

# PHILOSOPHICAL INFLUENCES ON SMITH'S WEALTH OF NATIONS

Petr Obergruber

---

## Abstract

It is essential to understand that Adam Smith's contribution to economics was not solely based on economic principles. His philosophy of ethics played a vital role in shaping his economic thought. Smith's emphasis on the division of labour and the invisible hand of the market was not just a way to explain the efficiency of the market but also to promote cooperation and social harmony.

Smith's view of human nature was rooted in Stoic philosophy, which emphasized self-control and rationality. In addition to Stoicism, Smith was also heavily influenced by his friend David Hume. Hume's philosophy emphasized the importance of empirical evidence and observation, which Smith used to support his economic theories.

While Smith always worked with and respected the egocentric dimension of man, the sociality of man was equally important to him. Strangely, although the sociability of man is still intensely present in our economic theories today, we count on it so automatically that it is often not mentioned in our descriptions of economic models. In this paper, I explore not only the underlying philosophical influences on Smith's economic theory but also the sociality of the *homo economicus*, which is still present, though often forgotten.

**Key words:** Adam Smith, Stoicism, David Hume, the invisible chain of events, the invisible hand of the market

**JEL Code:** B12

---

## Introduction

To illustrate the profound influence of philosophy on the intellectual legacy of Adam Smith, it is essential to consider the historical context and examine the role of "Neo-Stoicism" in England and Scotland during his time. Notably, Smith's mentor, Francis Hutcheson, translated Marcus Aurelius' *Meditations*, a work that had a significant impact on the intellectual climate of the time, due in part to its use in Hutcheson's teaching and that of his disciples.

Scottish thinkers of the time differed from their continental counterparts in their intellectual interests. They were not concerned with the most systematic and detailed treatment of a topic, but rather with capturing the basic elements of everyday life and its structural moments. They did so using a method similar to natural scientific observation, which was neither inherently theistic nor atheistic (although it was mostly conducted from theistic positions, with the exception of Hume). In Smith's *Essays on Philosophical Subjects*, Smith sees philosophy as the product of an imaginative process in which order is imposed on the chaos of observed phenomena and events (Smith et al., 1982). Smith understands philosophical science as not just about discovering and formulating natural laws but also as a creative endeavour – scientific theories in the Smithian sense are not discoveries of natural laws, but inventions of coherent explanatory models. In this regard, Smith is undoubtedly a companion and follower of Hume.

From a historical perspective, it can be argued that 18th-century Scotland underwent a turbulent social transformation, which Smith witnessed first-hand. Instead of the authority of highlanders with a tribal social structure, the power shifted towards the commercial societies of the cities. The ongoing societal changes were the motivation for Smith's reflections.

## 1 Stoic man

Although the fundamental characteristic of Smith's man is his sociability, he does not assume that society is the highest priority of individuals' preferences. In adopting the perspective of the Stoic philosopher Epictetus, Smith emphasizes the notion that every person bears the responsibility for their own lives and must possess the capability to attend to their own needs before being able to aid others (Epictetus 2004). It is noteworthy that neither Epictetus nor Smith ever advocated for pure selfishness as a consequence of this line of thinking.

This concept finds further development in the teachings of Seneca, who posited that a virtuous individual has an obligation to assist their fellow beings and contribute to society, while also recognizing the importance of nurturing relationships with loved ones. Seneca emphasized that fostering healthy bonds with family and friends is not only morally right but also serves as a foundation for aiding others and cultivating one's character. In his philosophy, the interconnectedness of personal relationships, altruism, and self-improvement converged to create a holistic approach to leading a virtuous life (Seneca et al., 2008).

The Stoic concept of *Oikeiosis* refers exactly to the mentioned idea: individuals should prioritize their own well-being while also assisting others and adhering to societal norms and

laws. It reflects the Stoic belief in the interconnectedness of all individuals and the importance of social responsibility alongside personal fulfilment and is summarised by the Stoic philosopher Hierocles as the process of expanding our sense of concern and attachment from ourselves to include others in increasingly wider circles. Hierocles explains that each person is surrounded by circles of relationships, starting with the self, then family members, extended relatives, fellow citizens, and ultimately all of humanity. He argues that it is our duty to draw these circles closer together, to treat each group with the same level of care and concern, and to reduce the perceived distance between ourselves and others. By doing so, we can cultivate a sense of universal benevolence and promote the well-being of all (Schibli 2002).

As Smith himself notes, man, according to the Stoics, ought to regard himself, not as something separated and detached, but as a citizen of the world, a member of the vast commonwealth of nature. To the interest of this great community, he ought always to be willing that his own little interest should be sacrificed. Whatever concerns himself, ought to affect him no more than whatever concerns any other equally important part of this immense system. We should view ourselves, not in the light in which our own selfish passions are apt to place us, but in the light in which any other citizen of the world would view us. What befalls ourselves we should regard as what befalls our neighbour, or, what comes to the same thing, as our neighbour regards what befalls us (Smith & Haakonssen, 2002).

## **2 Organising the society**

According to Smith, society is organized through the human ability to sympathize. Sympathy, as he defines it, encompasses the ability to perceive and share the passions and emotions of others. For Smith, sympathy is not merely an abstract moral ideal but an indispensable aspect of human nature. It serves as a vital force that fosters cooperation, engenders trust, and nurtures moral conduct among individuals. Mutual sympathy, in Smith's view, becomes an essential condition for the functioning of society as a whole (Smith & Haakonssen, 2002).

However, Smith acknowledges that the pursuit of self-interest is also an integral facet of human nature. He recognizes the inherent tendencies of individuals towards self-interest, with an innate desire for social status and recognition. Smith recognises that these inclinations can run counter to the ideal of mutual sympathy, thereby giving rise to social tensions and conflicts.

To resolve this tension between self-interest egocentrism and mutual sympathy, Smith introduces the concept of the market. He posits that the market serves as a mechanism through which self-interest and collective well-being can find reconciliation. Within the market

framework, individuals are allowed to pursue their own self-interest while concurrently contributing to the welfare of others. As Smith famously remarked, "It is not from the benevolence of the butcher, the brewer, or the baker that we expect our dinner, but from their regard to their own interest." (Smith & Wight, 2007) The theory of sympathy and emphasis on the importance of social ties on the one hand and egocentrism and self-interest on the other may seem like conflicting forces. As described, to a large extent, this initial impression is correct, however, it is essential to recognize that these opposing forces can be reconciled.

It is important to note that in contemporary economic theory, Hobbes' (and sometimes Bentham's) view of human nature is often mistaken for Smith's. One of Hobbes' most well-known ideas is his notion of human nature, which he exclusively regards as selfish and motivated by self-interest. He believed that in a state of nature without the protection of the state, individuals would pursue their own interests and compete for resources, leading to a "war of all against all" in which life would be "solitary, poor, nasty, brutish, and short" Baumgold (2017). To prevent this situation, Hobbes (Baumgold, 2007) argues that individuals must give up some of their freedom and submit to the authority of the state in exchange for protection and security. Although there is some relevance to this emphasis on the importance of self-interest, it cannot be said that Smith shares the same view, as is often assumed in contemporary economic debates.

However, Smith (Smith & Wight, 2007) himself objected to this notion when he responded to Hobbes' ideas, stating that the entire consideration of human nature, which deduced all sentiments and affections from self-interest, seemed to have originated from a confused notion of the sympathy system.

### **3 Stoic world**

In Stoic philosophy, the study of nature transcends mere empirical observation and assumes a profound significance as a means of comprehending the underlying natural order that governs the universe, known as *Logos*. The Stoics posit *Logos* as a rational and divine force that exercises governance over the cosmos. *Logos* is inherent in all entities, establishing interconnectedness among them. Consequently, every occurrence within the universe is an integral part of a larger rational framework, and nature itself embodies the essence of *Logos*. This fundamental belief in the interconnectedness of all phenomena lies at the heart of Stoic philosophy and serves as the cornerstone of their ethical system.

This conviction finds resonance not only in abstract philosophical discourse but is also echoed in the works of influential Stoic thinkers such as Marcus Aurelius (Aurelius & Long, 2012) as well as the writings of Epictetus and Seneca, as previously mentioned. Analysing Smith's work from this point of view, the concept of natural order represents both nature itself and human society.

Smith's theory of the market is based on the idea that the market operates through a price system that emerges from the interactions between buyers and sellers. Prices, in turn, are determined by the forces of supply and demand and reflect the value that individuals assign to goods and services. When individuals act in their own self-interest, they are more likely to use resources efficiently and create value for others. They are motivated to seek opportunities that allow them to profit from their abilities and resources, and the market provides a platform for such exchanges.

Smith returns to the principle of market self-organization when the market can function efficiently and is capable of self-regulation if market conditions are sufficiently free. The process of self-organization establishes a market price. If the price is determined by supply and demand, it means that buyers and sellers are willing to trade at this price, ensuring efficient use of resources and allowing the market to grow and develop.

The market price is sometimes referred to in economic literature as the price that clears the market. Although it was probably not a conscious intention, the term "price that clears the market" embodies a Stoic notion of the natural order that is rationally directed and creates order (which is clean). This idea aligns with the Stoic belief in the interconnectedness of all things, as the market price emerges from the rational order that comes from the interactions between individuals who are pursuing their self-interest.

Liberalism (both economic and political), which was strongly influenced by Smith's worldview, can be interpreted through the concept of natural order. A free society is one that is governed by the least number of commands and regulations possible because it is the universal order that needs to be given maximum space. Since this natural order always brings about the best possible outcome, it is not only futile but also irrational to try to change or guide its influence in any way. Smith also adds that the free market is the best possible economic system because it leads to the growth of wealth. "The best government is that which governs least" is not an ethical maxim for Smith, but an emphasis on the fact that this approach brings about the greatest wealth. And whoever governs in this way does so with respect to Logos (the organizing principle), leaving governance to what is natural, and thus demonstrating temperance (*σωφροσύνη*, *sophrosyne*), which is one of the four virtues of the Stoic.

#### **4 Hume's causality and invisible chains of events**

Hume (Hume & Coventry, 2023) distinguishes between two distinct types of perceptions: impressions and ideas. Impressions are the more vibrant and intense perceptions, encompassing sensations, emotions, and passions that arise initially in the mind. On the other hand, ideas are the fainter mental representations that emerge through thinking and reflection, such as those evoked by language or other cognitive processes, excluding those originating from sight and touch, as well as immediate pleasure or discomfort. Simple ideas serve as the fundamental building blocks of thought, as they directly mirror our impressions. These ideas are formed through the laws of association, which are mental mechanisms that connect thoughts based on similarity, contrast, causality, and other factors. Consequently, these resulting ideas possess precision and universality since they originate from the same impressions and are fashioned consistently.

In addition to generating simple ideas, the faculty of imagination fulfills two other functions. Firstly, it enables us to amalgamate ideas into complex entities, allowing for the representation of intricate concepts such as objects or situations. Secondly, it empowers us to analyse and deconstruct complex ideas into simpler components (Hume & Coventry, 2023).

Hume formulates his concept of causality from these ideas, which will be important for Smith's most famous metaphor. Hume sees causality as a psychological pattern employed by the human mind to comprehend the world. He posits that causality does not inherently exist in nature but is rather a construct of human perception, serving as a means of explaining and comprehending the relationships between events. The ideas of causality are based on repeated experiences where one event follows another, and as a result, we create a connection between them (Hume & Coventry, 2023). Smith describes this connection between events as an invisible *chain of events* (Smith 1982).

#### **5 Smith's markets and the invisible hand**

As was already established, the market is for Smith a tool for social organisation and cooperation. Through the price system, individuals can coordinate their activities and allocate resources in a manner that is advantageous for all. This advantage, driven by both self-interest and sympathy, is essential for achieving social harmony.

Smith (Smith & Wight, 2007) describes the spontaneous organization that simultaneously aims for the socially best outcome as the metaphor for the *invisible hand of the market*, the most famous concept in his work, although this prominent position may be undeserved (Smith introduces this analogy quite late in *The Wealth of Nations* and only in one place).

*The invisible chain of events* organizes events, and *the invisible hand of the market* organizes society for the common good.

*The invisible hand* does not directly influence every individual's intention. Instead, it manages the consequences that arise from their decision-making. The outcomes of economic activities are too complex for individuals to comprehend fully, with the complexity arising from the interaction of individual markets through negotiations, work, land borrowing, and capital lending. Therefore, an organizing force is necessary: *the invisible hand* (Rasmussen, 2011).

The metaphor of the *invisible hand* is based on the principle that individual actions driven by personal interests can have a positive impact on society. However, as Macfie (2013) notes, Smith's confidence in the free market was not supported by the evidence of his time. The reality of life in the 18th century was full of poverty, inequality, and social unrest.

How did Smith reconcile his optimistic view of the free market with the harsh reality of life in his time? Macfie (2013) argues that Smith's confidence was rooted in his underlying metaphysical assumptions about the fundamental workings of the world. According to Smith, the principles of the free market are inherently aligned with nature, a concept symbolized by the metaphor of the *invisible hand*. Smith sought to establish a connection between the pursuit of individual material gain, as emphasized in *The Wealth of Nations*, and the motivation of sympathy, which he explored in *The Theory of Moral Sentiments*.

The connection between *the invisible hand* and sympathy lies in Smith's broader moral philosophy: People have a natural ability to sympathy towards others, creating the foundation for social cohesion and cooperation. This tendency allows people to act in a way that benefits not only themselves but also the whole society.

While the metaphor of *the invisible hand* has gained widespread recognition and is frequently referenced by economists, this text argues that its original significance is neither comprehensive nor ground-breaking. Moreover, it does not occupy a prominent position within Smith's body of work. Rather, the metaphor is a component of a broader philosophical framework that Smith constructed, offering a more comprehensive and nuanced understanding of the interplay between markets, society, and the individual.

## 6 How old ideas influence the modern labour market

The importance of the Stoic conception of nature to Smith's work was significant, as it resembled his own use of the term 'nature' in explaining the arrangement of the universe and the organizing character of the market. In Stoic philosophy, nature was manifested as an inert active organizational principle that "keeps the world together". A similar organizing property can be found in Smith's conception of the market (Rasmussen, 2011).

The Stoic worldview is embedded in the very foundations of modern economics; however, this knowledge remains hidden from the economic community. What influence could this hidden axiom have on our current understanding of the market and people's decision-making processes today?

One example could be the strong pressure on job performance. The logic will be explained via the Five-Factor Model of Personality (also known as FFM, NEO-PI-R, Big-five, OCEAN) formulated. This model uses factor analysis to identify five basic personality traits (Costa & McCrae, 1992):

- (O) Openness - Creativity, aesthetic sensitivity, and an interest in abstract concepts.
- (C) Conscientiousness - The ability for persistent, goal-directed effort and the tendency to plan, organize and systematize.
- (E) Extraversion - Spontaneous joy, engagement, and social dominance, often verbal.
- (A) Agreeableness - The inclination to empathetically experience the emotions of others and to adhere to interpersonal norms.
- (N) Neuroticism - The tendency to avoid uncertainty, the tendency towards irritability and distress when things go wrong.

Equation 1 (Zell & Lesick, 2021) shows, how personality traits are correlated as predictors of job performance (in this analysis, I exclude the strongest predictor of work performance, which is IQ).

$$job\ performance = 0,05 * O + 0,23 * C + 0,13 * E + 0,10 * A - 0,11 * N + \varepsilon \quad (1)$$

We can see a strong emphasis on being conscientious, people-oriented, and stable. At its core, this requirement is natural and reflects society's inherent desire to produce economic value.

As mentioned, many times above, the concept of a self-organizing market has been heavily influenced by Stoic philosophy. The Stoics assumed that humans and society have a natural tendency toward order (a value of conscientious people), and therefore, according to Smith who adopts Stoics' ideas, the self-organizing market is an appropriate description of



reality. However, the causal effect caused by this doctrine can also be the opposite: For the market to function at its best, people must personify the stoic virtues of a stoic man.

The success of this strategy depends on the personality traits of everyone (conscientious people will be better able to adapt in this regard). However, no philosophy is universal and for the open-minded but less conscientious or more neurotic person, Stoicism may not be an appropriate interpretation of the world.

## Conclusion

To reconcile the two conflicting motivations of self-interest and sympathy, Smith introduces the concept of the market, where individuals pursue their interests while contributing to the greater good of society. Smith's theory combines these two opposing forces into a unifying theory, explaining how the market can bring prosperity. This idea combines the theme of self-love from *The Wealth of Nations* with sympathy from *The Theory of Moral Sentiments*.

According to Smith, the concept of natural order applies to both nature itself and human society. In this view, Smith draws inspiration from Stoicism and the natural order of the universe – the all-organizing rational *Logos*. Everyone in society is indirectly led by the invisible hand, and the result of individual decisions is a self-organizing market that generates the highest wealth. The market's equilibrium price is established as a result of organizing forces, which include supply and demand, competition, and the availability of resources.

In Smith's work, Stoic philosophy provides an alternative to Hobbes' theory of the social contract, which he disagreed with. Stoicism's concept of a universe encompassing both the natural and human worlds, all permeated by *Logos*, offers a fundamentally optimistic view of society that replaces Hobbes' brutal world of "everyone against everyone" in the state of nature. According to Stoic universalism and cosmopolitanism, harmony among people is a natural result of their shared humanity, and it doesn't require laws to be enforced.

In contrast to Hobbes's outlook, Smith's work offers an alternative vision of human nature and society. This alternative view allows for a fundamentally more optimistic view of society, and harmony between individuals need not be enforced only by law. The Stoic notion of a rational and directed natural order is embodied in the term "price that clears the market." In this way, Smith's work offers an alternative to Hobbes's contract theory.

The concept of a self-organizing market has been influenced by Stoic philosophy, which assumes that humans and society have a natural tendency towards order. However, for the market to function at its best, individuals must personify the virtues of the Stoic man.

Personality traits conscientiousness and extroversion are closely related to the stoic's virtues. The success of this strategy depends on the personality traits of everyone, but for some, Stoicism may not be an appropriate interpretation of the world.

## References

- Aurelius, M., & Long, G. (2012). *Thoughts of the emperor Marcus Aurelius Antoninus*. Benediction Classics.
- Baumgold, D. (2017). *Three-text edition of Thomas Hobbes's political theory: The elements of law, de cive and leviathan*. Cambridge University Press.
- Costa, P. T., & McCrae, R. R. (1992). Four ways five factors are basic. *Personality and Individual Differences*, 13(6), 653–665. [https://doi.org/10.1016/0191-8869\(92\)90236-i](https://doi.org/10.1016/0191-8869(92)90236-i)
- Epictetus. (2004). *Enchiridion*. Dover Publications.
- Hume, D., & Coventry, A. M. (2023). *A treatise of human nature*. Broadview Press.
- Macfie, A. L. (2013). *The Individual in Society: Papers on Adam Smith*. <https://doi.org/10.4324/9781315016528>
- Rasmussen, J. K. (2011). *The Invisible Hand: The Metaphysics In The Theory Of Adam Smith Compared With Modern Economics*, Copenhagen: Copenhagen Business School, Denmark.
- Schibli, H. S. (2002). *Hierocles of Alexandria*. Oxford University Press.
- Seneca, L. A., Reinhardt, T., & Davie, J. (2008). *Dialogues and essays*. Oxford Univ. Press.
- Smith, A., & Haakonssen, K. (2002). *The theory of moral sentiments*. Cambridge University Press.
- Smith, A., & Wight, J. B. (2007). *An inquiry into the nature and causes of the wealth of nations*. Harriman House LTD.
- Smith, A., Wightman, W. P. D., & Stewart, D. (1982). *Essays on philosophical subjects*. Liberty Fund.
- Zell, E., & Lesick, T. L. (2021). Big five personality traits and performance: A quantitative synthesis of 50+ Meta-analyses. *Journal of Personality*, 90(4), 559–573. <https://doi.org/10.1111/jopy.12683>

**Contact**

Petr Obergruber

Prague University of Economics and Business

nám. W. Churchilla 1938/4; 130 67 Praha 3

xobep00@vse.cz