

**Markets and morality in Adam Smith's works: Evolutionary psychology
and adaptive defenses perspectives on delayed gratification and trust**

Şule Özler, Ph.D., Psy.D.*

Associate Professor, UCLA Economics Department,
Research Associate, the New Center for Psychoanalysis, Los Angeles

Paul A. Gabrinetti, Ph.D. **
The C.G. Jung Institute, Los Angeles
Pacifica Graduate Institute

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*944 9th Street #5, Santa Monica, CA, 90403. ozler@econ.ucla.edu

**249 Lambert Road. Carpentaria, CA 93013. pagphd@aol.com

ABSTRACT

This paper examines the reciprocal effect of markets on morality and morality on markets from the perspective of evolutionary psychology and adaptive defenses. This examination goes on to explicate the pivotal capacities for delayed gratification and trust in the complex human interactions that make possible the reciprocity between markets and morality. We apply this set of understandings to the work of Adam Smith and elucidate the psychology that is embedded in his theoretical work, and in the relationship between markets and morality.

I. Introduction

Adam Smith's groundbreaking work on morality and moral structure and the influence of such morality on economic theory have been well examined over the past two hundred years. In particular, the effects of markets on morality and morality on markets have been discussed as well. It has been recognized that while Smith was not writing as a psychologist, there are a number of applied psychological constructs embedded in his philosophical writing. Smith's theoretical writings predated the opening of the first laboratory for experimental psychology by over a hundred years, and the first writings in psychoanalysis by almost a hundred and twenty years. In this paper we are attempting to examine some of the embedded psychological concepts that are active in his theoretical writings and looking at how they operate in relation to his understanding of morality and markets.

While it has been acknowledged that there is moral psychology embedded in Smith's work (Schwartz, & Scott, 2015), to date there has not been any treatment of this work in the literature from the perspective of evolutionary psychology, or from the psychoanalytic perspective of adaptive defenses.

In this paper we attempt to explicate some of the embedded psychological processes in Smith from the perspective of evolutionary psychology and psychoanalysis. Specifically we examine the role that adaptive defenses play in the evolution of the psychological capacities for delayed gratification and the development of trust (A. Freud, 1936). We

then discuss the role that these psychological variables play in relation to the application of morality to markets and the reciprocal effects of markets on morality in Smith's work. Smith's meticulous and systematic interweaving of social philosophy, moral psychology and economic theory is examined in relation to the interactive dynamics in his treatment of markets and morality from the perspective of evolutionary psychology and the adaptive defenses that are necessary for the application of such understandings.

The evolutionary psychologist Dennis Krebs (2011) contends "...mechanisms that give rise to a moral sense evolved to help early humans solve the adaptive problems that constrained their ability to reap the benefits of sociality." Self-control is one of those mechanisms. The capacity for self-control in the evolutionary psychology literature is analogous to what Smith refers to as self-command. Evolutionary psychologists describe self-control as the cognitive process that is used to delay gratification and sustain commitments. (Krebs, 2011). Delayed gratification makes possible the adaptive capacity to store enough food for the winter to enable the survival of the individual or group as a whole. Often, a high price is paid when self-control is lacking, for example the inability of the individual or group to survive. Most forms of self-control and delayed gratification are described as prudential because urges are controlled to improve one's ability to maximize long-term gains.

An important extension of the capacity for delayed gratification and development of morality is the effect that such capacity and behavior has on building trust. When we consider the effects/affects that morality has on markets and markets have on morality

probably one of the most important factors that allows markets to thrive is trust. One need not look any further than the daily financial trades and watch the ebb and flow that comes as a result of trust or the lack thereof in the current market.

Adaptive defenses describe the means for individuals to adopt morality so that it can be used both personally and interpersonally. Over time, the consensually adopted understandings develop into moral structures that attempt to define the ideal interactions between people, and defenses are the action mechanisms that help to implement morality within the person. For instance, the instinctual need and desire for the immediate acquisition of food can be acted upon by simply taking it. This action however would inhibit a trading partner from wanting to do business in the future and may even bring other social sanctions. The ability to suppress, rationalize or otherwise contain that immediate impulse for a long enough period of time to find a mutually agreed upon way to trade another commodity or service for that food allows for mutual benefit, and for the establishment of a consensual morality by which to conduct such trades in the future.

The background to our arguments are presented in the next three sections: in section II we present Adam Smith's moral system and his discussion of character of virtue; in section III we describe morality from an evolutionary psychology point of view and the role of adaptive defenses; and in section IV we provide a discussion of the literature on markets and morality is presented. Our main arguments are in section V, where we provide a synthesis of the reciprocal relationship between markets and morality from an

evolutionary psychology and adaptive defenses perspective. Finally, a brief discussion is presented in section VI.

II. Morality in Adam Smith's *Theory of Moral Sentiments*

Smith wrote two groundbreaking works, *The Theory of Moral Sentiments* (TMS) and *The Wealth of Nations* (WN). Researchers and theorists have long hypothesized the relationship between the “moral man” from the TMS and the “economic man” from WN. The links between the two have been established in the works of Macfie (1967) and Young (1997), for example. Since we focus on relations between markets and morality here we provide a brief description of the foundations of morality in the TMS.

Adam Smith's moral system is based on what he calls “sympathy”. According to Smith sympathy is “our fellow feeling with any passion whatever.” (TMS, p.13), and it is one of the principles of human nature. There is a spectator and an agent in the sympathetic process. The spectator by putting himself in the actor's situation forms an idea of how the actor is affected in a given situation. It is because we don't have any immediate experience of what others feel we put ourselves in the other's situation.¹ The experience of two people feeling for the other's experience is what Smith calls mutual sympathy.

¹ Freud (1930) makes an analogous statement. “We shall always consider other people's distress objectively- that is to place ourselves, with our own wants and sensibilities, in *their* conditions, and then to examine what occasions we should find in them for experiencing happiness or unhappiness.” (p. 89)

When the feelings of the two people correspond it gives “another source of satisfaction.” Mutual sympathy is foundational to Smith’s moral structure.

Morality is created through a dynamic interaction between the spectator and the actor. The actor experiences relief when his passions are in concordance with those of the spectator. As a result the actor lowers the pitch of his emotions. Smith says, “we...endeavor to bring down our passions to that pitch, which the particular company we are in may be expected to go along with them.” (p. 28). Self-command is important in keeping a moral system. The chaos of unbridled passion threatens self-command. The actor works hard to gain the approval of the spectator to have the pleasure of approval and to avoid the pain of solitude that would come from disapproval. The spectator also works hard to approve due to the pleasure he would gain from mutual sympathy. He must “endeavour, as much as he can, to put himself in the situation of the other...he must “strive to render as perfectly as possible, that imaginary change of situation upon which his sympathy is founded.” (TMS, p. 26). If his initial reaction is not appropriate the spectator tries to improve that. According to Smith it is Nature that teaches spectators and actors to reach harmony. The moral world then is this harmonious world, where concordance of sentiments leads to consensus, replacing the power of the individual by the power of the community² (which is described as the known world in Ozler and Gabrinetti, 2014).

² Freud (1930) makes an analogous statement. “The replacement of the power of the individual by the power of a community constitutes the decisive step of civilization.” (p. 95) “the characteristic features of civilization remains to be assessed: the manner in which the relations of men to one another, their social relationships, are regulated...” (pp. 94-95)

Virtue

Virtue is one of the cornerstones of Smith's moral theory (see Griswold 1999 for an excellent exposition of virtue in Smith). Virtue is discussed though out the TMS since morality is essentially based on an ethics of character. Spectator's entry into the sentiments of the agent is founded upon two sets of virtues: self-command and propriety. Propriety is used synonymously with decency or suitableness. There is however, a difference between propriety and virtue, since according to Smith even a worthless man can have propriety but virtue requires the greatest degree of self-command.

Smith has an entire section devoted to the *character of virtue* (Part VI). In this part Smith argues that the character of an individual is judged according to his behavior that affects his own happiness (*prudence*) and those of others. However, since a man's "passions are very apt to mislead him; sometimes to drive him and sometimes to seduce him to violate all the rules which he himself, in all his sober and cool hours, approves of." Smith places a special emphasis on *self-command*. (TMS, p. 279). We now turn to Smith's discussion of these concepts.

Prudence

According to Smith obtaining rank and credit among our equals is the strongest of all our desires. This depends on our character and conduct. Smith defines prudence with the following statement: "The care of health, of the fortune, of the rank and reputation of the individual, the objects upon which his comfort and happiness in this life are supposedly

principally to depend, is considered as the proper business of that virtue, which is called Prudence.” (TMS, p. 249). First object of prudence is considered to be security. Smith describes many attributes a prudent man has. Among them are: “real knowledge and skill in our trade or profession, assiduity and industry in the exercise of it, frugality, and even some degree of parsimony, in all our expences.” (TMS, p. 250). Prudent man sacrifices the present enjoyment for the expectation of a greater and longer lasting enjoyment in the future. As such the prudent man has the entire approbation of “the impartial spectator, and of the representative of the impartial spectator, the man within the breast.” (TMS, p. 252) He lives within his income, contented with his situation and though he makes small accumulations they grow every day. The prudent man is also just. He does not harm others, cheat, or steal. He does not have ambition to dominate others.

Effecting other people’s happiness

Smith starts with a discussion of the order of care for individuals. Smith tells us that every man is first recommended to his own care. Then there is an expanding circle that we care for: our immediate family; our extended family; friends, our nation and other nations (see Neili, 1986 for a discussion).

Universal benevolence is the next important idea Smith turns to. “The wise and virtuous man is at all times willing that his own private interest should be sacrificed to the public interest of his particular order or society.” (TMS, p. 277). He attributes the presence of universal benevolence to “great, benevolent, and all-wise Being, who directs all the movements of nature...” (TMS, p. 277).

Self command

For Smith, self-command is required to be virtuous, because men are likely to be misled by their own passions. Smith does not place merit in acting according to prudence, justice and beneficence when one is not tempted to do so otherwise. There is merit in acting according to them in the middle of the “greatest difficulties and dangers”, which requires self-command, the “awful and respectable” virtue. “Self-command is not only itself a great virtue, but from it all the other virtues seem to derive their principle luster.” (TMS, p. 284). Mere propriety may require an “ordinary degree” of self-command, virtue, on the other hand, requires “greatest exertions of self-command”. We acquire it from “that great discipline which Nature has established for the acquisition of this and of every other virtue; a regard to the sentiments of the real or supposed spectator of our conduct.” (TMS, p. 167).

III. An evolutionary account of morality and adaptive defenses

Evolutionary psychology

Evolutionary psychology provides a perspective on how morality develops in the context of human evolution. Evolutionary psychologist Krebs (2011) defines morality as “a set of ideas about how people who live in groups should behave in order to meet their needs and advance their interests in cooperative ways.” (p.27). Haidt (2008) states that morality mediates unbridled selfishness, which makes social life and cooperative communities

possible. Moral behavior is about how members of groups ought to behave, which is reinforced by social sanctions.

Morality evolved to help people achieve adaptive goals and solve adaptive problems. Prosocial behaviors, structures and moral reasoning and virtues help people foster their inclusive fitness, survive and reproduce. However, people can seek to achieve goals using immoral means, demonstrating that the goals alone do not qualify as moral. Thus morality is about the means people use to achieve the goals they endeavor to achieve. “In evolutionary theory, a moral person is simply one who pursues their ultimate genetic self-interest through psychological adaptations that embody a genuine, proximate concern for others.” (Miller, 2007, p. 103). Virtues can be considered sources of moral behavior. Rather than anchoring morality in behavior, anchoring it in virtues leads us to focus on the intentions (as Smith does in his discussion of merit and demerit). The focus is on stable, internal qualities that give rise to good intentions.

The key to understanding morality from an evolutionary perspective requires an understanding of how mental processes that produce moral norms, moral behaviors, moral emotions and judgments serve adaptive functions. Solving adaptive problems to reap the benefits of sociality is achieved through the evolution of mechanisms that give rise to moral sense. “The biological function of morality is to help people maximize their gains from cooperative social relations by inducing members of their groups-including themselves-to behave in mutually beneficial ways and to resist the temptation to advance

their interests in ways that jeopardize the welfare of others and the social orders of their groups.” (Krebs, 2011, p. 3).

It goes then that human behavior that increases the cooperative possibilities between people also requires us to be aware of and exercise restraint of purely individual needs. Learning theory (Skinner, 1969) teaches us that such cooperative behavior in individuals must be rewarded within groups or cultures in order for it to continue. In particular the behavior or set of behaviors that need to evolve within groups or individuals, are those which allow for enough delayed gratification for them to reap the self-interested benefits of cultural morality. This necessarily means that structural forms must evolve which teach or otherwise acculturate the individuals within those cultures to reap the benefits of such civilizing processes. Behaving in mutually beneficial ways while resisting the temptation to advance our own interests at the cost of the welfare of others and the social order of their group morality, helps people to maximize their gains from cooperative social relations.

Evolutionary psychologists suppose that environment interacts with genetics to produce mental mechanisms that enable moral judgments, behaviors and emotions. Mental mechanisms themselves are products of evolution (Buss, 2008). From the perspective of genetic evolution, one can infer that those genetic capacities that allow humans to make adaptations to communal living would enable a greater survival in group life than those who did not. Krebs (2011) puts it concisely by stating that early humans who inherited genes that design mechanisms that disposed them to behave in moral ways and endowed

them with a sense of morality fared better in the struggle to survive and to reproduce than early humans who did not inherit such genes. At the same time, "...moral reasoning- may be incidental, even maladaptive, byproducts of reasoning mechanisms that evolved to serve other adaptive purposes." (p. 9). Evolutionary psychologists also expect that moral decision making strategies to be conditional and flexible based on an "if-then" sequence, which pertains to an environmental trigger. Identification of goals is also important as mechanism evolve to achieve the goals that are set aside. Finally, moral feelings, thoughts and actions are mediated through variety of hormonal, emotional, cognitive and neurological processes.

Deference and self-control are among "primitive pro-social" behaviors according to evolutionary psychologists. Understanding the evolutionary roots of these is important as they play a key role in Smith's moral system. Deference is defined as deferring to authority and obeying the rules of one's group. Deference, which has neurological and hormonal roots, enables the subordinate members of groups to fight for another day. It has evolved starting with the animal kingdom. As Buss (2008) puts it "By submitting, the loser is able to walk away alive and injury free." (p. 356). In humans too, status hierarchies and dominance structure relationships among members of groups and creates a social order. Individuals must obey the social order of their groups and enforce their group's rules to maximize gains from group living, which lead to moral evolution. (Boehm, 2000). Its emotional roots can be fear or awe.

Self-control has an important function in survival and reproduction. From an evolutionary perspective genes regulate urges and motivational systems in order to survive and reproduce. Most forms of self-control are described as prudential because urges are controlled to improve one's ability to maximize long-term gains. Krebs (2011) argues that modern humans have some self-indulgent traits that worked better in early environments than in modern environments. On the other hand, modern humans who are endowed with large brains are better able to cope with their primitive urges. Delayed gratification is considered to be one of the most important components of cognitive control (Eigsti et al., 2006).

Self-control is a capacity that tends to increase as people grow older (older children have more self-control than younger children), it is stable over time and it is correlated with social adjustment and success. Individuals exhibit variations on self-control. For example Mischel et al (1996) identified five main correlates of gratification delay: 1) intelligence, 2) ego control, 3) orientation towards the future, 4) achievement of aspiration, 5) social responsibility. As elaborated on by Krebs (2011) self-control is influenced both by one's own group as well as their self-awareness. It is also found that when people set goals relevant to their sense of self, self-control improves. Finally, people do not always show optimal levels of self-control. This is attributed to the mismatch between opportunities and demands in modern world and mechanisms that evolved in ancestral environments. (Burham and Phelan, 2000)

On the issue of altruism, evolutionary psychologists point out is that humans are strongly inclined to help their kin and more strongly inclined to help their group members than out of group members, though many people are inclined to help strangers as well.

Individuals help themselves and their relatives to propagate their genes. Altruistic dispositions could evolve from kin selection and sexual selection.

It has been suggested that the expansion of human brain was largely a result of solving social problems that arose when early humans banded together to foster their mutual interests, which is relevant for the evolution of morality. “Theories of brain evolution that emphasize the adaptive value to early humans of solving social problems are most relevant to evolution of morality.” (Krebs 2011, p. 190). Flagrantly immoral behavior is more likely in people that had acquired prefrontal damage (Mendez et. Al. 2005). There is a biological bias in humans that lead them to behave in ways that reinforce moral codes and sustain cooperative exchanges. Krebs tells us that “The mental mechanisms that give rise to moral emotions were selected in ancestral environments because they induced early humans to behave in ways that increased their inclusive fitness....the emotions experienced by early humans became refined and expanded as their brains evolved and the emotions experienced by human infants became refined and expanded as they develop.” (p. 216).

Adaptive defenses

We next clarify the meaning of defenses by looking at the development of this concept in psychoanalysis. Initially, the term resistance and defenses were used interchangeably. In that context it was seen as a negative force, and defenses were employed by the individual (both by a conscious ego and/or unconsciously) to resist psychoanalytic interpretations (Freud, 1921). As the understanding of defenses evolved, Anna Freud (1936) and Heinz Hartman (1939) “looked to free ego from an impossible subordinate role relative to instincts” (Ozler and Gabrinetti, 20014, p. 257). As stated in Pumpian-Midlin (1967), Tartokoff stated that Anna Freud as early as in 1936 observed that “preliminary stages of defense” were phase specific adaptive reactions. Tartokoff also observed that defensive mechanisms that are socially sanctioned, adaptive, and reinforced by reality tend to persist. She concluded that whether behavior patterns become adaptive or remain primarily defensive is determined by the social reinforcement of certain behavioral patterns. Barrett and Yankelovich (1969) described this evolution starting with Anna Freud by saying that she,

“showed the ego and its workings in a new light. Where previously the ego’s defenses had been regarded as obstacles to successful therapy (the defenses were technically regarded as “resistances”) she showed that these resistances were, in fact, highly adaptive at least in their origins. She further demonstrated that ...each individual’s defenses (intellectualization, reaction formation, ego restriction, etc.)

were characteristic to his total adaptation to life, forming a distinctive part of his personality.” (Barrett and Yankelovich, 1970, p. 96)

Defenses were viewed as important in human adaptation and for human development in works of both Kris (1952), and Erikson (1950). These defensive adaptations were shown to manage deep emotional affect as well as managing anxiety and ambiguity in daily life struggles. Psychological defense mechanisms represent an important component of our capacity to maintain emotional homeostasis (Valliant, 2000). Defense systems evolve and operate much like the immune system without our conscious awareness. To recap, defenses were originally viewed as the unconscious mechanisms that contained and redirected disturbing impulses and drives, however as psychoanalytic theory evolved, defense mechanisms came to be viewed as having an adaptive value (Bowins, 2004).

Bibring et al (1961) stated that defenses have a dual function. One is that they are in the service of constructive, maturational, progressive growth and mastery of the drives and they have an autonomous, adaptive function. The other is that they ward off of anxieties in relation to unconscious conflict. (p. 63). It is these same mechanisms that serve both defensive and adaptive purposes, either singly or together, sequentially or simultaneously. Any behavioral expression (conscious and observable or unconscious and inferable) can serve as adaptive, defensive or impulsive, again simultaneously and/or sequentially.

As human capacities have evolved and have integrated more civil behavior, the mechanisms for accommodating the immediate tension and discomfort of such pro-social

behavior needed to evolve too. These adaptive defenses play a key role in the assimilation of more complex sets of behavior that go into moral structure.

Defense mechanisms have evolved to reduce the intensity, frequency and duration of adverse feeling states. The adoption of moral behavior in the market place and elsewhere requires the individual to contain immediate emotional impulses and desires for gratification, and reduce the intensity of their frustration that arising from not gratifying those needs immediately. The use of defensive processes are an integral component in mediating an immediate desire and delaying its gratification. This delay of gratification is then reinforced by the positive consequences that such an ability has on fulfilling interactive agreements, and building trust in the public square and the market place.

Hartmann (1939) indicates that environmental situations often play a part in determining the need for adaptation. Underlying the concept of adaptation is that living organisms come to fit their environment. Adaptation is a reciprocal relationship between the environment and the organism. Adaptation may result from the changes which the individual places upon their environment, in so doing humans adapt the environment to human functions and then the human being adapts to the environment he created.

Hartmann (1939) also states that man acquires a crucial part of his adaptation through a learning process. Both constitutional factors and the external environment influence the process of adaptation. Heredity factors, tradition and survival all impact how a man adapts to his environment. From the beginning of life the task of man to adapt is present.

He stresses that the primary importance of social factors in human development and their biological significance are important for adaptation. There could also be progressive and regressive adaptation. An individual gains increasing independence through evolution. Thus, the reactions that originally occurred in relation to the external world are increasingly displaced into the interior of the organism. (Hartmann, 1939)

IV. Reciprocal relationship between markets and morality based on Smith's writings.

a) From morality to markets

An important link from morality to markets is the role of benevolence. Boulding (1969) states that market interactions require “a minimum degree of benevolence, even in exchange, without which it cannot be legitimated and cannot operate as a social organizer.” (p.6). When there is malevolence, exchange tends to break down. Similarly Jeffrey Young (1997, p. 62) states that “[T]he other regarding principles of human nature which bind people together in society are a necessary condition for the emergence of the exchange of surplus produce amongst neighbors. Smith uses the moral side of human nature to help him explain why voluntary agreement and not violence takes place when two hunters meet.”

Rosenberg (1990) and Paganelli (2013) note the importance of justice in upholding commercial societies in Smith's view. According to Smith “Justice...is the main pillar that upholds the whole edifice. If it is removed, the great, the immense fabric of human

society, that fabric which to raise and support seems in this world, if I may say so, to have been the peculiar and darling care of Nature, must in a moment crumble into atoms.” (TMS, p. 101). Without justice individuals would be “like wild beasts...and a man would enter an assembly of men as he enters a den of lions.” (TMS, p. 102). Smith goes further to state that “no social intercourse can take place among men who do not generally abstain from injuring one another” (TMS, p. 103). Since commercial dealings were a fundamental form of “social intercourse” for Smith, it can be inferred that he had in mind a just society for commerce to foster. In fact, he states:

Commerce and manufactures can seldom flourish long in any state which does not enjoy a regular administration of justice, in which the people do not feel themselves secure in the possession of their property, in which the faith of contracts is not supported by law, and in which the authority of the state is not supposed to be regularly employed in enforcing the payment of debts from all those who are able to pay. Commerce and manufactures, in short, can seldom flourish in any state in which there is not a certain degree of confidence in the justice of government. (WN, p. 910)

In order to examine how morality fosters markets Paganelli (2013) considers some consequences of absence of morality. To see the role of absence of morality let us note that for Smith the basic need that motivates and shapes morally driven behavior is the innate desire for the approbation of others. As explained above the approbation that is desired would come from the spectator who also becomes the “man within”. A man

“desires, not only praise, but praiseworthiness; or to be that thing which, though it should be praised by nobody, is, however, the natural and proper object of praise.” (TMS, p. 132). There are two sources for approbation in the TMS. One is approbation that comes as the result good moral conduct, and the other comes from “parade of riches”. Smith speaks at length about the difference between the approbation that comes from seeking virtue and approbation that comes from the accumulation of wealth, along with the effects of each:

We frequently see the respectful attentions of the world more strongly directed towards the rich and the great, than towards the wise and the virtuous. We see frequently the vices and follies of the powerful much less despised than the poverty and weakness of the innocent. To deserve, to acquire, and to enjoy the respect and admiration of mankind, are the great objects of ambition and emulation. Two different roads are presented to us, equally leading to the attainment of this so much desired object; the one, by the study of wisdom and the practice of virtue; the other, by the acquisition of wealth and greatness. Two different characters are presented to our emulation; the one, of proud ambition and ostentatious avidity, the other, of humble modesty and equitable justice. Two different models, two different pictures, are held out to us, according to which we may fashion our own character and behaviour; the one more gaudy and glittering in its colouring; the other more correct and more exquisitely beautiful in its outline: the one forcing itself upon the notice of every wandering eye; the other, attracting the attention of scarce anybody but the most studious and careful observer. They are the wise and the virtuous chiefly, a select, though, I am afraid,

but a small party, who are the real and steady admirers of wisdom and virtue. The great mob of mankind are the admirers and worshippers, and, what may seem more extraordinary, most frequently the disinterested admirers and worshippers, of wealth and greatness. (TMS, pp. 72-73).

The approbation that comes from good moral conduct tends to support moral conduct. The approbation that comes from the “parade of riches” is more polluted. Smith states that individuals may take great moral risks due to the great admiration of men of fortune: “the candidates for fortune too frequently abandon the paths of virtue”. (TMS, p. 76). According to Smith individuals weigh the gains from approbation from acquisition of wealth against the loss of approbation from immoral behaviors and if the gain of wealth is relatively high they are more likely to behave in morally dubious ways. (Levy, 1999). As an example of this, Paganelli 2013 describes how Smith sees rich merchants and manufacturers in commercial societies behaving in morally corrupt ways by coercing states to grant them monopolies thereby increasing their fortune at the expense of the rest of the society, distorting and impoverishing society. In addition, though their ability to forcefully distort laws to towards their own interest, merchants and manufacturers constitute a threat to justice.

McCloskey (1994) states that “Adam Smith knew that a capitalist society...could not flourish without the virtues of trustworthiness or bourgeois pride, supported by

talk...Theory of Moral Sentiments...was about love, not greed; esteem, not
venality...moral sentiments must ground a market” (p. 181).³

b) From markets to morality

Markets may undermine or foster morality. We next take up each of these sets of arguments highlighting their most salient aspects.

Markets foster morality

According to Smith among civilized nations (commercial societies) virtues are more cultivated. One of the perspectives Smith had was that commercial societies are fundamental for fostering moral capital. This is because in commercial societies “reduce the extreme hierarchy of societies dominated by great wealth, where the pursuit of self-interest is inherently corrupting, and expand vocational spheres where self-interest leads to just and honest behavior.” (Rosenberg, 1990, p. 12).

Commercial society increases the role of middle-classes, reducing the role of largely landed-property based rich. Smith considers the behavior of the middle-classes moral:

In the middling and inferior stations of life, the road to virtue and that to fortune, to such fortune, at least, as men in such stations can reasonably expect to acquire, are, happily in most cases, very nearly the same. In all the middling and inferior

³ McCloskey also argues that markets “promote virtue, not vice” (p. 181). See also McCloskey 2006 on bourgeois virtues).

professions, real and solid professional abilities, joined to prudent, just, firm, and temperate conduct, can very seldom fail of success. (TMS, p. 72)

Rasmussen (2013), using the above quote argues that according to Smith commercial society leads to the development of bourgeois virtues.

According to Smith, commerce dissolves the corrupting bonds of feudal ties:

commerce and manufactures gradually introduced order and good government, and with them the liberty and security of individuals, among the inhabitants of the country, who had before lived almost in a continual state of war with their neighbors, and of servile dependency upon their superiors. (WN, p. 412)

In LJ, he talked about the role of independency from servile bonds in preventing crime.

Nothing tends so much to corrupt mankind as dependency, while independency still increases the honesty of the people. | The establishment of commerce and manufactures, which brings about this independency, is the best police for preventing crimes. (pp. 486-87)

With the growth of commerce and the increased importance of the capitalist class individual character and tastes are altered and new powerful incentives develop. Smith along with Hume thought that men possess a certain disposition to indolence (Rosenberg, 1964). Agricultural society does not provide enough impetus to overcome this indolence. Since the men in agriculture cannot exchange their extra produce they have no incentive to increase their industry or skill. Instead, the growth of commerce and industry

introduces new consumer goods. This in turn provides a major incentive to overcome indolence and indifference.

Men are transformed to pursue business profits instead of pursuing only pleasure. Increased importance of the commercial class increases parsimony and frugality in the society. Profit increased by industry creates a passion for it and pleasure to see an increase in a man's fortune. This is the reason commercial society increases frugality, an important aspect of prudence. Smith sees frugality as having public benefits: "...every frugal man a public benefactor". (WN, p. 340). In a mercantilist system, instead, prudence does not develop since wealth is gained by those who have the favor of the state.

In his work, Smith emphasized that repeated commercial dealings with one another will not cheat and that they generate probity and punctuality.

A dealer is afraid of losing character, and is scrupulous in observing every engagement... Where people seldom deal with one another, we find that they are somewhat disposed to cheat, because they can gain more by a smart trick than they can lose by the injury which it does their character... Wherever dealings are frequent, a man does not expect to gain so much by any one contract as by probity and punctuality in the whole and a prudent dealer, who is sensible of his own interest, would rather chuse to lose what he has a right to than give any ground for suspicion. When the greater part of people are merchants they always bring

probity and punctuality into fashion, and these therefore are principle virtues of a commercial nation. (Lectures on Prudence (LJ, 538-39).

Furthermore, it is only under competitive conditions that commercial society can be an effective builder of moral capital because easily attained wealth alone is inherently corrupting. The reason is that “A man of a large revenue, whatever may be his profession, thinks he ought to live like other men of large revenues; and to spend a great part of his time in festivity, in vanity, and in dissipation.” (WN, p. 814). The intense pressure of competition in the marketplace makes living in “vanity” or “festivity” extremely difficult or impossible for the capitalist class.

Paganelli (2013) makes three arguments with respect to how markets foster morality according to Smith. The first is on poverty. Poverty induces heinous crimes. However, the conditions of the poor are improved due to wealth generated in commercial societies fostering moral behavior. Second the impersonal relationships in commercial societies imply independence and freedom, as well as bringing about individual and institutional liberty, and justice. Third, commerce fosters morality through its facilitating role in the development of impartiality, due to the increased distance between people, which leads to overcoming biases in our judgments of ourselves.

Smith strongly contends that in a market system virtue is rewarded: “What is the reward most proper for encouraging industry, prudence, and circumspection? Success in every sort of business. And is it possible that in the whole of life these virtues should fail of

attaining it? Wealth and external honours are their proper recompense, and the recompense which they can seldom fail of acquiring.” (TMS 193-194)

Markets undermines morality

Smith asserts that competition is necessary for commerce to be an effective builder of morality. He goes on to say that monopolies or special privileges destroy the primary economic virtues of the capitalist class due to their being released from the forces of competitive market place. Diminished prudence and parsimony of the capitalist with easily earned profits are carried to the workers as well.

The high rate of profit seems everywhere to destroy that parsimony which in other circumstances is natural to the character of the merchant. When profits are high, that sober virtue seems to be superfluous, and expensive luxury to suit better the affluence of his situation. But the owners of the great mercantile capitals are necessarily the leaders and conductors of the whole industry of every nation; and their example has a much greater influence upon the manners of the whole industrious part of it than that of any other order of men. If his employer is attentive and parsimonious, the workman is very likely to be so too; but if the master is dissolute and disorderly, the servant, who shapes his work according to the pattern which his master prescribes to him, will shape his life, too, according to the example which he sets him. Accumulation is thus prevented in the hands of all those who are naturally the most disposed to accumulate; and the funds destined for the maintenance of productive labor, receive no augmentation from

the revenue of those who ought naturally to augment them the most. (WN, p. 612).

Smith put a great emphasis in the WN on the division of labor and how it is enhanced with the expansion of markets thus leading to increased productivity. Yet, at the same time Smith was also aware of some negative consequences of this process, such as making workers “stupid” and “ignorant”. In particular he states

The man whose whole life is spent in performing a few simple operations...has not occasion to exert his understanding, or to exercise his invention in finding out expedients for removing difficulties which never occurs. He naturally loses, therefore, the habit of such exertion, and generally becomes stupid and ignorant as it is possible for a human creature to become...His dexterity at his own particular trade seems...to be acquired at the expense of his intellectual, social and martial virtues. (WN, 782)

Rosenberg (1990) highlights another force that depletes moral capital in Smith’s view, which is the impact of commercialization on the family. In the TMS, the family is described as having relations of affection due to natural sympathy, benevolence and mutual support. The main function of family is to provide for security, which can be provided by state.

In commercial countries, where the authority of law is always perfectly sufficient to protect the meanest man in the state, the descendants of the same family, having no such motive for keeping together, naturally separate and disperse, as interest or inclination may direct...Regard for remote relations becomes, in every

country, less and less, according as this state of civilization has been longer and more completely established. (TMS, 262)

The connections between commerce and peace and commerce and martial spirits are not often discussed. Paganelli (2013) points out that according to Smith commerce does not bring peace, but commerce increases unjust wars due to merchants' desires to open new markets. In addition morally irresponsible spending increases with the increase of wealth. Tegos (2013) reminds us that Smith views commerce as decreasing martial spirits.

V. Markets and morality from an evolutionary psychology and adaptive defenses point of view

Delayed gratification, self-command, and trust

We propose that the reciprocal effects of morality on markets and markets on morality are facilitated by important psychological mechanisms that are embedded in Smith's work; in particular, the capacity for delayed gratification/self command, and trust.

In an earlier section we stated that from the evolution of human psychology, a key element in the exercise of morality is that individuals must first have the capacity to resist the temptation to immediately satisfying their own needs at the expense of others. This significant skill in the evolution of human psychology is contingent on the adaptive defenses that allow them, when necessary to resist the need for immediate gratification in

favor of meeting more long-term goals such as moral behavior. The genetic capacity that allowed humans to delay immediate gratification, and enabled social cooperation and group living, was reinforced by its utility. This same ability makes possible the exercise of the intellectual capacity for reflection, and the growth of moral structures that serve the specific needs of individuals and groups.

The emotional tension that is generated between individuals desire to immediately gratify self-interested needs at the expense of others and the competing needs engendered by consensual or moral structures reveal the need for adaptive defenses to mediate the conflict. The ability to suppress and/or rationalize the need to immediately act upon self-interest facilitates the redirection of those impulses in favor of long-term moral gains. Adaptive defenses manage the immediate impulses or needs. This ability for restraint once again creates the necessary psychological pre-conditions for the exercise of the moral virtues that Smith has so clearly laid out.

Self-command as referred to by Adam Smith, and the psychological capacity for delayed gratification are inextricably related. Without the capacity for self-command, delayed gratification it is not possible. Delayed gratification in turn increases an individual's capacity to regulate, which facilitates self-command. Evolutionary psychology shows how the capacity to resist the immediate satisfaction of individual needs at the expense of others allows individuals to advance their interests in cooperative ways. The ability to delay gratification and gain self-command allows for the development of morality and increases the potential for cooperative sociability.

Self-command and the capacity for delayed gratification in the most practical sense, make adaptation possible. For example, the long-term goal of having enough food for a cold winter requires the ability to plan for the future and look beyond the immediately gratifying circumstances of plenty. The mastery of the capacity for delayed gratification and the cognitive ability to imagine into the future are necessary for this and countless other civilizing tasks of a similar nature.

Writing on the importance of self-command Adam Smith states: “The most perfect knowledge, if it is not supported by the most perfect self-command, will not always enable him to do his duty.” (TMS, p. 279). Furthermore, Smith states: “In the steadiness of his industry and frugality, in his steady sacrificing the ease and enjoyment of the present moment for the probable expectation of the still greater ease and enjoyment of a more distant but more lasting period of time, the prudent man is always both supported and rewarded by the entire approbation of the impartial spectator, and of the representative of the impartial spectator, the man within the breast.” (TMS, p. 252).

It is readily acknowledged that greed was adaptive in the environments in which it has evolved: “...for our ancestors in a harsh world, greed paid off in the only currencies that matter to genes-survival and the ability to have offspring. From them, we have inherited greediness that manifests itself today as a desire to accumulate money and possessions.” (Burnham and Phelan, 2000, p. 120). In the TMS, Smith considers the attainment of

wealth (bettering our condition) and greatness is “grand and beautiful and noble”. Their attainment is well worth “all the toil and anxiety which we are so apt to bestow upon it.” (TMS, p.214).⁴ In the WN it is argued that the motive to better our condition prompts us to save. Smith argues that capital is slowly accumulated by “private frugality and good conduct of individuals, by their universal and uninterrupted effort to better their own condition.” (WN, p.345) Thus there is moral basis for economic growth (see also Fitzgibbons, 1995 on this point.). As Smith puts it: “Capitals are increased by parsimony, and diminished by prodigality and misconduct.” (WN, p. 337).

Delayed gratification in terms of financial savings leads to capital accumulation that is an essential element of commercial progress and expansion of markets. Thus we can say that this aspect of morality fosters markets. In turn markets foster morality since expansion of markets increases investment opportunities giving incentives for further savings, delaying gratification. It is, of course possible that investment opportunities undermine delayed gratification and lead to a corrupt behavior. Those individuals for whom the capacity to delay gratification has been compromised, and/or have been irresistibly tempted by rewards in the marketplace, face challenges to their moral capacity and are the most vulnerable to self-interested behavior at the expense of others.

⁴ Smith immediately describes this as deception. It is a deception because “In ease of body and peace of mind, all the different ranks of life are nearly upon a level, and the beggar, who suns himself by the side of the highway, possesses that security which kings are fighting for.” (TMS, p. 216). Yet, “It is this deception which rouses and keeps in continual motion the industry of mankind.” (TMS, p.214).

Trust

As we further consider the interaction between markets and morality, we must also incorporate the development of trust. Trust is an important byproduct of delayed gratification, and consistent moral behavior. From the point of view of evolutionary psychology, the development of trust follows from mutually cooperative behavior. Experimental studies also indicate that trust follows from cooperative behavior: initially players cooperate without trust, mutual trust emerges when cooperation is reciprocated and it leads to sustained trust and cooperation (see for example, Yamagishi, Kanazawa and Mashima, 2005). Initially, at least cooperation leads to trust, not the other way around.

All market exchange is intertemporal. The person moving first must trust that the other will reciprocate. To get the benefits from trade people must overcome their desire for immediate gratification. A system of delayed gratification enables people to capture the temporal gains from exchange. Adaptive defenses have a role in the development of trust as well. For example, when individuals trade with each other, intellectualization (in the ability to conceptualize the trade) and rationalization (the ability to rationalize the potential risk/benefits) are used as defenses against the impulse for immediate gratification and allows each individual to participate in trade. Repeated interactions between these traders lead to a building of trust. Each trading partner needs reasoning capacity on how to make the trade, the value, and the ability to rationalize why this should take place in an agreed upon way and in an orderly fashion. At least two defenses are necessarily employed here; intellectualization and rationalization that allow each

participant in the trade to contain their immediate need, make the proper arrangements and deliver their goods to each other. These defenses act in the service of delayed gratification and with repeated interactions over time build a level of trust and further expansion of trade.

These understandings from evolutionary psychology and adaptive defenses, explicate the moral psychology that is embedded in Smith's work when he talks about the importance of trust as it is interwoven in human interaction. Trustworthiness is a highly valued human quality in Smith. "Humanity does not desire to be great, but to be beloved. It is not in being rich that truth and justice would rejoice, but in being trusted and believed, recompenses which those virtues must almost always acquire." (TMS 194). He continues by saying "Frankness and openness conciliate confidence. We trust the man who seems willing to trust us. We see clearly, we think, the road by which he means to conduct us, and we abandon ourselves with pleasure to his guidance and direction." (TMS, 398-99).

Adam Smith states the following on commerce and trust: "When a person makes perhaps 20 contracts in a day, he cannot gain so much by endeavouring to impose on his neighbours, as the very appearance of a cheat would make him lose." (LJ, pp. 538-39). Thus, in commercial societies trust is widespread and damage to one's trustworthiness would lead to the loss of business. Practically speaking people will seek out a trustworthy trading partner. Even though it is possible to write comprehensive contracts, monitoring compliance with them can become prohibitively expensive.

Bruni and Sugden (2000) suggest that Smith provides a theory of rational trust, where rational trust means trust can be recommended to rational beings. In his elaboration on the role of trust in Smith, Evensky (2011) states that there are two kinds of energy in Smith's system that underlies trust. One is the energy that drives individuals toward "bettering their conditions". The other is the role of laissez-faire that is the source of "unbounded freedom", which is essential in unleashing individual energy. However, this energy is unleashed only when trust exists.

If over time individuals and institutions prove to be trustworthy, we trust. In a market system if trust decreases the "transactions costs associated with protecting ourselves from the risk of immoral and unethical behavior rise." (Evensky, 2011 p. 250). Transactions costs are lowered to the degree the regulation of markets increases trust. When trust is lower the transactions costs will be higher and the market will be constrained. While it is possible for trust to be supported by government by involvement, government alone is not a sufficient constraint in an expanding commercial system. Civic ethics are essential. Citizens' trust of each other and that the government will discourage destructive behavior of those few who do not adhere to ethical behavior seeks to secure the success of commercial free-market systems. The importance of trust was also pointed out by Arrow: "In the absence of trust...opportunities for mutually beneficial cooperation would have to be foregone...norms of social behavior, including ethical and moral codes [may be]...reactions of society to compensate for market failures." (1971, p. 22).

A necessary element of commercial progress is capital; and once again trust is essential for capital. There is an incentive to accumulate capital to the degree there is trust that the accumulated wealth will be secure. “The constraints of civic ethics and positive law are the only barriers that stand between one’s wealth and its loss to unconstrained greed.” (Evensky, 2010 p. 254). The security of both accumulated capital and circulating capital are essential. The latter adds a new dimension of trust because it passes through the hands of others. While government and regulation are important to implement the law surrounding transactions, the foundational ethos of trust among the participants is the foundation of capital in the market place.

Frequent dealings in the market place may foster trust if an individual comes to believe that the trading partner is trustworthy. To conduct its business in the long-term and to have long-term gains each trading partner must act in trustworthy ways. Those with the least ability to delay gratification are the most vulnerable to the corrupting effects of the market place and would become untrustworthy.

As has been implied in the sections above, cooperative human interaction, particularly in economic interactions, require the ability to exercise delayed gratification. In realizing the benefits of cooperative behavior in markets, markets have the reciprocal potential of reinforcing cooperative morality, and therefore strengthen it. The increase of cooperative behavior over time develops trust in both cooperative behavior and in the markets that cooperative behavior fosters.

As collective trust grows in the marketplace this also increases the hope and possibility of reward. Conversely, because of the enticement for rewards in the markets, there is a challenge to some to circumvent morality. Those individuals for whom the capacity to delay gratification has been compromised are the most vulnerable to the temptations of immediate rewards at the expense of ethical constraint. When the consensual morality is breached it weakens the trust that people have in the markets often causing a pullback or diminished participation. In order for continued participation a renewed trust and fair play needs to be re-established. Some form of justice needs to be applied to re-assert the authority of the collective morality.

VI. Discussion:

In this paper we have attempted to look at the reciprocal affects of markets on morality and morality on markets in the work of Adam Smith from the perspective of evolutionary psychology and adaptive defenses in order to explicate the embedded psychological practices that are interwoven in his moral philosophy and economic theory. In the volumes of work on Adam Smith there are illusions to the psychology that is implied in his work, however this is an attempt to further the process of defining some of the psychology that is active in his pioneering works.

We have reviewed Adam Smith's works as they pertain to markets and morality, following the foundational development of sympathy as being the basis for morality and the development of virtues within his moral structure. Smith's elaborate structure and its potential application to both moral theory and economic thought requires participants to

have well developed psychological skills that have come through evolutionary psychology, in particular the achievement of the psychological abilities that enable the virtue of self-command.

We have traced development of self-command from the perspective of evolutionary psychology and through the use of adaptive defenses from psychoanalysis. The development of the foundational capacity for delayed gratification is at the base of the development of any moral virtue. Without the capacity to delay the satisfaction of instinctual and emotional needs, the ability to have interactions that consider other's needs and mutual self-interest would be impossible. Delayed gratification co-evolved with adaptive defenses. Without the capacity for delayed gratification the application of Smith's constructs of sympathy and approbation would also be impossible. With the exercise of sympathy, approbation and restraint are reinforced by their pragmatic usefulness over time. Delayed gratification and adaptive defenses make possible "self-command" and those "virtuous" behaviors that Smith understood as the foundation for the development of his elaborate moral structure.

Smith's system of morality represents an important apparatus that examines interpersonal interactions as they relate to the marketplace. He recognized the desire and need for "approbation," and the need for interpersonal trust, and ultimately trust in the marketplace. He also gives explanation for how morality is maintained socially. As these behaviors are practiced over time a greater degree of trust is established in the market place.

While Smith's moral structure and the psychological mechanisms that underlie it lend understanding to the reciprocal development of markets and morality, it also reveals the vulnerability in the marketplace to exploitation. At least in the short run, those who would attempt to exploit the established structures and resultant trust often do so by indulging in immediate gratification. History has however established that the interactive relationship between markets and morality have expanded both our human evolution and the evolution of markets, along with the ever-present temptations for exploitation.

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