

"Rationality and commerce in Rousseau, Ferguson and Smith"

by Shinji Nohara, Assistant Professor of the University of Tokyo, Ph. D. (economics).

nohara@e.u-tokyo.ac.jp

I Introduction

Economic theories normally presuppose that people behave rationally. In the eighteenth century, this presupposition could not necessarily be self-evident. Some thinkers such as Mandeville regarded passionate, irrational behavior as human nature. In this age, the presupposition of human rationality was not self-evident.

Indeed, many thinkers regarded economic behavior not as the main part of rationality. Certainly, some of them admitted that self-preservation needs some human rationality. However, it did not mean that they supposed rationality in economic activities as the main motive; economic activities include not only self-preservation but also other activities like profit-maximization.

In his *Wealth of Nations*, Adam Smith presupposed human rationality to explain economic behavior. He named human rationality as prudence, which he explained in his *The Theory of Moral Sentiments*. Economic rationality as prudence is not social evil, and could be the safe basis of social activities. However, Adam Ferguson and Jean-Jacques Rousseau did not think so.

Their difference is related to the point in which considering economic rationality is related to commerce as communication. Originally, commerce meant not only the exchange of goods but also communication. Indeed, commercial society was the result of commerce in the both sense; that is, it resulted from the development of the exchange of goods and of communication. For when exchanging goods, people communicate with each other. Rousseau considered communication as producing the evils of civilized society. This was related to his stance on economic rationality. Influenced by him, Ferguson and Smith constructed each version of the meaning of commerce. Each considered how communication involves rationality.

About second literature, in regard of self-interest, Albert Hirschman argued the intellectual shift of the argument from uncontrollable passions to controllable interest

and the rise of *doux-commerce* thesis in the eighteenth century (Hirschman 1977). Also, Pierre Force regarded Rousseau and Smith as seeking for other system than human selfishness (Force 2003, 24). By contrast, Istvan Hont argued that Rousseau and Smith did not believe in the "inbuilt principle of sociability that could be the foundation of both morality and politics" (Hont 2015, 25) Instead, Smith "was an intentionalist in moral theory, but he grounded it in a refined version of the selfish system" (Hont 2015, 47). However, as I argue in this essay, Smith synthesized self-regarding and other-regarding human nature. He connected this consideration with communication, which was partly influenced by Rousseau. Ferguson, Smith's contemporary, also researched the meaning of communication.

II Rousseau on communication and economic rationality

Rousseau did not suppose that economic activities are rational substantially. This was connected with his idea of communication.

In his *Discourse on the origin and foundation of inequality among men*, Rousseau

suggested the dichotomy between amour de soi, or self-preservation, and amour propre, or pride. As is well known, the former constituted the main motive in savage societies, whereas the latter became influential in the developed stage of society (Rousseau 1997).

Here, one might pose a question what made amour propre influential. Considering the effect of amour propre requires knowing the original state of nature. In the original savage state of mankind, "men dispersed among them...man perhaps having none that belongs to him...feeds indifferently on most of the various foods" (Rousseau 1997, 135). In this state, not amour propre but self-preservation was "almost his only care" (Rousseau 1997, 139). The limited wants and desires made people care only self-preservation.

The limitation of desires is linked with that of knowledge and reason. He wrote, human understanding "owes much to the passions. It is by their activity that our reason perfects itself; we seek to know only because we desire to enjoy, and it is not possible to conceive why someone who had neither desires nor fears would take the trouble to reason" (Rousseau 1997, 142). Self-preservation is enough for savage people because they knew only limited desires and necessities. The limitation of passions or desires

produces that of knowledge. Then, they do not need reasoning so much.

This state is based on the shortage of communication. He said,

All knowledge requiring reflection, all Knowledge acquired only from chains of ideas and perfected only successively, seems to be altogether beyond the reach of Savage man for want of this communication with his kind, that is to say for want of the instrument used in such communication, and of the needs that make it necessary. His knowledge and efforts are restricted to jumping, running, fighting, throwing a stone, climbing a tree (Rousseau 1997, 194).

The limitation of knowledge was resulted from that of desires, and produced that of reflection. This state is due to the shortage of communication.

By contrast, with communication, reason and knowledge increased. However, "it is reason that engenders amour propre, and reflection that reinforces it; reason that turns man back upon himself; reason that separates him from everything that troubles and afflicts him". (Rousseau 1997, 153). Communication rendered people have reason to

make a distinction each other. The faculty of reason is to make people distinguish them
distinguish each other.

Originally, before that state, without communication and,

Without any need of others...perhaps even without ever recognizing any one of them
individually, subject to few passions and self-sufficient, Savage man had only the
sentiments and the enlightenment suited to this state, that he sensed only his true
needs, looked only at what he believed it to be in his interest to see, and that his
intelligence made no more progress than his vanity (Rousseau 1997, 157).

Because people do not need others, they do not need distinguishing each other.

However, as "mankind spread...Difference of terrain, Climate, seasons, could have
forced them to introduce differences into their ways of living...This repeated interaction
of the various beings with himself as well as with one another must have engendered in
man's mind perceptions of certain relations" (Rousseau 1997, 162). As a result, people
come to compare with each other, resulting in vanity and amour propre. Here, it is

important to notify that not the exchange of goods itself but people's comparison with each other through it made them hold amour propre. Communication is material as well as personal. Material communication such as the exchange of goods involves personal communication. When people exchange goods, people meet each other. Then, they come to think about their difference, which is the cause of amour propre. With communication, reason develops, so produces amour propre.

Overall, for Rousseau, with the help of reason, the exchange of goods and communication makes people distinguish each other, resulting in the rise of amour propre. For him, reasoning in economic activities was not considered in regard of economic wealth. it was thought in view of moral results. At the bottom, the faculty of reason itself make people distinguish each other, so produces amour propre.

III Adam Smith on communication and self-interest

Smith considered economic rationality as prudence. Prudence is related to communication.

Unlike other contemporaries like Hutcheson, Rousseau, and Ferguson, Smith considered economic rationality as central to his consideration on selfish activities in a society. Although Hume also focused on economic activities in his *Political Discourses* in 1752, he sometimes paid attention to irrational activities in economy like jealousy of trade (On this point, see Hont 2005). In the *Wealth of Nations*, although Smith also focused on the latter point in Book IV of *WN* in criticizing mercantile policy, his economic theory in general was not based on irrational behavior.

For instance, profit-maximization is the basic motive of capital investment. Investors want to invest their money for the industry of the highest return, and do not do so for that of the lowest return. As a result, in the former case, there arises too much investment, which, afterwards, lowered the return. On the other hand, in the latter case, there arises too little investment, which, afterwards, increased the return (*WN*, II. IV. 15-16). As a result, there arises the most efficient allocation of resources. Then, "the consideration of his own private profit, is the sole motive which determines the owner of any capital to employ it either in agriculture, in manufactures, or in some particular branch of the wholesale or retail trade" (*WN*, II. v. 37). Here, Smith presupposed that

investors in general behave rationally.

Also, when one wants to exchange his or her goods with other's,

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. We address ourselves, not to their humanity but to their self-love, and never talk to them of our own necessities but of their advantage (*WN*, I. II. 2).

As a result, regarding one's own interest is the main motive in economic activities.

However, here, as well as capital investment, Smith also supposed the reaction of one's selfish behavior. As Griswold argued, here, what is required in exchange is to "talk to them...of their advantage" or to the interest of other's own interest. Exchange presupposes meeting each other's own interest (Griswold 1999, 297). This talk is based on rationality; when one exchanges something with someone, he or she needs succeeding in satisfying other's own interest. As a result, not only selfish desires but also rational talk are necessary for exchange. Unlike Rousseau and Hume, Smith

regarded economic activities as basically rational.

Economic rationality was formed after the first motivation of exchange. At first, in exchange, people might consider only their own interest. However, exchange needs satisfying other's own interest. Thus, the rational calculation of one's own interest and the rational talk to others become necessary.

Also, in capital investment, certainly, one's sole motive is "consideration of his own private profit", as I quoted. However, investing capital needs accumulating capital by "parsimony". He wrote,

The capital of an individual can be increased only by what he saves from his annual revenue or his annual gains...Parsimony, and not industry, is the immediate cause of the increase of capital. Industry, indeed, provides the subject which parsimony accumulates. But whatever industry might acquire, if parsimony did not save and store up, the capital would never be the greater (*WN*, II. III. 15-16).

On the other hand, the prodigal lost his or her money. However, "it can seldom happen,

indeed, that the circumstances of a great nation can be much affected either by the prodigality or misconduct of individuals" (*WN*, II. III. 27). He presupposed that people are generally parsimonious rather than prodigal. Thus, his theory here is based on economic rationality as prudence.

The reason why he presupposed prudence is based on the difference between parsimony and prodigality. He wrote,

With regard to profusion, the principle, which prompts to expence, is the passion for present enjoyment: which, though sometimes violent and very difficult to be restrained, is in general only momentary and occasional. But the principle which prompts to save, is the desire of bettering our condition, a desire which, though generally calm and dispassionate, comes with us from the womb, and never leaves us till we go into the grave...An augmentation of fortune is the means by which the greater part of men propose and wish to better their condition (*WN*, II. III. 28).

Parsimony is stronger than prodigality because the former is based on "bettering our condition", which is different from "present enjoyment". Whereas "present enjoyment" produces instant pleasure, "bettering our condition" brings about the satisfaction in face of others.

As he said in his *Theory of Moral Sentiments*, "bettering our condition" is based on how spectators regard one rather than how oneself regards one's own condition (*TMS*, IV. I. 8). As a result, profit maximization by parsimony is based on "bettering our condition", which presupposes the others' eyes. Economic rationality is based on the interaction of one with others.

"Bettering our condition" is to be led by prudence. Prudence is the union of two qualities. The one is "superior reason and understanding, by which we are capable of discerning the remote consequences of all our actions, and of foreseeing the advantage or detriment which is likely to result from them". The other is "self-command, by which we are enabled to abstain from present pleasure or to endure present pain, in order to a greater pleasure or to avoid a greater pain in some future time" (*TMS*, IV. 2. 6). Prudence is the rational calculation of one's interest. Prudence is the main motivation of

economic behavior in *WN*.

Prudence already presupposed the existence of others; considering how spectators saw oneself, one would like to better one's condition. Prudence synthesized one's regarding and other regarding. This is why, unlike Rousseau, Smith did not self-regarding economic behavior as opposite to society. Self-regarding economic behavior already included the eyes and perspectives of others, which needed moral approval.

For Rousseau, being approved by others is the cause of social evils. For Smith, it was the result of social communication. Thus, economic motives were already arranged by the eyes of others. They were buried in the interaction of one with others, which included society and economy.

IV Communication and desires in Ferguson

Partially influenced by Rousseau, Ferguson considered the meaning of social communication, which involves the nature of desires.

Unlike Rousseau, Ferguson did not suppose the solitary state of nature. He wrote, "mankind are to be taken in groupes [sic], as they have always subsisted" (Ferguson 1995, 10). The solitary nature of human beings is erroneous; "the history of the individual is but a detail of the sentiments and thoughts he has entertained in the view of his species: and every experiment relative to this subject should be made with entire societies, not with single men" (Ferguson 1995, 10). Here, whereas Ferguson criticized Rousseau, he also criticized the solitary characterization of human nature like Hobbes and Rousseau. People are always in a society. Then, human nature is formed in a society, not solitary.

Especially, human beings have not only self-preservation but also other-regarding nature. He wrote, they have the disposition of "another which lead to society, and by inlisting him on the side of one tribe or community, frequently engage him in war and contention with the rest of mankind" (Ferguson 1995, 16). For instance, courage in waging war constitute the important motive in human nature.

The two motives have been considered erroneously. Whereas "the vulgar speak of their different motives, they are satisfied with ordinary names, which refer to know and

obvious distinctions. Of this kind are the terms *benevolence* and *selfishness*, by which they express their desire of the welfare of others, or the care of their own" (Ferguson 1995, 19). However, "the same person may reap a greater advantage from the good fortune he has procured to another, than from that he has obtained for himself ". Thus, benevolence is "to be considered as the first and the principal constituent of human happiness" like "every act of kindness, or of care in the parent to his child; every emotion of the heart, in friendship or in love, in public zeal, or general humanity" (Ferguson 1995, 55). Because human beings are born in society, other-regarding affections like benevolence constitute human happiness.

In this regard, he criticized the theory of human nature centering on one's own interest. First, he regarded the term "*interest*" as meaning "our regard to property" (Ferguson 1995, 20). He saw "the consideration of interest" as arising "from the principles of self-preservation in the human frame; but is a corruption, or at least a partial result, of those principles" (Ferguson 1995, 18).

The view of human nature mainly as self-preservation is related to that as interest. If human beings considered only self-preservation, "the joy which attends on success, or

the griefs which arise from disappointment, would make the sum of his passions...His fellow-creatures would be considered merely as they affect his interest. Profit or loss would serve to mark the event of every transaction" (Ferguson 1995, 35). Ferguson thought that the consideration of one's own interest make people cunning .

He argued, "this...is not the history of our species...Men assemble to deliberate on business; they separate from jealousies of interest; but in their several collisions, whether as friends or as enemies, a fire is struck out which the regards to interest or safety cannot confine" (Ferguson 1995, 36). Considering interest does not constitute the main human motive.

In spite of that, he knew that as society developed,

When the individual no longer finds among his associates the same inclination to commit every subject to public use, he is seized with concern for his personal fortune...mankind acquire industry by many and by slow degrees. They are taught to regard their interest; they are taught to abstain from unlawful profits; they are secured in the possession of what they fairly obtain (Ferguson 1995, 95).

Unlike Rousseau, Ferguson recognized the Smithian vision in which the consideration of interest could be the safe basis of a society.

However, basically, "man is, by nature, the member of a community; and when considered in this capacity, the individual appears to be no longer made for himself. He must forego his happiness and his freedom, where these interfere with the good of society "(Ferguson 1995, 59). As a result, people might prefer waging war. He wrote, "peace and unanimity are commonly considered as the principal foundations of public felicity; yet the rivalry of separate communities, and the agitations of a free people, are the principles of political life."(Ferguson 1995, 63). Political aim like courage in waging war might be stronger than rational calculation of interest. This is because political motives themselves require animosities between nations.

Ferguson recognized the limit of this. Although "our desire to augment the force of a nation is the only pretext for enlarging tis territory; but this measure, when pursued to extremes, seldom fails to frustrate itself" (Ferguson 1995, 62). Although human beings might prefer war to peace, this could not be successful.

Overall, Ferguson fully recognized the vision of the harmony of society based on economic rationality. However, he did not see it as the main motive of human beings. one might prefer the affections of one's society to those of oneself. Whereas Smith considered the consequences of communication in basis of individual meeting, Ferguson saw them in view of people in a society where the sense of unity in a society could be stronger than that of interest.

V Conclusion

Rousseau, Smith, and Ferguson held each vision of the relationship between communication and self-interest. For Rousseau, with the help of reason, the exchange of goods and communication make people distinguish each other, resulting in the rise of amour propre. For him, reasoning in economic activities was not considered in regard of economic wealth.

For Smith, being approved by others was the result of social interaction, so was destined to have some direction, that is, economic motivation. Rousseau and other many

contemporaries saw self-regarding human nature as composed of various passions like jealousy, avarice, hatred etc. However, in Smith, self-regarding human nature was formed in a society, so was destined to aim at regular, rational economic behavior, which was not incompatible with social harmony. Ferguson fully recognized the vision of the harmony of society based on economic rationality. However, he did not see it as the main motive of human beings. One might prefer the affections of one's society to those of oneself. He did not think of it not only as a moral dimension but also as a historical truth. Smith and Ferguson clarified the effect of communication in different view.

Reference

Ferguson, Adam. 1995. *An essay on the history of civil society*, ed. by F. Oz-Salzberger, Cambridge: Cambridge U. P.

Force, Pierre. 2003. *Self-interest before Adam Smith: a genealogy of economic science*, Cambridge: Cambridge U. P., 2003.

Griswold, C. L., Jr., *Adam Smith and the virtues of Enlightenment*, Cambridge:

Cambridge U. P.

Hirschman, A. O. 1977. *The passions and the interests: political arguments for capitalism before its triumph*, Princeton: Princeton U. P.

Hont, Istvan. 2015. *Politics in commercial society: Jean-Jacques Rousseau and Adam Smith*, ed. by B. Kapossy and Michael Sonenscher, Cambridge and London: Harvard U.

P.

———. 2005. *Jealousy of Trade: international competition and the nation-state in historical perspective*. Cambridge: Belknap Press of Harvard University. Press.

Rousseau, Jean-Jacques. 1997. *Discourse on the origin and foundation of inequality among men or second discourse*, trans. by V. Gourevitch, Cambridge: Cambridge U. P.

Smith, Adam. (1982) *The Theory of Moral Sentiments, (TMS)*, ed. by D. D. Raphael and A. L. Macfie, Indianapolis: Liberty Fund; Glasgow edition.

———. (1981) *An Inquiry into the Nature and Causes of the Wealth of Nations, (WN)*, ed.

by R. H. Campbell, A. S. Skinner, and W. B. Todd, Indianapolis: Liberty Fund;

Glasgow edition.

Political philosophy - Political philosophy - Rousseau: The revolutionary romanticism of the Swiss French philosopher Jean-Jacques Rousseau may be interpreted in part as a reaction to the analytic rationalism of the Enlightenment. He was trying to escape the aridity of a purely empirical and utilitarian outlook and attempting to create a substitute for revealed religion. Rousseau's *Discours de l'origine et des fondements de l'inégalité parmi les hommes* (1762) and *Du contrat social* (1762; *The Social Contract*) proved revolutionary documents, and his posthumous *Considérations sur le gouvernement de Pologne* (1782; *Considerations on the Government of Poland*) continued the theme of Commerce and Corruption: Rousseau's Diagnosis and Adam Smith's Cure, *European Journal of Political Theory* 7 (2008), 137-58 [CrossRef Google Scholar](#); Rasmussen, Dennis C., *The Problems and Promise of a Commercial Society: Adam Smith's Response to Rousseau* (University Park, PA, 2008) [Google Scholar](#); Phillipson, Nicholas, *Adam Smith: An Enlightened Life* (New Haven, CT, 2010), 138-79 [Google Scholar](#).³ Rousseau and Ferguson are frequently described as "men of republican principles" who shared a common framework in thinking about the opposition between virtue and commerce. Adam Smith is popularly regarded as the ideological forefather of laissez-faire capitalism, while Rousseau is seen as the passionate advocate of the life of virtue in small, harmonious communities and as a sharp critic of the ills of commercial society. But, in fact, Smith had many of the same worries about commercial society that Rousseau did and was strongly influenced by his critique. In this first book-length comparative study of these leading eighteenth-century thinkers, Dennis Rasmussen highlights Smith's sympathy with Rousseau's concerns and analyzes in depth the ways in which Smith can be seen to discuss: Reinhard Schumacher Alexander Linsbichler *Rationality and its limits: Reconstructing Neurath's and Mises's prerequisites in the socialist calculation debates* *Discussant: Monika Poettinger*. F4 C.102 *Game theory Chair: Till Döpppe Guilhem Lecouteux Bayesianism and rational choice in games. Discussant: Ate Nieuwenhuis Ate Nieuwenhuis Reconsidering Nash: The Nash equilibrium is inconsistent.* *Discussant: Dorian Jullien. Shinji Nohara Rationality and commerce in Rousseau, Ferguson, and Smith. Discussant: Julie Ferrand. F7 A.206 Ricardo and comparative advantage. Smith particularly followed Rousseau in insisting that true virtue requires recovery of a natural disposition that modern society tends to corrupt. With this similarity in place, the final section turns to a crucial difference between Rousseau's and Smith's conceptions of the peak of excellence. Each vision is focused on the recovery of self-sufficiency, or moral autonomy. But the moral autonomy that Smith seeks calls only for the transcendence of the opinions of others, and not the transcendence of the active duties to others which he deems the proper responsibility of the virtuous indivi*