Adam Smith's Bourgeois Virtues in Competition

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ABSTRACT: Whether or not capitalism is compatible with ethics is a long standing dispute. We take up an approach to virtue ethics inspired by Adam Smith and consider how market competition influences the virtues most associated with modern commercial society. Up to a point, competition nurtures and supports such virtues as prudence, temperance, civility, industriousness and honesty. But there are also various mechanisms by which competition can have deleterious effects on the institutions and incentives necessary for sustaining even these most commercially friendly of virtues. It is often supposed that if competitive markets are good, more competition must always be better. However, in the long run competition enhancing policies that neglect the nurturing and support of the bourgeois virtues may undermine the continued flourishing of modern commercial society.

KEY WORDS: Adam Smith, competition, virtue ethics, business ethics, bourgeois virtues

1. INTRODUCTION

THE RELEVANCE OF VIRTUE ETHICS for understanding business ethics hardly needs justifying in a special issue. Virtue ethics operates at the ground level of human individuals' actions and motivations, analyzed in terms familiar to our ordinary intuitions about moral phenomena, which makes it particularly apt for the ethical analysis of how people think and act in business contexts (Solomon 1992a: 318). It thus contrasts with the abstract 'bird's eye view' provided by the alternative utilitarian or deontological approaches and the superhuman capacities they imply of ethical agents. Virtue ethics also has the peculiar advantage of bringing both utilitarian and deontological concerns under consideration under the relevant virtues of prudence and justice while not allowing them to singly determine the results of ethical analysis (van Staveren 2009: 572). Virtues are character traits which go deeper than mere behavior and habits (although these are important for their development) but are constitutive of how a person perceives situations and reasons for actions. An honest person is understood as honest not because he always behaves honestly, e.g., always tells the truth, or because he thinks honesty is the

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best policy, but because he considers "That would be a lie" as a strong reason not to say something (Hursthouse 2007).

The late Robert Solomon made a significant contribution to raising the profile of virtue ethics in business ethics (see among other contributions Solomon 1992a, 1992b, 2002), focusing particularly on Aristotelian virtue ethics and its relevance for the corporation perceived as a co-operating community (although he also delved more widely into the moral psychology of virtue ethics, including that of Adam Smith [Solomon 1998, 2008]). While acknowledging that much business activity is indeed rather more co-operative than generally thought, competition is surely also an important aspect, and so in contrast this article considers virtues under competition. To do so we employ the resources of Adam Smith's own virtue ethics which he developed particularly for the conditions of commercial society (very different from Aristotle's concerns) and laid out in his *Theory of Moral Sentiments* [TMS] (originally published in 1759, almost twenty years before *The Wealth of Nations* [WN]).

Much criticism of capitalism has focused on the supposed self-undermining nature of bourgeois ethics—the so-called 'self-destruction thesis'—in which the processes of capitalism themselves destroy the ability of individuals to live a good life and the sustainability of capitalism itself.[1] Alasdair MacIntyre, for example, characterizes 'external goods,' such as fame, power or profit as objects of competition, in contrast to 'internal goods,' which are derived from practices. He argues that much modern industrial productive and service work is so organized as to exclude the features distinctive to a practice. Thus, "We should expect that, if in a particular society the pursuit of external goods were to become dominant, the concept of virtues might suffer first attrition and then perhaps something near total effacement. (MacIntyre 1981: 196). Yet other authors have argued that market competition in fact disciplines people and encourages the development of virtues in various ways.[2]

We do not directly address such criticisms and defenses of capitalist ethics, which are aimed at the level of assessing overall ethical success in a manner impossible to treat adequately in a single article. Instead we address the more specific question of what happens to the bourgeois virtues under competition: that is, how do some representative bourgeois virtues most closely associated with capitalism—namely *prudence, temperance, civility, industriousness* and *honesty*—and their underpinning moral psychology interact with market forces. Loosely, our thesis is that 'competition,' while compatible with the development of such bourgeois virtues, can also in various ways undermine them. (Both critics and apologists of capitalism may here be partially correct without contradiction).

Our analysis is inspired and framed by Adam Smith's virtue ethics, but our application of it to this problem also draws from contemporary empirical research. Our analysis is deliberately piecemeal and suggestive: we are concerned to identify *possible* mechanisms by which commercial virtues may be strengthened or corrupted in the context of different commercial relationships (such as worker-manager, worker-worker, and consumer-business), but we do not attempt the much harder task of mapping their interaction into specific outcomes (the really difficult part of good social science).[3] Thus, despite the wide scope of our subject we are somewhat humble in our ambitions and do not seek to produce a comprehensive or systematic picture of virtue ethics for either the broader contemporary commercial society or for a more narrowly defined 'business world.' Note further that this is intended as an internal analysis of the 'logic of commercial society' with regard to individual ethics, rather than a comparative or historical exercise which would examine the development of some contemporary commercial society or compare the ethical systems of commercial and non-commercial societies. Nonetheless our analysis may be helpful in showing how even those virtues that seem most likely to thrive in a commercial society may still be vulnerable to the pressures of commercial life and should not be taken for granted.

In the following section we lay out the Smithian virtue ethical system and our methodology in more depth. In section 3 we consider how each of these virtues may be influenced by the effects of competition, looking first to the beneficial effects of competition and then to the possible deleterious effects of more intensive competition. We conclude with some discussion of the wider implications of our analysis and possible lines of future research.

2. ADAM SMITH'S VIRTUE ETHICS FOR A COMMERCIAL SOCIETY

Once having decided to take up a virtue ethics approach to business, there are several reasons for favoring Adam Smith's system in contrast to the more famous classical Aristotelian approach. Although Smith was working within the extended virtue ethical tradition that began with Plato and Aristotle, and was particularly indebted to Aristotle (Hanley 2006; Hanley 2009: 86–91),[4] his concerns are much more familiar to us since he was also an enlightenment philosopher concerned to integrate that tradition with liberal individualism (i.e., issues of equality, individual freedom, ordinary people and ordinary moral life) (Griswold 1999: 7–21). In contrast, Aristotle's framework and concerns can be difficult to grasp and apply in the modern world without either a major effort in translation or drastic simplification. Aristotle's socio-economic world was a very different one from ours.[5]

Smith considered that a society's political economy, through its effects on the character of its institutions and social interactions, affected the understanding and arrangement of the virtues it endorsed.[6] Thus the meaning of virtues such as prudence and their domain of application shift, while some virtues rise in significance and others recede (as was the fate of courage and magnanimity in commercial society). What makes Smith's moral philosophy particularly apt for application to contemporary business life is that he himself saw and described the appearance of a *commercial society* characterized by an enormously increased division of labor, dependence on strangers, formal property rights, and individual mobility. As Smith put it:

> When the division of labour has been once thoroughly established, it is but a very small part of a man's wants which the produce of his own labour can supply. He supplies the far greater part of them by exchanging that surplus part of the produce of his own labour, which is over and above his own consumption, for such parts of the produce of other men's labour as he has occasion for. *Every man thus lives by exchanging, or becomes in some measure a merchant*, and the society itself grows to be what is properly a commercial society. (WN, I.iv.i.37, emphasis added)

This sociological fact about commercial society—that everyone "becomes in some measure a merchant"—is central to Smith's approach. As he points out, even beggars are embedded in the logic of the market, since they must buy bread with the money they are given (WN I.ii.2). Smith took the rise of commercial society, and the new sociological and moral relationships that follow, as the entrenched result of historical processes that are here to stay and thus a brute fact that moral philosophy had to come to grips with. Smith also considered that commercial society brought enormous benefits overall that made it worth defending and improving in the direction of his 'system of natural liberty' (the argument of WN): namely prosperity for ordinary (poor) people, as well as justice, freedom from artificial restrictions and from feudal relationships of domination, and increased scope for moral self-development (cf. Wells forthcoming, §2).

Nevertheless, while unambiguously endorsing commercial society, Smith was acutely aware of the possible ethical shortcomings of commercial society and, for example, carefully read and responded to Rousseau's powerful critiques of its inequality, inauthenticity and materialism (Rasmussen 2008; Hanley 2008; Hanley 2009: 15–52). Smith considered that commercial society was compatible with ethical progress (along with material and political progress), but that progress was not inevitable—the pressures of commerce would not automatically create it, and would often press against it. The problem Smith set himself in the *Theory of Moral Sentiments* was to explain how ordinary people could lead ethical lives—even excellent lives—in the context of a commercial society with its new forms of activities and institutions, possibilities and pressures (Hanley 2009: 59), and that is a problem that resonates with many of the concerns of contemporary business ethics.

After a long period of relative scholarly neglect, Smith's *Theory of Moral Sentiments* has rightly come out of the shadow of the more famous *Wealth of Nations* and has been attracting considerable and deep attention from philosophers and historians over the last twenty years or so.[7] However, within the field of business ethics it is Smith's commitment to social justice and defense of capitalism as a whole that tends to be discussed (see, e.g., Bassiry and Jones 1993; and Shepard, Shepard, and Wokutch 1991) while his particular virtue ethics has received relatively little attention.[8]

Smith's TMS outlined a comprehensive virtue ethical system he intended to be compatible with ordinary people's understanding of moral life in a commercial society and also helpful to ordinary people living and working (as "merchants") in such societies. He therefore addressed himself to two questions, which appear in different forms throughout the book (Griswold 1999: 49–50). The normative question: "Wherein does virtue consist? Or what is the tone of temper, and tenor of conduct, which constitutes the excellent and praise-worthy character, the character which is the natural object of esteem, honor, and approbation?" And the 'philosopher's question': "by what power or faculty in the mind is it, that this character, whatever it be, is recommended to us? Or in other words, how and by what means does it come to pass, that the mind prefers one tenor of conduct to another, denominates the one right and the other wrong; considers the one as the object of approbation, honor, and reward, and the other of blame, censure, and punishment?" (TMS VII.i.2).

The first question is concerned with the moral agent's proper understanding of ethics, and Smith's answer is a virtue ethics based on propriety and adapted to the needs of contemporary (commercial) society. However the second question is, Smith disingenuously suggests, only of "philosophical curiosity" (TMS VII.iii.3) because it concerns the mechanisms (of moral and social psychology, etc) that support and maintain a moral system. There is a disjunction between the two questions because virtue ethical theory considers that the virtues provide their own self-sufficient moral view: the honest person doesn't lie because, being honest, he finds honesty appealing and good, and lying unappealing. Therefore close examination of the existence of the underlying psychological mechanisms and social institutions ultimately responsible for such virtues making sense (building habits of honesty from childhood with education; rewarding and thus entrenching honest habits with, for example, psychological satisfaction, praise, and material opportunities) seems to undermine the virtue ethics system itself by revealing the merely proximate nature of one's immediate moral perceptions.[9] We won't go further into the issues this split raises in Smith's moral theorizing (Griswold for one considers this an important incompleteness in Smith's work [see Griswold 1999: 361–76]), but the split is relevant for our argument for we are here concerned with the "philosophical curiosity" of how the pressures of commercial society may influence the character and sustainability of certain so-called bourgeois virtues through their effects on underlying institutions, incentives, and social relationships.[10]

We employ 'competition' to refer to the working out of the logic of the market in the "obvious and simple natural system of liberty" envisioned by Smith. Smith understood competition as a behavioral activity—as connoted by the verb 'to compete'—that should be imagined in terms of a race between rivals to sell goods for the most possible, to obtain scarce resources, to capture market-share from each other, and so on (Blaug 1996: chap. 2).[11] From the perspective of producers, "Every man, as long as he does not violate the laws of justice, is left perfectly free to pursue his own interest his own way, and to bring both his industry and capital into competition with those of any other man, or order of men" (WN IV.ix.51). While from the perspective of consumers, 'winners' are judged in terms of the price and quality of the goods they offer, rather than such extraneous features as their ethnicity or shared kinship. Consumers benefit from competition because prices first decline towards the present cost of production and then over the long run decline further while quality increases as producers compete with each other for market share and higher profits through technological and organizational innovation.[12] Here we can immediately see the central tension in the idea of competition: the motives of the competitors and their interests in the outcome (high profits for themselves) are quite different from that of society at large (low prices).[13] To make these compatible requires particular institutional arrangements, as was Smith's constant emphasis in WN (notwithstanding his powerful critique of allowing economic regulations to be written by the competitors themselves).

Thus, like any sporting competition, market competition has to meet certain conditions to be fair and productive of social welfare. Smith's conditions were relatively "obvious and simple": freedom of entry (no closed guilds, mandatory apprenticeships, restrictions on labor movement, etc); a considerable number of rivals (no *de facto* monopolies); and transparency about market opportunities (Blaug 1996: 42). Also like any fair race, there should be a level playing field for the competitors, meaning both that the rules of the game are not biased in favor of certain actors (no economic micro-management by government), and that the rules of the game are fairly enforced to prevent or at least reduce cheating by competitors. The intensity of competition reflects both the degree to which markets meet these conditions and the degree of rivalry they exhibit.

So much for what competition means and what it requires. In this article we are principally concerned with how such a system of free and fair economic competition mediated by markets may affect the flourishing of specific bourgeois virtues. Competition may affect individuals' virtues in three distinct ways: via habit formation, selection, and standard shifting. First, virtues arise as a result of habit formation: they are 'learned,' and become internalized, through the regular repetition of certain (good) actions and thinking, often originally motivated by extrinsic motives. If competition requires new social arrangements that re-order social interactions so that different behaviors are encouraged and rewarded it is reasonable to expect individuals (especially newcomers) to develop different behavioral habits that then slowly crowd-in into inner attitudes. Second, the frequency of particular virtues or virtue 'phenotypes' found in a population will be related to their fitness with the requirements of a flourishing life in a particular society. That is, virtues against which there is a strong selection effect (and those who hold them) may eventually be excluded or marginalised. Third, individuals learn how to think about ethical problems and qualities by looking at the standards and examples that society holds up as successful. Because of the other two effects, competition may produce different norms of propriety and different role-models to model oneself after. These mechanisms will overlap in concrete cases and we will not always refer to them explicitly in the analysis that follows.

For example in the case of honesty considered at the general level, a firm whose managers are burdened by ethical scruples about misleading customers or cheating suppliers is presumably at a competitive disadvantage in the marketplace compared with a rival not laboring under such a burden, if there is no institutional mechanism for recognizing and rewarding honesty (Maitland 1997). Competitors highly motivated to win against a strong field will only follow the rules that pay: it is the most efficient company that wins the sales, and to the extent that honesty raises costs without being recognized as valuable in itself, it will be driven out of the market (selection). To the extent that competition produces new standards of practice, new standards of what counts as honesty may propagate (habit formation), for example, about how one should respect implicit promises to business partners or what counts as honesty in advertising. This means that actors who explicitly consider what honesty means will begin from different benchmarks and role-models than their predecessors (standard shifting).

We appreciate that this perspective may be disconcerting for some virtue ethicists since it suggests that honest practices are ultimately based only on a pragmatic 'honesty is the best policy' rule rather than a true, self reason providing, *virtue* of honesty. At the risk of repeating ourselves, we are concerned with the ultimate causes for virtues but do not mean to displace the first person virtue ethical perspective. At the level of ethical decision making, the virtues, to be virtues, must already be formed and provide their own understanding of a situation and reasons for action. Nonetheless, as our analysis focuses on, the development and nurturing of the virtues does require institutional support and clearly if a virtue such as honesty is subject to great competitive pressure those institutions will be undermined in the long term, while in the short term the most honest actors may be removed or sidelined by the selective pressure of the market.

The bourgeois virtues of *prudence, temperance, civility, industriousness* and *honesty* we consider here were chosen because the 'Doux Commerce' literature (identified by Albert Hirschman with the likes of Adam Smith, David Hume and Montesquieu) endorsed them as being not only compatible with but encouraged by the demands of commercial society.[14] Of course Smith's entire system was adapted to the needs of commercial society as he understood them. His concept of justice, for example, is primarily commutative rather than distributive—concerned with fair rules, fair play, the sanctity of individual freedom and property and limited to what legal sanctions can achieve—because of his beliefs about what the institutions of commercial society needed and could sustain, as well as the theoretical requirements of his harmonious ethical system.[15] Smith also acknowledged, and worried, that some classical virtues, such as courage, would be much diminished in commercial society, but argued that the gains of living in a commercial society were still on balance better.[16] The bourgeois virtues are thus only a subset of the virtues that make up Smith's whole harmonious virtue ethical system, and certainly do not themselves suffice for a whole ethical life. Therefore, although the lack or corruption of any of these should be cause for concern (as the lack of courage was for Smith), one must be cautious in drawing conclusions about the consequences for ethical flourishing in commercial society in general on the basis of how competition affects one or all of them.

Due to its concern with particular contexts and everyday moral phenomenology, and its use of illustrative stories and exemplars to explain itself—see, for example, Smith's extensive use of literature and drama in TMS—virtue ethics cannot provide precise definitions of virtues and the distinctions between them, in contrast to the apparent precision of utilitarian and deontological ethics. In everyday moral life, moreover, virtues are often mixed together such as prudence-and-industriousness or civility-and-honesty, and it can always be debated whether the mixture constitutes a new particular virtue or whether its components can be further broken down. It is indeed one of the main reasons for the long obscurity of virtue ethics that it does not fit the requirements of moral system building which have been so important to post-enlightenment moral philosophy. Nevertheless at the pragmatic level it is fairly clear what one is talking about when one speaks, for example, of temperance as the disposition to restrain and moderate one's impulsive and inappropriate appetites. The other virtues are as follows. Prudence is the virtue of practical wisdom, of calculating efficient means to secure one's more important commitments and interests; civility is the disposition to tolerate others, make oneself tolerable to others, and attend carefully to the needs of others; industriousness concerns the honoring of work; and honesty, as discussed, concerns sincerity, truthfulness and fairness.

3. APPLICATION: THE BOURGEOIS VIRTUES IN COMPETITION

3a. Prudence

> The qualities most useful to ourselves are, first of all, 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: and secondly, self-command, by which we are enabled to abstain from present pleasure or to endure present pain, in order to obtain a greater pleasure or to avoid a greater pain in some future time. In the union of those two qualities consists the virtue of prudence, of all the virtues that which is most useful to the individual. (TMS IV.2.6)

The virtue of prudence is concerned with the command of one's self interest: its proper understanding, discipline, and security. Smith was perhaps the last philosopher to consider prudence a proper virtue, rather than mere cleverness at best (Griswold 1999: 204). Doing so allowed him to distinguish the morally praiseworthy disposition to further one's self-interest as properly understood, from the vice of selfishness. That proper understanding requires taking a metaphorical step back from one's immediate circumstances and concerns to adopt a critical perspective on one's options and interests. The prudent person has a proper concern for her health, fortune, reputation and happiness and is cautious not to expose these to unnecessary hazard. She studies situations seriously and carefully to understand the remote consequences of all her actions.

Smith's virtue of prudence is required in all sorts of situations, from fixing a bicycle, to forecasting oil prices, to deciding what career to follow. While it is related to the economist's concept of rationality it should not be mistaken for it.[17] In contrast to economic rationality, 'self-interest' is not limited to one's own welfare; its operation is not restricted to rigorous maximization; it is compatible with human rather than superhuman cognitive powers; and its concern is not only with the judging of appropriate means to one's intermediate aims—such as how to get a good deal on oil futures—but also how to choose one's intermediate aims with respect to one's fundamental concerns. This last requires a degree of critical self-reflection about the kind of person one wants to be and the kind of life one wants to lead that is absent from contemporary economics. Prudence is the *key* virtue of commercial society, as justice arguably was for Aristotle and benevolence for Christian ethics (McCloskey 2006), which is why we consider it at some length. But that doesn't mean that prudence is Smith's *highest* virtue or that it should be considered sufficient unto itself (as independent and all-encompassing).[18] In what follows we first discuss how competition may positively affect prudence and then move on to negative effects.

Virtues become dispositions through habitual exercise in supporting environments, and competitive markets in which individuals compete 'as merchants' for attention and profit would certainly seem the kind of environment in which prudence should thrive. Competitive markets school individuals in prudence by disciplining their foolishness and directing their attention to proper objects. In markets individuals are responsible for managing themselves and their resources over time, while the transparency and fairness of market prices provides clear and reliable feedback about what works, and the costs of mistakes. Individuals thus learn to judge situations with care, and to be realistic about their talents and the feasibility of their goals and plans. The voluntary nature of market transactions directs individuals to evaluate the worth of their activities and products from the perspective of their customers and business partners. They will compare their practices with their competitors' and consider what they might improve about themselves. Through commerce, and even just going about general life in a commercial society, one thus learns the basics of prudence—of objective judgment in practical cases, and of checking the partiality of self-love by considering oneself from the perspective of others—which Smith considered individuals able to build on in the direction of real wisdom and virtue.[19]

Prudence may fail because of flaws in one's reasoning, or when one ceases to have a realistic grasp of one's merits and capacities (false beliefs), or a lack of self-command (which will be discussed under temperance). As the following examples illustrate, these problems may be exacerbated by intense competition in various ways. We begin with the effects on consumers of the competition for their attention.

In competitive markets participants not only compete on price, which is relatively easy for customers to assess, but by offering different kinds of products (not only cheaper computers, but also iPads), and thus an abundance of complex choices between high-quality options that may overwhelm and thus reduce prudent deliberation (see, e.g., Shafir and Tversky 1992; Shafir, Simonson, and Tversky 1992; Dhar 1997). For example, in their research on *choice overload*, Iyengar and Lepper (2000) find that humans, as opposed to ideal economic agents, perform better in a limited-choice context than in an abundant-choice context, in the sense that they are more satisfied with the choices they make. They find that, relative to limited-choice situations, when confronted with large numbers of even trivial choices, people are more likely not to make any choice; are more likely to experience the choosing activity itself as difficult and frustrating; and are more likely to report dissatisfaction and regret about the choices they do make. There is also a great deal of research by psychologists and behavioral economists about how framing and affective dimensions can influence evaluation. For example, Carmon, Wertenbroch, and Zeelenberg (2003) identify and investigate the phenomenon of *option attachment*, in which choosers develop a sense of pre-factual possession of their choice options during the deliberation process when evaluation includes imagining the different possible consumption experiences. When consumers eventually make their choice, they experience a feeling of loss for the paths not taken that is stronger the more, and the more attractive, the other options were. This *feeling* of loss seems to be translated by the chooser into a post hoc enhanced *evaluation* of those forgone choices, making it seem that she had made the wrong (imprudent) choice after all.

In the context of abundant and constantly changing alternatives, it is more difficult to choose prudently because it becomes harder to work out which choice should follow from your self-interest, particularly for those with long-term implications (such as the choice of career). Such complex choices are characterized by difficult trade-offs and higher psychological costs in the form of mental stress (Schwartz 2004; Mick, Broniarczyk, and Haidt 2004). The emotional cost of making trade-offs does more than just diminish our sense of satisfaction with a decision. As the research just cited shows, the heavier psychological demands also reduce the quality of decisions by narrowing and confusing the chooser's focus so that she is no longer able to take up a critical perspective and stand apart from her immediate circumstances as prudence requires, with additional consequences for self-command.

What does this tendency to make imprudent (bad) choices mean for the virtue of prudence? Obviously people will not stop making choices in the modern world just because there are too many options to properly assess. People will develop coping mechanisms and satisficing heuristics and continue to get along. They will learn to restrict the scope of their analysis and discipline their imagination not to dwell on the consequences of their choices. As Barry Schwartz suggests, these pressures may produce a much shallower kind of chooser, a "picker" who can only "grab this or that and hope for the best" from the stream of choices rushing by, constitutionally unable to consider their short and long term consequences, to challenge the range of options on offer, or to exercise judgment about the significance of different choices for her own life (Schwartz 2004: 75).

Our second and third examples concern the problem of actors' excessive identification with the perspective of other market participants. In the following we focus on the simplistic and partial evaluations to which competitive markets are prone and their consequences for agents that internalize this perspective by considering how stock market valuations of companies' activities influence the prudence of managers.

Although the evidence is contended, several empirical studies suggest that competition in the stock market induces a short-termist orientation in company managers because of impatient capital seeking immediate high returns (e.g., Laverty 1996; Graham, Harvey, and Rajgopal 2005; Rappaport 2005).[20] The argument goes that since any company's stocks are easily substituted for others, managers feel a strong pressure to satisfy shareholder expectations, even if they seem unreasonable. Of course the prudent time horizon to take is the one that is right for that case, and it may be that adopting a short-term rather than long-term perspective is often the objectively prudent choice to make. In order for this to be imprudence, it must be that the judgment of managers or investors is being distorted. If, for example, the *choice* of time-horizons is in fact short-circuited by external pressures or arbitrary criteria associated with competition, it can hardly be considered anymore an exercise in prudence by the actors concerned.

The financial economist Arnaud Boot (2009) argues that financial actors overemphasize the significance of a narrow range of external data about companies to which modern financial markets provide relatively easy access—especially frequently updating share prices, but also quarterly reports, announcements, and external ratings—and that this has facilitated the dominance of a particular evaluational perspective of a company as a kind of black box which is in turn dominated by short-term assessment criteria (reflecting the kind of performance data available). This evaluational frame becomes yet more dominant the more other financial actors employ it, because of 'performativity effects' wherein the evaluations of a substantial number of actors influence share prices and thus further enhance the credibility and significance of their evaluational perspective (cf. MacKenzie 2006). On the other side, Boot argues, managers themselves often internalize this increasingly influential financial markets view of the firm, focusing on achieving short-term share price movements relative to other companies as the measure of the absolute success of their management (independently of any direct personal pecuniary rewards they might thereby accrue). If company managers were only responding to pressure from actors in financial markets in proportion to their importance in funding the firm, then we might suppose they were merely being prudent. However, Boot points out, companies in fact typically depend far more on internally generated capital and bank loans than they actually do on financial markets for capital.

The problem for prudence is that company directors seem to be transferring their own responsibility to judge their company's capacities and intermediate goals to 'the market.' But this is to mistake the market's role and capacity for prudence.[21] Market valuations of what one is doing are a useful 'reality check,' particularly against the self-serving partiality to which individuals are prone when evaluating themselves. But they are not reality. They should certainly be incorporated into one's own prudent evaluation, but only together with the additional information internal to the company that the market doesn't see. When such attitudes become normalized through competition (selecting out non-conformers; changing behavioral patterns through performativity effects; shifting standards about what prudence means), Smithian prudence may be greatly diminished. Prudence may be redefined in terms of following the judgment of the market at all times, and focusing one's efforts on the tactical management of the relevant short-term indicators (despite the implicit contradiction). Indeed, the disposition to orient oneself so entirely to gaining the immediate approval of external (and only partially sighted and mildly interested) observers is normally termed vanity (a vice), rather than prudence.

Our final example concerns how competitive success can itself distort prudence in the direction of arrogance or recklessness, particularly in cases where the difference in rewards for 'winners' and 'losers' is very significant.

It is uncontroversial to note that individuals who acquire an overinflated view of their merits and capacities are no longer able to objectively analyze the value and feasibility of their goals and plans and may become arrogant or reckless instead of prudent. One way that competitive markets are schools for prudence is the humbling character of both their process and outcome. They require people to submit, under equal terms, to the critical assessment of others whom they may consider their inferiors, and they result in what is often a sharply humbling reality check (cf. McCloskey 2006; Bovenberg 2007). The prospect is so uncomfortable that Smith notes that people have a natural tendency to try to shield themselves from it if they can (as aristocrats and slave-owners managed to do). Humility is a constitutive element of Smithian prudence. Only by carefully—humbly—listening to the wishes of one's clients can one know what will sell; only by considering the interests and capacities of one's employees, management structure, suppliers, competitors, etc can one plan successful business strategies to meet that demand.

But overly successful market players may stop paying proper attention to the market and consider themselves the best judge of their capacities and plans, thus converting humility into arrogance. In markets as in sporting tournaments 'winners' receive a great deal of praise. Just as the more competitive the tournament, the greater the achievement in coming out ahead and the more praise one receives, so the more competitive the market and the more it takes a winner-takes-all format, the more praise is received by the 'winners.' A company's success, rather like a football team's success, always depends upon a host of situational factors largely outside even a CEO's direct control, including consumers' interests, competitors' strategies and performance, and the industriousness and co-ordination of the company's many employees. Continued success requires acute situational awareness and realistic humbleness about one's own significance. This is difficult enough at the best of times—social psychologists have extensively mapped the human propensity to overestimate the role of personal dispositions and underestimate the influence of situational factors in explaining outcomes, the so-called 'Fundamental Attribution Error.'[22] However, excessive praise can reinforce this bias by reinforcing one's own self-confidence about one's judgment. When one receives praise from one's dependents one will always have some awareness of its lack of objectivity, but praise that follows competitive success is particularly convincing exactly because it appears objectively justified. It may be that attending carefully to others' opinions and trying to view oneself as they do, as encouraged by competition, can sometimes further reinforce one's belief in the significance of one's own role, to the neglect of one's insider knowledge of relevant situational factors. As Smith put it,

> The religion and manners of modern times give our great men little encouragement to fancy themselves either Gods or even Prophets. Success, however, joined to great popular favour, has often so far turned the heads of the greatest of them, as to make them ascribe to themselves both an importance and an ability much beyond what they really possessed; and, by this presumption, to precipitate themselves into many rash and sometimes ruinous adventures. (TMS VI.iii.28)

We are all familiar with stories of CEOs of very real abilities so lionized by the markets and the press for their earlier achievements that they came to believe that praise too much, and embarked on disastrous strategies that in hindsight seemed to follow more from hubristic grandiosity than the pragmatic grasp of business realities and their own capacities.

Counter-intuitively competitive success itself can thus distort or short-circuit that aspect of prudence which requires continual critical reflection on one's own capacities. The corollary of this is that it can also short-circuit due diligence on the part of other market actors (from analysts to investors to employees) who are carried along by such people's evident self-confidence and reputation. In highly competitive markets the rewards of success are often great and the rewards of almost-success few. The mismatch between reward and personal capacities can all too easily be internalized in the wrong way, in that successful people re-evaluate their talents as commensurate with their reward, and lose the capacity or taste for considering themselves more objectively.

3b. Temperance

> The love of ease, of pleasure, of applause, and other selfish gratifications, it is always easy to restrain for a single moment, or even for a short period of time; but, by their continual solicitations, they often mislead us into many weaknesses which we have afterwards much reason to be ashamed of. (TMS VI.iii.2)

The virtue of temperance concerns the mastery of these insidious temptations, with managing them within the bounds of "health and fortune," and also within the bounds of "grace," "propriety," "delicacy," and "modesty" (TMS I.ii.6). Smith considered that temperance could flourish in a society of 'natural liberty' for several reasons. First, individuals are responsible for managing their own lives and their own consumption and are thus able to develop the virtue of temperance. Second, spectators in such a society scrutinize what actors are doing, rather than who they are. Third, individuals have a particular interest in developing a general reputation for moral decency: to appear credible future transaction partners. In combination, these would produce a greater than ever interest on the part of everyone to restrain themselves to the standards of public decency.[23] Smith considered that the 'social market' for temperance would tend to encourage frugality, since spectators are more likely to disapprove of any small impropriety (in spending more than one has, or eating voraciously in public) than excessive propriety. The point is nicely illustrated by Benjamin Franklin's tongue-in-cheek *Advice to a Young Tradesman* (which Max Weber took so seriously in his *Spirit of Capitalism*):

> The most trifling actions that affect a man's credit are to be regarded. The sound of your hammer at five in the morning or nine at night heard by a creditor makes him easy six months longer, but if he sees you at a billiard-table or hears your voice at a tavern, when you should be at work, he sends for his money the next day. (Franklin 2008: 45)

Nevertheless, temperance has always posed a difficulty for commercial society since it seems exactly within a commercial society that vanity may feed off itself and generate an ethic of competitive consumerism rather than frugality (as analyzed most famously by Rousseau in his *Discourse on Inequality*). Indeed the opportunities for consumption, and thus the scope of temperance, are much increased in a free market society. Monopolies and sumptuary laws reduce consumers' purchasing power or directly restrain them from exercising free choice between products. They thus reduce the scope for the individual to develop and exercise temperance as a virtue. Competitive markets, however, have low entry barriers to producers and consumers and thus provide consumers with abundant choices, and through efficiency gains, the ability to choose more of them. Consumers can thus satisfy more of their wants, which, as Smith's oft quoted example suggests, are not just for bread, but for such socially normal wants as meat and beer as well (WN I.ii.2). People in circumstances of abundance and freedom must regulate themselves, and thus we may consider temperance a bourgeois virtue that becomes more important as competition increases.

As with all Smith's virtues, temperance is based on propriety, and the first stage of understanding propriety is to understand the relevant social standards, following which one can consider whether those social standards are themselves proper (excellence).[24] As competition increases, people's ability to judge what level and type of consumption is appropriate for them may be undermined by problems in determining what temperance requires and by the social comparative processes by which wants become normal.

First, wants in a competitive free market society are inherently unstable (cf. Knight 1923). Producers under competition have an obvious interest in competing with each other not only to meet customers' existing wants, but to promote additional consumption by inducing new wants. New products like air-travel, plastic surgery, the internet, etc., produce whole new categories of 'normal' wants. At the same time, the high social and geographical mobility associated with a competitive labor market means that individuals' wants, and budgets, are apt to change significantly over the course of their lives.

The combination of these make it harder for any particular agent to consider and apply the appropriate standards of temperance to her consumption. In particular, it is difficult to tell the difference between an unnecessary want and an appropriate need, and how much is enough. Do you 'need' to buy the latest smartphone so that you can check your email on the move? Should you install an air-conditioning system in your home for those six excruciating hot weeks in summer? Do you really need a second car? Recall that temperance is particularly challenging because it must cope with insidious desires that 'continually solicit' us to accede to them. It is extremely easy to persuade ourselves that what we want to have is what we ought to want to have, which is why we need temperance in the first place. The absence of non-subjective standards of consumption to refer to makes it much harder to resist such "solicitations."

Second, even when social standards are available they may be distorted and direct the actor's attention to the wrong things. People take their cues about how to judge reasonable levels of consumption from the standards, exemplars, and sensibility they see in society generally and their peers in particular.[25] One turns to others for clues as to what it is proper to want. But in certain circumstances this social mirror of consumption can work like a ratchet and rise notch by notch (cf. Schor 1997). The social mirror can become a vanity mirror.

The increased anonymity associated with competitive markets (because of labor mobility) reduces people's familiarity with how other people are living, but that doesn't make the social mirror go away. Instead it may distort what one sees in the mirror. Insofar as competitive markets increase relative anonymity many forms of consumption may be more privatized, in that although markets are a public space only a small part of one's life is made visible there. Eating habits or the consumption of pornography, for example, are largely invisible. That also means that certain forms of consumption—of visible material goods—receive much more social attention than others. The cars one's neighbors drive provide an easily visible and comparable standard of normal consumption.

In more anonymous societies one must pick up information about proper levels of consumption from other sources than simple observation of one's peers. The presentation of higher levels of consumption as normal by advertising, and also television (Frey, Benesch, and Stutzer 2007), can then be particularly influential and have performativity effects: it can produce shifts in what individuals understand as proper standards of consumption that become self-fulfilling, including shifts from non-market sources of satisfaction such as friendship to higher material aspirations.

In addition, material consumption may itself become an area of competition, with status within a group accruing to those who succeed in buying the most expensive or the most fashionable objects, and stigma to those who fail to do so. The consequences of anonymity just outlined direct people's attention to each other's material consumption. When this is combined with a spirit of rivalry, public consumption becomes something one can win, rather than something one can do better or worse. It thus becomes about positional goods (cf. Hirsch 1977). Recent empirical research has abundantly confirmed the importance of such relative consumption (see, e.g., Solnick and Hemenway 1998; Johansson-Stenman, Carlsson, and Daruvala 2002; Alpizar, Carsson, and Johansson-Stenman 2005; Carlsson, Johansson-Stenman, and Martinsson 2007). For example, positional considerations appear particularly important for visible goods like cars but relatively unimportant for invisible ones, like vacation time.

The virtue of temperance is here distorted in the direction of vanity, much as Rousseau argued. Smithian temperance thrives to the extent that social standards discipline our excessive indulgences and direct our consumption to appropriate objects. Because we want to be approved of by others, Smith thought we would naturally want to be seen to possess that "delicacy" of taste and "grace" that society approves of. But the distorted social mirror produced by partial anonymity together with the interpersonal rivalry inspired by competition schools individuals in a different direction: not towards impressing others with their modesty but towards impressing them with the greatness of their consumption.

In addition to discerning what propriety requires, temperance concerns disciplining oneself to act in accordance with propriety. Self-discipline requires opportunities for its exercise in order to develop, but those opportunities may be undermined for consumers where they are less regularly confronted by social standards in the form of disapproval for excessive or tasteless consumption; i.e., there is little to prevent the weak of will from indulging present desires when they really do know better. The relative anonymity of life in commercial society means that even consumption that does take place in public is, within broad limits, generally of little direct interest to others. If Franklin's young tradesman is seen by his creditor cavorting drunkenly until late into the night but neither knows each other, any disapproval the creditor might feel will be generalized and will hardly have the same salutary effect.

In more anonymous societies there is far less of a social scaffolding system to prop up the habits of temperance (or self-command more broadly), for example, by internalizing the shame associated with doing certain activities in public, such as drinking to excess, into the personal disposition not to do them in private either. Smith himself worried that the anonymity of city life or work in large factories might diminish ordinary people's ability to hold themselves to moral standards, since they would no longer be under the disciplinary gaze of others as they would be in a small country village (WN V.i.g.12). When no-one else attends to your conduct, Smith thought, it was less likely that you would develop the habits of doing so either.

3c. Civility

> In civilized society [man] stands at all times in need of the cooperation and assistance of great multitudes, while his whole life is scarce sufficient to gain the friendship of a few persons. (WN I.ii.2)

Civility is the headline virtue of the Doux Commerce literature, most strongly associated with Montesquieu's claim that commerce produces a gentler, more civilized and polished human type (Hirschman 1997: 56–63; Hirschman 1982: 1464–66). The argument is that extensive use of the market produces both the possibility of and incentives for the development, exercise, and internalization of a disposition for civility in people's interactions.

Competitive markets have many possible buyers/sellers with whom one can choose to interact and at what price. The efficiency of this relates to the extent of the market, and thus the ability of relative strangers to interact peacefully through the mechanism of exchange in the marketplace, where the rhetorical arts of "persuasion, communication, and non-coercive speech are essential" (Griswold 1999: 297). Competitive markets structure relationships in such a way that one *can* interact disinterestedly with others, on the basis of the price and quality of the good in question, rather than deeper features of each other's identity. The butcher doesn't need to know, or care, about her customer's religious beliefs, only that a certain kind of meat is wanted. This structural feature makes indifference, or more positively *tolerance*, possible by excluding all sorts of information as irrelevant to the transaction, such as race, gender, religion, class, nationality, and so forth. In the market, actors must pay the full costs of their 'taste for discrimination' since your competitors will take the customers you refuse.

On the other hand, competitive markets also provide a positive incentive to civility. Since every merchant interacts with relative strangers who neither know nor care who she is, only what she wants and how much she will pay, she cannot depend on non-market relationships (such as friendship, kinship, or political authority) to help her get what she wants. Markets make for modesty because success in the market requires acknowledging your dependence on others. Everyone is equal before the market and everyone is equally a stranger. The standards by which one behaves are therefore the standards one believes characterize the representative disinterested stranger, whom one must strive to impress or else lose their custom. Your friends may appreciate your dirty jokes, but in the market you have to think about how the disinterested stranger might perceive your language and moderate yourself to a pitch they can go along with. After all, they can always take their business elsewhere. You must also moderate your voice so that you can listen, because in the market those who listen most carefully to the needs of strangers will be best placed to understand and meet them.

Of course, it is generally the seller who has the greatest incentives to behave in this way, but in the thoroughly commercial society everyone is both a seller and a buyer of one thing or another and thus the habits of civility can spread through society in general. Thus, competition disciplines each individual to civility: to tolerate others, to be tolerable oneself, and to attend carefully to the needs of others.

However, competition may undermine civility in certain circumstances, such as when rivalry is intense or anonymity is extensive. Competitors are rivals, but in a relatively stable and structured market that need not undermine the virtue of civility. However, extensive competition continually undermines the stability of market structures—new, unknown, and dangerous competitors may appear at any time from any quarter, and this may apply not only to new market players but also within firms, to the extent that workers or business units compete against each other within a firm. In such 'cut-throat competition,' as the metaphor suggests, the adversarial aspect of competition can come to dominate: one is more concerned with defeating one's rivals than in charming customers, with grabbing the greatest possible share of what is available before it disappears rather than patiently seeking to expand it through mutually beneficial trade. Engaging in price-wars to drive rivals out of business or 'dirty tricks' to further your own career at the expense of your colleague-rivals is to shift focus from the customer's needs onto your own. That is a self-destructive move in the long run, but one which may seem required if everyone else is doing the same. Civility requires a degree of openness, hence dovish gentleness, to strangers on the assumption that they will reciprocate rather than take advantage of one's vulnerability.[26] That assumption is threatened by the appearance of large numbers of hawks in the population, particularly if they are difficult to identify in advance (because of anonymity).

The consequences for the virtue of civility itself are that business ethics may take on a more martial aspect associated with toughness and courage rather than the courteous attention to the needs of others associated with wooing customers. The virtue of civility and its gentle manners may be thus replaced by aggressive hostility, conspiracy to exclude newcomers, rudeness, and so forth.

3d. Industriousness

> [T]he man of inferior rank . . . must acquire dependants to balance the dependants of the great, and he has no other fund to pay them from, but the labour of his body, and the activity of his mind. He must cultivate these therefore: he must acquire superior knowledge in his profession, and superior industry in the exercise of it. He must be patient in labour, resolute in danger, and firm in distress. These talents he must bring into public view, by the difficulty, importance, and, at the same time, good judgment of his undertakings, and by the severe and unrelenting application with which he pursues them. (TMS I.iii.20)

The virtue of industriousness concerns the honoring of work as a good thing, almost a sacred task, that deserves diligence and commitment. This is claimed to have a particular association with commercial society since it is under free competition that people get to choose what kind of work to pursue and how much to do: to be their own boss. Indeed it can be argued that "the honoring of work apart from manual drudgery or heroic daring" is key to the self-identity of the bourgeoisie, the social class that both creates and arises out of modern commercial society (McCloskey 2006: 75).

There is a general agreement that competitive markets foster industry and inventiveness since workers get to keep a share of their enhanced productivity (Maitland 1997). Competition distinguishes and rewards character traits like diligence, punctuality, entrepreneurship, and the intrinsic motivation to work (Kreps 1997). There is evidence that being one's own boss, as promoted by competition, makes one work harder than salaried employment (see, e.g., Lazear 2000; Shearer 2004). It can also be more satisfying since one is being directly rewarded for doing what one is good at. For example, in one experimental study Marion Lienhard (2006) found that piece rates not only directly increased performance relative to fixed wages by increasing effort, but also had an endogenous effect: piece-rate workers raised their productivity in each period (perhaps reflecting an increased incentive to learn). While those working under piece rates generally reported feeling more restless than those under fixed wages, they also reported feeling more focused on their work and 'having more fun.'

So competition can lead to meritocracy that induces industriousness. Nevertheless, industriousness under competition can easily become self-undermining exactly because competition distorts the rewards of hard work in a particularly seductive way.

First, an underdeveloped but over-exercised virtue of industriousness can crowd out the other virtues, leading to people living-to-work, instead of working-to-live. Adam Smith himself identified one of the most troubling consequences of the *specialization*, allowed by the increased extent of the market, that had increased productivity so enormously: pin factory workers could become 'pinheads,' "as stupid and ignorant as it is possible for a human creature to become . . . incapable . . . of conceiving any generous, noble, or tender sentiment" (WN V.i.f.50).

In addition, intense competition produces self-perpetuating anxiety and restlessness, which undermines the peace of mind required for the exercise of other virtues like prudence and temperance.[27] The greater the degree of market competition to which worker-entrepreneurs are exposed the more they will be judged purely on the basis of the market value of what they produce, and the more relentlessly they must compete with every other worker in this field and treat every project as crucial for their identity as well as their career. And this may be the case even if their financial rewards are fair (market) compensation for the productivity of their labor. Managers have an obvious interest in encouraging this in order to get as much work as possible out of workers: in increasingly competitive circumstances that incentive increases as the labor regulations restricting them decrease (cf. Schor 1993). People may find themselves working many hours per week at the expense of the other important commitments in their lives, such as family relationships and long-term health,[28] for a financial reward that, if they thought about it, they would realize they don't really need.

It is quite possible that many people do want to work very long hours for private reasons that are completely sensible, even ethically excellent, whether to build up a company of their own or to pay for the care needs of a disabled child. The issue we are concerned with is whether competition distorts the decision process itself so that it becomes very difficult *not to choose* to work extremely long hours. Not only because people must bear the full cost of choosing to work less, or in safer conditions, as a lower earning power relative to those who are willing to work flat-out (a matter of prudence). But also and primarily because only a certain kind of success is appreciated by the market, and people do want to be successful.

Adam Smith himself gives an example of how the luster of competitive success can seduce us into a primitive kind of industriousness quite out of line both with true industriousness and with what true prudence about the furthering of one's interests really requires. Smith's parable of *'The poor man's son, whom heaven in its anger has visited with ambition'* is itself a rhetorical tour de force and we quote it at some length to demonstrate the vehemence of Smith's skepticism of material self-interest. The poor man's son is enchanted by the picture of the tranquility, comfort, and laziness he believes the accoutrements of the rich afford them (their large comfortable houses, fancy trinkets, servants, and so on). So he chooses to pursue wealth and greatness and

> submits in the first year, nay in the first month of his application, to more fatigue of body and more uneasiness of mind than he could have suffered through the whole of his life from the want of them. He studies to distinguish himself in some laborious profession. With the most unrelenting industry he labours night and day to acquire talents superior to all his *competitors*. He endeavours next to bring those talents into public view, and with equal assiduity solicits every opportunity of employment. For this purpose he makes his court to all mankind; he serves those whom he hates, and is obsequious to those whom he despises. Through the whole of his life he pursues the idea of a certain artificial and elegant repose which he may never arrive at, for which he sacrifices a real tranquillity that is at all times in his power, and which, if in the extremity of old age he should at last attain to it, he will find to be in no respect preferable to that humble security and contentment which he had abandoned for it. It is then, in the last dregs of life, his body wasted with toil and diseases, his mind galled and ruffled by the memory of a thousand injuries and disappointments which he imagines he has met with from the injustice of his enemies, or from the perfidy and ingratitude of his friends, that he begins at last to find that wealth and greatness are mere trinkets of frivolous utility. . . . In this miserable aspect does greatness appear to every man when reduced either by spleen or disease to observe with attention his own situation, and to consider what it is that is really wanting to his happiness. Power and riches appear then to be, what they are, enormous and operose machines contrived to produce a few trifling conveniencies to the body, consisting of springs the most nice and delicate, which must be kept in order with the most anxious attention, and which in spite of all our care are ready every moment to burst into pieces, and to crush in their ruins their unfortunate possessor. They are immense fabrics, which it requires the labour of a life to raise, which threaten every moment to overwhelm the person that dwells in them, and which while they stand, though they may save him from some smaller inconveniencies, can protect him from none of the severer inclemencies of the season. They keep off the summer shower, not the winter storm, but leave him always as much, and sometimes more exposed than before, to anxiety, to fear, and to sorrow; to diseases, to danger, and to death. (TMS IV.1.8, emphases added)

The poor man's son possesses enough prudence to effectively achieve his intermediate goal of wealth, but not enough to consider whether his means (industriousness) and his final end (tranquility) are compatible.[29] But it is also clear that the poor man's son misses the excellence of industriousness because he does not really honor work. Being poor, and wanting to be rich, he has chosen to work very hard at the kind of job that the market will reward him for with wealth and greatness, but only in order to reach his true aim of being free from work. He never thought to choose work that would provide intrinsic rewards and be worthwhile and fulfilling in itself. As a result he never stops perceiving work as the unhappy drudgery that must be got through in order to satisfy his material desires. In the absence of the true virtue of industriousness, people will only ever work for and according to external incentives—i.e., under market competition, for wealth—and not for themselves.

To see how self-motivated industriousness and market-motivated industriousness differ, consider their effects within the firm. As Solomon has pointed out, firms are co-operative communities (Solomon 1992a). They exist because of the positive economies of scale to many business activities (not only to reduce negative transaction costs), for example, those due to teamwork (Heath 2006). Teams are groups whose work is characterized by disproportionately increasing returns to each additional individual's contribution. Here it isn't possible to isolate each individual's particular marginal contribution, and it is even difficult to externally monitor effort. Effective teamwork depends on the development of reciprocity and trust between members in environments insulated from certain market relationships (Heath 2006: 331). Introducing market type competition means that workers inside a firm will compete directly with each other as if they were independent contractors in a market, i.e., willing to work hard, but only for market based competitive pay. This may well unravel the delicate reciprocity between team-members by encouraging greater strategic performance (e.g., shirking) by members looking to maximize their apparent contribution but minimize their actual effort. If effective teamwork is no longer possible, it may be necessary to switch to less efficient piece-rate systems of production and those positive returns to co-operation would be permanently lost. Here increasing competition that induces only a primitive form of industriousness leads to *reduced* diligence and commitment as a result of its own narrow logic.

3e. Honesty

> The success of [men in the inferior and middling stations of life] almost always depends upon the favour and good opinion of their neighbours and equals; and without a tolerably regular conduct these can very seldom be obtained. The good old proverb, therefore, that honesty is the best policy, holds, in such situations, almost always perfectly true. In such situations, therefore, we may generally expect a considerable degree of virtue; and, fortunately for the good morals of society, these are the situations of by far the greater part of mankind. (TMS I.iii.32)

Honesty as a virtue and an excellence is about more than truth-telling (deontological duties) or 'best policies' (utilitarian calculations). At the heart of honesty is a commitment to impartiality, involving appropriate respect for the legitimate interests of others and the consideration of what an impartial spectator would consider right for someone in your position to say and do.[30] Dishonesty consists in a self-serving partiality that systematically disrespects one's interlocutors and relationship partners, that disrespects their autonomy by considering them in a purely instrumental way, for example, by failing to tell one's commercial partners information they have a right to know. Honesty therefore goes beyond truth-telling or 'not-lying' to include such general qualities as sincerity and frankness which make trusting cooperation possible. But it also concerns the particular orientation and concerns that should follow from the roles, relationships and promises that one enters into. One should become disposed to automatically consider the legitimate interests of one's commercial partners—whether they be customers, employees, or collaborators—and provide the information and service that they have the right to expect.

In commercial societies where buyers and sellers are free to switch to other partners, establishing a reputation for honesty is certainly the best policy. According to Smith, people who seldom deal with others are more disposed to cheat, while the repeat transactors found in commercial societies will see that they can profit better by offering the best price/quality goods rather than by deceiving others (Smith 1982a: 538–39). The efficient working of commerce depends on mutually trusting relationships to the extent that complete contracting is not possible (which, as New Institutionalist economists have demonstrated, is a very great deal). Members of commercial societies therefore have an interest in honesty: there is a competitive advantage to interacting with honest merchants and thus for being seen as honest oneself. In the longer run one may expect, as Smith did, that the extrinsic incentives provided by markets will be internalized and elaborated into the genuine virtue of honesty. Indeed, recent empirical research finds a correlation between the degree of market integration and the take-up and enforcement of fairness norms across multiple societies, and suggests that such norms are socially developed responses to commercial incentives rather than natural evolutionary adaptations (Henrich et al. 2010). Other research argues that the formal institutions of property rights and contract law associated with increased use of markets increase trust in a society (e.g., Knack and Keefer 1997, Berggren and Jordahl 2006).

In the following we first discuss the role of reputation mechanisms in supporting the viability of honesty and how they are affected by intense competition and then move on to discuss how the core feature of impartiality may be undermined by certain institutional arrangements, and finally the scope for competitive innovation about what honesty means.

Within competitive markets honesty is assessed and rewarded through reputation mechanisms which operate wherever three conditions are jointly met (Bovenberg 2002; Graafland and Smid 2004; Smith 1982a: 538–39). First, information about the agent's past behavior must be available to all potential trading partners. Second, as a good reputation only pays off in the future, a good reputation will only be important to the company if it has a long-term horizon. Third, the reputation mechanism is more effective if a good reputation is collectively rewarded and a bad reputation collectively punished. In moderately competitive markets the reputation mechanism tends to work well: collective punishment is self-enforcing and neither the government nor the courts have to participate in punishing dishonest behavior (Graafland and Smid 2004).

However, honesty can be undermined by the effects of increasing competition on reputation mechanisms. Low entry/exit barriers mean that players in the market may change constantly so that information quickly becomes outdated and long-term horizons collapse. The short term focus induced by competition can corrode trust by crowding out people's long-term commitments (Sennet 1998). Layard (2003) argues, based on various sociological studies, that flexibility and geographical mobility, often defended by economists because they facilitate competitiveness, decrease mutual trust and therefore trusting behavior. Furthermore, large numbers of market participants (e.g., following the global extension of markets) are also difficult to keep track of and may also fail to take up their obligations as community members to take the trouble to punish bad behavior. Information about the honesty of counter-parties may be difficult to obtain and of low quality since one has a second order problem in analyzing the honesty of both dishonesty reporters and information brokers such as rating agencies.

To the extent that intense competition may undermine the viability of reputation mechanisms, it undermines the disciplinary effect of competition in schooling individuals to be honest. As was noted earlier, if honesty is not picked out and valued by the market, it may be subject to competitive selection to the extent that honest actors are less efficient in achieving what the market does measure and value. The properly honest competitor will then face a relative or even absolute decline in her ability to compete on such a playing field and may eventually have to choose between adopting the dominant strategies or going out of business.

Apart from affecting the reputation mechanisms supporting the viability of honesty, competition may also directly corrupt its commitment to impartiality. There are some ways of organizing firms, and some products, that may thrive in competitive markets but that may present such extensive moral hazard that Smithian honesty becomes impossible.

Finance provides many examples of how certain institutional arrangements, combined with competition, may crowd out impartiality. Companies with interests in both brokerage fees from facilitating transactions and capital gains from proprietary trading depend on apparently very fragile 'Chinese walls' to maintain proper impartiality. Likewise rating agencies paid by those they rate but owing impartiality to the wider public. Competition between rating agencies does indeed appear to have induced a softening of professional standards ('rating inflation'), because of the clear financial incentives rating agencies have to keep their paying customers happy by giving them somewhat higher ratings than objectively warranted (Skreta and Veldkamp 2009).

There are also some product innovations that may involve such moral hazard that they put excessive pressure on impartiality, such as some derivative products sold in the lead up to the 2008 financial crisis that allowed actors to buy insurance on other companies defaulting on commitments they had encouraged them to make (the moral hazard of which has been likened to being allowed to sell people damaged second hand cars and then buy accident insurance on them). Such products may be directly incompatible with the impartiality one's market partners deserve, may put pressure on one to behave partially, and may provide new and influential exemplars of acceptable behavior that shift other market agents to understand the demands of honesty in the same way (for example to interpret honesty as requiring no more than meeting the minimum legal obligations since other market agents are 'grownups' who should know what they're doing).

There can also be competition for dishonesty. Since honesty concerns discriminating judgment about one's imperfect obligations to others it covers a wide grey area. There is much scope here for profitable 'innovation' or 'gamesmanship' about the informal standards of what honesty means, even while remaining technically within the law. For example, where market structures enable one company to force others to accept grossly unfair changes in terms and conditions of payment (such as large corporations are often able to demand from their smaller suppliers or from non-contracted workers) competition will encourage directors to do so because the company is competing with rivals to sell similar goods at the lowest production price. Directors of pharmaceutical companies may choose not to publicize problematic side-effects that would affect sales, as is presently often their legal right. Advertisers have incentives and plenty of scope to exploit information asymmetries and mislead consumers, while avoiding the strict legal proscription of being "materially misleading" (Heath 2007: 370).

The keener the competition, the higher the pressure to perform, the more such innovations will be taken up by others and the more pervasive they will become as part of the basic operating environment for all players, and thus the more normal they will appear. Honesty may come to mean something quite different in the market from what it means outside, for example, in one's dealing with one's colleagues within the firm, and this difference will itself come to seem natural and unremarkable.

4. CONCLUDING REMARKS

In the conclusion of his influential article Hirschman suggested that the moral foundations of commercial society might be considered in terms of a moral balance sheet with incomings and outgoings from its moral stock (Hirschman 1982: 1483). He illustrated his argument with the example that the practice of commercial transactions generates feelings of trust and similar 'doux commerce' feelings, but at the same time permeates all spheres of life with the element of calculation and instrumental reason. Hirschman thereby acknowledged that an excess of depletion over replenishment was possible, resulting in a crisis of the system.

We have not attempted so comprehensive an analysis but have focused instead on the effects of competition on a key subset of bourgeois virtues and attempted to show that although they may indeed thrive in moderately competitive circumstances that provide a 'school' for the virtues, there are many specific mechanisms associated with intensive competition that may crowd out these virtues and their underpinning institutions. In general, competitive markets may support and be supported by such virtues where competition supports emulation, individual autonomy, interdependency, reputation building, and meritocracy within shifting but relatively stable structures. However, higher degrees of competition may also undermine these virtues when individuals are not permitted the relative stability to develop and exercise them and where market forces, and resulting social pressures, either provide no support for their development or incentives against their development.

The flourishing of virtues and the flourishing of commerce are conceptually distinguishable. In the short term, as we have shown, they may point in different directions. Nonetheless in the long term the flourishing of the bourgeois virtues—such as the honesty that supports trusting, long-term, co-operative relationships—would seem to be important for the flourishing of commerce, as many social capital analyses have suggested (see, e.g., Zak and Knack 2001). We should also note that while competitive pressures may undermine these virtues they will not necessarily replace them with different ones. In fact extreme competition would seem to undermine the capacities of individuals to maintain long term character dispositions at all in the face of relentless flux in conditions and relationships.[31] But considering the logical extreme is of course too easy. The really important question is about the contested middle-ground in which recognizably human agents operate in the circumstances of intense but not impossible competition. Smithian analysis here has an advantage over orthodox economic theory because human psychology—and frailty—is properly at the centre, together with its dependence on various institutional arrangements. In light of this, one should be suspicious of the general promotion of competition (and the conditions for purer, freer competition):[32] though greater competition is claimed to increase market efficiency, welfare, and freedom, our analysis suggests that relationship should not be taken for granted in all circumstances.

Our analysis suggests lines of future research. First, the Smithian framework that our article develops for analyzing the relationship between competition and virtues invites a more detailed analysis of each of the bourgeois virtues that are highlighted in this article, as well as the other virtues—such as justice and benevolence—that Smith considered important for an ethically successful commercial society. Such a micro-level analysis would draw far more systematically on the extensive social scientific literature than has been possible in this article. Such an analysis would also allow us to say much more about how specific institutional arrangements associated with market competition affect different virtues.

Second, this line of research may have public policy implications that are worth investigating. If there is, in crude terms, a trade-off between high competition and sustainable commercial society via the relationship between specific competitive market institutions and particular virtues, it may be that targeted *institutional interventions* could shift that trade-off to the right, allowing us to capture more of the benefits of competition in a sustainable way (notwithstanding the role of direct educational efforts concerned with promoting the understanding of true virtues of the kind recommended by Robert Solomon and other business virtue ethicists).[33] Such interventions are in fact routine in successful capitalist countries, but are generally restricted to dealing with perceived market failures and justified on the basis of justice (such as labor protection) and welfare (such as consumer prices). But they are rarely explicitly focused on the problem of *individual ethics*: how to help people live good lives under the particular pressures and temptations of commercial society. Although to some extent the standard regulatory concerns may coincide with the institutional underpinnings of the bourgeois virtues—for example reducing information asymmetries can be justified in terms of consumer welfare as well as making dishonesty more difficult—it would be interesting to look more closely at what a Smithian virtue ethical approach would recommend.

In brief, our analysis suggests that such interventions would have public goods characteristics and would need to come from outside the logic of the market itself, although that doesn't mean that only governments can supply them. For example, there may be a big role for business civil society institutions and associations. Such interventions should be as far as possible compatible with the proper interests of market actors, with government interest more focused on promoting the conditions for sustainable ethical flourishing than the legal prescription of particular outcomes.

Examples of such interventions might include introducing stability by putting a floor underneath market practices, for example, by banning certain business structures and products associated with excessive moral hazard. Legal status for professional codes of practice and ethics can also support individuals' ability to withstand pressures towards the lowest common denominator, reduce gamesmanship, and provide clear moral exemplars for new market entrants. More responsible framing of choices may make it easier for individuals to exercise prudence and temperance.[34] Higher standards of transparency, together with reporting requirements, can support reputation mechanisms by supporting the re-identifiability of agents, the free flow of accurate information and compulsory reporting of dishonesty.

NOTES

1. Notable contemporary proponents of this critique include Alasdair MacIntyre (see, e.g., MacIntyre 1981, 1995) and Richard Sennett (see, e.g., Sennett 1998, 2007).

2. Contemporary examples include Maitland 1997; Florida 2002; McCloskey 2006; Badhwar 2008.

3. There are severe methodological problems in translating social science research on relevant topics like social capital and rationality into meaningful evidence about virtues.

Firstly, how should one understand the terminology of empirical research in terms of virtue ethics? Many normative terms in empirical research such as 'trust' or 'fairness' have specific and concrete definitions, often based on behaviorist criteria, that aid standardized measurement and experimental design within a particular field or sub-field but do not have the generality of virtue ethical terms like honesty. 'Social capital' is not civility, but it seems related; likewise 'rationality' is not prudence; 'inequity aversion' is not honesty (or even fairness), 'job intensity' is not industriousness, and so on.

Secondly, is a mechanism identified by such research significant in the real world: i.e., is it at work outside the laboratory context? How does it interact with other mechanisms to produce outcomes? Virtue ethics is about enduring character dispositions, but most empirical research concerns observable behavioral patterns and often has a limited temporal horizon and narrow focus (especially experiments). Thus although we assume that changes in behavior induced by competition can generate enduring changes to character, and hence virtues, the empirical research that we refer to provides at best some indirect suggestions for this.

These methodological considerations necessitated the piecemeal and pragmatic use we make of empirical research to support the *plausibility* of the tendencies we suggest, rather than to demonstrate them or particular outcomes.

4. Indeed McCloskey considers Adam Smith to be "the Last of the Former Virtue Ethicists" (McCloskey 2008).

5. For further analyses of the differences between Aristotle's and Smith's virtue ethics see, for example, Calkins and Werhane 1998; McCloskey 2006.

6. On Smith's stadial view of societal development and its relation to moral systems see, for example, Pitts 2005 (chap. 2). Political economy sets the broad structural features of a society but does not determine its ethics with any precision.

7. Including, for example, Griswold 1999; Otteson 2002; Fleischacker 2005; Rasmussen 2008; Hanley 2009.

8. Although there has been some. Patricia Werhane, for example, has published on the relevance of a properly understood virtue-ethical Smith for business ethics (particularly focussing on justice) (Werhane 2000). Elsewhere she has also made innovative use of Smith's moral psychology in her work on moral imagination in business (Werhane 1999).

9. Smith in fact conducts a running battle in TMS with those, such as Mandeville and the stoics, whom he accused of eliding the first order subjective perceptions of ordinary moral actors with the ultimate causes of morality in a manner which caused the former to disappear (Griswold 1999: 53–54).

10. The role of social institutions is an important, if understudied, issue in virtue ethics. Solomon, for example, often quoted the Greek saying to the effect that "to live the good life one must live in a great city" (e.g., Solomon 1992a, 327). Although in that case Solomon was relating the issue to his advice to his students to choose a good community (corporation) to work for, while we are concerned with the wider social context of commercial society in general, which individuals do not really have a choice over.

11. As Blaug notes, such a process orientated conception of competition is fundamentally distinct from the end-state conception, common in contemporary mainstream economics, which is focused on allocative efficiency under circumstances of 'perfect competition.' Nevertheless 'competition as rivalry' is still employed in contemporary economics. For example, Vickers (1995) adopts 'rivalry' as the core of his definition of competition (following Stigler's (1987) definition in *the New Palgrave*). Vickers notes that his definition is broad in the sense that it encompasses all sorts of forms of rivalry; that it defines competition in behavioral terms (rather than in terms of states or situation); that it does not in any way presume that more competition is necessarily good; and that it is closely linked to Adam Smith's concept of competition.

12. Cf. Smith: producers "in order to undersell one another, have recourse to new divisions of labour and new improvements of art which might never otherwise have been thought of." (WN V.i.e.26). This shows that Smith's understanding of the dynamics of competition goes beyond immediate price determination within markets, to include aspects of what is now called 'Schumpeterian competition.'

13. Cf. Smith: "The interest of the dealers, however, in any particular branch of trade or manufactures, is always in some respects different from, and even opposite to, that of the public. To widen the market and to narrow the competition, is always the interest of the dealers. To widen the market may frequently be agreeable enough to the interest of the public; but to narrow the competition must always be against it, and can serve only to enable the dealers, by raising their profits above what they naturally would be, to levy, for their own benefit, an absurd tax upon the rest of their fellow-citizens." (WN I.xi.p.10)

14. We derive our list from those emphasized by Hirschman (Hirschman 1982: 1465), though we leave out 'punctuality.' We do not claim that our list is definitive.

15. Werhane considers justice to be the essential virtue for Smith's political economy since it is the foundation of the functioning commercial society (Werhane 1989; 1991). It certainly is important to Smith. Nevertheless we do not include justice on our list of *bourgeois* virtues because it is not generally included in the Doux Commerce thesis (e.g., in Hirschman's list [Hirschman 1982]), and indeed is generally considered necessary to any political community 'commercial' or otherwise. In addition, Smith's particularly narrow interpretation of justice as commutative only, as one's perfectly specifiable, and thus legally enforceable, obligations to others, makes it an unusual virtue in which excellence is impossible. In Smith's words, "Mere justice is, upon most occasions, but a negative virtue, and only hinders us from hurting our neighbour. The man who barely abstains from violating either the person, or the estate, or the reputation of his neighbours, has surely very little positive merit. He fulfils, however, all the rules of what is peculiarly called justice, and does every thing which his equals can with propriety force him to do, or which they can punish him for not doing. We may often fulfil all the rules of justice by sitting still and doing nothing." (TMS II.ii.9)

16. Smith: "Another bad effect of commerce is that it sinks the courage of mankind and tends to extinguish martial spirit" (Smith 1982a: 540), because the division of labour reduces the physical and mental capacities of the poor while the pursuit of art and luxury by the rich makes them "effeminate and dastardly." The workings of commercial society made this more or less inevitable, but here as elsewhere Smith proposed that institutional responses, organised by government, could partially redress the decline of martial spirit and its consequences (WN V.f.58–60).

17. McCloskey characterizes prudence as the essential 'executive function' in ethical life and describes the economist's version of it as a caricature that both reduces all other virtues, such as love and justice, to elements of a utility function, and reduces practical wisdom itself to the self-serving opportunistic calculation of utility maximization (see, e.g., McCloskey 1998).

18. Smith notes that self-directed prudence "commands a certain cold esteem, but seems not entitled to any very ardent love or admiration" (TMS VI.i.14). Hanley makes a good case for considering beneficience the highest virtue in Smith's system (Hanley 2009); Werhane argues that it is justice (Werhane 1991); while Raphael and Macfie take the stoical interpretation that it is self-command (Raphael and Macfie 1982).

19. Smith argues that the ordinary form of each virtue found in contemporary social practices, which no-one has an excuse not to achieve, contains within its logic an idea of excellence, of true virtue: "The wise and virtuous man directs his principal attention to the first standard; the idea of exact propriety and perfection. There exists in the mind of every man, an idea of this kind, gradually formed from his observations upon the character and conduct both of himself and of other people. It is the slow, gradual, and progressive work of the great demigod within the breast, the great judge and arbiter of conduct. . . . Every day some feature is improved; every day some blemish is corrected" (TMS VI.iii.25). Considering one's talents from the perspective of market demand is not to recognize their 'true worth,' but it can be a helpful start.

20. For example, Rappaport notes that while the average holding period for stocks until the mid-1960s was about seven years, it is now less than a year in professionally managed funds (Rappaport 2005).

21. Smith believed that markets could *school* people in prudence, but not that markets could substitute for individual prudence, and he would have had no truck with the Efficient Market Hypothesis. Thus, despite his commitments to free competition, Smith in fact proposed various regulations to prevent markets from being overcome by imprudence, such as banking regulations and interest rate limits (WN II.ii.94, WN II.iv.15).

22. The term was coined by the social psychologist Lee Ross (Ross 1977) to cover a range of related phenomena, including the tendency of agents to attribute their own successes to their own qualities and their failures to external forces. Other research suggests that the effect is positively related to the level of *individualism* in a society (e.g., Miller 1984), which would itself seem a natural consequence of increased competition. It has been taken up in the behavioural economics literature (e.g., Kahneman, Slovic, and Tversky 1982: 135–140), who speculate that to an observer agents generally appear more *salient* than situational features (139).

23. As Smith notes, "The great secret of education is to direct vanity to proper objects" (TMS VI.iii.46).

24. Smith presents a complex account of human moral psychology in TMS to support this. Humans naturally desire the approval of others and so learn to consider their behaviour from the perspective of any representative disinterested bystander, or *impartial spectator*, and adapt their behavior to meet its approval even if no one is present. The impartial spectator then provides a device for the individual to develop their own sense of propriety that may go beyond actual social conventions. For example, Smith turned European criticism of 'barbaric' Chinese foot-binding practices around and showed that the logic of the argument, to an impartial spectator, was equally applicable to the physically disfiguring corsets that European fashion had imposed on women (TMS V.1.8).

25. Even most 'necessities' are not physiologically based, but set by society's minimal requirements of decency, which does not make them any less real. As Smith noted, in different parts of Europe people *needed* different clothes just to appear in public without shame.

26. Smith associates such sensibility with the development of 'civilized society' in which people feel secure enough to relax with each other and be patient and considerate of each other's emotions and weaknesses, in contrast to the wound up emotional intensity and barely restrained violence that he associates with the insecurity of 'barbarian' societies (TMS V.2.10). Compare also with Solomon's criticism of thinking of business life as "like the brutal and heroic world of Homer's *Iliad*" (Solomon 1992a, 332).

27. Industriousness also directly interacts with temperance, insofar as one's time, attention, and energy, are also resources that one 'consumes' in ways influenced by one's perception of and management of one's relationship to social standards, so the same mechanisms analysed under temperance can also apply. By their nature, the virtues continually interplay with each other so that effects on one may undermine, support, or transform others, and this is certainly relevant to the full consideration of the effects of competition on the bourgeois virtues. However, lack of space precludes further development of this issue here.

28. If people are under great pressure to be too industriousness, they may 'burn out.' As Smith noted in arguing that higher and fairer wages generally motivated people to work harder rather than increasing

laziness, "Workmen, on the contrary, when they are liberally paid by the piece, are very apt to over-work themselves, and to ruin their health and constitution in a few years" (WN I.viii.44). There is a wealth of empirical research on how work intensity and duration negatively affects workers' stress, long-term health, and life and relationships outside work. For example, Major, Klein, and Ehrhart (2002) find 'work overload' (job intensity) and organizational expectations for time spent at work directly related to reported work–family conflicts and also psychological distress, with implications for long-tem mental health and hence future industriousness. White et al. (2003) find that 'high performance work practices,' employed by firms to raise commitment and productivity through, for example, performance related pay and appraisal systems, are associated with increased work-family life conflicts.

29. This passage has been the subject of much scholarly attention (see, e.g., Fleischacker 2005: 105–11; Hanley 2009: 104–09). Significantly it incorporates phrases directly taken from Rousseau's *Discourse on Inequality*, and seems to be saying that yes, Rousseau is right, even if materially wealthy a commercial society in which only a primitive basic prudence was possible would be, as Rousseau argued, composed of people motivated by amour-propre to pursue endless and insatiable desires, perpetually restless and unhappy.

30. Recall that justice for Smith is limited to the 'negative virtue' of not breaching one's perfectly specifiable, and thus rather limited, obligations not to harm others. Honesty can be considered the positive side of fairness in that it requires respect for others, and honoring one's particular relationships with them, in ways that go beyond what can be legally prescribed.

31. As Marx put it "Constant revolutionizing of production, uninterrupted disturbance of all social conditions, everlasting uncertainty and agitation distinguish the bourgeois epoch from all earlier ones. . . . All that is solid melts into air, all that is holy is profaned" (Marx and Engels 2002: 223).

32. Such promotion is often linked to laissez-faire economic ideology and a business friendly agenda (less taxes and government regulation), as, for example, with the Fraser Institute's annually published index of 'Economic Freedom.'

33. Similarly, Adam Smith, after extolling the benefits of free markets at great length, spent book V of the WN laying out in great detail partial institutional correctives for its deleterious consequences.

34. There is some overlap here with the analysis and recommendations of so-called 'Libertarian paternalists' (see, among many recent contributions, the overview provided in Thaler, Sunstein, and Balz 2010).

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