] This seems to be, roughly, Rawls's position in *A Theory of Justice*, 103, 313f., cf. also Olsaretti, *Liberty, Desert and the Market*, 17f. Desert is rejected as 'pre-institutional,' i.e. as a principle that might serve to *evaluate* institutions. The suggestion made here understands desert as precisely concerned with the correspondence (or the lack of it) between our pre-institutional intuitions and the behaviour that is rewarded in the economic system.

lose the possibility of evaluating them from a normative perspective – they are mere means for achieving some other ends that are given by the social system as a whole. But as this behaviour is what we live with, day after day, it is questionable whether we should really withdraw judgment on it and shrug off the intuitive reactions to it we are likely to have. For Smith, in any case, it matters a lot that the behaviour that is rewarded in markets can be endorsed by an impartial spectator. Despite his reservations in the 1790 edition of the *Theory* about the bourgeois virtues being the *highest* form of virtue, Smith holds on to the claim that they *are* virtues:

> In the steadiness of his industry and frugality, in his steadily sacrificing the ease and enjoyment of the present moment for the probable expectation of the still greater ease and enjoyment of a more distant but more lasting period of time, the prudent man is always both supported and rewarded by the entire approbation of the impartial spectator.[185]

We may not completely agree with Smith about what these virtues consist of. But often we can agree on what would be the respective 'vices' that should *not* lead to highest success in markets. And sometimes we can suppress them by changing the rules of the system in ways that make it more difficult to succeed with the help of such methods. Misleading and aggressive advertisement, for example, is banned in many countries, because the ability to manipulate other people's wants is *not* what should lead to success in markets. Smith's trust in people's ability to judge for themselves may have made him overlook how immense the problems of people *not* acting in their long-term self-interest and being exploited by others for not doing so can be.

Some of the central questions of 'framing' the market with regard to desert have to do precisely with the factors that have emerged from the analysis of Smith's and Hegel's account of the market: market imperfections, one-sided dependencies as a result of differential exit options, and most of all imbalances of power. As we have seen, Smith's background foil is a feudal society in which 'industry,' 'honesty' and 'probity' often played no role at all in determining a person's place; the institutions he attacks are, for example, entail and primogeniture, which an impartial legislator would immediately recognize as

[185] TMS VI.I.9.

unjust.[186] Today, the obstacles to desert being rewarded in markets may not be remnants from feudalism. But the power of some rich individuals and large corporations does not seem to be so far removed from the feudal and commercial abuses that Smith attacks. The principle that markets should reward forms of behaviour that can be endorsed from an impartial perspective can be used to criticize vested interests that are based on past injustices or simply power. Those who argue that the notion of desert as applied to the market should be given up altogether run the risk of playing into the hands of those who want to defend such undeserved privileges.

It is important to keep in mind, however, that the principle of desert is not the *only* principle by which an economic system should be evaluated and framed; functional considerations, the effect on the worst-off, or questions of stability may also play a role.[187] Smith, in his optimistic deism, seems to assume that markets that take place within a strict regime of private property rights *at the same time* improve the fate of the poor, lead to the flourishing of art and culture, stabilize the social whole, *and* tend to give rewards to those who really deserve them. Without this metaphysical background, however, nothing guarantees that all these desiderata can be fulfilled to the same degree. Sometimes it may not be possible or desirable to change the structural features of markets such that they come closer to rewarding desert, as this may involve compromising other values or principles that we also want to see embodied in markets. But then these conflicts should be discussed openly, rather than glossed over by our not even asking whether the resulting patterns correspond to our ideas about what kind of behaviour is desirable and thus should be rewarded.

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[186] Smith argues in TMS II.II.1.8 that the sovereign can command 'mutual good offices' among citizens. Smith quotes the example of parents having a legal duty to care for their children, but he also mentions the promotion of 'the prosperity of the commonwealth, by establishing good discipline, and by discouraging every sort of vice and impropriety.' One could argue that setting up rules that reward virtue and punish vice *through the market process* – in addition to the rules of justice – is thus part of the task of a benevolent legislator, although it requires 'greatest delicacy and reserve to execute with propriety and judgment' (ibid.).

[187] Cf. also David Miller, "Justice and Property," *Ratio* 22 (1980): 1-14, 12ff., who emphasises need as a principle that might trump the principle of desert.

Much of the recent criticism of markets seems to have to do not only with their impact on the poor or on the natural environment, but also with the problem that they seem to reward forms of behaviour that an impartial spectator could not endorse, e.g. short-term instead of long-term thinking and the fancy appearance of products rather than their having a solid quality. The notion of desert can be highly useful as a 'critical notion,' as Miller puts it, which helps us to formulate intuitions about things that go wrong in the economic system.[188] As such, the principle that markets should reward desert does not *justify* free markets. Olsaretti's analysis of attempts to do this can be understood as showing that such atttempts expect too much from the principle of desert. It is not sufficient as the *sole* basis for constructing a just market system. But it can help us to bring such a system *in line*, as much as possible, with our intuitions about justice. It does not serve to either justify or reject 'the free market' as such; rather, it differentiates between cases in which this correspondence is stronger or weaker. Other things being equal, we should try to make it stronger.

If the idea that markets could have anything to do with desert seems old-fashioned and naïve today, that may not so much be a conceptual question, but rather a sign that markets have moved away from our intuitions about deserving behaviour in an alarming way. This may be a consequence of incompatibilities between the principle of desert and other principles that we also want to see embodied in markets. But it may also have to do with the fact that not much attention has been given to questions of desert and the conditions for its applicability, maybe as a result of the dominating position of the economic paradigm and its focus on efficiency in public discourse. By challenging this paradigm, political philosophers can open up this question again.

Of course, no match of achievements and rewards in the market will ever be perfect. Markets will always be subject to the influence of luck, both with regard to natural assets and education, and with regard to the unpredictable circumstances that let someone

[188] *Principles of Social Justice*, 123, 127, 140ff.

who is in the right place at the right time gain much more than someone who gets there a bit later. Even Miller, maybe the most thorough-going defender of the notion of desert, has only 'two cheers' for meritocracy.[189] In particular, we should be sceptical about claims that a person 'deserves' a certain income or position without knowing his or her story in sufficient detail, so that we can judge what this person has or has not *done* for deserving this outcome.

With these arguments about the role that the notion of desert can play in today's market societies in place, let us return to Nozick's example of Wilt Chamberlain's high income, which can be understood in a different way than Nozick himself does. The reason why many people may think that his high wage is unproblematic is precisely that they see it, by and large, as deserved.[190] This example describes a case in which many of the *obstacles* to deserving that can be present in markets do not play a role. There are no obviously harmful externalities involved; playing basketball neither pollutes the atmosphere nor produces weapons that might find their way into the wrong hands, nor does it cause addiction among consumers (although the latter point might be disputed). Most importantly, however, all transactions in question take place against a background of equal rights, and no coercion or one-sided market power are involved. The buying of tickets is purely voluntary: individuals have a plethora of other options for spending their leisure time budget, and the very fact that they can spend money on these tickets shows that they do not live in dire poverty and might act out of necessity or lack of choice. This market is almost perfectly 'Smithian.' The more a market resembles such a situation, the more plausible it is to call its results deserved, although it will always remain subject to the influence of luck in the 'natural lottery.'

What makes the example so intriguing, however, is that it describes the case of an individual whose starting position was such that it did not look likely that he would ever

[189] Miller, *Principles of Social Justice*, chap. IX.
[190] For a similar argument see Miller, "Justice and Property," who criticizes Nozick's neglect of the notion of desert that he takes to be prior to the notion of entitlement.

make a fortune. This brings me to the second point that emerges from the discussion of justice in Smith's and Hegel's accounts of the market, the question of poverty and social exclusion. As we have seen, Smith and Hegel care deeply about its psychological and socio-psychological aspects. Both see poverty as relative, but whereas Smith sees free markets as leading to more equality, for Hegel this problem is much more pressing, as he sees divergent tendencies.

A central aspect of these psychological afflictions that Hegel describes as the 'rabble mentality' is a feeling of 'being stuck,' of being denied the right to participate in the economic development of society. For some social groups the labour market does not appear to be open and welcoming any more, as a place where they can integrate themselves in society, be recognized as such and maybe do things that can be described as acquiring desert. Receiving charity or support from the state simply is not the same as having a job and to support oneself and one's family.

The fact that the Hegelian market cannot create more mutual recognition and social inclusion is one of the reasons why for him there has to be an *additional* social sphere – the state – in which a universal, non-formal form of recognition has its place; where citizens are *citoyens*, not only *bourgeois*.[191] But in Hegel's account of the state, the question returns about how general this recognition really is – after all, political representation is organized through the estates and corporations,[192] and the members of the 'rabble,' i.e. those who one might expect to stand in the most urgent need for recognition, have precisely fallen out of these structures.

The problem that political influence, public interest and social recognition tend to follow economic success is still very much with us. The hope that other dimensions of social life might compensate for the exclusion that comes with the lack of economic

[191] Cf. chap. VI.4 below. A similar thought is expressed by Miller, who holds that 'the meritocratic allocation of jobs and rewards needs to be offset by a robust form of equal citizenship – robust in the sense that people have a strong understanding of their equality as citizens regardless of their different economic deserts, and robust in the sense that equal citizenship is the controlling principle for benefits such as health care and education' (*Principles of Social Justice*, 200). On equal citizenship in a capitalist society see in particular T. H Marshall, *Citizenship and Social Class* (London: Pluto, 1992).
[192] PR §300ff., cf. chap. IV.4.

success thus seems rather problematic. The question of social recognition cannot be addressed without taking into account economic issues and the impact they have on how recognition is practised in today's societies. From the perspective of mainstream economics, where labour time is usually modelled as something people want to *minimize*, income that has been earned in a job and a social security check may look the same. But if one takes into account the additional normative dimensions of the labour market that can be found in the writings of Smith and Hegel, it is clear that these are *not* equivalent. For both, taking part in the economic life of one's country is more than just a way of earning a living: it is also a way of practising certain virtues, or of acquiring a professional ethos and of being recognized by the members of a certain profession.

If these additional dimensions of the labour market are taken seriously, any answer to the problems of poverty and unemployment must go beyond the simple transfer of money; the latter may be a supporting instrument for alleviating pressing needs, but it cannot be a long-term measure. It becomes much more important to focus on the *inclusion* of individuals in the economic sphere. Often, this is a question of acquiring the necessary human capital, and so a strong focus of debates about fighting poverty has rightly been aimed at the need for high-quality public education that gives every child a chance to acquire essential abilities and to discover his or her talents and the ways in which to employ them in socially useful ways. But not only primary education, but also institutions for continuing education can help people to take on new roles and acquire more, or different, human capital during the course of their lifetime. Such institutions give people a chance to revise earlier decisions, in which luck or external circumstances may have played a considerable role, and to take on responsibility for their lives.

The call for such institutions has often come from leftist thinkers, who may share the rejection of the notion of desert by Rawls, Barry and others. But such measures would, ironically, also help to make market societies more just in the sense of desert, as they remove a major obstacle to markets being 'impartial' on the Smithian model. If the social

exclusion which bars members of certain groups from participating in the economic race is overcome, or at least mitigated, it becomes more plausible to assume that remaining inequalities really have something to do with an individual's achievement rather than with his or her social background. It seems, in fact, that a mere night-watchman state – without Smith's optimistic deism, at least – can hardly create the conditions under which it makes sense to apply the notion of desert to markets in today's world. Even Wilt Chamberlain's talent, to come back to this example, was discovered in a state school which would not even exist in a Nozickian state. Many of the institutions that are needed to shape markets in a way that makes it conceivable to speak about their outcomes as deserved go beyond a libertarian framework, in particular with regard to public education and health care. Those who would end up at the bottom of the income scale in a Nozickian market may never have had a chance to discover what they are good at, how they might acquire socially useful abilities and then work hard to employ these successfully. It would be particularly cynical to apply the notion of desert (or the lack of it) to such groups. On the contrary: the notion of desert as a critical notion supports the claim that such inequalities are deeply unjust and draws attention to possible structural problems such as inflexible markets and one-sided dependencies.

Public education is thus at the heart of debates about both poverty and equality of opportunity, which is related to questions about the applicability of desert to markets. It is certainly an important lever, but it is by no means the only one, and, importantly, it is one that does not touch the centre of what is usually taken to be 'the market.' This brings me to my last claim, namely that political theorists should not only focus on institutions that *surround* markets but also on markets themselves.

I have drawn a distinction, above, between theorizing about market *societies* and theorizing about *the market* when arguing about social justice. Doing *only* the former, without paying attention to the market and its *direct* effects on equality, poverty and justice, is insufficient, at least if political philosophy is understood not as *l'art pour l'art*, but as

aiming, in the end, at suggestions about how to make our societies more just. For better or for worse, the market is a reality of our lives and so it seems that there are compelling reasons not to leave it 'undertheorized' with regard to social justice. The market is not a black box that follows iron laws and can only be accepted or rejected wholesales. Rather, while certainly having its own dynamic, it depends in complex and subtle ways on the institutions that surround it. It may not be possible to harness it completely, but its outcome can to some degree be influenced by its legal and political framework.

A strategy of theorizing that focuses on the institutions such as public education or welfare that surround the market and leaves a blank with regard to the institutions that have to do *directly* with the market itself neglects various intuitions we have about things *in markets* being fair or unfair. But in order to do the latter, one has to be clear about the picture of the market one has, however sketchy and implicit it may be. If one does not do this, it is likely that the debate gets unclear, as differences of opinion can be due *either* to normative principles *or* to one's picture of the market. Take, for example, the debate about minimum wages: a 'Smithian' and a 'Hegelian' theorist might both be driven by a concern for the poorest members of society, but as a result of their different models of the market, their positions might be fervently opposed to each other. The Smithian theorist thinks that a minimum wage is an illegitimate interference with the market that will hurt the poor (especially those who might fall into unemployment); the Hegelian theorist, in contrast, thinks that it is necessary in order to prevent the poor from turning into a 'rabble' and to help them to receive recognition as workers. But without distinguishing between their basic principles of justice and their assumptions on how the labour market works they are likely to misunderstand each other. Even the question regarding which kind of social scientific research is needed to clear up some of the disagreements gets blurred if the discussants do not lay open their assumptions about the market.

In addition, there is a real danger of overlooking important problems when 'the market' itself is not explicitly made an issue. The way in which markets function has a

primary effect on distributive justice that has hardly ever been made an issue in political philosophy. Anti-trust laws or the structure of corporate taxation, for example, have to my knowledge seldom been of interest to commentators on social justice – but they might have far greater effects on distribution than some changes in the redistributive system.[193] Often, such issues are very fine-grained; some hidden clause in the small print of a regulation on labour protection may, for example, have a huge impact on how companies react to it or try to circumvent it. And not all factors that influence justice in markets are a question of explicit laws and regulations; social expectations, role models and networks can also have an enormous impact, e.g. when the access to certain jobs is monitored by so-called 'old-boy networks.' Such issues have often been raised by feminist and post-colonial philosophers, but their relevance for the very core of questions of distributive justice, *via* their economic effects, has not been much of an issue. But such structural imbalances are an inherent problem for a market society. Smith, for one, did not overlook it, although the lines of conflict were different in his day: he holds that as the 'masters' usually have more influence on government decisions than the 'workmen,' it is 'always just and equitable' to put in place regulations that are 'in favour of the workmen.'[194] Today, those who should be favoured may not only be workmen, but also women, elderly people, or disabled people, but the need to correct structural injustices may be just as great, and measures like positive discrimination or quotas for the members of underrepresented groups may be a useful means for addressing them.[195]

Those who think about social justice should try to address all these normative dimensions of the economic realm. This helps not only to make more and better suggestions for how to improve the situation in our societies, but also for understanding the many and complex normative issues that are at stake *within* markets. By theorizing

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[193] An excellent example of the kind of research I have in mind is Peter Dietsch, "The market, competition, and equality," *Politics, Philosophy & Economics* 9, no. 2 (2010): 213-244, who discusses the effects of competition on different groups in the market. He equally emphasises the neglect of research along these lines, but his article is a very promising start.
[194] WN I.X.II.61.
[195] For a discussion see also Miller, *Principles of Social Justice*, 179ff.

about the market *itself*, drawing on our intellectual heritage of how to understand it, we can perceive its normative problems more clearly, but also unlock its normative potentials.

VI FREEDOM, FREEDOMS AND THE MARKET

VI.1 Introduction

In his inaugural lecture in Oxford in 1958, Isaiah Berlin introduced the distinction between positive and negative liberty. He defined negative liberty as freedom from interference by others and positive liberty as concerning the *source* of interference or control, determining the question 'who governs?' Berlin warned against the danger that the latter notion might be abused by illiberal regimes, clearly favouring the concept of negative liberty.[1] Despite many doubts about the validity of this distinction, conceptions of negative and positive liberty are part of the conceptual toolbox of many contemporary political theorists. While the character of these notions and their relation to one another – and in particular the claim that negative liberty is a self-sufficient concept[2] – continue to be disputed, they are often seen as useful because there is a 'family resemblance' among conceptions of freedom that belong to one side or the other.[3]

This chapter discusses the relation between aspects of negative and positive liberty and asks how they relate to the pictures of the market society in Smith and Hegel. For the sake of argument, I start out by adopting the traditional distinction. According to the widely held clichés about Smith and Hegel, this indeed makes sense. Smith is usually seen as belonging to the camp of 'negative liberty,' with a strong focus on its economic dimension, while Hegel is often cited as a paradigm example of a thinker of 'positive' freedom. As we shall see, these clichés have a valid core, but things are more complex in both Smith and Hegel. The aspects and dimensions of freedom they describe depend, to a large degree, on their views of the market and its relation to society. What is at stake is both

[1] Isaiah Berlin, *Two Concepts of Liberty: An Inaugural Lecture Delivered before the University of Oxford on 31 October 1958* (Oxford: Clarendon Press, 1958). I use the terms 'liberty' and 'freedom' interchangeably.
[2] Cf. e.g. the famous essay by Charles Taylor, "What's Wrong with Negative Liberty?," in *The Idea of Freedom. Essays in Honour of Isaiah Berlin*, ed. Alan Ryan (Oxford: Oxford University Press, 1979), 175-193.
[3] Cf. Ian Carter, "Positive and Negative Liberty," in *The Stanford Encyclopedia of Philosophy*, ed. Edward N. Zalta, Fall 2008 edition, <http://plato.stanford.edu/archives/fall2008/entries/liberty-positive-negative/>; Taylor, "What's Wrong with Negative Liberty?," 175.

the relation between negative and positive aspects of liberty and the place of these notions in an account of a liberal society.

I start from an assumption that Smith and Hegel, as well as many contemporary theorists, share: in a liberal market society citizens have a wide range of 'negative' freedoms such as freedom of opinion and of religion. Importantly, the market *itself* also gives them a kind of negative freedom: the freedom to deal with their property as they like, without interference from a central planner.[4] As we have seen, for Smith and Hegel this is a central argument for the endorsement of the market. Strictly speaking, one would also have to supply an argument about how and why a regime of *private property* – maybe together with some redistributive measures – is compatible with negative freedom, or why it is the regime that on the whole leads to fewest restrictions on it.[5] For the argument made in this chapter, however, I assume that for Smith and Hegel a well-ordered commercial society, which may include some degree of redistribution through taxation or institutions like the corporations, does indeed give all citizens a high amount of negative liberty, maybe the highest that can realistically be expected in a large-scale society.[6] From this starting point, we can ask whether negative freedom in the market is *just that*, or whether it relates to other, conceptually richer, but maybe also more problematic notions of freedom.

I approach this question in two steps, addressing two worries that have often been raised about negative freedom and that lead to aspects of freedom usually described as

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[4] Cf. chap. II.5 and III.4 above. For a summary of contemporary arguments about negative freedom in the market see e.g. Satz, *Why Some Things Should Not Be for Sale*, 122.

[5] Cf. in particular the criticism raised by Gerry A. Cohen, *Self-Ownership, Freedom, and Equality* (Cambridge: Cambridge University Press, 1995), especially chap. II. Cohen holds that *any* system of property rights allows some freedoms and restricts others; capitalism thus consists in 'complex structures of freedom and unfreedom' (Gerry A. Cohen, "Capitalism, Freedom and the Proletariat," in *The Idea of Freedom. Essays in Honour of Isaiah Berlin*, ed. Alan Ryan (Oxford: Oxford University Press, 1979), 9-25, 12). See also Olsaretti, *Liberty, Desert and the Market*, chap. IV-VI for a detailed criticism of Nozick's notion of voluntariness that draws on Cohen's distinction between self-ownership and freedom and attacks the way in which Nozick ties not only freedom but also voluntariness to property rights.

[6] In such a society, the risks for negative freedom that stem from exploitative contracts are considerably reduced, either because the economy is growing and offers enough job opportunities for everyone – the Smithian solution – or because there are institutions that secure the material well-being of all members of society – the Hegelian solution. Whether and how this problem can be addressed in modern societies is a question that goes beyond the scope of this chapter.

'positive.' The first worry is how negative freedom relates to individual autonomy.[7] Do people use their negative freedoms to lead authentic, self-governed lives – or are they driven into mindless consumerism, acting on desires that are not truly their own? And if so, what is the value of negative liberty? As we shall see, Smith and Hegel see both opportunities – and these are often overlooked in contemporary debates – and risks for individual autonomy in the market. Looking in the third section at the remedies suggested by Smith and Hegel, it turns out that *both* care not only about liberty as the absence of obstacles, but also about people's ability to act autonomously. Their arguments refute Berlin's insistence that it is sufficient to focus on negative liberty alone.

The second worry, discussed in the fourth section, concerns the stability of a social system within which people have negative freedom, including wide-ranging economic freedom: would the forces of the free market not destroy it, undermining the very conditions of freedom? Would we not need some mechanisms of collective self-government that can resist these forces? Here, Smith and Hegel present us with two different models. For Smith, providing people with far-reaching negative freedom has a positive impact on the stability of society, leading to a *self-reinforcing* process. For Hegel, negative freedom is highly valuable, but as it is potentially self-undermining rather than self-reinforcing, it needs to be *supplemented* by institutions that secure richer notions of freedom.

In the conclusion I summarize the resulting theses: as soon as one leaves a purely abstract level and asks about the concrete realization of freedom, the concept of negative freedom needs to be supplemented by considerations that have traditionally been summarized under the notion of positive freedom. In such consideration, the *social context*,

[7] For the description of autonomy as positive freedom see e.g. John Christman, "Autonomy in Moral and Political Philosophy," in *The Stanford Encyclopedia of Philosophy*, ed. Edward N. Zalta, Fall 2009 edition, <http://plato.stanford.edu/archives/fall2009/entries/autonomy-moral/> or Gerald Dworkin, *The Theory and Practice of Autonomy* (Cambridge: Cambridge University Press, 1988). Other authors have conceptualized them as different, e.g. autonomy as a threshold conception for responsible agency and individual positive freedom as full-grown self-governance. For different conceptions of autonomy see e.g. Richard Lindley, *Autonomy* (Basingstoke: Macmillan, 1986), chap. II-IV. For the sake of the arguments made in this chapter, however, this question does not play a major role, as autonomy is in any case *part* of an account of individual positive freedom.

including, prominently, the character of the market, matters. Different pictures of the market lead to different conceptualizations of the ways in which negative and positive freedom are related. Rather than pitting the two concepts against each other, as Berlin has done, an account of a liberal society needs to address issues that relate *both* to negative and to positive aspects of freedom.

VI.2 The market and autonomy

In economic models the working assumption is that agents 'maximize their preference satisfaction.' This assumption, however, obfuscates crucial questions about *how* individuals form their preferences and act on them: are they helpless victims of visceral drives, or do they act on values and principles they themselves have chosen? This question can be addressed with the help of the concept of autonomy. It has two aspects.[8] There is, first, the 'competence condition': does one have the *ability* to act on one's preferences without systematic self-deception or lack of will power? A second condition is the ability to act *on one's own* preferences, on desires that one has reflected on, can endorse and identify with. This has been called the 'authenticity condition.' In asking how the negative liberties of a market society relate to autonomy, it is helpful to distinguish between these two aspects and to ask how each is influenced by the market in the different ways in which Smith and Hegel describe it.

The positive effect of the market on the competence to act autonomously is owed to the fact that it offers citizens the opportunity to learn autonomous behaviour, because it educates them to rely on themselves and to interact with others in certain ways. As we have already seen, Smith provides an elaborate account of the virtues and has a theory about the market providing incentives to acquire (some of) them; in particular prudence, the ability to act in one's own long-term interest.[9] Individuals must develop self-command to overcome

[8] This distinction has been drawn by a number of contemporary commentators on autonomy; for a summary statement see Christman, "Autonomy in Moral and Political Philosophy."
[9] Cf. chap. V.2.

their short-term desires and to take into account other people's wishes and preferences. This teaches them to control their spontaneous emotions and to think about the wider implications of their actions. Smith's positive descriptions of independent workmen show that he takes them to be better able to orientate themselves in the world and to act autonomously than most, if not all, members of feudal society.[10] He emphasises that workers often invent machinery, whereas slaves are 'very seldom inventive,' as they have no incentive to improve the work process.[11] People who work for their own profits have 'much greater spirit and alacrity for their work' than slaves or dependent tenants.[12] As commercial society turns the bulk of the population from quasi-slaves – feudal tenants – into independent workers, they acquire 'spirit' and 'alacrity,' which improves their competence to act autonomously.

Importantly, these traits are useful not only for one particular task, but for a broad range of projects and life plans. Smith's 'bourgeois virtues' share with the Aristotelian virtues a teleological structure: they serve the happiness of those who practise them. But for Smith, in contrast to Aristotle, the virtues do not presuppose a 'universal and final end of the *telos* itself;'[13] rather, they enable people to live different kinds of lives while being in harmony with themselves and with society.[14] Self-command, to take the paradigmatic case, is needed for all kinds of endeavours: it is the virtue from which 'all the other virtues seem to derive their principal lustre.'[15] In educating citizens in good judgment and self-command, the market thus guides them towards autonomy.

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[10] One might think that the feudal lords, at least, had more opportunities to practice autonomous behaviour. But Smith describes the landowners of his own time as 'not only ignorant, but incapable of that application of mind which is necessary in order to foresee and understand the consequences of any publick regulation' (WN I.XI.Concl.8), explicitly connecting this to the fact that they do not work. The same might hold for the feudal landowners of earlier times.

[11] WN I.I.8, cf. also WN IV.IX.47, LJ(A) 346.

[12] LJ(A) 186.

[13] M. J. Calkins and Patricia Werhane, "Adam Smith, Aristotle, and the Virtues of Commerce," *Journal of Value Inquiry* 32, no. 1 (1998): 43-60, 50.

[14] Cf. in particular Fleischacker, *A third concept of liberty*, 7, 150 and passim. Fleischacker emphasises that Smith does not need to answer the question about the final end of human life as morality consists for him in propriety, not in utility towards any end. He compares this feature of Smith's approach to Rawls' agnosticism about the good, which makes him base his ('political, not metaphysical') liberalism on a conception of the 'right' rather than the 'good' (ibid., 148f.).

[15] TMS VI.III.11.

The same argument – that the market society educates its members – can also be found in Hegel, in the notion of *Bildung*.[16] As discussed earlier, the labour which individuals perform in a market economy teaches them to distance themselves from their immediate, natural instincts, as they need to take into account the wills of others, both co-workers and customers.[17] This 'moment of liberation intrinsic to work' [18] can be understood as the acquired ability to act on self-set purposes, and hence as a step towards autonomy.[19]

Thus, living in a market society can help people to develop competence for autonomous action. In fact, this educational dimension of the market can show a rather grim face: if people are *not* prudent and self-controlled, they put at risk the social and material well-being of themselves and their families. Smith speaks of the 'discipline' that customers have over a workman;[20] while Hegel holds that the universality of civil society presents itself as 'necessity,' since it 'is by compulsion that the particular rises to the form of universality.'[21] The market society gives its citizens the full responsibility for their behaviour, whether they like it or not, and thus offers the opportunity, *and necessity*, of learning to act autonomously.[22]

But the market offers not only chances, but also risks for people's competence to act autonomously. In Smith, these stem mainly from the increasing division of labour. Whereas Book I of the *Wealth* is full of praise for its positive effect on efficiency, Book V is more cautious and even pessimistic. In a passage that anticipates worries later articulated by Karl Marx or Émile Durkheim, Smith holds that workers who are confined to 'a few very simple operations' have 'no occasion to exert [their] understanding, or to exercise [their]

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[16] This parallel is also drawn by Neuhouser, "The Wealth of Nations and social science," *The Adam Smith Review* 2 (2006): 234-238, 234.
[17] Cf. chap. IV.3.
[18] PR §194.
[19] Cf. similarly R.M. Wallace, "How Hegel reconciles private freedom with citizenship," *Journal of Political Philosophy* 7, no. 4 (1999): 419-433, 429.
[20] WN I.X.II.31.
[21] PR §186, cf. Neuhouser, *Foundations of Hegel's Social Theory*, 149f., for a discussion.
[22] Some insurance for bad luck is provided, at least in Hegel's account, by the police and the corporations. But he does not make clear whether these protective measures are also effective in cases of self-imposed problems, e.g. if someone loses his fortune by gambling or has to leave a corporation because of undue behaviour.

invention in finding out expedients for removing difficulties which never occur.' Under such circumstances a worker becomes

> as stupid and ignorant as it is possible for a human creature to become. The torpor of his mind renders him, not only incapable of relishing or bearing a part in any rational conversation, but of conceiving any generous, noble, or tender sentiment, and consequently of forming any just judgment concerning many even of the ordinary duties of private life. Of the great and extensive interests of his country, he is altogether incapable of judging; and unless very particular pains have been taken to render him otherwise, he is equally incapable of defending his country in war. [23]

Smith takes this to be a specific problem of commercial society where most people work in manufacturing, as agricultural work demands much more 'judgment and discretion.' In this respect 'improved and civilized' societies are alarmingly inferior to their predecessors: in 'barbarous societies' people have more diverse tasks and take part in warfare and in the government of their country.[24] In contrast, the workers of commercial society – the 'great body of the people' – are in a situation that is extremely deleterious to the development of their full capacities, contrary to what commercial society seemed to promise.[25] If the labourers are mentally mutilated, they are not able to take part in the exchange of sympathy with others.[26] Their incapacity to share 'any generous, noble, or tender sentiment' threatens Smith's whole framework of society as being held together by people's sympathy and shared moral sentiments.[27] Lacking education and occasions for practising their mental abilities, workers are more prone to fall into political faction or religious fanaticism, which Smith fears as some of the most dangerous threats to the stability of society.[28]

The negative effects of the division of labour on the workers' minds are also present in Hegel's picture of the market, at least in the Jena manuscripts. He describes how

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[23] WN V.I.III.II.50, cf. also LJ(B) 539.
[24] WN V.I.III.II.51, cf. LJ(B) 540f.
[25] A further consequence of the division of labour is that some tasks become so simple that even very young children can carry them out and earn some pennies, so that parents often send them to work rather than to school (WN V.I.III.II.53, LJ(B) 539). This loosens parental authority, making it more likely that young people are drawn to 'drunkenness and riot' (LJ(B) 540).
[26] Cf. McNally, *Political Economy and the Rise of Capitalism*, 188, for a discussion.
[27] Cf. e.g. Skinner, *Adam Smith and the Role of the State*, 15f.; R. H. Campbell and Andrew S. Skinner, "General Introduction," in *An inquiry into the nature and causes of the wealth of nations by Adam Smith* (Oxford: Clarendon Press, 1976), 38. As Robertson puts it, the workers' 'opportunity of moral fulfilment' is threatened (*The Scottish Enlightenment and the Militia Issue*, 223).
[28] Cf. e.g. TMS III.III.43, VI.II.III.13, WN V.I.III.III.7, V.I.III.III.36. A further problem is the loss of what Smith calls 'martial spirit': men become 'effeminate and dastardly' (LJ(B) 540), they 'regard with abhorrence the irregular, uncertain, and adventurous life of a soldier,' and become physically unable to 'exert [their] strength with vigour and perseverance' (WN V.I.III.II.50). Cf. also chap. II, fn. 115.

the labourer is 'constricted' to 'a single point,' and through the mechanization of labour 'a vast number of people are condemned to a labour that is totally stupefying, unhealthy, unsafe – in workshops, factories, mines, etc. – shrinking their skills.'[29] In the *Philosophy of Right*, this worry is not addressed explicitly, but Hegel holds that the 'subdivision and restriction of particular jobs' leads to 'dependence and distress' and the 'inability to feel and enjoy the broader freedoms and especially the intellectual benefits of civil society,' which can be read as related to the division of labour.[30]

With regard to *competence* for autonomy, the market thus offers a mixed picture. Autonomy, however, also has to do with the *authenticity* of desires and preferences and the processes in which they are formed. How are these influenced by the fact that one lives in a liberal market society?

First of all, the market offers a greater range of options to choose from with regard to consumption and ways of life. At first glance, this might seem relevant only for *negative* liberty, which also has to do with the number and quality of options to choose from.[31] But individuals can learn to be authentic only if they can choose between genuinely different, meaningful options. The notion of authentic choice would not make sense without real alternatives to choose from. While such choice not *only* concerns economic questions, in a market society decisions in the economic realm, especially about one's professional activities, can certainly offer an opportunity for reflection and authentic choice.

The question is, however, whether decisions are in fact taken in this way. Many critics of the market have voiced the concern that the content of people's preferences is

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[29] *Jenenser Realphilosophie* II, 139. On the similarities of Hegel's formulations in this and other texts to passages in Smith and Ferguson see Waszek, "The Division of Labor: From the Scottish Enlightenment to Hegel," 72f. In the *Philosophy of Right* Hegel adds a new element: he states that 'the abstraction of one man's production from another's makes work more and more mechanical, until finally man is able to step aside and install machines in his place' (PR §197, cf. also Enc §526). This is a bold prediction, for which no equivalent can be found among the Scottish writers (cf. Waszek, *The Scottish enlightenment and Hegel's Account of "Civil Society,"* 226).

[30] PR §243, cf. also Richard Bellamy, "Hegel and Liberalism," *History of European Ideas* 8, no. 6 (1987): 693-708, 700ff. One could also argue that the risk of losing one's job and the imponderabilities of the market economy more generally are a threat to one's ability to lead an autonomous life (for reflections on this issue see Schmidt am Busch, *Hegels Begriff der Arbeit*, esp. 123ff.). This problem, however, can be subsumed under the general question of whether and how Hegel deals with the problem of poverty and the prevention of economic instability.

[31] Cf. e.g. Berlin, *Two Concepts of Liberty*, 15.

precisely *not* authentic, but determined by external forces, by the ups and downs of fashion, or the regard for what others have, so that people are driven to ever higher levels of consumption without really wanting or needing it.[32] Worse, the fear *not* to consume enough, not to 'keep up with the Joneses,' can be a source of serious psychological affliction.[33] Similar worries were already raised in the 18th century, most prominently by Rousseau. For him, the fact that modern man lives 'always outside himself,' 'in the opinion of others' is one of the great ills of commercial society.[34] Smith and Hegel are familiar with this discussion, and react to it in similar ways.

Smith's reflections on this topic are connected to his account of sympathy. He freely admits that human beings try to gain others' attention and sympathy not only through virtuous behaviour, but also through the possession of material goods and external distinctions, 'honours and preferments.'[35] 'To be observed, to be attended to, to be taken notice of with sympathy, complacency, and approbation' is what often drives men to acquire wealth and status – it is 'the vanity, not the ease, or the pleasure, which interests us.'[36] Smith's explanation for this phenomenon is simple: the world is more interested in men 'of rank and distinction,' and follows their 'joy and exultation' with great attention, whereas '[t]he poor man goes out and comes in unheeded'[37] – therefore most people want to belong to the former group rather than the latter.

But for Smith there is an additional aspect in the desire for luxury: the seduction by the 'beauty' of the 'appearance of utility,' which is 'often the secret motive of the most serious and important pursuits of both private and public life.'[38] In fact, Smith even speaks

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[32] Cf. e.g. Barry Schwartz, *The Costs of Living. How Market Freedom Erodes The Best Things In Life* (New York / London: W W Norton & Company, 1994).
[33] Cf. e.g. Alain de Botton's book on *Status Anxiety* (London: Hamish Hamilton, 2004).
[34] Rousseau, *The Discourses and Other Early Political Writings*, 187. In addition, there is, of course, the old Christian tradition of condemning 'luxuria' and 'avaritia' as cardinal sins. On the historical development of views on 'luxury' see Berry, *The Idea of Luxury*.
[35] TMS II.II.2.1.
[36] TMS I.III.II.1.
[37] Ibid.
[38] TMS IV.I.6. As Biziou points out, this is *not* a fascination for the *utility for someone*, but rather for a kind of abstract *utility for something* (*Adam Smith et l'origine du liberalism*, 230ff.), e.g. when an aficionado of watches is not so much interested in a watch's ability to tell the time (for this purpose the watch would not have to be very

of a 'deception' that nature has put into place when providing human beings with this desire:

> … it is well that nature imposes upon us in this manner. It is this deception which rouses and keeps in continual motion the industry of mankind. It is this which first prompted them to cultivate the ground, to build houses, to found cities and commonwealths, and to invent and improve all the sciences and arts, which ennoble and embellish human life…[39]

Smith is apparently torn in his evaluation of this desire for luxury. In 'time of sickness or low spirits,' he says, we incline towards a 'splenetic philosophy' that despises the 'great objects of human desire,' whereas when we are 'in better health and in better humour,' we regard them as 'something grand and beautiful and noble.'[40] It has been a matter of dispute in Smith scholarship whether luxury consumption is needed to fuel the Smithian economy.[41] The question we need to ask in the present context, however, is whether the desire for luxury is also detrimental to autonomy, acting on people as a force they cannot control and reflectively endorse, drawing them into inauthentic forms of behaviour. The central problem with luxury consumption is that it fails to achieve what it ultimately aims at, happiness. Smith mentions the 'loss of liberty,' 'all that toil, all that anxiety, all those mortifications' and the loss of 'all that leisure, all that ease, all that careless security' which people undergo in order to climb the social ladder.[42] The 'baubles and trinkets' they desire are 'fitter to be the play-things of children than the serious pursuits of men.'[43] Smith describes the case of a 'poor man's son,' who seems precisely the kind of character Rousseau decries. This young man 'admires the condition of the rich' and labours day and

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exact), but in the 'perfection of the machine' (TMS IV.I.4). Cf. also Rasmussen, *The Problems and Promise of Commercial Society*, 85ff.

[39] TMS IV.I.10.

[40] TMS IV.I.9.

[41] This position is held by Griswold, who concludes that if Smith's system is built on luxury consumption it is based on 'a large-scale mistake in our understanding of happiness' (*Adam Smith and the virtues of enlightenment*, 222, 224.) Against this, Fleischacker reminds us that for Smith, '[t]he whole expence of the inferior is much greater than that of the superior ranks' (WNV.II.II.IV.43, cf. *On Adam Smith's Wealth of Nations*, 109, 118). When an economy grows, however, it seems that the 'expence of the inferior [ranks]' is turned more and more towards luxury consumption as well, so Fleischacker's argument cannot completely solve the problem. It is true that for Smith wealth and poverty are relative (WN V.II. IV.II.3, cf. Fleischacker, ibid., 119), but when the tide is rising, the goods people acquire will more and more become socially determined goods and things that one is attracted to out of the deceptive nature of the 'appearance of utility.'

[42] TMS I.III.II.1.

[43] WN III.IV.15; cf. also TM SIV.I.10, IV.I.5f., WN II.III.38, III.IV.15, V.I.II.7. Cf. also TMS III.III.31f. on the human tendency to overestimate the influence of external factors on human happiness.

night in order to arrive at this condition himself.[44] Not only does he give up all the simple pleasures of life and the company of his friends,[45] he also 'makes his court to all mankind; he serves those whom he hates, and is obsequious to those whom he despises.'[46] He is driven by a desire he does not question, with little chance to detect his erroneous assumptions about what happiness consists in: only at the end of his life does he understand that 'wealth and greatness are mere trinkets of frivolous utility, no more adapted for procuring ease of body or tranquillity of mind than the tweezer-cases of the lover of toys.'[47] As Darwall argues, the poor man's son's admiration for the rich also leads to distorted moral judgments: rather than aiming at what an *impartial* spectator would approve of, he strives for approval by the rich and powerful, mistaking social standing for moral authority.[48] The narrative of the poor man's son thus provides a vivid example of the inauthenticity into which modern man can fall in a market society, failing to live a fully human life.[49]

A similar awareness of the problem of 'keeping up with the Joneses' and the inauthenticity of many consumption decisions can be found in Hegel's account of civil society, and it is equally tied up with the notion of emulation. Although, as we have seen, for Hegel the liberation from purely biological needs is an aspect of the development towards freedom in human history, it can lead to psychological afflictions. Men want to be equal to others (preferably to those who have more), but they also wish to be different ('to assert [themselves] in some distinctive way'), which is another source of the 'multiplication of needs and their expansion.'[50] Torn between the desire to be similar and the desire to be distinct, it seems wholly possible that the members of the Hegelian civil society will fall into

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[44] TMS IV.I.8.
[45] Cf. Rasmussen, *The Problems and Promise of Commercial Society*, 86.
[46] TMS IV.I.8.
[47] Ibid.
[48] Stephen Darwall, "Smith's ambivalence about honour," in *The Philosophy of Adam Smith. The Adam Smith Review, volume 5: Essays commenmorating the 250th anniversary of The Theory of Moral Sentiments*, ed. Vivienne Brown and Samuel Fleischacker (London / New York: Routledge, 2010), 106-123.
[49] Cf. also Fleischacker, *On Adam Smith's Wealth of Nations*, 106f.
[50] PR §193.

an inauthentic strife for ever more goods.[51] This is a particular risk for the members of the business class: if they do not belong to a corporation, they fall exactly into the kind of endless striving criticized by Rousseau:

> Unless he is a member of an authorized Corporation […], an individual is without rank or dignity, his isolation reduces his business to mere self-seeking, and his livelihood and satisfaction become insecure. Consequently, he has to try to gain recognition for himself by giving external proofs of success in his business, and to these proofs no limits can be set.[52]

As Schmidt am Busch notes, this endless desire is a misplaced desire for the recognition which the members of a corporation receive from their colleagues for their professional achievements.[53] Without such membership, individuals have no 'sense of an appropriate level of consumption' and can fall into a 'continual, irritable search for more and more.'[54] The person who has no status as a member of a corporation looks very much like Smith's poor man's son: inauthentic, unhappy, driven by externally created desires.

Smith's and Hegel's accounts of the market society, different as they are in many respects, thus show a surprising similarity when it comes to the opportunities and risks for autonomy. The market is a mixed blessing for the competence of agents and their ability to form authentic desires. The fact, however, that Smith and Hegel both suggest counter-measures shows that they are not content with negative liberty in the sense of uninhibited choice, but that autonomy does matter for them.

VI.3 'Enriching' economic freedom

Smith and Hegel both accept *and* go beyond negative liberty. This fact corrects the picture of Smith as calling exclusively for the abolition of obstacles to negative liberty and that of Hegel as a thinker of positive liberty only and offers an opportunity for reflecting on their reasons for developing a more complex understanding of freedom.

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[51] Hegel describes this as a 'bad infinity' that is never satisfied (Hotho, 575, cf. also Griesheim, 475ff.). The problem is exacerbated by the fact that the producers of goods reinforce this desire for ever more refined products (Griesheim, 493).
[52] PR §253.
[53] Schmidt am Busch, *"Anerkennung" als Prinzip der kritischen Theorie*, 233ff.
[54] Muller, *The Mind and the Market*, 158f.

With regard to the problem of the division of labour and its effects on the workers' minds, Smith is optimistic that it can be overcome by government action.[55] Through public education, the government can and should 'prevent the almost entire corruption and degeneracy of the great body of the people.'[56] Smith famously calls for the establishment of 'a little school' in 'every parish or district,' where the children of the 'common people' are taught 'to read, write, and account.'[57] This counteracts the stultifying effects of specialized work and contributes to a flourishing life, as 'happiness and misery, which reside altogether in the mind, must necessarily depend more upon the healthful or unhealthful, the mutilated or entire state of the mind, than upon that of the body.[58]

The state has a duty to address this problem, even if, counterfactually, it 'derive[d] no advantage' from it.[59] As Samuel Fleischacker emphasises, Smith envisages a society in which people can 'judge for themselves.'[60] The government of such a society must '*both* make the conditions for judgment readily available *and* stand back from people's decisions once they have had the chance to use the conditions.'[61] The subjects taught in Smith's 'little schools' precisely serve this purpose: they help people to orientate themselves in an increasingly complex commercial world, enabling them to make better choices without forcing them into one direction or other.

A similar concern for public education where domestic education is insufficient can be found in Hegel. He explicitly notes that children whose families are unable to educate them need to be educated by the state and that in general education needs to be supervised

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[55] WN V.I.III.II.50, cf. also LJ(B) 539. Cf. e.g. the formulation in LJ(A) 353 'The effects of commerce, both good and bad, *and the naturall remedies of the latter*' (italics added).
[56] WN V.I.III.II.49.
[57] WN V.I.III.II.52f. In addition to the 'little schools' Smith recommends obligatory examinations for those who want to 'obtain the freedom in any corporation, or be allowed to set up any trade either in a village or town corporate' (V.I.III.II.57) or want to exercise a 'liberal profession, or be received as a candidate for any honourable office of trust or profit' (V.I.III.III.14).
[58] WN V.I.III.II.60.
[59] WN V.I.III.II.61. Smith notes, however, that the government profits from having a more educated population, as it is more 'decent and orderly' and less likely to be misled into opposition to government measures (cf. chap. V, fn. 175).
[60] Fleischacker, *A third concept of liberty*, e.g. p. 7.
[61] Ibid., 19.

by the state.[62] Although he admits that parents have a right to educate their children, society can compel them to go to school.[63]

Smith and Hegel share the same idea: where the economic structures prevent the development of the citizen's capacity to act autonomously, the state has to take action: it has to provide the *means* for securing at least a basic level of autonomy, without which actions could not be ascribed to individuals as responsible agents. The aim is *not* to prescribe any ideal of what 'an' autonomous life would look like, but to make sure that agents reach a certain threshold of autonomy, from which they can develop higher levels of individual positive freedom on their own.

The measures Smith and Hegel suggest may seem insufficient from today's perspective. But they provide a model for how to think about the competence condition for autonomous judgements in a market society. They remind us that the defenders of a liberal market society, in which individuals are free to take on responsibility for their own lives, need to ask how everyone can be *enabled* to do this. Otherwise it exposes those who are *not* able to make deliberate, competent decisions to the risk of being exploited by others who are abler. This concerns in particular the education of children, but is by no means limited to it; it can also relate, for example, to the provision of information about certain goods. Such measures – as well as the taxation necessary to cover their costs – may indeed lead to slight limitations on negative liberty. But they make sure that *everyone* has a chance to make decisions that are free not only in the sense that they are unhindered by external circumstances, but also in the sense that they are made by agents who are competent to do what is in their own interest. Without this competence, the point of giving people negative freedom risks being missed: a sphere of negative freedom in which one is unhindered seems hardly worth fighting for without the ability to orientate oneself in the world and to make choices in one's own long-term interest.

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[62] PR §239, cf. Hotho, 555, 701f., Griesheim, 602.
[63] PR §239.

Once one agrees that negative freedom without the competence to make autonomous choices is a rather bloodless ideal, the question about the authenticity of decisions also comes to the fore. In less liberal societies, in which people are not allowed to choose for themselves, this issue may be less pressing. But once the responsibility for his or her life is shifted to each individual, as Smith and Hegel conceptualize it, the question whether people make decisions that are 'their own' becomes unavoidable, especially if, as they both concede, commercial society poses its very own threats to authenticity, in particular with regard to consumerism.

Smith's and Hegel's suggestions diverge on how people can avoid the mindless consumerism to which market society may seduce them. Both agree on a basic point, however: the argument for economic freedom is *not* that people should greedily maximize their profits at the cost of other values, irrespective of what these are. Smithian 'prudence' is not restricted to monetary gains, but also includes the 'care of the health, of the fortune, of the rank and reputation of the individual;'[64] the greatest challenge may often be to *balance* these different goods. In addition, it seems to be an assumption too obvious to be mentioned explicitly in both his and Hegel's accounts that individuals often strive for material goods not only for themselves, but also for their families.[65] Neither Smith nor Hegel advocate what has later been caricatured as 'economic man,' man turned into a profit-maximizing machine. Nor do they anticipate the idea of Chicago school economists, in particular Gary Becker, that *all* human behaviour, from the decision to have children to criminal behaviour, should be understood as a rationally calculated maximization of expected outcomes.[66]

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[64] TMS VI.I.5. On the difference between self-interested prudence and greed in Smith see also J.B. Wight, "Adam Smith and greed," *Journal of Private Enterprise* 21 (2005): 46-58.
[65] Cf. e.g. Hegel's reflections on 'family capital' in PR §170ff. In the Hotho lectures Hegel also holds that work that serves the aim of providing for one's family already overcomes the 'bad infinity' of boundless desire: it is work for a social whole that changes the individual's desires from 'the egoism of desire' into 'the care and acquisition for a common goal,' something 'ethical' (Hotho, 539ff.).
[66] Cf. e.g. Gary S. Becker, "Crime and Punishment: An Economic Approach," *The Journal of Political Economy* 76, no. 2 (1968): 169-217.

The narrow pursuit of self-interested material goals, while being *made possible* in the commercial societies envisaged by Smith and Hegel, is by no means their ideal of a good life. On the contrary: one of the reasons why they endorse commercial society is that it makes possible a wide range of *different* ways of life and the pursuit of different values. These include, for example, political activity or endeavours in the arts and sciences.[67] If Smith had finished the other two books he intended to write, the 'Philosophical History of all the different branches of Literature, of Philosophy, Poetry and Eloquence' and the 'theory and History of Law and Government,'[68] it would have been much clearer that he cannot be claimed as the hero of those who see man as driven exclusively by economic concerns. In the *Theory* he praises not entrepreneurs, but rather 'heroes,' 'statesmen and lawgivers,' 'poets and philosophers,' inventors, 'protectors, instructors, and benefactors of mankind' as examples of 'the most exalted virtue.'[69] For Hegel, it is equally clear that there are higher aims in life than pursuing commercial interests: there is not only the *political* dimension of life that stands above the battlefield of civil society; 'objective' *Geist* is not even the highest form of *Geist*. 'Absolute' *Geist*, the realm of art, religion and philosophy, comes *after* his reflections on the state, and presents an even higher form of reconciliation and freedom.[70] One does not have to accept the details of Hegel's account to share the view that art, religion and philosophy – all conceived very broadly, as social practices in which people pursue a common good that cannot be adequately described in purely economic terms – can present alternatives to, or complement, the pursuit of self-interest in the market. For Hegel, living a life that focuses on narrow economic goals and overlooks

[67] For Smith the 'progress of opulence' also supports the flourishing of arts, sciences and culture, cf. e.g. LJ(A)333ff., HA IV.21. Cf. also Schliesser, "Adam Smith's benevolent and self-interested conception of philosophy," on how Smith's endorsement of economic growth (including nature's 'deception' that leads people to acquire more material goods) has to do with the fact that it makes possible the flourishing of the arts and sciences, including philosophy.
[68] Corr. #248, cf. Ross, *The Life of Adam Smith*, 101, 305, 334ff. As mentioned in chap. II.3, the *Lectures on Jurisprudence* and the *Lectures on Rhetoric and Belles Lettres* provide an idea of what this system might have looked like.
[69] TMS III.II.35.
[70] Cf. Enc §553ff.

these other dimensions of life, as well as the social relations in which they are practised, would be to miss important opportunities for human fulfilment.

The question thus becomes how the citizens of a market society become able to make autonomous, authentic choices from among these different opportunities, rather than falling into a mindless pursuit of inauthentic desires. How can they make use in *their own* ways of the many opportunities that commercial society offers, rather than be driven by external forces?

Smith believes mainly[71] in the power of moral education, holding that '[t]he great secret of education is to direct vanity to proper objects.'[72] It seems to be mainly a matter of *private* education and mentorship that takes place within the family and in the 'circles of sympathy,' among friends and neighbours.[73] The emulation of others, which often plays a negative role in consumerism, can also entice people to virtue, when the 'admiration of the excellence of others' serves as a motivation to aspire to excellence oneself.[74] The question thus is whether the moral resources of the private circles of commercial society are sufficient to provide young people with suitable role models and good educators, to make sure that they do not end up with the inauthentic ambition of the poor man's son, but learn to choose wisely and with self-command.[75] A successful moral education enables individuals to strike the delicate balance that commercial society demands for leading a good life: pursuing one's interests, but not being driven by them, distinguishing between self-interest in the economic realm, where it is beneficial, and egoism in the private circles

[71] Nor is Smith opposed to taxation that supports prudent behaviour; cf. e.g. his remarks about taxes on luxury goods in WN V.II.II.I.6. On the whole, however, his account of taxation aims at efficiency and equity rather than the guidance of behaviour.
[72] TMS VI.III.46. For a discussion cf. in particular Hanley, *Adam Smith and the Character of Virtue*, who provides the most extensive discussion of Smith's views on moral education. He reads chapter VI of the 1790 *Theory* as an answer to the problems of 'commercial corruption' and underlines that Smith's view of moral education allows for true virtue and moral autonomy even if it *starts* from people's attention to the judgments of others.
[73] Cf. e.g. his rejection of boarding schools, TMS VI.II.I.10.
[74] TMS III.II.2.
[75] The importance of self-command for distinguishing between real and imagined needs in Smith's account is emphasised in particular by Ignatieff ("Smith and Rousseau," 94ff.); cf. also Muller (*Adam Smith in his Time and ours*, 99), who argues that for Smith men in modern society need a degree of self-command that the *market* can never supply. But for Smith the market is always surrounded by other institutions, such as the family and the private circles of sympathy, which can provide it.

or the realm of politics, where it can be disastrous. Smith's virtuous citizen can admit that the preservation of 'external fortune' is necessary in order to gratify the natural appetites with 'care and foresight,'[76] but does not fall into a mindless striving for ever more goods. He is not insensitive to opportunities for profit and the acquisition of honour, but acquires a 'noble firmness' and 'exalted self-command, which is founded in the sense of dignity and propriety.'[77] Smith's *Theory* can in fact be read as an appeal to self-command and virtue, explaining how they can be achieved and thereby inviting its readers to practise them.[78]

Hegel's solution to the problem of inauthentic desires is different; it is not limited to the private realm, but reaches into civil society itself. For him the corporations – professional institutions, supervised by the state[79] – offer a realm in which individuals can overcome the risk of unbridled consumerism. If one is recognized by the members of one's corporation, one does not have to strive for recognition by the consumption of luxuries, but can adopt an established way of life.[80] Life in the corporations goes beyond pure self-interest, as they strive for a *common* aim and organize care for members who have fallen into distress.[81] Individuals become engaged in the running of the corporation and its internal politics.[82] When performing these tasks, the members of a corporation have to take into account wider, more 'political' considerations than in their private business, and act collectively rather than individually.[83] This means that they are exposed to the opinions and judgments of others, which can help them to reflect on their views, defend them against criticism, and come to more authentic choices.

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[76] TMS VI.I.2f.
[77] TMS VI.III.18.
[78] Cf. Muller, *Adam Smith in his Time and ours*, 103.
[79] PR §255.
[80] PR §253, cf. also Grisheim 617ff. For discussions see e.g. G. Heiman, "The sources and significance of Hegel's corporate doctrine," in *Hegel's Political Philosophy: Problems and Perspectives*, ed. Z. A. Pelczynski (Cambridge: Cambridge University Press, 1971), 111-135, or Schmidt am Busch, *"Anerkennung" als Prinzip der kritischen Theorie*, 240ff.
[81] These activities include choosing new members, protecting each other against 'particular contingencies,' and educating others to become members.
[82] PR §252.
[83] Cf. also PR §289 on the politics of the corporation, which Hegel describes rather critically, but holds that this sphere is 'left to the moment of formal freedom' and 'affords a playground for personal knowledge, personal decisions and their execution, petty passions and conceits;' 'self-satisfaction and vanity' playing an important role in it. But such behaviour is nonetheless 'permissible' in this realm and does not seriously affect the state's effectiveness.

The corporations, however, are limited, partial social units, and as discussed earlier, it is not clear whether they are able – together with the police – to tame the economy. As we shall see, for Hegel the logical consequence of the movement towards the corporations is the 'sublation' of civil society in the state. What should be noted, however, is that in contrast to Smith, learning to make authentic choices for Hegel takes place in the economic realm itself, considerably limiting the *economic* side of people's negative freedom.[84] But Hegel would probably argue that being a member of a corporation adds more to one's life in terms of freedom than it takes away from it. After all, he describes them as *voluntary* organizations, entered by free and legally independent individuals because they see that on the whole their interests are furthered. This argument points to an important question: if negative freedom is defined as the absence of *obstacles*, how should we evaluate 'obstacles,' or limits of freedom more broadly, that are self-imposed, or can be rationally endorsed? It is this question that leads us to positive freedom in the sense of *collective* self-determination.

VI.4 The social structures of freedom

What matters about freedom in the market, for both Smith and Hegel, is not only freedom in the negative sense, but also how the citizens of a commercial society are enabled to lead autonomous lives. Although the details of their account on how to achieve autonomy differ, they concur in the awareness that a liberal society has to take this question into account and take measures to ensure that this liberty is within the reach of all citizens. As mentioned at the outset, however, there is a second worry about negative liberty that concerns the stability of the social whole in which negative liberty is practised.

To make clear the nature of this worry it is helpful to recall the general structure of Smith's and Hegel's theories of a liberal society. Both conceptualize a society in which different social spheres function according to different principles. Smith's famous

[84] In the Griesheim lectures Hegel addresses this issue, arguing that it is not clear that the abolition of the corporations really leads to a freer market, as it might rather facilitate the formation of cartels (625ff.). This, again, is more likely on a Hegelian picture of the market than on a Smithian picture.

quotation about the self-interest of 'the butcher, the brewer, or the baker' is preceded by the argument that men in 'civilized society' need to cooperate with a much greater number of people than they can win as friends.[85] This indicates that different forms of behaviour – logics of agency, as one might call them – are appropriate in different spheres. Smith is very clear in his condemnations of those merchants and manufacturers who try to extend the logic of self-interest into the *political* sphere, to influence the setting of rules. The normative standard for politics should be the impartial spectator, not self-interest. Smith's reflections on the concentric structure of sympathy equally indicate that different logics of agency should rule in different spheres: in the intimate circles of family and friends benevolent behaviour has its place, whereas in the market self-interest within the limits of justice is appropriate.[86] A similar distinction between different logics of agency shapes Hegel's system: the family is 'characterized by love,' it is a unity of 'feeling;'[87] in civil society self-interested 'particularity' has its place; whereas the political sphere is the realm of 'universality.'[88] As has been noted, the structure of Smith's and Hegel's accounts thus resembles contemporary 'pluralist' theories of justice, notably Walzer's account of 'spheres of justice,'[89] in that a just society is one in which different principles have their place in different spheres.

The logic of agency of the market is self-interest, and it is a central aspect of negative liberty that people are here *allowed* to follow their self-interest, even if it may not be the choice of a virtuous, autonomous person to strive unconditionally for material goods. But self-interest is *not* the appropriate logic of agency in *other* social spheres. The great challenge for a differentiated society along the lines that Smith and Hegel describe is how to draw – and to secure – the boundaries between these spheres. People must know which logic of agency is appropriate for which sphere, and act on this knowledge. The

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[85] WN I.II.2.
[86] TMS VI.II.ff. cf. chap. II.5-6.
[87] PR §158.
[88] Cf. also Avineri, *Hegel's theory of the modern state*, 134, who characterizes the three modes of relations in these spheres as 'particular altruism,' 'universal egoism,' and 'universal altruism.'
[89] Cf. chap. IV.4.

danger to which such a society is exposed is that these boundaries get blurred; for example, that *one* logic of agency comes to dominate *all* spheres.

The danger from negative liberty – especially in its economic dimension – with regard to the stability of a differentiated society thus is that it might undermine other social spheres that should follow different logics and that are indispensable for social stability. Jürgen Habermas has coined the phrase 'colonization of the life-world': the 'life-world' is invaded by the 'system' that comprises the political *and economic* sphere.[90] The scenario that Habermas and similarly-inclined thinkers dread is a society that is completely dominated by economic concerns, in which money is the only currency and everything has a price, but nothing a value.[91] Not only would such a society fail to provide spaces for central aspects of human life, it would also be inherently unstable and undermine its own bases; even defenders of a purely negative conception of liberty should therefore be wary to recommend it as an ideal.

Thus, the question is how Smith and Hegel answer this worry about the 'colonizing' and 'self-undermining' tendencies of the market and its negative freedom. It is here that we encounter the different structures in the relation between negative freedom and other aspects of freedom sketched at the outset.

Smith is often seen as a defender of negative freedom. But a central reason why he focuses so much on negative freedom is that he takes it that the citizens of a society in which there is a lot of negative liberty will *both* lead more autonomous lives *and* such a society will be more stable and better able in the long run to *secure* the rights and freedoms of its citizens. It is this tendency of negative liberty to both reinforce itself and to lead, automatically, as it were, to richer notions of freedom that we need to explore further.

The foil against which Smith paints his vision of commercial society is feudalism, i.e. a society dominated by a few rich and powerful lords on whom the rest of the

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[90] Habermas, *Theorie des kommunikativen Handelns*, vol. II. chap. VI.
[91] Cf. Oscar Wilde's famous line 'What is a cynic? A man who knows the price of everything and the value of nothing' (Lord Darlington in Act III of *Lady Windermere's Fan* (London: Methuen & Co, 1939)).

population are completely dependent. Against this background, the introduction of more negative liberty for all has, in Smith's eyes, overall positive effects.

First of all, Smith's reflections on the history of Europe include a story about how economic liberty and markets *themselves* contribute to the spread of rights and of impartial government. Not only does the free market help to break the power of the feudal lords, as they squander their fortunes on 'baubles and trinkets' instead of paying for retainers. The desire for luxury consumption, for which they need cash money, leads them to grant their tenants greater freedoms in exchange for higher levies.[92] At the same time, self-government and an independent jurisdiction develop in the cities, as the burghers understand that this improves their ability to run their businesses.[93] Commerce thus introduces 'good government,' first in the cities, and then in the countryside. According to this narrative, giving the market its proper space helps to *ensure* that the political realm functions according to the right principle, namely impartiality, which in turn secures the citizens' negative liberty.[94]

Giving all citizens personal rights and property rights – negative freedom – also helps to avoid the vices that marred feudal society. Having unequal rights and positions by birth, the members of a feudal society were likely to fall into typical behavioural routines: the masters would be arrogant and trample on the rights of their tenants, whereas the latter would be slothful and prepared to deceive their masters in any possible way. In a commercial society, in contrast, people relate to others as equals, i.e. as more or less impartial spectators, or at least not spectators likely to be partial by force of their social positions alone. Rather than adopting the vices that result from superiority or inferiority, they are more likely to behave according to principles that can be endorsed by an impartial spectator.[95] Whereas the members of feudal societies had their way of life determined by

[92] WN III.IV.10, LJ(A) 261.
[93] WN III.II.3ff., LJ(A) 256, LJ(B) 419ff.
[94] WN III.III.12, III.IV.4. On the relation between commerce and liberty in Smith (as well as in Hume and other 18th century-authors) cf. Winch, *Adam Smith's Politics*, 70ff.
[95] Cf. also Rasmussen, *The Problems and Promise of Commercial Society*, 124f.

birth, the citizens of commercial society profit from the chances that the market offers for developing autonomy and have incentives to practise the 'bourgeois virtues.'

In turn, having autonomous citizens protects commercial society from the risk that the negative liberty of the market undermines its social cohesion. Smith is well aware that 'place,' i.e. social status, is 'the cause of all the tumult and bustle, all the rapine and injustice, which avarice and ambition have introduced into this world,'[96] which indicates that incessant ambition can throw into disarray the private circles of sympathy. But truly autonomous citizens, who have gone through a successful moral education and acquired the 'noble firmness' and the 'sense of dignity and propriety' Smith describes, will not be driven by such boundless ambition. They would not, for example, sacrifice friendship and the well-being of their family for the sake of monetary gains. Nor do they pursue their self-interest in a thorough-going way, e.g. violating property rights whenever the chances of discovery are low. Rather, they recognize the limits of self-interest and in particular the need to keep it within the bonds of justice. As Jerry Evensky emphasises, Smith is well aware that if people behaved as rent-seekers all the time and towards everyone, the social order could only be kept up by force, which would make a *liberal* society impossible.[97]

The less the population consists of characters like the 'poor man's son,' and the more it consists of enlightened, self-controlled agents, the lower is the risk that the negative liberty of the market will undermine the social ties of the private sphere which keep society together. The market, by rewarding bourgeois virtue, contributes to shaping such characters, but in order to ensure the education of *all*, and to make sure that the bourgeois virtues are practised in an authentic way, state schools and moral education also have a crucial role to play. The characters that populate Smith's vision of commercial society are not the exceptional heroes of the ancient ideal of virtue, but neither are they dominated by an inauthentic, socially disruptive striving for ever more material goods.

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[96] TMS I.III.2.8.
[97] Jerry Evensky, "'Chicago Smith' versus 'Kirkaldy Smith'," *History of Political Economy* 37, no. 2 (2005): 197-203.

In Smith's model, negative freedom is thus instrumental both for leading people towards a more autonomous life *and* for stabilizing the social whole within which they have these rights and liberties. Negative freedom thus leads to aspects of freedom that have often been described as 'positive.'

This system, however, has one great weakness. The demolition of feudal structures by the market has not been perfect, and there are always social groups – the infamous 'merchants and manufacturers' – who want to translate their *economic* power into *political* power. As we have seen, Smith needs virtuous politicians and independent judges that remove the remnants of feudalism and protect the equality of rights against economic influence.[98] Sometimes fortunate circumstances may help to bring about improvements of the political framework, as when, in England, the king was weakened because there was no need for a standing army, or when Elizabeth I had no heir, which had made her prone to squander the royal treasure, further weakening the crown.[99] But if this is not the case, the only hope for improvement is that the sovereign and his counsellors be wise and virtuous, understanding the intricate workings of a commercial society and following the rules of the impartial spectator. Smith's own books are evidently meant to support the development of such political virtue, both by motivating individuals to acquire it – e.g. in the praise of the 'prudence of the great general, of the great statesman, of the great legislator,' which is described with great rhetorical flourish in the *Theory*[100] – and by providing insights into economic and political issues in the *Wealth.* But it seems that in the Smithian picture nothing can *guarantee* that there will be suitable characters at the head of states to take up this advice and to act accordingly, out of public spirit rather than self-interest.

In the Hegelian picture, negative liberty does not have this self-reinforcing power; his picture of civil society as socially disruptive already suggests that it is insufficient to

[98] Cf. e.g. WN V.I.II.25.
[99] LJ(A) 265ff., LJ(B) 418ff.
[100] TMS VI.I.15.

guarantee social stability. His theory of the state has often been seen as dangerously illiberal and even as having paved the way for fascism. But in a way, it can be understood as an answer to the problem with which Smith leaves us: how to secure the impartiality of the sovereign? In addition, for Hegel the state has much more 'to do,' as it were, precisely because he does not build on the self-reinforcing tendencies of negative freedom that Smith describes. Bearing these points in mind, it is possible to provide a 'rational reconstruction' of Hegel's account of the state and of his claim that in it 'freedom comes into its supreme right'[101] that is understandable, and unsuspicious, from the point of view of modern liberalism. Rather than looking at the details of Hegel's constitution – which, as has been mentioned above, are not all endorsable from a contemporary perspective – what matters are the *functions* that the state fulfils in his account of *Sittlichkeit* and the ways in which it goes beyond the social relations of family and civil society.

Without the state, all social relations are based either on intimate love (in the family) or on instrumental reason (in civil society), none of which includes the will to sustain the social whole within which all these other relations take place. As has been mentioned, Hegel calls the institutions of civil society 'the external state, the state based on need.'[102] What is lacking in this 'external state' is a commitment of the citizens to see each other not only in instrumental, 'particular' ways, but to recognize each other as citizens, as members of a whole that they want to maintain together. This is a fundamentally different disposition from the one people have in the legal system or in the market, where they defend *their own* private interests. A society without such a commitment could not be stable, Hegel thinks, as individuals could at any time decide that their own interests are more important than the maintenance of the social whole and the recognition of the freedom of others.[103] The corporations, the social organizations that emerge in civil society, are limited

[101] PR §258.
[102] PR §183.
[103] Cf. chap. III, fn. 162 on his criticism of contract theories. On the self-sufficiency of the state in contrast to the family and civil society see also Knowles, *Routledge Philosophy Guidebook to Hegel and the Philosophy of Right*, 229.

in scope and thus can aim only at an end which is 'restricted and finite,' namely the welfare of their members. The state, in contrast, is the community of all citizens, the 'absolutely universal end.'[104] As such, it aims *consciously* and *systematically* at the common good of *all*.[105] This differentiates it from civil society, in which the common good is brought about indirectly and unintentionally (if at all), through the invisible hand of the market. The state 'knows what it wills and knows it in its universality;' it 'works and acts by reference to consciously adopted ends,' and is thus the *self-conscious* ethical substance.[106] What differentiates the state from the family is that the good is realized not in the medium of feeling, but rather 'political virtue is the willing of the absolute end *in terms of thought*.'[107]

Thus, for freedom to be realized in a stable social whole, there needs to be a dimension of society in which individuals are *not* putting their own interests first, but are willing to accept the freedom of others and the maintenance of the social whole as values in themselves. As Patten argues, the *Sittlichkeit* of the modern state is the 'minimum of self-sufficient [not self-undermining] institutional structure' in which all aspects of freedom can be realized.[108] The state, in contrast to families or corporations, is a social unit that encompasses a *whole* society; it is self-sufficient in a way that single individuals or more limited communities could not be.[109]

The citizens' disposition in the state can be seen as a functional equivalent to two aspects of the Smithian model. On the one hand, it relates to Smith's 'sense of justice' which leads people to follow the rules of justice – which, ideally, are expressed in positive law – rather than always putting their own interests first and obeying the law only because of the threat of punishment. On the other hand, the political realm, with its aspiration to achieve 'universality,' the principle of *Geist*, can be seen as a parallel to the Smithian

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[104] PR §256.
[105] PR §181ff., cf. Patten, *Hegel's Idea of Freedom*, 170ff.; Avineri, *Hegel's theory of the modern state*, 178.
[106] PR §270, Enc §535.
[107] PR §257, italics added.
[108] Patten, *Hegel's Idea of Freedom*, 37, 164f., 181ff. Patten also points out (166) that this idea does not imply that all institutions that Hegel suggests as part of the state are needed to realize this idea, which is certainly right. Cf. similarly Wallace, "How Hegel reconciles private freedom with citizenship."
[109] Cf. e.g. PR §256 and Hotho, 565, where Hegel notes that the state and the family have developed much earlier in history than civil society.

legislator who takes political decisions from an impartial, 'universal' perspective. Structurally, there is thus a parallel between Hegel's notion of *Geist* as '"I" that is "We" and "We" that is "I"'[110] and the perspective of the impartial spectator: in both cases, the individual takes into account the perspective of others as equally valid, and knows that the others will do so as well. The Smithian legislator who embodies the perspective of the impartial spectator corresponds to the 'universal' sphere of the Hegelian state that stands above private interests and impartially serves the common good.

As is well known, the emphasis that Hegel puts on the necessity of such a 'universal' element in a society has to do with the experience of the French Revolution and its slide into terror. Hegel analyses these events as the 'absolutizing' of an individualistic notion of freedom which led to the 'fury of destruction,' because it did not in itself contain any means for creating stable social structures.[111] But Hegel's emphasis on the state also has to do with his picture of the market; for a society that is not at the brink of revolution the individualistic dispositions and the socially disruptive effects of the market may indeed be the greater danger. The Hegelian market is a disruptive, Dionysian play of forces, more similar to the struggle of all against all in a state of nature than to the harmonious Smithian win-win-game in which one can gain only by furthering the interests of others. It creates luxury and poverty, both of which tend to corrupt people's morals, rather than equalizing incomes and life-styles, as in the Smithian picture. With this picture of the market – which Hegel nevertheless endorses as the realm of subjective freedom – it is quite plausible that there needs to be some other social sphere in which people encounter each other in a different way. For Hegel, this is the political realm of the state.

The emphasis on 'Hegel the communitarian,' however, risks overshadowing the fact that the *end* of this state is a genuinely liberal one.[112] Whatever else it might also be in

[110] PS #177.
[111] PR §5, cf. PR §5Z and PS #582ff. for his detailed account of the French Revolution.
[112] Muller rightly reminds us that Hegel was not only writing after the French Revolution, but also at a time when there was considerable danger of a conservative restauration, i.e. a slide towards a form of government

terms of the state's *own* good,[113] a crucial element of the state's goals is the realization of the freedom of the individuals.[114] The 'universal end' of the state is realized in and through the 'particulars,' i.e. its individual citizens. It is worth quoting Hegel at length on this:

> The state is the actuality of concrete freedom. But concrete freedom consists in this, that *personal individuality and its particular interests* not only achieve their complete development and gain explicit recognition for their right (as they do in the sphere of the family and civil society) but, for one thing, they also pass over of their own accord into the interest of the universal, and, for another thing, they know and will the universal; they even recognize it as their own substantive mind; they take it as their end and aim and are active in its pursuit. The result is that the universal does not prevail or achieve completion *except along with particular interests and through the co-operation of particular knowing and willing*; and individuals likewise do not live as private persons for their own ends alone, but in the very act of willing these they will the universal in the light of the universal, and their activity is consciously aimed at none but the universal end. The principle of modern states has prodigious strength and depth because it allows the *principle of subjectivity to progress to its culmination in the extreme of self-subsistent personal particularity*, and yet at the same time brings it back to the substantive unity and so maintains this unity in the principle of subjectivity itself.[115]

The relation between individual and state is thus not one of complete submission or one-sided instrumentalization, but rather an organic unity in which the interests of the individuals are preserved.[116]

In this reconstruction, which remains uncommitted with regard to Hegel's wider metaphysical claims, his idea of the state can also appeal to contemporary theorists who ask about the possibilities of *realizing*, in concrete social structures, the conditions for individual freedom. The problem with the Hegelian notion of the state is not the general idea of a social unity that strives for the realization of the freedom of its members, nor the idea that one needs *some* form of agency in a differentiated state whose representatives act with impartiality rather than following their own private interests – these can hardly be denied by liberal political theorists. What seems problematic is rather that Hegel seems to have assumed that this is usually the case, and thus that he does not say anything about the need

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in which negative freedom is precisely *not* secured and where government decisions are taken in ways that individuals could not endorse (cf. *The Mind and the Market*, 141, 148).

[113] The individuals might not be the *only* subjects of freedom in the state – as Neuhouser argues, the *state itself* as 'a living, self-reproducing system' realizes a kind of freedom that is different from the freedom that any human individual could achieve (*Foundations of Hegel's Social Theory*, 31, cf. also 144, 213). But it is no problem for a liberal reading of Hegel to admit this possibility as long as the individuals' rights are not *sacrificed* to this social whole. As Neuhouser shows, this is not the case, at least not at the *end* of world-history, once the modern state is fully developed (ibid., 216ff., cf. also chap. III, fn. 55 above).

[114] Cf. PR §129.

[115] PR §260, italics added.

[116] Cf. e.g. PR §272.

for critical reflection and surveillance of the legal and political apparatus by the citizens.[117] Rather, the 'universality' of the state rests in the hands of a small group of civil servants who represent the state and act in its name – and Hegel seems to believe that they will *always* act on its universal principles.[118] His trust in the professional ethos of this class seems to be enormous, and also seems to be one of the reasons why he rejects parliamentary control and takes it to be sufficient if the executive reports to the monarch.[119] But without a rather substantial metaphysical story about why this should be so – more substantial than the reading of *Geist* I have provided – why should one believe that the civil servants will *always* have in mind the public interest, rather than their own interests? Hegel notes that civil servants need to earn an adequate salary so that their work is 'freed from other kinds of subjective dependence and influence.'[120] But this again leads to the question about who judges their behaviour, and whether civil servants will really sacrifice 'the selfish and capricious satisfaction of their subjective ends'[121] to the attainment of universal goals. As Rolf-Peter Horstmann polemically notes, it is a fallacy to assume that the state must embody 'reason' simply because civil society does *not*.[122]

Hegel would maybe reply that if the state does not act for the public good in true 'universality,' it is not a real state; it is rather 'a bad state,' 'one which merely exists.'[123] But this shifts the problem to the question of how the 'real' state can be actualized.[124] One can recognize this problem, however, – which, after all, also occurs in Smith's account, in the

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117 Cf. also Knowles, *Routledge Philosophy Guidebook to Hegel and the Philosophy of Right*, 282, who says that Hegel does not do sufficient justice to the possibility 'that the law might be an ass, or, worse, a tyrant.'
118 Cf. e.g. PR §294: 'What the service of the state really requires is that men shall forgo the selfish and capricious satisfaction of their subjective ends; by this very sacrifice, they acquire the right to find their satisfaction in, but only in, the dutiful discharge of their public functions.' Or Griesheim, 591, where he says about the civil servants that the 'law in a state, the whole of the state, of the laws, sciences, arts etc. rest in them.' Cf. also Bernard Bourgeois ("Der Begriff des Staates," in *Klassiker auslegen: G.W.F. Hegel, Grundlinien der Philosophie des Rechts*, ed. Ludwig Siep (Berlin: Akademie Verlag, 1997), 217-242, 240), on the close association in Hegel between the state and philosophy as the highest form of knowledge. If one does not share Hegel's belief in the possibility of this kind of philosophy, this may also withdraw support from his account of the state.
119 PR §289.
120 PR §294.
121 Ibid.
122 Horstmann, "Über die Rolle der bürgerlichen Gesellschaft in Hegels politischer Philosophie," 300f.
123 PR §270Z.
124 Ritter (*Hegel and the French Revolution*) in fact argues that for Hegel modernity has *failed* to fulfil its aspirations, as it has not brought about the right kind of self-governing institutions (45ff.).

question about the virtuous sovereign – without denying the importance of Hegel's crucial insight: at *some* level in the organization of a social whole, there needs to be a principle of 'universality' that goes beyond the pursuit of individual interests. Without this, securing the basic rights and the negative liberty of all citizens becomes a matter of contingency.

One might object, however, that this is all very well, but not a question of *freedom*. These arguments, one might say, have to do with restrictions on freedom that are necessary for maintaining the social whole, but not with the notion of freedom itself. For Hegel, however, true freedom consists not only in doing what one wants, but in *wanting* one's freedom. At the start of the *Philosophy of Right* he defines free will as the will that has '*itself* as its content and aim.'[125] If a political community of the kind Hegel describes is necessary for the realization of freedom, then a free will can, and indeed must, endorse it. This relates to the question, raised earlier in the context of the corporations, about how to evaluate limitations on one's freedom that one imposes oneself, or of which one can recognize that one *would* choose them, even if one has entered into them in less conscious ways. For Hegel, such limitations do not count as limitations of freedom if – and only if! – they in fact serve the preservation of one's own freedom: one is freer if they are present than if they are absent. If the freedom of the individuals is the main goal of the state, it is not a threat for them, but something they enter voluntarily, or rather – as they already live in a political community – come to see as the structure that makes their freedom possible. They can then be in a relation of being 'with oneself in the other'[126] to the social whole, which Hegel describes as characteristic of freedom: if I am 'with myself in the other,' the other is not a restriction, but something I can endorse, and so it is part of my own will.

Hegel calls membership in such a state 'substantive freedom,' since it is a freedom that is more rational than the purely subjective freedom of the market: it includes the social conditions of its own existence and is not limited by them, but 'at home' in them. This freedom has a distinctly social dimension: the citizens recognize each other as free and

[125] PR §15.
[126] Enc §24 Z2.

rational individuals who can encounter each other in the realm of reason, not only in the realm of interests, and who are committed to furthering each other's freedom.[127] It is this mutual recognizing and being recognized in which individual freedom is socially realized:

> [o]nly in such a manner is true freedom realized; for since this consists in my identity with the other, I am only truly free when the other is also free and is recognized by me as free.[128]

On the other hand, the state is justified, and is the reality of freedom, *only* insofar as it meets the criteria for endorsability by rational individuals. Hegel calls it the 'right of the subjective will' that it does not recognize anything as valid which '[its] insight [does not] see as rational.'[129] It is a specific achievement of the modern protestant world to grant this right to subjectivity:

> It is a sheer obstinacy, the obstinacy which does honour to mankind, to refuse to recognize in conviction anything not ratified by thought. This obstinacy is the characteristic of our epoch...[130]

Ideally, the state can be 'ratified by thought' as an institution that realizes the citizens' freedom. It then does not appear to them as something 'externally imposed,'[131] but as the 'realization of their own essence or their own inner universality.'[132] In the state, the individuals are free *and* know themselves to be free.[133] They have 'the consciousness that my interest, both substantive and particular, is contained and preserved in another's (i.e. in the state's) interest and end, i.e. in the other's relation to me as an individual.'[134] This is what Hegel calls 'patriotism': the fact that a citizen 'habitually recognizes that the community is [his or her] substantive groundwork and end;'[135] in extreme cases, this also includes the willingness to sacrifice one's life for the social whole.[136]

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[127] This has been emphasised in particular by Neuhouser, who uses the term 'social freedom' to describe this conception (*Foundations of Hegel's Social Theory*).
[128] Enc §413Z. This is related to the theme of embeddedness discussed in chap. IV: the Hegelian individuals can be free *and* embedded at the same time if they can rationally endorse the social relations in which they are embedded.
[129] PR §132.
[130] PR, Preface, 12.
[131] Raymond Plant, "Hegel and the Political Economy," in *Hegel on Economics and Freedom*, ed. William Maker (Macon, GA: Mercer University Press, 1987), 95-126, 109.
[132] PR §153, cf. Ver Eecke, "Hegel on Freedom, Economics, and the State," 136.
[133] PR §153, §257, cf. Patten, *Hegel's Idea of Freedom*, 197.
[134] PR §268.
[135] PR §268. There is a question, however, about the degree to which this 'patriotism' is supported by a rational endorsement of the state that stems from understanding its importance for modern freedom. Not all citizens will go through the long process of reasoning necessary for such an endorsement; what is important,

Interestingly, Smith, despite his focus on negative freedom, shares this thought that without a structured social whole liberty is not possible, and therefore the individuals must be prepared to accept certain restrictions in order to maintain it. As already mentioned, he argues that the legislator should ban behaviour that poses a threat to the public, e.g. by mandating the erection of fire walls between houses, *although* this limits negative liberty.[137] Book V of the *Wealth* is an extended justification of taxation as necessary for maintaining the political system. In his discussion of the colonies, Smith argues that Ireland and America should help to pay for the debts of Great Britain, because they have been contracted in support of a government to which they owe 'every security which they possess for their liberty, their property, and their religion.'[138] In one passage, Smith even comes close to a language of positive liberty – in the sense developed here –, when he argues that '[e]very tax […] is to the person who pays it a badge, not of slavery, but of liberty,' because it means that a person 'is subject to government, indeed, but that, as he has some property, he cannot himself be the property of a master.'[139] Smith also argues that individuals must be prepared to expose themselves to 'danger and to death' not only in defence of their 'liberty and property,' but also 'in defence of [their] country, in the safety of which [their] own was necessarily comprehended.'[140] So the sense that there needs to be a political community in which the institutions that maintain liberty are endorsed and supported by individuals can be found in Smith as well.

Smith does not, however, describe this as a *political* dimension of life.[141] The social ties that he mostly seems to rely on – the 'circles of sympathy' – have their place in the

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however, is that they *could* do so. For discussions see e.g. Knowles, *Routledge Philosophy Guidebook to Hegel and the Philosophy of Right*, 196, 315ff., Wood, *Hegel's Ethical Thought*, 217f.

[136] PR §324 and in particular §325.

[137] WN II.II.94.

[138] WN V.III.88.

[139] WN V.II.II.II.11. For a discussion see Schliesser, "Adam Smith's benevolent and self-interested conception of philosophy," 347, who holds that for Smith '[o]ur freedom is bound up with our membership in political society,' which sounds extremely 'Hegelian.'

[140] TMS VII.II.II.10.

[141] Apart from these passages Smith's state looks like Hegel's 'external state, the state based on need, the state as the Understanding envisages it' (PR §183), i.e. those institutions that stabilize the market economy and protect the rights of its most vulnerable members.

private rather than the political realm. As Michael Ignatieff remarks, in comparing Smith and Rousseau, the 'neglect of politics' is a strongly individualist strand in Smith.[142] Smith assumes that people have a natural tendency to submit to authority,[143] which he considers problematic from a moral point of view,[144] but in the end praises as a wise contrivance of nature, as 'the distinction of ranks, the peace and order of society, would rest more securely upon the plain and palpable difference of birth and fortune, than upon the invisible and often uncertain difference of wisdom and virtue,' which the 'undistinguishing eyes of the great mob of mankind' could never perceive.[145] In this respect, Smith turns out to be *less* liberal than Hegel, relying on *natural* mechanisms rather than making 'the will […] the principle of the state.'[146]

When Berlin argues that when negative liberty is infringed it does not matter whether this is done by a tyrant or by popular rule,[147] he leaves out a crucial question: is negative liberty reduced by an arbitrary will that individuals could not accept, or by general, 'universal' rules that aim at the maintenance of the social whole in which negative freedom is possible? The question by which he defines positive liberty – 'who governs?' – becomes less dangerous, and much more relevant for negative liberty itself, if one takes it to include the question '*how* does he, or she, or do they, govern?'

One can understand '*collective* positive freedom' as the membership in a social whole whose laws and regulations make freedom possible and which one can thus endorse as rational. Today, we would want to add democratic participation *in the government* as a condition of collective positive freedom, a thought that is present only in rudiments in Smith and Hegel.[148] But far from being a dangerous notion prone to slide into tyranny,

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142 Ignatieff, "Smith, Rousseau and the Republic of Needs," 204.
143 Cf. TMS I.III.3.
144 Ibid.
145 TMS VI.II.1.20.
146 PR §258, cf. also PR §19. For a discussion see also Neuhouser, *Foundations of Hegel's Social Theory*, 4f.
147 Berlin, *Two Concepts of Liberty*, 48.
148 On Smith cf. his remarks on the usefulness of parliamentary control (cf. chap. II, fn. 180), on Hegel cf. chap. IV.3 above.

positive freedom in this sense is something one can endorse without compromising negative freedom – on the contrary, it serves to *secure* negative freedom.

In the Hegelian account, the relation between negative and positive liberty is thus different from the Smithian account. In order to *secure* negative liberty, *collective* positive liberty in the sense of membership in a rational state is needed. Where Smith builds on individual autonomy and a virtuous legislator to keep up the structures of society – and mentions the political dimension of communal life only in scattered remarks – Hegel explicitly introduces an additional sphere, the political realm, in which a kind of freedom is found that is collective, but that does not threaten, but rather secures, individual liberty.

VI.5 Conclusion: the contexts of freedom

Isaiah Berlin, though highly critical of the dangers he sees in the notion of positive freedom, argues that even the fathers of classical liberalism demanded the 'maximum degree of non-interference compatible *with the minimum demands of social life*.'[149] The question is how these 'minimum demands of social life' can be achieved, and whether this can be done in a way that individuals can endorse as part of their 'positive' freedom in the sense developed here. As soon as one leaves the abstract level of conceptual analysis and asks about the more concrete conditions for the realization of freedom, one needs to ask questions that go beyond the concept of negative liberty as the absence of obstacles. As the comparison of Smith and Hegel shows, the character of the market and its relation to society plays an important role for determining what is necessary in order to secure freedom.

For Smith, the market and the private 'circles of sympathy' provide a social context in which the existence of negative freedom also leads to autonomy, which then in turn mitigates worries about the self-undermining tendencies of the market society. This explains his strong focus on negative liberty and his almost complete silence on questions

[149] Berlin, *Two Concepts of Liberty*, 46.

of political participation. Put crudely, Smith takes it that if only negative liberty is provided – and a few problems of the market, such as the consequences of the division of labour, are fixed by political measures – a commercial society will take care of itself.[150] His belief in the natural moral sentiments of human nature and in the benevolent design of the social cosmos support this belief. The tasks of securing social cohesion and of integrating the poor into society – important functions of the Hegelian state – have already been fulfilled by Nature's wise contrivances.

In the Hegelian picture, the focus is different. He values the subjective freedom people have in the market, but for him the market always threatens the social whole by leading to more unequal standards of living and by fostering a disposition to follow one's own interests that becomes dangerous when it comes at the cost of the social whole. The market economy may lead people some steps towards autonomy, but full freedom is only achieved in the social whole in which individuals recognize not only their own interests, but also the freedom of others and the importance of maintaining this social whole. When they have this disposition in addition to their negative liberty, people are – in a sense that is more than metaphorical – *freer*, because they not only want, short-sightedly, their own freedom to do whatever they like, but rather fully understand what freedom for all citizens means under the conditions of a modern society, and so do not feel limited or alienated by the state's laws and institutions, but can accept them as emanating from their own free will.

Thus, there is a true core in the characterization of Smith as a defender of 'negative' and Hegel as a thinker of 'positive' liberty. But this is due not so much to them having different ideas about how a state should or should not treat its citizens; on a practical level, their views are surprisingly similar. Rather, their argumentations have different foci because the *contexts* of freedom which they describe are different. In the harmonious whole of the

[150] With regard to autonomy understood as individual positive liberty, a similar argument has been made by Eric Nelson ("Liberty: One Concept Too Many?," *Political Theory* 33, no. 1 (2005): 58-78), who argues that authors that are taken to be defenders of positive liberty such as Green or Bosanquet see self-mastery as equivalent to the *absence of obstacles* to self-mastery – positive liberty is therefore 'one concept too many.' As a theoretical strategy, however, this is not convincing, as the concept of positive liberty would be needed even if one only wanted to know whether it in fact follows from the absence of obstacles, i.e. negative liberty, or what these obstacles are.

Smithian market society, negative liberty is all that is needed; other aspects of liberty, which Smith also values, will then follow suit and the market itself will draw people towards one another and reinforce social stability. The chaotic, disruptive 'remnants of the state of nature' of the Hegelian market make it necessary to pay attention to the attitudes, dispositions and institutions that can keep together a society that grants their citizens negative liberty. This is why there needs to be a political sphere in which positive freedom, in the sense of participation in a rational social whole, is explicitly secured. How one sees the market thus plays an important role for how one sees the role of government, and the relation between negative and positive liberty: as the first implying the second, or as the second being necessary in order to secure the first.

Drawing these distinctions helps us to address important contemporary questions about the market and freedom. In both Smith and Hegel there is a sense that not only negative liberty, but also autonomy can be strengthened if people lead self-determined lives within a market society, but also that there are risks for this development of autonomy. Admitting these contradictory tendencies helps to strike a middle path between a libertarian praise of the market as building independent, autonomous citizens, and a socialist condemnation of the market because of its debilitating effects, and to focus on the concrete institutions and conditions that can or should be changed in order to give people a chance to develop or deepen their autonomy, without compromising their negative liberty.

Smith's and Hegel's accounts also make clear, however, that negative liberty and autonomy always need to exist within a social whole that maintains the structures that make them possible. Some elements of this social stability may indeed come about on their own, in the ways Smith assumes. But to hope that most of the time, in most cases, providing negative liberty – and some state schools – will do the work does not seem adequate in today's societies, especially when one does not want to rely on deistic background assumptions. Active support of these structures will often be needed. Hegel's account of

the state, read in a liberal way, points the way towards a *political* realm, and a kind of *political freedom*, that can be helpful for thinking about how to support and maintain these structures, although today they will look different from what they were in the 1820's. In fact, the contemporary revival of 'republican' notions of liberty rings a similar note: republicans hold that not only the fact of not being interfered with, but also the *guarantee* of non-interference through democratic political structures matters for liberty. This rules out the possibility of being free under a benevolent dictator or a generous slave-holder; what matters is one's status as a free citizen.[151] What authors like Philip Pettit and Quentin Skinner emphasise is that *being* a citizen is different from merely being granted a sphere of private freedom; Hegel would certainly have agreed.

The comparison between Smith and Hegel, however, also delivers valuable insights about the notions of negative and positive freedom as core concepts of political philosophy. Berlin understands these as incompatible, rival interpretations of what liberty is. The picture drawn here implies a different relation between the two notions, and offers a more differentiated interpretation of 'positive' freedom. At an abstract level, the notion of negative freedom may be thought to be an independent analytical category. As soon as one asks about the concrete ways in which it is realized, however, there is a dynamic in the concept that leads towards richer, more complex notions of freedom. The first impulse stems from the question of what people are actually going to *do* with their negative freedom, and hence points towards concerns that can usefully be grasped with the help of the notion of autonomy. The second impulse is to ask what the social whole in which negative freedom is to be preserved should look like, which leads to the notion of positive freedom in a social sense. How should we organize a society whose citizens can be called

[151] See e.g. Philip Pettit, *Republicanism: A Theory of Freedom and Government* (Oxford: Clarendon Press, 1997); *A Theory of Freedom: From the Psychology to the Politics of Agency* (Cambridge: Polity Press, 2001); Quentin Skinner, *Liberty before Liberalism* (Cambridge, MA: Harvard University Press, 1998); "A Third Concept of Liberty," *Proceedings of the British Academy* 117, no. 237 (2002): 237-68. For a discussion of Hegel and republican notions of freedom see also Michael P. Allen, "Hegel between non-domination and expressive freedom," *Philosophy & Social Criticism* 32, no. 4 (2006): 493-512.

free? Under what conditions can citizens endorse the rules and regulations that are inevitably part of an organized social whole and *yet* feel at home in it?

What is at stake in thinking about liberty, *pace* Berlin, is thus not only the distinction between the questions 'what can I do without interference?' and 'who governs?,' as two separate, competing accounts of the notion of liberty, but rather, starting from an account of negative liberty, considerations of complex questions not only about the psychology of the individual and the social conditions for autonomy, but also about the social whole. Whether or not one summarizes these issues under the notion of 'positive freedom' is, in the end, a matter of convention. But importantly, and again *pace* Berlin, these questions, and the answers one can give to them, are not independent of each other, and they are also connected to the precise understanding of one's notion of negative liberty, for example, in discussing what counts as an obstacle to it. What we can learn from the variety and subtlety of aspects of freedom in Smith and Hegel is the necessity to ask these questions not purely in the abstract, but to lay open one's assumptions about the nature of different social contexts. Different as their accounts are, once one analyzes them in detail one realizes that the differences in their views result more from their different views of the market than from their different opinions on the nature of freedom. The *contexts* of freedom matter – and this is true for debates about freedom in the 18th and 19th century, but also for the debates about freedom we have today.

VII Conclusion: Taking the Market Seriously. A Plea for 'Less Ideal' Thinking

VII.1 Two views of the market – and why they matter

This study has explored two visions of the market. For Smith, the market is a wonderful machine, harmonious like the Newtonian movements of the planets, put in place by a benevolent deity to promote the well-being of the human race. In comparison to other socio-economic orders, it is more just, leads to more equality, rewards pro-social behaviour and draws people towards one another. It enables individuals to pursue their own interests while unintentionally promoting the well-being of others, so that they can reserve altruism for the private sphere, where the 'circles of sympathy' form a web of relations that keeps society together.

For Hegel, in contrast, the market economy is a chaotic, Dionysian spectacle. It is the space that modern society provides for individual, subjective freedom, where all citizens can buy and sell, consume and invest, as they like. But the freedom of one person can be a threat to the well-being of another, because people are bound up in particular professions and identities that determine their place in society, and this makes them vulnerable to the unpredictable ups and downs of the capitalist economy. The market creates riches, but also poverty, which is not only a material problem, but also an issue of social recognition, creating resentment against a society that lives in material abundance and yet excludes some members from enjoying its fruits.

As has been argued in chapters IV to VI, these two views of the market have a deep impact on core themes of political philosophy. They can be seen as two prototypes for how to think about the economic realm and its relationship to society as a whole. As such, they still play a central role and have an ongoing relevance in today's public discourse. Whether we see individuals as sovereign traders of human capital or as constitutively formed by their professional identities has a major impact on how we conceptualize the relationship between individual and society. Whether or not we think it makes sense to apply the notion of desert to the market

makes a difference for how we evaluate inequality of income and differential achievements in the market. Whether we think that the market can help to fight poverty, or in fact creates it, influences the range of policies we take into consideration when thinking about social justice and equality. How we judge the impact the market has on the chances and risks for individual autonomy, as well as its impact on social cohesion and its relations to political participation, plays a role when we ask what freedom consists in, and how our modern market societies can come closer to fulfilling the liberal promise of freedom for all.

It is tempting to think that in the end only one of these pictures can be true. But the question 'Smith or Hegel?' has no clear-cut answer. As we have seen, both models heavily depend on metaphysical assumptions, and these underpinnings give these two thinkers the optimism to make rather general and ambitious statements about the institutions they favour: the free market in Smith's case, and the reasonable state in Hegel's case. If one abstracts from these background assumptions, one seems to get lost in the wealth of empirical evidence on how different the structures of different parts of the economic and political realm can be. As mentioned in chapter IV, the empirical research on 'varieties of capitalism' has shown that there are major differences between market economies with regard to the structures of the labour market and the predominating types of human capital which have a far-reaching impact on other institutions. But even this differentiation seems too crude. Different markets in different goods, at different points in time, can look very different. The labour market for medical doctors is completely different from the market for low-skilled factory workers. Even with regard to one particular market, statements about it being more 'Smithian' or more 'Hegelian' are only crude approximations. When we set aside the metaphysical backup – and today it would be difficult to hold that Smithian deism or Hegelian *Geist* in its metaphysical version should be part of our discourses on economic and social issues –, what matters is a detailed causal analysis of these different mechanisms. In general, Smith's model is more demanding with regard to the conditions that need to be fulfilled for it to be applicable; something similar can be said about many models of

neoclassical economics, although the conditions are not always the same as in Smith, and sometimes hidden in mathematical formulae. If one or more of these conditions are not fulfilled, we quickly move closer to the Hegelian model.

But what matters is not so much whether we can find instances of typical 'Smithian' or 'Hegelian' mechanisms and institutions in today's market economies. What matters is that we recognize that *all* ways of looking at the economic realm are informed by theories and heuristics, invented at certain points in time in order to illuminate certain aspects of reality and to answer certain questions. What makes Smith's and Hegel's accounts so important is the fact that these two thinkers have constructed the prototype models for how we *think* about economic phenomena. The very way in which we look at social realities – which data we collect, which aspects of human behaviour we take into account, etc. – is predetermined by whether we put on 'Smithian' or 'Hegelian' (or yet another theoretician's) spectacles. Smith's and Hegel's models have lived on, often in simplified, crude versions that turn the spotlight on one or another feature of the market, one or another aspect of human behaviour, at the exclusion of other possibilities – even of aspects that are present in their own social theories, but are overshadowed by their other claims. Although later conceptualizations and pictures of the market have also become part of our intellectual inheritance, these two models stand out as two fundamental theoretical options of how to think about the economic realm. Many contemporary public discourses are structured around these two models; almost as if Smith's or Hegel's metaphysical background assumptions were still shared.

On the political right and among libertarians one often finds an almost unconditional trust in the market and distrust in the state, for which Smith's name is claimed. As will have become clear, a more truly Smithian position, and one that relies less on his deism and more on his mundane insights, would be to have trust in markets only if one can tell a plausible story about their beneficial effects, to hope for virtuous, impartial politicians, and to retain a healthy suspicion of the influence of economically powerful groups and their tendency to corrupt the

political sphere. On the side of the (non-communist) left, in contrast, the default position often seems to be that 'the state' will always do good, whereas the market is a necessary evil and should be curbed as much as possible. A more balanced, less metaphysical contemporary version of the Hegelian position, as presented in this study, would be that the *idea* of the state is that it always has the public good in mind, whereas *existing* states may well fall short of this ideal, and that the bad effects of the market should be curbed, but that the market is also an essential aspect of modern societies and a space for an important kind of freedom.

What makes these models so relevant for political theorists is that they have entered our consciousness at a deep, often implicit level. As such, they are a part of the way in which we look at the social world, and the intuitive judgments we make about it. Men are 'self-interpreting animals,' as Taylor puts it.[1] We interpret the social reality that surrounds us and shape it by actions that are informed by theoretical elements. This is why intellectual history and systematic political philosophy should not be seen as two completely separate issues: the ideas of past thinkers have become part of our inheritance, they shape our perception of the social world, and they enter into our moral reflections, sometimes openly and sometimes as hidden intellectual undercurrents that shape our pre-theoretical ideas and intuitions. There are no 'foundations' in the 'nature' of economic phenomena on which theorists could build – all concepts we use for 'the market,' all metaphors and semi-conscious images we associate with it, have a history, and are formed in relation – sometimes in contradistinction – to this history and the intellectual heritage it has given us. To become aware of this intellectual history means to become more aware of how we have come to see the world in the light in which we see it today.

Of course, the models I have discussed in this study seem to belong to the discipline of *economics* rather than political theory. Since the time in which Smith and Hegel wrote, the academic division of labour has gone to such lengths that economists and political theorists now largely live in separate worlds, using their own jargons and their own argumentative structures,

[1] Charles Taylor, "Self-interpreting animals," in *Philosophical Papers: Volume 1, Human Agency and Language* (Cambridge: Cambridge University Press, 1985), 45-76.

and understanding themselves and their subjects in rather different ways. It has become part of their different narratives of intellectual inheritance to claim Smith for the one side and Hegel for the other. But this one-sided reception and the idea that the disciplines of economics and political theory can be completely separated are extremely problematic. This study has shown that Smith and Hegel are rich and complex thinkers, and that the cliché of 'the economist' versus 'the philosopher' is deceptive. Smith and Hegel had good reasons for *integrating* social and economic thought into coherent systems. By seeing only one aspect of their thought, we not only fail to do justice to two of the most subtle and multi-faceted thinkers of modernity. We also miss a great opportunity for thinking about ways of approaching the social reality in an integrated approach.

The nature of many social issues and problems does not follow the cut-off-lines between disciplines or theoretical approaches. In most real-life phenomena, small-scale or large-scale, 'political' and 'economic' factors are narrowly intertwined. For *some* theoretical questions it may be useful to focus exclusively on particular aspects of reality that 'belong' to one discipline. It can be doubted, however, whether this is the case for the typical questions of political theory. In particular, questions of 'social justice,' in all the different senses that have been given to this term, do not seem to be of a nature that would allow for a neat separation of disciplines. This is also why it is questionable whether our *intuitions* about such issues can be separated along the lines of different disciplines, and why economic ideas are likely to influence them.

There are thus no 'pure' moral intuitions from which a theory of justice beyond time and place could be deduced. The judgements that political theorists use as building blocks when developing their theories are influenced by factors that fall into different disciplines, and by the concepts and models – and pictures, in a very literal sense – that we have inherited from those who have thought and written about these phenomena before out time. If a political theorist draws on moral intuitions and pre-theoretical judgments, for example by constructing a Rawlsian 'reflective equilibrium,' neglecting the economic realm altogether is extremely problematic, as it is likely that knowledge of economic theory and economic realities, however patchy, enters into

these intuitions and thus influences the normative theories one ends up with. Rather than using 'pure' moral intuitions in order then to 'apply' them to social reality, it is likely that these intuitions are already mixed up with implicit judgments about the economic realm that stem from anecdotal evidence and vague memories of 'defunct economists.' But if this is the case, it makes more sense, and is intellectually more honest, to make explicit what one's view of the market, or of different markets, is.

For example, the idea that if an economy grows, the worst-off automatically profit – a central element of the Smithian vision – and that a free-market economy is therefore preferable to a planned economy seems to be at the core of the intuitions that Rawls appeals to when arguing for the 'difference principle' in his *A Theory of Justice*. According to this principle, social and economic inequalities must lead to the greatest benefit of the least advantaged group.[2] The intuition that stands behind it seems to be the same intuition as in the dispute between Smith and Rousseau: how can one argue for the return to a more equal society if *not even the poorest* members would profit from it? Today, we may not believe in the sufficiency of the automatic 'trickling down' of riches to the poor any more, but do we not implicitly hold on to the idea that a free-market economy enlarges the cake so much that it facilitates measures of redistribution through which everyone profits? As the analysis of the Smithian view of the market has shown, however, his model depends on his fundamental trust in economic growth – and it seems that many social policies that are meant to serve the worst-off in today's societies also build on an economy's ability to grow and thus to support the poor without hurting the rich too much. But it is questionable whether this assumption of economic growth should continue to inform our reflections about social justice. Not only the ecological crisis and the risks of climate change, but also the question about the contribution of consumption to happiness in a society in which all basic natural needs are fulfilled should make us think twice about the desirability of ever more growth, and about the difficulty of introducing alternatives. In a post-growth scenario, we need a completely new understanding of economic phenomena and of the meaning of basic concepts

[2] Rawls, *A Theory of Justice*, e.g. p. 302.

such as 'preferences' or 'utility' – and maybe also of normative concepts of 'social justice.' Will the economic realm in a post-growth world look like the Hegelian 'relics of the state of nature,' a bitter fight of all against all, or can we find new models of economic cooperation in which everybody's interests are served?

These questions worry many politically and ecologically conscious citizens today, and when the term 'social justice' is used in public discourse, these aspects cannot be neglected any more. The concepts and approaches that have been in vogue in the political theory of the last decades, however, do not seem very well suited for the kinds of debates we need to have. In conclusion, therefore, let me discuss some methodological lessons that can be drawn from my reflections on the constructions of the market in Smith and Hegel. They can help us to think about fresh approaches to economic and social theory, political philosophy, and their interaction. My general claim is that today a 'less ideal' level of theorizing is called for, which at the same time integrates insights from different disciplines.

VII.2 'Less ideal' theory

Rawls's *Theory of Justice* – which is here used as an example for the way in which much political theory of the last decades has been conducted – understands itself as 'ideal theory' that develops the principles of a well-ordered society under ideal circumstances.[3] Rawls describes a four-stage sequence through which his theory can be applied to reality: from the original position to a constitutional convention, then to the legislative stage, and finally to 'the application of rules to particular cases by judges and administrators, and the following of rules by citizens generally.'[4] Whereas the 'veil of ignorance' filters out most forms of knowledge about a society at the first stage, more and more details are made available to the individuals as they step down from stage

[3] Ibid., 243ff.
[4] Ibid., 199.

to stage. But Rawls's focus clearly is on the highest level of ideal theory; economic issues, for example, are discussed only in passing, 'to find out the practicable bearings of justice as fairness.'[5]

Ideal theory certainly has its value. In fact, some deep insights into the character of ideal theory can be found in Smith, who discusses it under the heading of 'spirit of system.'[6] In a chapter added to the *Theory's* last edition of 1790, he discusses its potentials and risks. He describes the seduction of the imagination through the beauty of some 'appearance of utility;' it is the same mechanism which nature uses for enticing men to strive for material goods,[7] but here it is applied to 'systems of civil government.'[8]Today, these would perhaps be called 'theories of social justice.'

Ideal theory is not without its pitfalls, and while Smith describes the problems for real politics, parallels to academic endeavours – at least insofar as they intend to have an impact on real-life questions – can easily be drawn. The problem Smith diagnoses is that it can lead politicians to forget the actual aim of all political measures: 'to promote the happiness of those who live under them,' which is 'their sole use and end.'[9] One sees the 'means more than the ends,' and is moved more by aesthetic considerations than by sympathy with those who live under these systems of rules.[10] A truly virtuous politician will therefore resist the 'spirit of system,' and '[w]hen he cannot establish the right, he will not disdain to ameliorate the wrong; but like Solon, when he cannot establish the best system of laws, he will endeavour to establish the best that the people can bear.'[11]

Nevetheless, in Smith's eyes systems of ideal theory are highly useful. They provide guidance by describing a 'general, and even systematical, idea of the perfection of policy and

[5] Ibid., 265.
[6] TMS VI.II.2.15.
[7] Cf. above chap. VI.2.
[8] TMS IV.I.11
[9] TMS IV.I.11
[10] TMS VI.II.2.15, for a discussion cf. also Lindgren, *The Social Philosophy of Adam Smith*, chap. IV.
[11] TMS VI.II.2.16, cf. also WN IV.V.Digr.53. It remains a matter of speculation whether Smith expresses these concerns about the 'spirit of system' in reaction to the news about the French Revolution (cf. Ross, *The Life of Adam Smith*, 385ff.); he may also have in mind 'enlightened despots' like Louis XV and XVI (ibid., 394), Frederic of Prussia, or Catherine the Great (McLean, *Adam Smith: radical and egalitarian*, 58). But the fact that he notes that the 'spirit of system' can most easily arise '[a]midst the turbulence and disorder of faction,' where it can lead to the 'madness of fanaticism,' 'intoxicat[ing] the party members […] with the imaginary beauty of this system' (TMSVI.II.2.15) rather points to the French Revolution.

law.'[12] They provide a legislator with a sense of the direction of reforms, and can even motivate people to work for the public good, recommending 'those institutions which tend to promote the public welfare.' This is why books on 'systems of civil government' are useful: they 'animate the public passions of men,' and inspire people to make the 'wheels of the political machine' 'move with more harmony and ease.'[13] Arguably, this was also the aim of the *Wealth of Nations*, but in contrast to many other books on 'systems of civil government' it also contains numerous reflections of a 'less ideal' character. Although one might wonder whether some passages do not fall under Smith's very own verdict of 'spirit of system' in its negative sense, on the whole he has a much greater awareness of the problems of non-ideal circumstances than many other theorists.

My claim is that if one wants to avoid the risk of ideal theory forgetting its real aims, we need to move towards a more applied, 'less ideal' level of theorizing. I do not want to deny that ideal theory has an important role to play – but I want to deny strongly that one should focus *exclusively* or *mainly* on this level of theorizing, as has happened in some quarters of political theory in the last decades. We need a division of labour between the two levels, but also interaction and dialogue about their results. The real value of ideal theory can only be tested by probing its ability to speak to real-life issues and to provide guidance on how to resolve them.

The more one moves towards a more applied level, however, the more one needs knowledge about the social, economic and cultural circumstances of a society in order to theorize about it. As Rawls himself emphasises, this is true in particular for questions of social and economic justice, not so much for the basic rights and political liberties that he summarizes in the first of his two principles of justice. In the case of the first principle, it is 'often perfectly plain and evident when the equal liberties are violated,' as this is 'manifest in the public structure of institutions.' With regard to social and economic policies, in contrast, it is often very difficult to

[12] TMS VI.II.2.18.
[13] Ibid. Similarly, Fleischacker (*On Adam Smith's Wealth of Nations*, 48ff.) argues that even the seemingly 'amoral' discourse of many parts of WN may be the result of moral considerations: to change people's judgements, it is often more useful to present them with facts rather than to preach morality. In this way, Fleischacker sees WN as 'a triumph of indirect ethics' (52). Lindgreen (*The Social Philosophy of Adam Smith*, 82f.) similarly argues that Smith's repeated references to 'utility' in WN serve as a rhetorical device that aims at influencing a legislator to realize the reforms that Smith suggests.

tell whether they are consistent with the principles of justice, which is why Rawls recommends taking them into account only at the stage of legislation, not at the stage of the constitutional convention.[14]

The closer one looks at the level at which social and economic issues are to be taken into account in a theory of justice, however, the clearer it becomes how many problems are hidden there, and how complex the seemingly simple task of 'realizing' a principle of justice like the 'maximin-principle' is. Here, sensitivity to the different views of the market one might have and to their manifold normative dimensions is crucial.[15]

Rawls himself has a rather Hegelian picture of the relation between the political and the economic realm: state institutions should frame the economy and shape its outcomes, making sure that the resulting patterns accord with the principles of justice.[16] He recommends different government institutions – an allocation branch, a stabilization branch, and a transfer branch – for fulfilling this task, evoking associations to the Hegelian 'police.'[17] It is not quite clear, however, how these different institutions are to fulfil their tasks, and whether there might not be clashes between their attempts to achieve these different aims. Nor is it clear whether they can do so simply 'within the framework' put up by the principles of justice, or whether these in fact have to be reinterpreted in the light of these attempts. Let me note some of the issues that might come up when these Rawslian institutions attempt to 'realize' his theory of justice.

One problem concerns the relation between redistribution and the creation of jobs. As the discussion of Hegel's account of the market has shown, jobs can mean much more for people than just a source of income. They can play a role for people's formation, for their identity, and

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[14] *A Theory of Justice*, 199.

[15] One issue that I have not discussed here, but which is equally crucial for thinking about the relation between political philosophy and economics, is the question as to whether economics can ever be value-free. There are good reasons to doubt this (see e.g. Philippe Mongin, "Value Judgments and Value Neutrality in Economics," *Economica* 73 (2006): 257-286, and Daniel M. Hausman and Michael S. McPherson, *Economic Analysis, Moral Philosophy, and Public Policy* (New York: Cambridge University Press, 2006), especially 211ff.). If this is so, the idea that one could simply 'apply' philosophical principles to the economic reality by using value-free means-ends-statements taken from economics is flawed, and a much more integrated debate is needed, as is suggested here.

[16] There are also some Smithian elements in Rawls's picture of the market, e.g. in the assumption that markets disperse economic power, rather than concentrate it in monopolies and cartels, and in the assumption that firms would not engage in 'price wars or other contests for market power' under perfect competition (*A Theory of Justice*, 272f.). But Rawls makes laudably clear that the ideal of perfect competition is seldom instantiated in reality (ibid.).

[17] Ibid., 276.

the recognition they receive from others. Rawls himself includes the 'social bases of self-respect' among the 'primary goods' on which the principles of justice are applied.[18] But what if having a job is, in a certain society, at a certain point in time, a part of these bases of self-respect? How should the creation of jobs and the redistribution of income through cash transfers from the state be weighted against each other? What does it mean to improve the situation of the worst-off if these non-material dimensions of poverty, which both Smith and Hegel emphasise as a challenge for a market society, are taken seriously? For many Western societies in which poverty in the sense of dire paucity has largely been overcome, these questions are more pressing then ever: what does it mean to fight poverty, if consumption becomes less and less a matter of satisfying one's biological needs, and more and more a question of social participation and individual fulfilment? These are the discussions we need to have today, but the principle that one should improve the position of the worst-off seems far too vague and general to provide guidance for such discussions.

A second question is whether all the goals of economic policies can be achieved *at all*, or whether the prohibition to violate the rights and liberties stated in Rawls's first principle can sometimes make this difficult or even impossible, so that painful compromises will become necessary. Smith is well aware of this problem: as we have seen, he decries the structural imbalances between employers and employees that stem from the sheer number of workers and the difficulty of coordination – a problem that still mars the economic realities of many contemporary economies. He is also aware, however, that these problems are not easy to overcome: in the direct sequel to his famous remark about 'people of the same trade' conspiring against the public, he says that '[i]t is impossible indeed to prevent such meetings, by any law which either could be executed, or would be *consistent with liberty and justice*.'[19] There can be genuine conflicts between the equal freedom that the sovereign owes to his subjects and the merchants'

[18] See in particular "Social Unity and Primary Goods," in *Utilitarianism and Beyond*, ed. Amartya Sen and Bernard Williams (Cambridge: Cambridge University Press, 1982), 159-185.
[19] WN I.X.II.27, italics added.

or employers' ability to enter upon tacit agreements about wages or prices.[20] For the sake of freedom and justice, such 'combinations' have to be accepted, at least within a certain range. Today, similar problems arise in the debate about equality of opportunity in education and the rights of parents to buy additional education for their children. Here, clashes of principles (and often of intuitions) seem to be unavoidable, and referring to Rawls's principles of justice does not help much in adjudicating these disputes.

A third issue with regard to the realization of economic justice concerns the interplay between economic and political power. As we have seen, for Smith, the risk that the 'merchants and manufacturers' influence the legislator is part and parcel of his description of commercial society. By treating economic and political issues in different departments, however, these problems tend to fall into the gap between the disciplines, and their structural importance for a liberal society is made an issue. But the 'transformation of money into political power,'[21] the influence of lobbying on government decisions and 'rent-seeking' are problems that are still very much with us. Before the financial crisis of 2008, mainstream economic theory had not asked the question whether the lack of regulation in financial markets might be due to the influence of money on politics.[22] But it is quite plausible that the influence of economically powerful groups on legislation has indeed played an important role in bringing about the crisis, as Daron Acemoglou, for example, argues, drawing on recent work on the relation between economic and

[20] Cf. also Griswold, *Adam Smith and the virtues of enlightenment*, 306, who notes that freedom in the market includes the freedom to 'form interest groups and to compete for prestige and influence.'
[21] Rothschild, *Economic Sentiments*, 154. Cf. also McLean, *Adam Smith: radical and egalitarian*, 72f.
[22] Another part of the problem was, of course, that financial markets were seen as always efficient. The 'efficient market hypothesis,' brought forward by Eugene F. Fama and quickly taken up by the mainstream, asserts that the price mechanism in financial markets efficiently process all information that is publicly available to judge the value of the underlying assets. ("Efficient Capital Markets: A Review of Theory and Empirical Work," *The Journal of Finance* 25, no. 2 (1970): 383-417). The trust in the 'invisible hand' was so great that questions about the institutions that are necessary to support markets, and the conditions for them to really serve the public good, were largely neglected. Smith, who is in fact rather sceptical about trade in financial derivates and sees the danger that capital might be squandered by 'prodigals and projectors' (WNII.IV.15), was claimed as the hero of those who opposed any form of regulation of the free market. For an analysis of the financial crisis that emphasises Smith's scepticism vis-à-vis paper money and the circulation of bonds see Michael Mussa, "Adam Smith and the Political Economy of a Modern Financial Crisis," *Business Economics* 44 (2009): 3-16. Cf. also Amartya Sen, "The economist manifesto," *The New Statesman* (April 23, 2010), <http://www.newstatesman.com/ideas/2010/04/smith-market-essay-sentiments> (25 May 2011) on Smith and the financial crisis.

political power.[23] But the risks of structural instabilities which are caused in the economic system by its most privileged members, but which mainly affect its poorer members, is not only a technical question in economics, but also a matter of justice – and as such, political theorists should be interested in it.

The greatest challenge, however, for a theory like Rawls's, which assumes that abstract theories of economic justice can be 'realized' by political institutions, is the international dimension of markets, which puts at risk the whole picture of a political framework that 'contains' an economic sphere; the former being discussed by political theorists and the latter by economists. The idea that an impartial state stands above the economic realm, somehow 'taming' it, has become rather precarious through the globalization of markets for goods, services and in particular capital. Political power has largely remained a national affair; international institutions like the United Nations or the European Union often cannot agree on policies or lack the power or the will to push them through. As mentioned earlier, Smith compares capital to water that responds to pressure by flowing somewhere else,[24] and in today's world this often means flowing to other countries. Although fears about the fluidity of money were already raised in the 18th century,[25] today's economy has become 'global' in a sense that Smith and Hegel could not have imagined, and the question is whether, or to what degree, a model in which the political realm constrains the economic realm is still feasible.

The loss of control over global economic phenomena makes Rawls's view of the government as 'regulat[ing] the economic climate by adjusting certain elements under its control'[26] sound rather hollow. How global public goods can be supplied in a sufficient amount is an open question, and this question is particularly acute with regard to the natural environment and the measures necessary for limiting climate change. There is also a serious question about the character of international trade as such, and its effects on rich and poor countries. Here, again,

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[23] Daron Acemoglu, "Thoughts on Inequality and the Financial Crisis" (presented at the American Economic Association Annual Meeting, Denver, CO, January 7, 2011), <http://econ-www.mit.edu/files/6348> (25 May 2011).
[24] Cf. chap. IV, fn. 90.
[25] Cf. e.g. Rommel, *Das Selbstinteresse von Mandeville bis Smith*, passim.
[26] *A Theory of Justice*, 273.

different pictures of the market matter for how these issues are theorized – and they need to be theorized explicitly, even if one only wants to speak about the internal policies of one country, since their consequences often hit different parts of the population in different ways and so have an impact on domestic social justice.[27]

Smith's vision of international trade is, not surprisingly, positive: it reduces the risk of wars; it 'ought naturally to be, among nations, as among individuals, a bond of union and friendship.'[28] The economic improvement of poorer countries is no threat to those who are already in a privileged position, as trade – in a growing world-economy at least – is a win-win affair.[29] At least this holds in theory; Smith is well aware of, and decries, the exploitative character of the colonial system of his time.[30] But in principle, international trade can help poorer countries to catch up with richer ones, which equalizes power and thus leads to more mutual respect.[31] The Hegelian model is much less serene: here, the international scene is a battlefield. Hegel anticipates theories about the tendency of capitalist economies to subjugate other countries in order to find outlets for their goods.[32] Developments in foreign markets are seen as a threat to the stability of employment rather than as a chance to enter into mutually useful trading relations.[33] On this model, governments will always have to struggle to keep the market in its place and to protect their citizens from the imponderabilities of the global market, and it is not clear whether they are able to protect their most vulnerable citizens from falling into poverty.

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[27] If one discusses questions of *international* justice, a topic that has come more and more come to the fore in the political theory of the recent years, it is even clearer that the economic dimension plays a crucial role. In this case it is particularly clear that if political philosophy retreats to the citadel of ideal theory and leaves the prerogative of interpreting economic phenomena to others, it runs the risk of removing itself from real-world problems.

[28] WN IV.III.II.9.

[29] The question as to whether rich countries must automatically fall back when poor countries grow richer was hotly debated among the literati of the Scottish Enlightenment (cf. Istvan Hont, "The 'rich country - poor country' debate in Scottish classical political economy," in *Wealth and Virtue. The Shaping of Political Economy in the Scottish Enlightenment*, ed. Istvan Hont and Michael Ignatieff (Cambridge: Cambridge University Press, 1983), 271-315; Hont, *The Jealousy of Trade*, chap. III). Smith, in contrast to Hume and others, is not worried about this: he is optimistic that the division of labour would maintain the riches of the 'rich countries' even when the 'poor countries' would catch up (cf. Hont, "The 'rich country - poor country' debate," 300).

[30] Cf. e.g. WN IV.VII.III.103ff.

[31] WNIV.VII.III.80.

[32] PR §246.

[33] Cf. chap. III.4 above.

It cannot be decided easily which of these models is truer to the facts; instances of both developments can be found in today's globalized economy. What is clear, however, is that the model of political institutions taming the economic realm by moving different levers and buttons, as if politicians were operating a great machine, is inappropriate to describe today's social reality. Political theorists do well to take this fact into account.

Does that mean that we should give up the search for social justice? Not at all! But it means that we need to take into account the internal dynamics of the economic system. The warning that Smith captures in his famous chess-board metaphor seems timely:

> The man of system […] seems to imagine that he can arrange the different members of a great society with as much ease as the hand arranges the different pieces upon a chess-board. He does not consider that the pieces upon the chess-board have no other principle of motion besides that which the hand impresses upon them; but that, in the great chess-board of human society, every single piece has a principle of motion of its own, altogether different from that which the legislature might chuse to impress upon it.[34]

This metaphor is a useful reminder of the fact that the internal dynamics of social systems cannot be neglected, and that it is dangerous to remain in the grip of pictures, conscious or unconscious, that hide the complexities we are likely to encounter when attempting to improve the situation of the poor or to make the world a better place in some other way. This holds for real politics as much as for the attempts to understand it theoretically. To assume that 'the market' is a normatively neutral 'black box' to be bought whole-sale from the economists simply does not do justice to the realities of contemporary societies in which economic factors have an enormous impact on many aspects of our lives. Often, these factors cannot be fully controlled by political institutions, and often it may be extremely difficult to find reasonable compromises between the different values and principles that are at stake in the attempt to come closer to the ideal of a just society.

All this means that we need a discussion that *integrates* economic and political phenomena when we address issues of social justice. Within the Rawlsian framework, many of the most urgent and most interesting issues take place not on the high level of ideal theory, but on lower, more applied levels, and this is particularly the case when it comes to realizing the principle that

[34] TMS VI.II.2.17.

'social and economic policies be aimed at maximizing the long-term expectations of the least advantaged under conditions of fair equality of opportunity, subject to the equal liberties being maintained.'[35] This principle may be shared by many well-meaning thinkers and practitioners, who will nonetheless disagree on numerous issues, because they have different views of the market, or because they weigh different aspects of this principle differently. It is these discussions that we need to turn to if we want political theory to have an impact on the social reality in which we live. And to do so, we need to integrate insights gathered from many disciplines, among which economics is central. We may not end up with a universal Smithian 'science of man' or a Hegelian system, nor may this be necessary or desirable. But by widening its focus from pure 'ideal theory,' and by engaging more closely with real-life issues and those who explore them empirically, political theorists can gain new and innovative insights which, in the end, may even lead to better 'ideal theory.' Taking the market and our visions of it seriously, by understanding where our intuitions and implicit judgments about it come from, and by taking into account all the normative dimensions that can be found in this intellectual heritage, can be a first step on this path.

[35] *A Theory of Justice*, 199.

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