

5-2016

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Recommended Citation

Smith, V.L. (2016). The fair and impartial spectator. *Econ Journal Watch* 13(2): 330-339.

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This article was originally published in *Econ Journal Watch*, volume 13, issue 2, in 2016.

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Econ Journal Watch



EJW

ECON JOURNAL WATCH
Scholarly Comments on
Academic Economics

ECON JOURNAL WATCH 13(2)
May 2016: 330–339

The Fair and Impartial Spectator

Vernon L. Smith¹

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[T]here are indeed some universal moral norms and values, but to think that ‘fairness’ is among them is an Anglocentric illusion.

—Anna Wierzbicka (2006, 162)

Adam Smith refers to the “impartial spectator” over sixty times in his first book, *The Theory of Moral Sentiments*, but only once as the “fair and impartial spectator”: “We endeavour to examine our own conduct as we imagine any other fair and impartial spectator would examine it” (TMS, III.1.2).

This form of the metaphor best enables us to understand Smith’s conception of the maturation process wherein we become social creatures by gradually modifying our behavior to follow other-regarding general rules that meet with the approval, and avoid the disapproval, of our neighbors.

I will use propositional statements to articulate and develop Smith’s model of human sociability, and the central role of the impartial spectator, beginning with some background axioms and principles. The power of Smith’s work is that it accommodates the observed tendency for humans to be other-regarding in their more intimate groupings, explains the emergence of property as it occurs in the civil order of government, and accounts seamlessly for the prominence of self-interested action in impersonal markets and thence to the causes of the wealth of nations. We are strapped in finding a modern equal to Smith’s grand accounting for the deep meaning he extracted from carefully observing the diversity of human conduct.

PROPOSITION 1. Learning to become social is not about altering our self-interested or self-loving nature, but rather is about incorporating our self-loving nature into a theory of the emergence of socializing rules through processes of cultural consent.

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In modern language each person is characterized by strictly increasing individual utility functions defined on their own valued outcome, say $U(own)$. If we think of an outcome as having a monetary equivalent, then utility is strictly increasing in monetary amount. This non-satiation axiom, that for each of us more is better and less is worse, is common knowledge. Thus,

Every man is, no doubt, by nature, first and principally recommended to his own care; and as he is fitter to take care of himself than of any other person, it is fit and right that it should be so. (TMS, II.ii.2.1)

...every animal was by nature...endowed with the principle of self-love... (VII.ii.1.15)

We are not ready to suspect any person of being defective in selfishness. This is by no means the weak side of human nature, or the failing of which we are apt to be suspicious. ... Carelessness and want of oeconomy are universally disapproved of, not, however, as proceeding from a want of benevolence, but from a want of the proper attention to the objects of self-interest. (VII.ii.3.16)

Smith's model is in no sense based on the hypothesis that individual preferences are the source of the concern people have for others. This is explicitly stated and defended in the above quotations, and implicitly assumed in the key propositions on beneficence (7 and 8) and justice (9 and 10) below. Common knowledge of self-love is essential if the impartial spectator is to make appropriate judgments concerning proper conduct in human social relations. Contrary, however, to neo-classical economics, self-love for Smith did not imply that individuals would in all, or perhaps even in most, circumstances choose actions to maximize the utility of own outcome, $U(own)$. Rather, the non-satiation axiom enables all in an interactive community (extended family, neighbors, associates) to know that a given action is hurtful to anyone who receives less, and beneficial to anyone who receives more. In Smith's model of sympathetic fellow-feeling, common knowledge of how alternative actions hurt or benefit others as well as yourself provides the foundation whereby people learn to follow rules that are appropriately other-regarding, that properly take into account the feelings—the gratitude and resentments—of others.

The neoclassical and modern error is to apply the $\text{Max } U(own)$ calculus to all decisions, regardless of circumstances, and without regard for the pattern of benefits and hurts in our more intimate groupings where enforcement was, and always had been, endogenous. Generations of economists were indoctrinated with a thought process in which every action maps into an outcome and thence into preference and, implicitly, in which this mapping can be reversed via individual maximization.

PROPOSITION 2. Social motivation is based on the desire for praise and praise-worthiness and the desire to avoid blame and blame-worthiness, which serve as indicators of propriety and harmony in the evolution of local order from local rules.

Man...desires, not only praise, but praise-worthiness; or to be that thing which, though it should be praised by nobody, is, however, the natural and proper object of praise. He dreads, not only blame, but blame-worthiness; or to be that thing which, though it should be blamed by nobody, is, however, the natural and proper object of blame. (TMS, III.2.1)

Hence, the motivation for action in our more intimate groupings is not itself utilitarian; rather Smith models the process whereby we modify self-interested choices in the light of learning what other people will go along with. Praise and praise-worthiness are indicators of that social approval, but the resulting approved conventions require each to know the pattern of hurts and benefits resulting from an action. Since all are self-interested, we can judge who is hurt or benefits from an action and integrate that essential knowledge into our learning of rules in which our actions are praised/praise-worthy or are not blamed/blame-worthy. Thus, other-regarding behavior does not derive from other-regarding utility, $U(own, other)$, but rather is the result of $U(own)$ as an input to our socialization.² Moreover, in impersonal markets we also rely on $U(own)$ in choosing to take action.³ There is no need to model the individual as a divided self; rather, we can model one self-interested individual in imperfect self-command of his local relationships while simultaneously responding to the external order of prices in markets.⁴

PROPOSITION 3. The process of learning to be sociable—maturation—is to learn propriety.

2. The contemporary utilitarian would modify Smith's model by assigning everyone an individual social preference function $U(own, other)$, then proceeding to maximize. But modern utilitarians failed to follow this path until after they were shaken up by the rejection of neoclassicalism in small group experiments, especially two-person trust and other games (Berg et al. 1995 was the key paper that initiated a large subsequent literature; Smith 2008, chs. 10–12, provides a summary and discussion of the experimental two-person game results of the 1980s and 1990s). By then Smith's work already had two centuries of priority, and it deserves our careful examination of how he was able to model that behavior within the framework of self-interested individuals.

3. Wilson (2010, 78–81) contrasts how “preference” is used to interpret market decision with how it applies to social interactions.

4. However, economic and social policy is threatened by human failure to understand that the rules of the local order cannot be applied to those of the extended order, or vice versa, without damage to the one or the other (see Hayek 1988, 18).

Smith uses an ingenious mental experiment—his *soziale Gedankenexperiment*—to articulate the socializing process. We are asked to imagine an individual growing up without any communication with another human being. For Smith such a solitary individual “could no more think 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” (TMS, III.1.3; also see IV.2.12). A solitary person can see none of these things in the absence of a social mirror. Raise him in society, and that mirror is supplied in the form of the “countenance and behavior” of all who he lives with, who never fail to express their sense of the propriety or impropriety of his actions (III.1.3). From this experience each is able to internalize a view of the appropriateness of his own conduct and gradually acquire personhood. For Smith “mind” is a social creation, whether it involves our conduct in the choice of context-dependent action or our perceptions of facial or body beauty. There is no individual psychology separate and distinct from social psychology. Psychology in this sense must begin with principles acquired from our human sociability.

PROPOSITION 4. The concept of ‘fairness’ lives in rules space, and it corresponds to the sports metaphor of fair play in which people are motivated to choose actions that avoid committing fouls.

Hence, Smith uses *fair* in its eighteenth-century meaning that was, and is, a unique English word. As observed by the distinguished and influential linguist, Anna Wierzbicka:

The ubiquity of the words *fair* and *unfair* in modern English discourse, across a wide range of registers, is all the more remarkable given that these words have no equivalents in other European languages (let alone non-European ones) and are thoroughly untranslatable. (Wierzbicka 2006, 141)

And again,

...‘fairness’ is a uniquely Anglo concept, without equivalents in other languages, except, as for example in German, as a loan from English (*das is nicht fair*, “that’s not fair”).⁵ At the same time, in Anglo culture this concept is so central that many speakers of English imagine it must be universal, perhaps even innate. ... there are indeed some universal moral norms and values, but

5. And in Polish it is *to nie fair* (see Wierzbicka 2006, 163, where she reports resisting this word loan when her bilingual daughters, contrary to her own native language and cultural experience, are thinking in terms of the English word).

to think that ‘fairness’ is among them is an Anglocentric illusion. (Wierzbicka 2006, 160, 162)

Her final summary applies without modification to my representation of Smith and his concept of the impartial spectator in this paper: “In a way, sport—especially team sport—provides a perfect model for ‘fair’ interaction because the emphasis is on rules and procedures, which are blind to the individual players’ interests and which everyone voluntarily accepts” (Wierzbicka 2006, 166).

PROPOSITION 5. The metaphor of the fair and impartial spectator defines the processes whereby we first judge the conduct and character of our neighbors, then devolve or pass judgment concerning the conduct and character of ourselves.⁶

The judgment concerning our own conduct gradually takes the form of self-command which evolves from our two-state experience with failures of character in the marginal moment (the man of yesterday) that are reconsidered in the cooler light of subsequent reevaluation (the man of today). Thus there are two occasions wherein we are afforded the opportunity to view our conduct from the perspective of the impartial spectator: The first is at the time we are poised to act. The second is after having acted. In both cases our sentiment is quite partial, but it is the most partial when it is important that it be impartial. At the time of action the passion of the moment interferes with an impartial evaluation. Although afterwards the prompting circumstances and passion allow a cooler impartial judgment, too often—in comparison with the heat of the moment—the consequence seems unimportant, and except for vain regret we fail to secure ourselves from like errors in the future (TMS, III.4.2–6).

This self-deceit, this fatal weakness of mankind, is the source of half the disorders of human life. If we saw ourselves in the light in which others see us, or in which they would see us if they knew all, a reformation would generally be unavoidable. We could not otherwise endure the sight. (III.4.6)

PROPOSITION 6. We are rescued, however, from the frailties of our conscious judgments by our stronger tendency toward ingrained rule-following conduct—general rules that map particular circumstances into actions that inspire the gratitude, and avoid the resentment, of others.

6. These two parts of the judgment process are paraphrases of the subtitle of TMS from the fourth edition, which appeared in 1774 (see Raphael and Macfie 1976, 40).

Fortunately for our species, nature provides a remedy; she has not entirely abandoned us to the delusions of self-deceit triggered by our self-love. From our earliest exposure to the conduct of others, we gradually become attuned to general rules that constitute acceptable “fit and proper” actions sensitive to the context in which they take place (TMS, III.4.7).

According to Smith our conduct takes key categorical forms that I will summarize in the next four propositions. The first two govern beneficent actions; the second two concern hurtful actions, and they encapsulate Smith’s theory of justice and property rights.

BENEFICENCE PROPOSITION 7. Intentionally beneficent actions alone deserve reward because of the gratitude invoked in others (TMS, II.ii.1.1).

This proposition provides the emotional foundations of reciprocity, a universal concept requiring an explanation.⁷ Our beneficence is most naturally directed to those whose beneficence we have already experienced, and therefore kindness begets kindness (TMS, VI.ii.1.19). In repeat interaction with our associates, reputational gains from sociability yield human betterment, and “tend to unite men in society, to humanity, kindness, natural affection, friendship, esteem” (VI.iii.15). This phenomenon is captured in the modern phrase ‘I owe you one,’ common across many languages, in which the beneficence of another is acknowledged by an implicit obligation to do a future favor in return. The debt is discharged by an ‘in kind’ transfer, i.e., in the same way, with something similar. One cannot resist interpreting the exchange as de facto ‘in kind-ness.’

BENEFICENCE PROPOSITION 8. The want of beneficence cannot provoke resentment and punishment, because beneficence is freely given and cannot be extorted (TMS, II.ii.1.3).

These two propositions have been tested in the context of extensive form trust games (Smith and Wilson 2014; 2016). Under anonymous pairing, the traditional game-theoretic analysis predicts no cooperation. However, in accordance with Proposition 7, half or more of first-movers beneficently offer cooperation, and two-thirds of their paired counterparts eschew the more lucrative opportunity to defect, instead rewarding the first mover by choosing the cooperative outcome. A modification of the same game is used to test Proposition 8. If first movers

7. Thus for Smith, reciprocity is not an entirely satisfactory explanation of the choice outcomes in trust games, as in McCabe et al. 1996. Rather, ‘reciprocity’ is an un-modelled name for the result we observe. For a careful treatment of reciprocity as explanation see Wilson 2008.

choose not to offer cooperation, play passes to second movers who are provided a costly option to punish their paired counterpart for failing to offer cooperation. None choose this option. Implicitly, the second mover's response acknowledges the right of the first not to act beneficently. Proposition 7 back-predicts the findings in early trust games better than neoclassical economic analysis.

JUSTICE PROPOSITION 9. Intentionally hurtful actions alone deserve punishment because of the resentment invoked in others. The greater the hurt, the higher the resentment, and, in proportion, the greater the punishment (TMS, II.ii.1.2, II.ii.2.2).

This proposition is the foundation of Smith's theory of property rights. Our human impulse is to punish intentional actions of a hurtful nature:

Resentment seems to have been given us by nature for defence, and for defence only. It is the safeguard of justice and the security of innocence. It prompts us to beat off the mischief which is attempted to be done to us, and to retaliate that which is already done; that the offender may be made to repent of his injustice, and that others, through fear of the like punishment, may be terrified from being guilty of the like offence. (TMS, II.ii.1.4)

Accordingly, in the civil order of government we find that murder, the greatest evil, commands the greatest punishment; theft and robbery, which deprive us of our lawful possessions, command a greater punishment than violation of contract which merely frustrates our expectation of gain (II.ii.2.2).

Justice for Smith is a negative virtue that results in a large residue of allowable actions after using proportioned punishment to limit specified unjust hurtful actions. In Smith's conception we do not set our sights on a positive ideal of justice—an abstract, slippery and uncertain state. Rather, we address ourselves to specific acts of injustice where—as I interpret Smith—we are likely to find common agreement because of our common experience of the circumstances, nature, and extent of the hurt. Eliminate these one by one, and in this evolutionary process we gradually produce a more just society, but always within a framework of freedom to act and explore all options not specifically interpreted as unjust.

At this juncture it is natural to ask which of the two sentiments—beneficence or justice—is the more essential to human society. On this Smith leaves us with no uncertainty as to his views. We are informed that society will certainly flourish if it is bound by a common bond of gratitude, friendship, and esteem, but where these conditions do not exist, the society, though reduced in happiness, may nevertheless not be dissolved. For society can subsist merely from a common sense of its usefulness (utility), as with a group of merchants, and be supported by “a mercenary

exchange of good offices according to an agreed valuation.⁸ Society, however, cannot subsist among those who are at all times ready to hurt and injure one another” (TMS, II.ii.3.2–3). Hence beneficence is less critical to a society’s existence than justice. Although society may subsist in the absence of beneficence it will soon be destroyed by rampant injustice.⁹

JUSTICE PROPOSITION 10. Choosing to forgo actions of a hurtful nature does not merit reward (TMS, II.ii.1.9–10).

While in the civil order of law we punish infractions of justice we do not reward people for obeying the law. There is no reward for stopping at a red light or for leaving your neighbor undisturbed. These are your duty, and call for no explicit rewards, though in following the law we hope that others will do likewise and all benefit.

PROPOSITION 11. There is an asymmetry between gains and losses: “We suffer more...when we fall from a better to a worse situation, than we ever enjoy when we rise from a worse to a better” (TMS, VI.i.6).¹⁰

The asymmetry between gains and losses essentially follows from the asymmetry between joy and sorrow. Most people, reasonably situated and not destitute, can rise above that state, but little can be added to this state in comparison with what can be taken from it. “Adversity, on this account, necessarily depresses the mind of the sufferer much more below its natural state, than prosperity can elevate him above it” (TMS, I.iii.1.8). Moreover, this asymmetry is not only a private, or utilitarian, experience: “It is averse to expose our health, our fortune, our rank, or reputation, to any sort of hazard. It is rather cautious than enterprising, and

8. This contrast, between a more intimate social in-group and one bound by a general recognition of the usefulness of association, is illustrated in the evolution of an experimental economy studied by Kimbrough, Smith, and Wilson (2008). The economy consisted of three dispersed villages, each consisting of four houses and their associated fields. Each village produced two of three world products, and each village member received private utility from all three products. Hence, each village had to trade with at least one other village to fully prosper. Two members in each village were empowered to travel to a common “merchant” area where trade could occur, then return to their home villages. In the course of the experiment each village attained a degree of closeness never matched by the merchant area. The village chat rooms were alive with the use of “we,” whereas “the interactions in the merchant meeting area are noticeably more impersonal than those in the villages” (ibid., 1025).

9. Smith’s oppositions to slavery, mercantilism, imperialism, colonialism, and taxation without representation were firmly rooted in his theory of socioeconomic development.

10. Note that Smith’s fundamental concept of the asymmetry between gains and losses is a modern idea, rediscovered in experimental psychology, and an important element in the recognition of Daniel Kahneman (2003, 1454–1458) for the 2002 Nobel Prize in Economics.

more anxious to preserve the advantages which we already possess, than forward to prompt us to the acquisition of still greater advantages. The methods of improving our fortune, which it principally recommends to us, are those which expose to no loss or hazard” (VI.i.6).

If Smith’s *Wealth of Nations* is read as a sequel to his earlier work, the continuity in his thought is compelling, and it contrasts sharply with post-neoclassical economic thought in the 20th century. For Smith, economic development is the next great step in a culture that has evolved rules of fair play and is accustomed to well-practiced social interaction; trade comes from the same sociability, and thus begins his second book.

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