HUMANOMICS: Moral Sentiments and the Wealth of Nations for the Twenty-First Century

Vernon L. Smith & Bart J. Wilson. 2019. New York: Cambridge University Press. ISBN 978-1-316-64881-0. $28.99 (paperback).

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Vernon Smith is a pioneer in experimental economics, publishing his first study in 1962. The early experiments were attempts to see if there was a tendency for buyers and sellers to converge on an equilibrium price, and if they did so quickly or slowly. Smith was expecting that markets would be found to be slow to achieve the equilibrium price but he found the opposite. Numerous variations on experiments by economists found support for the basic microeconomic neoclassical approach for market activity. As game theory became more dominant in microeconomic theory, experiments were developed to test the expectations from game theory. But the results were surprising in that they did not support game theory expectations, and alterations to games failed to generate different results. Games like the ultimatum game and the trust game, generated findings inconsistent with theoretical expectations.

Smith and Wilson's book presents an argument for how the different sets of findings in the experiments can be reconciled. Some researchers have argued that the results of the experiments involving the ultimatum game or the trust game indicate that many people have a "taste" for altruism or greater equality. Smith and Wilson argue that such ad hoc adjustments to utility functions demonstrate a desire to maintain the methodological foundations of utility maximization, and has led people astray. They claim the neoclassical model succeeds in market settings but fails in small-numbers, more personal settings. This is reminiscent of Hayek (1988, p. 18), who argued that modern human beings, "…have to learn to live in two sorts of worlds at once." We live in a world of family and friends and follow one set of rules of behavior, and we live in an extended order of markets and specialization and follow a different set of rules of behavior. The neoclassical model fits the latter but not the former.

Smith and Wilson turn to Adam Smith's work as a way to reconcile the experimental results. They see Hayek as representing the Scottish tradition of spontaneous order associated with Adam Smith. Further, they see Adam Smith's *The Theory of Moral Sentiments* modeling behavior in the world of family and friends and *Wealth of Nations* as modeling behavior in market settings. Smith and Wilson claim Adam Smith was "…speaking of a spontaneous order directed and mediated by the community-grown rules of interaction in small familial-like groups." (p. 97). Since most economists probably accept the statements about Smith's *Wealth of Nations*, Smith and Wilson focus on justifying their claims concerning Adam Smith's earlier book.

In chapter 2, Smith and Wilson examine words and meanings in Adam Smith's works. The English language has changed over the last 250 years and this can affect our interpretation of Smith. For example, altruism had not been coined in Smith's day, so he could not have used it. Similarly, Smith's use of sympathy in *Sentiments* is closer in meaning to our word empathy, which did not exist yet in the late eighteenth century. They note that three hundred years ago English-language writers did not use the words "passions," "sentiments" and "affections" very often, which is also true today. But, in the latter half of the eighteenth century, these words were used much more frequently. Modern writers often see these terms as included in a broader notion of emotions. But Smith wrote of "moral sentiments." Smith and Wilson note that the word "emotions" is used 80 times in *Sentiments*, but "sentiments" is used 346 times in the book. They also refer to a book by Charles John Smith, published in 1894, that distinguished among synonyms to consider Adam Smith's meanings. For example, Charles John Smith explains sentiments as things of the heart and mind and not just the heart. Smith and Wilson write: "If intellect and reason are about thinking, and emotions and passions about feeling, sentiments and affections are about both thinking and feeling" (p. 21). Later in the chapter they write:

> *With sentiments Smith connects thinking to feeling, and with the sense of propriety he connects knowing to feeling*. Smith's observations on morality rest on feeling, thinking, and knowing. It is the triad of these three (universal human) mental predicates that *Sentiments* offers insights into how we think about economics some 250 years after it was published. (p. 32, emphasis in the original)

The third chapter offers an examination of another word – conduct. Again, the meaning in Adam Smith differs from the modern meaning, and again they quote Charles Smith in distinguishing between behavior and conduct. The gist is that behavior refers to actions that other people can observe and deals with the more minor morals of a society; conduct applies to graver questions of personal life. Good conduct is virtuous and worthy of praise. Animals can behave well or not but cannot conduct themselves well. People, on the other hand, can conduct themselves well or ill. "Smith's model eschews outcomes and their utility, including social preferences, and begins with actions as signals of rule-following conduct. It is a theory of human sociality devoted to understanding moral human action, the practice of life's duties." (p. 41).

Chapters 5 through 7 develop Smith and Wilson's understanding of Adam Smith's *Sentiments* and connects them to actions of people and a social order. They offer five axioms found in *Sentiments* that can be used to develop principles of conduct in society. The axioms are:

0: Human beings are non-satiated (Stoic self-love).
1: Human beings fellow feel with each other.
2: Human beings judge the sentiments and passions of each other.
3: Gratitude and resentment, respectively, are the sentiments that most immediately and directly prompt human beings to reward and to punish each other.
4: As compared to a normal baseline condition, human beings experience an asymmetrical change between feeling something good (e.g. joy) and something bad (e.g. sorrow).

Using some definitions, they develop principles that ultimately have predictive content.

The principles developed are all in *Sentiments,* as Smith and Wilson demonstrate. These principles include human actions that are signals to others, and the idea that the context of an action is important in helping people read intentions. Mutual fellow-feeling becomes an important outcome, along with developing rules for living in the social world. They discuss beneficence and justice as virtues in Smith's system. They develop a way of determining under what conditions rewards and punishments are given, and conclude: "Succinctly put, *we reward beneficence and do not punish its want; we punish injustice, but do not reward its want*" (p. 92, emphasis in original).

It is widely understood by scholars of Adam Smith that Isaac Newton was a significant figure at the time. As Smith and Wilson put it:

> Newton's program had been about precise articulation of the hidden forces governing the natural motion of bodies, and integrating the laws governing earthly and heavenly motion in a coherent unity. Similarly, Smith's program is about discovering what it means to be social while simultaneously uncovering the hidden forces that governed human conduct. His project in *Sentiments* is to address how moral conduct emerges out of human interactive experience to form a system of general rules that wisely orders society. (pp. 95-96)

Smith is trying to find hidden forces that govern human conduct in society. A discipline arises from our local experience since it is locally that we can influence our neighbors as well as be influenced by them. Those further away, whom we cannot help nor hurt in any way, tend to interest us only slightly. Modern communications and news may alter this conclusion somewhat.

The remaining chapters of the book try to interpret the results of experiments using the trust game and the ultimatum game, including modifications of these experiments over time. Smith and Wilson interpret first-movers who offer a more even split as acting out rules of behavior developed by social interactions and observations. That is, the socialization process we receive as children, young people, and even as adults, forms us to norms in society. We can signal our intentions and we can interpret the signals of other people. In the experiments, the first-mover's actions are a signal to be interpreted by the second mover to indicate that the first is behaving according to the norms of society, encouraging the second mover to act likewise. Most of the participants in the experiments behave in this fashion, at least until they observe the other participants behaving in a different manner. The participants are able to behave as though they feel for the other participants even though they don't know them personally or know anything about them.

For most of my career I dismissed experimental economics as a curiosity at best. Most of the participants are college students and the money amounts are small, so I didn't think the students would think much about their decisions. Smith and Wilson note that the dollar amounts have increased, so that knocks down one of my concerns (although, I am not sure a participant would turn down $100,000 even if it meant the other participant received $900,000). A few years ago some Christian economists working in experimental economics convinced me otherwise, and the Association of Christian Economists has had some sessions where experimental results were presented and discussed. I also describe myself as a neoclassical economist and have defended neoclassical economics in Christian-based journals, so I was initially skeptical of Smith and Wilson's thesis. However, I think the book is very interesting and worth the time of Christian economists to read and think about.

I also am an industrial-organization economist and have often taught oligopoly theory, cartels, and game theory. Many non-economists complain that economics is about competition and not cooperation. But in oligopoly settings, competition among firms, not cooperation, produces the better result for consumers. I hope that the experimental results that Smith and Wilson discuss do not apply to oligopolistic firms looking to fix prices in some way. I am unaware of any experiments that might shed light on the behavior of oligopolists in business settings rather than individuals in social settings.

One connection between the thesis of the book and an approach to economics that I find very important is that of Hayek and the distinction between familial-type relationships and the extended order. There is an extension in this book though, in that the participants behave in many ways as if they know the other participants, when usually the experiments are double-blind experiments. This is consistent with the idea that context matters. Small numbers in settings that are not market settings generate different results than when participants are in experiments trying to reflect market activity. People appear to behave differently in market settings than they do in social or nonmarket settings. Overall, I have been persuaded, and I recommend reading the book and coming to one's own decision about it.

Reference

Hayek, F. A. (1988). *The Fatal Conceit: The Errors of Socialism*. Chicago, IL: University of Chicago Press. ■