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UNFOLDING THE ALLEGORY BEHIND MARKET
COMMUNICATION AND SOCIAL ERROR AND CORRECTION

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Berger conference draft

Unfolding the Allegory behind Market Communication and Social Error and Correction

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Abstract: Adam Smith's moral theory considered a number of sources of moral approval, and at each turn he invoked an accompanying spectator, however sketchy. In judging an action, at each turn we consult our sympathy with a spectator that is natural or proper to the occasion. In this paper I suggest that common economic talk of market communication, market error and correction, and policy error and correction similarly invokes such a spectatorial being and similarly appeals to our sympathy with such being. Behind such common economic talk, I suggest, are implicit allegories wherein an allegorical figure communicates knowledge, errs in its instructions, and corrects its instructions. The allegory behind such talk is vital and necessary because without it, the talk of market communication, error, and correction cannot be sustained. Unfolding the allegory behind such theorizing helps to clarify the meaning, limitations, and value of such talk. Making what had been implicit explicit helps economists to avoid overstating their generalizations or making those generalizations sound more precise and accurate than they are. I explore the connections between the allegorical features and the doings of the economic agents. I suggest that the cogency of such economic theorizing depends on such correspondences, and that they are matters of culture, of both the context within which the theorizing is done and of the context theorized about. I suggest that there is a duality in Smith between the impartial spectator and the being with an invisible hand.

Keywords: Market communication, price system, error, correction, coordination, Adam Smith, Friedrich Hayek, impartial spectator, invisible hand.

JEL codes: A1, B1, B4

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Prologue for Berger conference

Dear Berger conference participants:

My paper “Unfolding the Allegory” definitely relates to Professor Berger’s *The Capitalist Revolution*. Incorporating that relation into the paper would have significantly altered the paper’s perspective. I prefer to leave the paper as is, and then ask, by way of this prologue and the epilogue, to look at the things from a different angle.

Classical liberals sometimes wonder whether the liberal ascendancy, a period which came to a close at the end of the 19th century, may have been a sort of historical aberration. That suspicion dovetails with Professor Berger’s point about liberalism (he calls it “capitalism”) being “*mythically deprived*,” a point which I take to be the main point of his book (see esp. 195ff, 205, 208).

Epic matters about the fate of liberalism are not explicit in my paper. The epilogue added for the purposes of the Berger conference, however, takes the allegory idea in the direction of the matters formulated by Berger. I agree with Berger about the mythical deprivation of liberalism. So the question is whether some kind of Smithian allegory, as presented in the paper, might help us to assess that deprivation, or possibly to remedy it to some extent. The epilogue appears *after* the Reference list. /Dan Klein, 20 June 2009.

Unfolding the Allegory behind Market Communication and Social Error and Correction

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

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

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

Ib. (306)

Adam Smith enumerated not one but four sources of moral approval. What they were does not concern us just now—the crucial paragraph (TMS, 326-27) is reproduced here as an appendix. Nor do we need to ask here whether the four agree or are even reasonably distinct. Suffice it to say that Smith, though underplaying the tensions between the four sources, nonetheless showed awareness of the tensions as well as of the difficulty in distinguishing them. Smith did not pretend to any integration of the four sources. He did not pretend to solve for overall moral judgment. In fact, he scoffed at the pretense or aspiration of definitive resolution. Overall moral judgment, rather, is in the realm of the “loose, vague, and indeterminate,” like “the rules that critics lay down for the attainment of what is sublime and elegant in composition” (TMS, 175, 327).

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

By marking their judgment in particular instances, enabling us to surmise their sensibilities,³ Smith enables us to react to the judges, to discover whether, to use Smith's pervasive expressions, we happily "enter into" their interpretations and attitudes, whether our sentiments "beat time" with theirs. We judge the judges. We do so by appealing to higher judges; we proceed, as it were, to the even sketchier panel who assess the panel who assess figure-skating. Smith sketches the spectator not as an inscrutable authority that issues a code of righteousness, but as a being much like ourselves to whom we morally respond and by whom we may be edified.

Smith says:

All such sentiments suppose the idea of some other being, who is the natural judge of the person that feels them; and it is only by sympathy with the decisions

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

³ Charles Griswold (199) beautifully highlights that for Smith an aesthetic sensibility is surmised from points or moments, not given as algorithm or formula: "Just as we do not know what nature is in and of itself, so too we do not know what the imagination is in and of itself, but we can describe its works in all of the ways that I have specified. Since we lack a theoretical account of mind *qua* mind, we seem to be largely left with an account of mind in terms of *how it comes to see nature in this or that particular way, and that is just the kind of account Smith aims to provide*" (343, italics added).

of this arbiter of his conduct, that [the individual] can conceive, either the triumph of self-applause, or the shame of self-condemnation. (TMS, 193)⁴

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

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

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

I believe that economists practice the Smithian way but are reticent, even unconscious, about doing so. One cause of the reticence is that the figure does not conform to images of science as precise and accurate, or "positive" and "objective." The

⁴ Likewise, in a letter Smith affirms "my Doctrine that our judgements concerning our own conduct have always a reference to the sentiments of some other being" (Corr., 49).

Smithian awareness declares that economic judgment involves aesthetics, but popular images of science say that aesthetics are not supposed to play a role in scientific judgment.

Economists often hold up the idea of *economic efficiency* as precise, accurate, positive, and objective. I would argue that such claims are overdone. “As Frank H. Knight has so often emphasized, problems of welfare economics must ultimately dissolve into a study of aesthetics and morals” (Coase 1960, 43). A number of points argue that efficiency is much vaguer than often thought.⁵

Here I unfold the allegory in certain topics in economics. One topic is the market process as “a system of telecommunications” (Hayek 1948, 87). In the literal sense, prices, profits, inventories, and so on communicate very little. In a figurative sense, however, prices may communicate how to advance the vast concatenation. When skeptics declare: “What communication are you talking about?” Hayekians look stupid when not prepared to describe the allegory.

⁵ Some points one might make about why willingness-to-pay concepts are often ambiguous would include: (1) The diminishing marginal utility of wealth; (2) The hypothetical nature of propositions, giving rise to ambiguities in, for example, the time-to-adjustment in deciding one’s willingness to pay; (3) The collective action problems that might matter to the individual’s contemplation of how much he would be willing to pay; (4) The issue of deeper, truer preferences, as opposed to unenlightened preferences, which is especially relevant in considering policy reforms; (5) Identity factors involved in changing policy; (6) In as much as a policy reform would alter future preferences, perhaps of the new and future generations, we have to consider what preferences are worth fostering; (7) The Smithian distinction (TMS, 83, 137, 191-92) between passive experience of the effects of a change and moral agency for the change; (8) Economists often, perhaps usually, do not have good data on the willingnesses to pay that are most pertinent to their theoretical arguments.

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

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

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

There are economic tropes, not treated here, such as “social cost/benefit”⁶ and even “the economy,” that may be clarified by bring out the allegory behind the text. In a number of ways, important economic discourse is made clearer, more correct, and more accountable by seeing the allegory behind the text.

The Allegory behind Concatenate Coordination

Elsewhere I have written about coordination (first at Klein 1997), so I keep this section brief.

We should distinguish two kinds of coordination. One is the mutual coordination of Thomas Schelling (1960) and equilibrium modeling, particularly game theory—focal points, meeting at Grand Central station, “battle of the sexes,” cheap talk, lock-in of conventions, coordination-problem macro-theory, and so on. The other is what economists up to 1960 principally understood by *coordination*, as used by Simon Newcomb, John Bates Clark, Thorstein Veblen, Frank H. Knight, Friedrich Hayek, Ronald Coase, and very many others.⁷ That coordination was a quality of a concatenation

⁶ James Buchanan’s work often speaks of the allegorical basis behind talk of social costs and benefits, and of the economy.

⁷ Klein and Orsborn (2009) report a JSTOR content analysis of five leading economics journals and tell how concatenate coordination once dominated but receded some time after 1960.

of activities and factors. It invoked a judgment imputed to a mind imagined to behold the referent concatenation. If we refer to the concatenation within a firm, it is natural for the beholder to correspond to the owners, and to assume that the criterion behind coordinativeness was honest profits—a fairly precise and accurate rule. But when Hayek, Coase, and many others took the idea of coordination beyond the firm, the precision and accuracy melted away. For the concatenation of the great skein, the imagined beholder is much less clearly defined. That did not stop them, however, from talking about coordination of the vast concatenation. Concatenate coordination invokes a Smithian sort of beholding, a figurative being. In talking about concatenate coordination we develop ideas of the sensibilities proper to such a being. The circle of “we” tempers us to draw or entertain a being agreeable to the circle. We explore not only certain causes and effects narrowly conceived, but attitudes about the whole. We do so by discovering and cultivating our sympathetic reactions to figurative “arbiters.” Smith, Marx, Veblen, Keynes, Hayek, Myrdal, and Friedman symbolize figures that are relatively focal in the culture. How finely we delineate the being depends on the discourse situation and the circle of “we.”

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

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

Unfolding the allegory behind concatenate coordination helps us to clarify and assess whether entrepreneurship is coordinative; it helps us to clarify and assess whether free enterprise is a system of cooperation. Unfolding the allegory might spare one from overstating or misrepresenting the case for economic liberty. Meanwhile, it may *embolden* us—by and large, entrepreneurship *is* coordinative, economic freedom *does* conduce to coordination, free enterprise *is* a system of cooperation—for we can justify those claims in terms of cogent allegories natural to human understanding. But we had better be prepared to elaborate the pertinent allegory, for otherwise we are prone to fall into error of one kind of another.

The Market System as a Communication System

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

Hayek mostly avoided simile in speaking of the market system as a system of communication, just as Adam Smith did in speaking of the invisible hand. But, God aside, Smith's "invisible hand" is fictitious. I think that Hayek's "communication" is no less fictitious. Indeed, the two are basically the same (at least as we confine Smith's invisible hand to the matters addressed by Hayek). If, when we say that the market system communicates knowledge we are not prepared to elaborate the allegory, we may sound foolish, for the statement is untrue save for the allegory.

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

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

From knowledge communicated, each party makes inferences, and inferences may be closer or farther from the basic knowledge communicated. If the price of tin is five dollars, a close inference might be "the price is higher than last month." But as

inferences get farther from the basic knowledge, it becomes less correct to say that they have been communicated.

Crucial to Hayek, in fact, is that people's inferences are highly asymmetric, that, contrary to the common-knowledge assumption, all information is not commonly interpreted. Different people have different contexts and situations, in which they perceive different opportunities in prices etc. They interpret asymmetrically. Even "the price is high" might fit your interpretation but not mine. It makes little sense to say that inferences as to how one should respond to prices are matters of literal communication. We talk to merchants of their advantages, ready payment, said Smith, not our necessities, and even less our schemes.

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

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

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

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

During the remainder of Hayek’s career, Hayek wrote only fleeting of a “social mind” in his own theorizing.⁸ It may be that, launching as he did so fully into attacking collectivist thought, he underplayed the allegory behind in his own text. James Buchanan is another thinker who notably struggles in the zone between embracing and rejecting the allegory—mostly rejecting but not always convincingly (see e.g., Buchanan 1999, 193-96).

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

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

⁸ Hayek (1937, 54).

communications tell her to take actions rather like the actions that the market signals would lead her to take. Cannan suggests that the market conduces to socially beneficial actions much as a benevolent system of superior knowledge, communication, and cooperation would.

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

The figurative being exercises judgment, and we demand that its character or sensibilities be fleshed out. We want to know what kind of being we are being asked to go along with. We might argue over the character of Joy. We distinguish multiple Joys, perhaps as Joy₁, Joy₂, Joy₃, etc., and highlight and contend over the differences. Some are similar and form a family that we recognize and label. Sometimes we downplay the family bickering and work with the more generic family representative, highlighting differences between separate families—though also aware that all the Joys are of the

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

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

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

the image of scientific economics expounded by Ludwig von Mises. They might become as much “Scottish” as “Austrian” economists.

Unfolding the Allegory Makes It Innocuous

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

Agent Error

At the agent level, error entails a sense of regret. Israel Kirzner tells of a person walking along the street, seeing a sign offering apples for one dollar, yet proceeding to buy elsewhere for two dollars. Kirzner (1979) writes: “[S]urely, in an important sense he will, when he realizes his mistake, reproach himself for having been so absentminded as to pass by the bargain, *which he saw*, for the more expensive purchase. In this sense he *did* commit an error, the error of not acting on the information available to him or not perceiving fully the opportunity before his very nose” (129-30). Kirzner repeatedly associates error with regret and self-reproach.⁹

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

In discussing affection as habitual sympathy, Smith (TMS) brings up the syndrome of family members who have grown up in absence: “The absent son, the absent

⁹ This regret/self-reproached-based definition agrees neatly with *some* of Israel Kirzner’s expositions of error. However, in my view, Kirzner is inconsistent, at times holding a broader conception that would not necessarily entail any kind of regret or self-reproach. At page 22 of Kirzner 1992, Kirzner rightly notes that the obviousness of the missed opportunity, and hence the basis for regret or self-reproach “must be a matter of degree.” The issue, then, becomes how one draws the lines to delineate error. At times Kirzner, as in the quoted passage, seems to draw the lines, as I do (Klein 1999, 64-69), such that error is the missing of obvious opportunities and entails a sense of regret, but at other times (e.g., Kirzner 1992, 21-23) he draws the lines much wider, at not-totally-unobvious, and drops the necessity of any regret or self-reproach. For further discussion of the difference, see Klein & Briggeman (2009).

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

Adam Smith (1761, 219) noted that the word *I* simultaneously carries two significations, one of “the most precise individuality,” the other of “the most extensive generalization.” These two significations are only “*seemingly* opposite” (italics mine). For, human individuality is not all that individual. We put ourselves in each other’s shoes, relate to the apparent situation, and judge of each other’s actions. Just as Hayek indicated a zone in which we carefully invoke a notion of social sense or function, we work in zones of generalization in which we feel we know the other person’s purposes and situation well enough to judge of his action.

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

Self-reproach is reflexive, suggesting a multiplicity of selves. It is useful to think of an actor calling on internal sub-agents or routines. When the sub-agent or routine messes up in the instant, spilling a drink or mistyping a word, the mishap is best called a *mistake*. The actor curses angrily, as though reprimanding a subordinate. But the actor saying *I* in the situation is itself an agency embedded in a larger being, and sometimes it comes to doubt itself, it feels that it employs the wrong routines, it suspects that it has made an *error*. It feels regret, not anger. The actor resides in a hierarchy. Error for him relates to what is above, mistakes to what is below. Erring is poorly interpreting the situation; making a mistake is slipping-up within the situation. Error is regretting the path one embarked on; mistake is a slip-up along the path. Likewise, on the happy side, affirmation of the plan may be distinguished from fulfillment of the plan. Plan affirmation does not imply plan fulfillment, and plan fulfillment does not imply plan affirmation.¹⁰ Although the terms *mistake* and *error* are often used interchangeably,¹¹ economists have found it useful to distinguish them.¹² Also, it should be noted that it is impossible to eradicate a theoretical domain for error, for any agent that says *I* must emerge from and be subordinate to higher (or deeper) levels. The uppermost articulated level carries hints, understandings, questions, and aspirations relating to a lowermost non-articulated level, and it is fatal to deny the tacit contacts to higher matters.¹³ As a practical matter, there is always a realm above the articulated *I*.

¹⁰ Klein and Briggeman (2009) elaborate the distinction.

¹¹ One reason that *error* and *mistake* are often used interchangeably is that mistakes alert us to possible error—if a student’s paper is filled with mistakes, maybe he needs to rethink his idea of having done his homework. Another is that action is situated, such that what is to one agent an error may be to a higher agent a mistake, just as the 5th floor of a building is up to some and down to others. Yet another reason may be that there is no verb for *mistake*, and hence we resort to using the verb *to err* even for mistakes.

¹² Our distinction between mistake and error comports with Kirzner (1979, 121-22).

¹³ See Polanyi 1962; 1963; 1967; Hayek 1952, 185, 189, 194; 1955, 89; 1967, 62; Klein 1999, 69-71.

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

In his economics, Adam Smith gave too scant attention to these matters.¹⁴ In the morals, however, he linked error and remorse. For example, he tells of characters in Voltaire who, faced with conflicting interpretations of their moral duty, commit a crime and then “discover their error, and the fraud which had deceived them, and are distracted with horror, remorse, and resentment” (177).¹⁵ Smith’s thought is suffused with appreciation of knowledge’s richness.¹⁶

Error and Correction as Applied to an Allegorical Being

When it comes to the pervasive talk of “market error,” “social error,” or “policy error,” we find statements that can be clarified and perhaps salvaged only by recourse to a figurative being. In the case of market error, Israel Kirzner writes:

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

Consider an example raised by Kirzner (250f), the invention of the automobile. Kirzner suggests that it devastated the livelihoods of many who had built their entire

¹⁴ Smith’s deficiency was picked up on by others including Jeremy Bentham (extracted 2008), J.B. Say (see quotes in Hodgskin 1827, 54-57), Thomas Hodgskin (1827, 34, 45-99, 120), James Maitland Lauderdale (1819, 265-304), and John Rae. Regarding the last two, Macfie (1967) writes: “[Lauderdale and Rae] thought Smith’s theory should give more weight to the importance of invention, novelty, new arrangements in history. Smith, of course, did much here, but to Lauderdale and Rae invention is picked on as the core of economic growth, and this is suggested as the central issue in theory and practice. One cannot say this of *The Wealth of Nations*” (35).

¹⁵ Also, in discussing self-deceit, Smith mentions error and regret (158).

¹⁶ Another prime example is when Smith (WN) says that, in the matter of judging how society’s interest relates to his own, one may be “unfit to judge even though he was fully informed” (266).

careers around the horse-drawn carriage industry. Kirzner's writings would suggest that the malinvestments were a result of error. Such unfulfilled plans were based on "an erroneously imagined decision framework" (17). Kirzner links the earlier error with a process of correction. He writes that "earlier entrepreneurial errors have created profit opportunities which provide the incentives of entrepreneurial corrective decisions to be made" (31). Elsewhere Kirzner (1985) writes that "To act entrepreneurially is to identify situations overlooked until now because of error" (52).

Speaking historically, surely some of those in the horse-drawn carriage industry had erred. But the invention of the automobile was a highly exceptional event. It is possible that only some, it is conceivable, in fact, that none, in the horse-drawn carriage industry actually looked back on their undertakings with a feeling that they had acted foolishly, that they should have been more aware than they were. They may not have erred. Similarly, it is conceivable that no individual undertook any correction of a foregoing error.

I think that the general interpretation of the market correction of error is greatly enhanced by interpreting the process by analogy to how a figurative being who gives instructions might have felt about it. As we look back on the economic history, we know things that our predecessors did not, and we attribute such knowledge to our figurative being. If Joy knew what was coming—and surely some inventors had early anticipations of what was in fact coming—and she nonetheless communicated instructions to build and expand livery stables and stage-coach lines—undertakings that subsequently did not pay off socially—Joy would be erring. Her giving of such instructions is something she would look back on with regret. She would feel she erred. As those bad instructions were

reversed and she reconsidered whatever had impelled such a faulty plan, she would be correcting her error. Like the metaphor of market communication, the talk of market error and correction is really best understood by way of allegory.

If we deny the allegory, if we confine our thinking and talk to *agent* error and correction, we may fall into statements that are not justifiable in those terms. But the point here is not to avoid talk of market communication, error, and correction. Kirzner's theorizing, indeed, may help us see how Joy error and correction relate to agent error and correction, and thus to justify the figurative theorizing. The theorist typically invokes a perspective that no one in the story quite possesses, a perspective attributed to some beholder of it all. But, again, the Joy-like being is not a glinty inscrutable figure, but a being that understands and sympathizes with us. Her benevolence is such that what makes a set of instructions issuing from her erroneous will tend to correspond to vicarious or potential errors for people in the story of the market process. Kirzner is right that equilibrium modeling provides no scope for human error or human imagination (2000, 59); his brilliance lies in seeing the need and doing the work to get such things into economic theory. But our endeavor gains by unfolding the Smithian elements—a turn resisted by Kirzner (2000, ch. 7). Behind the will of the individual as he goes about his market activity there are figurative beings, perhaps only inchoate or unconscious,¹⁷ and behind the theorizing of the economist there are figurative beings seemingly appropriate to the discourse situation, *and the two are related*. The error of the individual may be only vicarious or potential—in that it invokes an onlooker who reinterprets what he does. That onlooker is related to the onlooker invoked by the theorist who talks of market error and correction. This relatedness may draw on Kirzner's insights and help

¹⁷ James Otteson stresses that our moral bearings may be unconscious, 2002, 21, 104-06, 116, 123-24, 264.

give them power, for, if Kirzner is right, and I think he is, that, in most normal market contexts, there is a tendency for the individual to correct his errors, and there is no tendency for him to make errors (Kirzner 2000, 31), then the suggested relatedness helps to sustain the general idea that there are tendencies for market processes to avoid and correct Joy errors.

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

Social or Policy Error

Adam Smith favored separation of church and state but was concerned that little sects might breed morals “disagreeably rigorous and unsocial” and suggested “remedies” by which the state might “*correct* whatever was unsocial or disagreeably rigorous in the morals of all the little sects” (WN, 796, italics mine). Does Smith mean to say that the state corrects the agent error of the individual sectarian? I think not, at least not primarily.

The correction and implied error are social, which is to say allegorical. Smith’s talk is perfectly natural, but the allegory is rarely spelled out. Consider a matter in which economists often diagnose the existing interventionist policy as error and prescribe correction in the form of liberalization.

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

Figure 1: Two Types of Bad Outcomes for FDA Decision

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

Economists say the FDA apparatus is faulty because the FDA officials are overly prone to Type-2 bad outcome and are too stingy with permission. Economists who publish judgments on the matter really do very preponderantly say this.¹⁸ I should note that economists’ judgments are based also on the suppression of drug development—that

¹⁸ See Klein 2008, 319.

is, restrictiveness discourages researchers and drug makers from generating many would-have-been drugs from ever being in a position to enter into the context of figure 1.

In the literature, bad outcome is often called “error,” but I want to focus on the higher level managing of the trade-off between the bad outcomes. I suggest that standard discourse implicitly projects the allegory of Joy running a benevolent and super knowledgeable system of communications. We confine her possible communication to instructions about the general stance the official should take, that is, his stance with respect to permissiveness.¹⁹ Every outcome involves an element of luck, so, just as in poker a lost hand does not necessarily indicate bad play, an unfortunate outcome does not necessarily indicate error. Joy’s communication tells the FDA official how permissive to be, what “cut points” to use, in deciding whether to permit drugs.²⁰

FDA officials are too stingy. It is said that “the FDA is erring” or “society is erring” or “we are erring.” But the “error” talk is best understood by way of an allegory involving a being like Joy. If the FDA’s actions flowed from Joy’s communications, then we would deem Joy’s communications to be in error, for her communications would in that case have FDA officials too often withholding permission. The definition of agent error is being applied to Joy, as the agent in question.

But Joy’s point of view stands in contrast to that of the FDA official as the structures actually exist and function. Economists, including Stigler (1966, 74-75) and Coase (1975, 59), have been quick to explain that the individual FDA reviewer does *not*

¹⁹ If we, instead, allowed Joy’s instructions to be specific to each individual drug decision, so that Joy might use her super knowledge of the particular case, we would weaken the affinity between the agent’s context and Joy’s framework for issuing instructions.

²⁰ Conceivably these “cut points” would otherwise become so permissive as to run into further issues of the FDA abiding by the legislation that it is charged with executing, but it is clear that there is ample scope for relaxation without running into such issues.

necessarily err when he is stingy with permission, because the consequences of permitting a bad drug loom much larger for him personally than do the consequences of not permitting a good drug. Although it is possible that the human agents involved in the process do err, the more central point is that they need not: *the high rate of Type-2 bad outcomes (as well as the associate suppression of drug development) does not necessarily reflect any agent error*. They do not necessarily entail any regret or self-reproach, even of only the vicarious or potential sorts. Perhaps the error told of in the familiar analysis is *only* figurative.

The figurative dimension does not hinge on assuming no agent error. Even if we assume that some of the agents did err, it can still be very useful to think figuratively. The vicarious or potential regret can be said to fall back on some notion of a generalized being the actor could have sympathized with, could have seen himself as like. Indeed, Smith's internal arbiters—he speaks of the conscience, the inhabitant, inmate, or man within the breast, the impartial spectator, the *supposed* impartial spectator, the *representative* of the impartial spectator—are all usefully interpreted as allegorical or metaphorical figures. Smith even let's on: "The real *or even imaginary* presence of the impartial spectator, the authority of the man within the breast, is always at hand ..."
(TMS, 292, italics mine).

I suspect that the conclusion that there is social error without any agent error rubs us, as human beings, the wrong way. I suspect that we are programmed²¹ to think that if there is social error, somewhere along the line there must be agent errors. I suspect that we are programmed to think that Smith's fourth source of moral approval, particularly the

²¹ Programmed, that is culturally or genetically, though, as Hayek argues, culture plays such a large role in both genetic selection and genetic exfoliation that the distinction is dubious.

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

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

But in a world checkered with baneful policies that enjoy official propriety and the assent or even approval of the cultural elites, and are awfully imperviousness to challenge, the presumption of consonance seems much less assured. We should allow that Joy error does not necessarily entail any actual agent error. If humans tend to overestimate the traversability of the impasse between Joy error and agent error, that could

help explain why they are disinclined to bring out the allegory behind social error, for they feel they can make due by indicating agent errors.

Humane optimism certainly goes along with supposing that someone on the ground could feel self-reproach in his helping to establish or preserve what, from 100,000 feet up, is seen as a baneful arrangement of practices. At any rate, the culture tends to welcome such humane optimism. Presuming agent error, focusing on agent error, then, signals one's rejection of the disagreeable, fatalistic view of no agent error. Indeed, to embrace the fatalistic view would be to give up engagement and fundamentally to reject Smith's Solonic outlook. Signaling against the fatalistic view might help explain why the allegory remains as tacit as it does.²²

Social or Policy Correction—or Lack thereof

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

How well do Joy errors located in government self-correct? Permitting a bad drug leads to identifiable sufferers and public outcry. Not permitting a beneficial drug, however, leads to little public outcry. The suffering is relatively neglected, *unseen*,

²² Incidentally, among the ways that the great economist George Stigler distinguished himself was by propounding the fatalistic view (e.g., 1982), as well as by championing the related views that knowledge should be flattened down to information and that the concept of liberty was nugatory. His inconsistencies and absurdities in these matters were often so immediate that sympathetic onlookers tend to see his sermons as arch irony. Less sympathetic onlookers may see them as irresponsible whimsy.

overshadowed by what is officially intended. FDA critics who identify the Joy error in FDA stinginess—who, that is, do the analysis at Smith’s fourth source—seem to have very little political or cultural traction; they too seem to be largely ignored. That is why the FDA official may feel secure and just as regards Smith’s first three sources of moral approval. Moreover, each person tends to get locked into basic beliefs and outlooks,²³ a fact that dims our hopes of him or her coming to feel regret. Within the socio-politico-cultural ecology, therefore, the evolution of the links between Joy interest and agent interest, the process for correcting Joy errors, is extremely bad.

Smith and Hayek taught that libertarian arrangements tend to align Joy and agent interest. In the free context, most Joy errors tend to be self-correcting. In a highly governmentalized context, many of the most grievous Joy errors do not have similar tendencies toward self-correction. Buchanan (1999) says: “There is no political counterpart to Adam Smith’s invisible hand” (458).

Agent Error Is a Matter of Culture

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

²³ On the lock-in of ideological views by the age of 25 or 30, see for example Jennings (1990, 347-48), Alwin et al (1991, 60), and Sears and Funk (1999, 1). Smith (TMS, 158), Kierkegaard, and Schopenhauer also commented on such lock-in.

One reason that the micro contexts of bad policy often feel just is that, by procedure and by taboo, political culture has cordoned off certain aspects and consequences, particularly those on coerced and their would-be trading partners, into seemingly separate moral contexts or, indeed, into docility, acquiescence, silence, and invisibility. Whether the FDA official would reproach himself for being stingy depends on his moral qualities, intellectual understandings, and cultural pressures.

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

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

Governmentalization sometimes perversely tends toward the disjoining of one source level from the next, yielding cultural confusion, degeneracy, deep disharmonies, and unhappiness. For many people, these moral and cultural consequences are quite central in judging policy and politics—more central, in fact, than they usually manage to communicate. We want a better world materially, but more importantly we want a better world culturally.

Things also are difficult when it comes to cultural figures. One must judge the wisdom and scruple of the scholar and the pundit. He may be very eminent and, by well-established standards, satisfy moral norms at the first three sources of moral approval, but

his ideas may be nefarious and fail in the matter of the fourth source, although he does not think so.

Some measure of correction may come by directing understanding, criticism, and judgment to what is being done and what should be done. These efforts help to align Joy error and agent error. After all, what actually keeps government and political culture from being much worse is not any democratic accountability but rather the fair measure of decency and enlightenment nestled within each agent within those structures.

Concluding Remarks

Most of the morality plays in *The Theory of Moral Sentiments* are of a private nature, interaction among neighbors or “equals,”²⁴ where the broad social view plays little role. That is why the impartial spectator is usually thought to be a personal moral advisor, not a political economist. *The Wealth of Nations*, however, was an annex of *The Theory of Moral Sentiments*, making together a more extensive system of moral sentiments. *The Wealth of Nations* explores the broad view in *TMS*'s fourth source especially as concerns commercial behavior and public policy.²⁵ In that sense, contrary to what Vivienne Brown observes (1994, 46), perhaps the impartial spectator *does* appear in *The Wealth of Nations*—as the author. For, if the inmate within the reader's breast is its representative, and if “To direct the judgments of this inmate is the great purpose of all

²⁴ As noted by the *TMS* editors D.D. Raphael and A.L. Macfie (p.40), from the fourth edition (1774) on, the title page included a description of the work: “The Theory of Moral Sentiments, Or An Essay towards an Analysis of the Principles by which Men naturally judge concerning the Conduct and Character, *first of their Neighbours*, and afterwards of themselves” (emphasis mine).

²⁵ My remarks about *WN* as an annex of *TMS* comport with Stewart 1794, 310-15; Young 1997, Ch. 8, esp. pp. 192-93, 201; Macfie 1967, 61-62, 75f; and Otteson 2002.

systems of morality” (TMS, 293), then the author of such a system, if edifying and properly so, would be akin to the impartial spectator.

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

In a letter to David Ricardo, James Mill (1818) urged Ricardo to follow “the plain rule of utility which will always guide you right, and in which there is no mystery.” The passage is quoted by A.L. Macfie (1967), who adds: “No mystery for James Mill; but for Adam Smith there was always mystery” (146). For those who heed moral guides like those heeded by Smith and Hayek, the mystery may seem to grow ever more perplexing, but, still, there are helpful answers and resolutions. There is sense in the liberal cultural project. Here I have suggested that that sense is well served by bringing implicit figures more clearly out into the open.

Appendix:

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

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

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

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Epilogue for the Berger conference

I take Professor Berger to be saying that the vitality of liberalism depends on some kind of spiritual, ethical, or mythical vision, commitment, character, sense of purpose. It depends on qualities or factors we often associate with religion. (Here I use the term *religion* in a broad way that does not necessarily involve “God” etc.)

We can rule out any notion of dramatic liberal advance; we are engaged in tugs of war, and the question is vitality at the margin.

The liberty principle may be regarded as a sort of grammar, but its warrants and limits are not grammatical. I think that the mythic sense of liberalism lies in the Smithian sort of allegory presented here. It is inherently vague, discursive, and open-ended.

If so, that helps us address liberalism’s spiritual potential. To what extent can the Smithian “religion” be persuasively elaborated and propagated? In addressing the question, we correspondingly gauge liberalism’s potential.

The liberal religion has focalness only in representatives, personifications, leading intellectuals like Smith, Hayek and Friedman. But a living liberalism will depend on living representatives.

Their prospects depend on the cultural ecology. There are huge challenges facing the emergence of a cohesive and powerful liberal religion.

We must understand that the jewel of western civilization, namely, the liberal lexicon consisting of *liberty, freedom, rights, property, contract, liberalism, rule of law, justice, equity, and equality*, was *systematically subverted* during the period say 1880-1940. In came the tide of social democracy. We now dwell in cultural chaos – “liberal versus conservative”, for example. A liberal shaman scarcely knows how to proceed in such an ecology. How are liberal leaders to attain prominence within a culture they regard as deeply perverse?

On the other hand, enlightened ideas hold a certain power, for which we call them “enlightened.” Liberal argumentation can better realize this power by explaining to the culture the biases of the cultural ecology. For example, people need to understand that the cultural ecology is itself hugely shaped by government. I also think that the atavisms story, based on the genetic legacy of the solidaric small band, a la Hayek, is fundamental. And so on.

The Smithian allegory needs to be linked back to Smith himself. Smith should become emblematic. The story from Smith, on to the emergence of the liberal lexicon, on to its subversion, the tide of social democracy, the reassertion of atavistic mentalities and sentiments, the statist superstitions of democracy, and the ensuing cultural chaos, must all be offered as *one big argument*. That is the way of any religion, one big argument.

That’s the best story we have to offer.

/Dan Klein 20 June 2009