

1. SYMPATHY PROPER

Sympathy is about **understanding (empathy) that leads to judgment (deciding whether to approve of conduct)**. For example:

EXAMPLE: Domestic violence situation (Khalil, 2015) -

There is a difference between the *psyching moment* (empathy), as when the spectator understands why an abused wife erupted in the heat of the moment and killed her husband; and the *judgment moment* (sympathy), as when the spectator nonetheless disapproves of the act, as it lacks self-command.

This is the reason people say, "I see where you are coming from" - they may understand your course of action, but do not approve/sympathise with you (*note: peculiar sympathy is the opposite - approval but no understanding*).

Judgment is a necessary condition for sympathy proper. As such, there are 2 types of judgment in sympathy proper:

1. **Decision sense (Merit Judgment)** - determining the optimum action (3-station scenario - C judges what A does to B). *Was the action called for under the circumstances?*
 - a. Involves weighing up self-interest against the interest of others i.e. the dichotomy between altruism and self-interest - "sympathy-as-motivation".
2. **Command sense (Propriety Judgment)** - executing the optimum action (2-station scenario). *Was the action suitable under the circumstances?*
 - a. Involves selecting an emotion/action which has been decided previously i.e. to resist the temptation of being swept away in the heat of the moment - "sympathy-as-approbation".
 - b. Under the command sense, the individual/principal seeks the approval of the impartial spectator.

Each of these judgments leads to one of two types of virtues:

1. **Action virtues** - substantive conduct with tangible repercussions (i.e. Prudence - taking care of ourselves; Justice - behaving with integrity; beneficence - altruism).
 - a. Such actions are primarily judged for *merit*, with propriety secondary.

EXAMPLE:

Enrolling in university is an action-virtue because it has tangible repercussions. It should be undertaken mainly because of its welfare effect (*merit*), and secondarily because of the approval of others (*propriety*).

2. **Inaction virtues** - non-substantive conduct based on intensity of emotions with no tangible repercussions (i.e. Self-command).
 - a. Such actions are only judged for propriety.

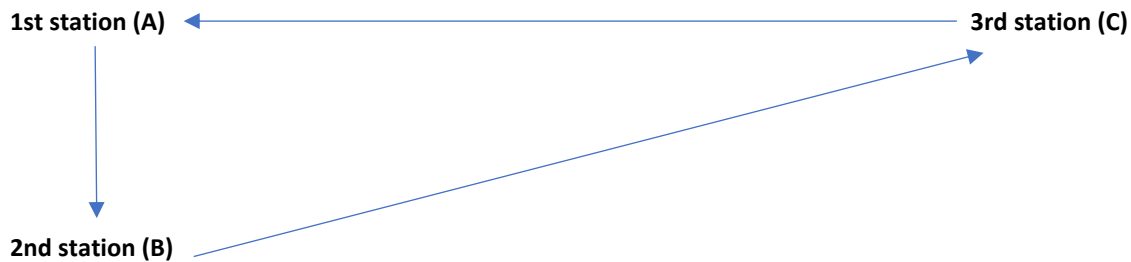
EXAMPLE:

Restraining anger - has no tangible repercussion, but it should be undertaken solely for the approval of impartial spectators.

Virtue is derived from judgment (i.e. sympathy). Optimal human conduct is unified by sympathy.

Merit Judgment

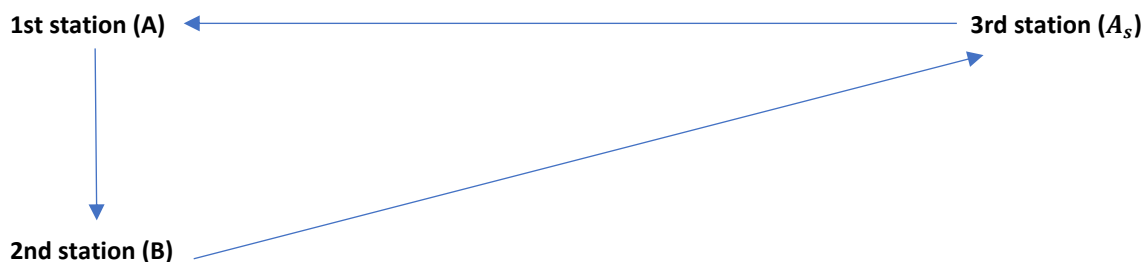
(1) Determining what *others* should do; weighing the competing interests of *others* (broken lines - $A \rightarrow C$; dotted lines - $B \rightarrow C$):



The principal, A - whose actions need to be assessed - occupies the first station. B, the recipient, inhabits the second station. C resides in the 3rd station. C judges what A is doing to B.

NOTE! Why 3 stations are needed - if C is concerned solely with finding out whether B's feelings are in *proportion* to the stimulus (propriety judgment), there will only be a need for 2 stations. But since C is also judging the *cause* of the stimulus, 3 stations are needed to judge cause and effect.

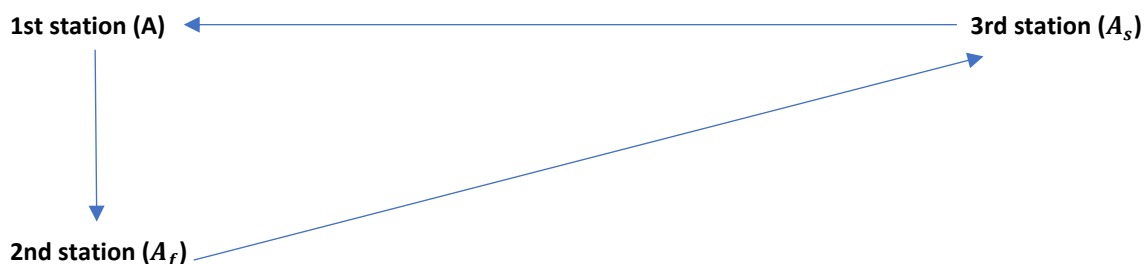
(2) **CONCURRENT ALTRUISM** - Determining what the *self* should do; weighing self interest and other interests (broken lines - $A \rightarrow A(s)$; dotted lines - $B \rightarrow A(s)$):



The principal, A - whose actions need to be assessed - occupies the first station. B, the recipient, inhabits the 2nd station. The spectator, $A(s)$ (*self-reflective A*), inhabits the third station. $A(s)$ occupies the position of C, deciding what action A should take towards B.

Here, the self is the spectator, judging the merit of the action of the self - as one matures, instead of relying on spectators *without*, we rely on spectators *within*.

(3) **SEQUENTIAL ALTRUISM** - Determining what the *self* should do; weighing up self-interest and future-interest:



The principal, A resides at all stations. A - whose action needs to be assessed - occupies the first station. The person affect is future A ($A(f)$), occupying the place of B and inhabiting the second station. The spectator, self-reflective A ($A(s)$), occupies the third station. $A(s)$ occupies the position of C, deciding what action would be best for their future self ($A(f)$). This is the *inter-temporal choice*: taking care of oneself - **prudence**.

In sum, **judgment of merit is all about altruism** - weighing self-interest against other interests. This is Smith's insight into why individuals have a connection to society at large: *there is significant benefit to society understanding our actions*.

Propriety Judgment

One is obligated to observe the rights of others, as determined by *merit judgment*. But people still respect the property of others (*justice*) and respect their future selves (*prudence*) even when they can get away with actions hurting themselves or others (eg. Theft) because of their **internal constraints i.e. self-command**.

Internal constraints constitute doing that which is right, either to get the approval of others or of our impartial selves.

(1) JUDGMENT OF OTHERS (Note - use discontinuous line):

1st Station (A) ←————— 2nd station (B)

The principal, A occupies the first station. Spectator B inhabits the second station, judging B. B is judging the *extent of the reaction of A in relation to the cause i.e. B is not judging the cause; rather, whether A is reacting proportionately and suitably - optimum action*.

A's action can either be about the observation of rights or about their observation of non-obligatory action.

(2) JUDGMENT OF SELF (Note - use discontinuous line):

1st Station (A) ←————— 2nd station (A(s))

The principal, A occupies the first station. The spectator, A(s) - the self - inhabits the second station. Spectator A(s) judges him/herself.

Judgment of propriety allows us not to get carried away or over-react to a stimulus (i.e. 'lower our pitch') - otherwise, the impartial spectator* cannot enter the 1st station and sympathise with the principal. If emotions take over and pitch is 'too high', the impartial spectator ceases to pay attention.

Thus, we use the sympathy of others to discipline the self.

***Impartial spectator** - the spectator is impartial because they are neither (a) obsessed with the self to the point of being unable to change stations, nor (b) excessively identifying themselves with the principal to the point of reacting with a higher pitch than the principal. *The excessively self-centered person and the excessively humane person lack impartiality.*

The implication of this is that A needs to "lower their pitch" i.e. not get carried away or over-react to their stimulus to allow B to enter their station - **lowering pitch allows for engagement of 'fellow feelings' by the impartial spectator.**

Self-Command

Sympathy is about gaining approval. People seek an action which would gain the approval of the 'impartial spectator'. The impartial spectator is not public opinion, but the *ideal self*, telling the *acting self* how best to act in the 3-station scenario.

To gain approval, one must curtail their emotions. If one indulges in excessive emotions, the impartial spectator cannot travel to their station and enter the emotions of the current self; that is, excessive emotions will not receive approval (i.e. sympathy) by the impartial spectator. Therefore, the current self must "lower their pitch" to allow for the impartial spectator's sympathy.

However, one does not have to completely curtail their emotions; the impartial spectator will allow for some emotions (the current self has rights too!). But one should not indulge the current self with over-reaction or hysteria, as this will only hurt the future self. In this sense, the current-self engages in **self-command**.

However, when self-command fails, the agent resorts to *self-control mechanisms*, such as aversion therapy or abstaining from technology during examination periods.

Self-command v self-control:

- ✓ **Self-command** - is about *internal constraints of humanity* i.e. the reason why a police state with excessive monitoring and surveillance isn't necessary: people do that which is morally right.
- ✓ **Self-control** - is about *external constraints* i.e. what people engage in when self-command fails, either through weakness of will or succumbing to temptations. It is at that point that laws and punishments become necessary.

2. VICARIOUS SYMPATHY

Desire

For Smith, every human being has a *desire for distinction*. This 'desire' is the ambition to achieve a distinguished trait. It is an all-consuming drive. However, desire is irrational; it is wanting something beyond one's budget constraint.

Ambition is the attempt to achieve that desire. Ambition is based on the imagine belief that the higher station expresses the 'perfect state'. However, the desire for that higher station may not occasion as discussed if the low-rank agent *believes he can emulate that state him/herself*. In this case, the desired station would be the 'object of envy'. But if one is *frustrated in achieving that state*, they start to *vicariously enjoy the utility of other's*. **This is the crux of peculiar (Smith) / vicarious (Khalil) sympathy.**

NOTE: As stated previously, vicarious sympathy is self-centered: one is concerned with improving their own status, attaining their desire through identification with the successful. In contrast, sympathy is not self-centered: it amounts to placing oneself in someone else's shoes.

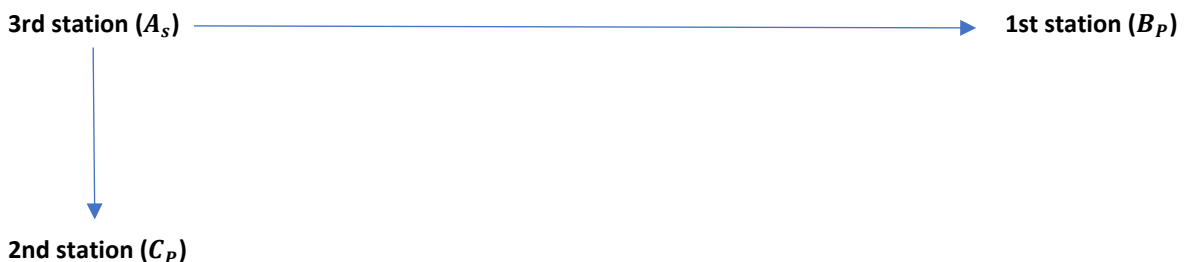
Ambition v Utility

Ambition (Smith)	Utility (Neoclassical Economics)
Ambition - the desire for higher distinction - stems from the desire to be noticed.	Utility has its foundation in pecuniary interests.
Ambition corresponds to the notion of <i>symbolic welfare</i> i.e. welfare confirming one's self-image/self-esteem.	Utility corresponds to the notion of <i>material welfare</i> i.e. attaining shelter, food, entertainment etc.

Ranking

People have a desire to be around those of higher rank in society. We feel a *peculiar sympathy* with the satisfaction of those who are of a higher rank.

One decides which agents are more successful than him using the 3-station model.



The trait/ability under focus must be available *equally* to agents to allow for ranking of capabilities. Here:

The Spectator (**A(s)**) is positioned at the 3rd station, while the potential capability of the subject (**B(p)**) is positioned at the 1st station. **A(s)** wants to estimate the distinction of **B(p)** in comparison to the potential capability of a second agent, **C(p)**, situated at the 2nd station. Given **A(s)**'s impartiality, he should be able to determine the agent who ranks higher than the other.

Imaginative Sympathy

To be the object of *imaginative sympathy*, one must be an object of desire. In the context of imaginative sympathy, sympathy acts as an 'imaginative pleasure' in the sense that the benefit, which comes from a person of higher rank, *is imagined as happening to one's own person, but which cannot be attained* (cf. **sympathy proper = spectator must imagine being at the actual station of the other**).

There are typically **3 stages of desire**:

1. **Jealousy** - as long as one remains in competition with others of higher rank, the success of the other engenders jealousy. But once the first agent gives up, realising he cannot remain in competition, 2 options follows:
 - a. **Authority** - where the agent gives up and is ready to accept the other in higher rank as his superior or master; or
 - b. **Envy** - where the agent is not ready to surrender. He becomes even more bitter that he was not endowed with the trait of his competitor.

IN SUMMARY, PECULIAR SYMPATHY FORMS FROM THE FOLLOWING:

Peculiar Sympathy = Admiration/Ranking + Desire

No desire → No peculiar sympathy

In other words, *ranking* leads to *admiration*. At this stage, while agents are in competition, there is a feeling of *jealousy* between the agent and individual with the admired trait. This jealousy leads to *desire*.

Should the agent realise that he/she cannot achieve the object of admiration, but refuses to surrender and becomes bitter about not being endowed with the admired trait, the agent develops *envy*. But if the agent gives up, accepting the person with the admired trait as their superior, the agent develops a sense of *authority*.

Peculiar sympathy = placing the person with the admired trait on a pedestal.

Status Inequality and Commerce

Status inequality speaks of the *exchange of goods among agents of different status* - does the exchange of products among agents have the same meaning irrespective of whether they are of equal or unequal status?

EXAMPLE:

Let us take the prices of two products, X & Y, each made by equally skilled men, where each man spends 'Z' amount of labour-time in making the product. The only difference is that the labourers have different statuses - one product being made by a British colonialist (i.e. *someone of high class and stature*) and the other by a British subject (i.e. *someone of lower class*).

Would the price of X still equal the price of Y?

Adam Smith; Karl Marx - advocated the labour theory of value i.e. the market does not recognise status inequality, and there is no difference between the value of labour-time of 2 equally skilled men. The prices should be the same, as their labour-time is treated as equivalent.

J S Mill v Thomas Carlyle v Thorstein Veblen - also supported the labour theory of value, and called for the emancipation of slaves based on that notion i.e. there is no difference between the value of labour-time for 2 equally skilled men, even if one is a slave and the other a master. All men should be equal in the marketplace.

In opposition, Carlyle called economics the 'dismal science' because it does not allow for status, distinction or pursuit of ideal goals. Carlyle, who was pro-slave, believed that the differences of the wealth of nations could be attributed to differences in racial qualities, not to differences in technology, resources or judicial systems securing market exchange.

But Carlyle's view *ignores the issue of status*. In this regard, Veblen's theory of the snob appeal is relevant: the quest for status leads people to consume a lot more of a good once its price becomes more expensive because it would then act as a barrier for the lower status consumers who would be unable to afford it.

Brand Signal Status

Following on from Veblen's argument, brand names signal status. With branding, two products can have the same cost structure, but sell for different prices. This violates the 'sacred law of economics' - namely, the *law of one price: two homogenous products with the same cost structure should have the same price*. Brand names create class barriers between status groups in society.

3. THE INVISIBLE HAND

Introduction

The Invisible Hand is neither *neo-Darwinian*, where favourable traits arise because of blind mutations, or *creationist*, a la Payley. Rather, the Invisible Hand is purposeful. Broadly speaking, it is about *beneficial outcomes arising from myopic pursuits*:

Example - sexual pleasure is a myopic pursuit/proximate causation (gratification), but leads to a non-myopic benefit/ultimate causation (perpetuation of the species).

The concept of the IH means that eventhough God does not interfere in human affairs, government is not necessary to execute God's will. The IH can execute God's will and wisdom even more successfully than the visible hand of government.

5 Interpretations of the IH

	Interpretation of the Invisible Hand	Problem
Marxian	<p>The IH is about equilibrium, as dictated by the <i>law of value</i>:</p> <p>In the long run, the IH directs through the forces of supply and demand that goods be sold at their exchange value, allowing producers to gain an average rate of profit. Exchange value is determined by <i>socially necessary labour time</i>.</p>	An equilibrium does not have to be efficient.
Neoclassical	<p>The IH is about more than equilibrium; it is about the first fundamental theorem of welfare economics i.e. <i>competitive markets lead to maximum welfare/efficiency</i>:</p> <p>That is, market competition - where there are no externalities, increasing returns and no public goods - leads to maximum welfare where a <i>Pareto improvement</i> is impossible (i.e. where no one can be made better off without someone else being worse off).</p>	Pareto outcomes can eventuate without a guarantee of prosperity (eg. <i>Harris-Todaro model = optimal equilibrium with high unemployment</i>).
Austrian (Hayek)	<p>The IH is about more than equilibrium and Pareto optimality (it is possible to have equilibrium and Pareto optimality while the economic system is in abject poverty). IH is about <i>spontaneous order</i>:</p> <p>Spontaneous order concerns the prosperity and viability of the market system, which arises from the interaction of a multitude of people, each with his/her narrow goal. This is in accordance with Smith's view that the division of labour and trade bring about prosperity: <i>by undertaking trade, an agent brings about a greater benefit for both themselves and the other party, provided the other party is rational</i>.</p>	There is nothing 'invisible' about the connection between DOL or trade and prosperity: the firm undertakes DOL for the <i>exact reason of advancing greater productivity and prosperity</i> .
Sociological	<p>The IH is about <i>unintended consequences arising from human action</i> (a la Merton). For instance, one pursues an education to benefit himself, but others also stand to benefit - such as consumers and neighbours.</p> <p>The IH also has a 'self-feeding mechanism' i.e. prosperity leads to prosperity.</p>	<p>Unintended consequences can be harmful. Eg: DOL may promote the de-skilling of workers and boredom. The notion of unintended consequences fails to capture what is special about the IH - the promotion of good outcomes.</p> <p>Regarding the 'self-feeding mechanism', misery can also lead to greater misery.</p>
Neo-Darwinian	<p>The IH operates to maximise fitness survival: if a myopic pursuit hurts one in the long-term, that pursuit is edited out.</p> <p>EG: Employers act kindly to increase morale, and thereby long-term profitability (IH). Unkind employers - myopic pursuers - are edited out by selection, leaving the type of employer promoting 'economic survival'.</p>	Smith does not believe that favourable traits are accidental or the outcome of blind mutations i.e. that unfavourable mutations are edited out; rather, it is simply in the inherent nature of organisms to adopt traits suitable to greater ends. A purposeful action is a characteristic of an organism, and suitable traits because of the organization of the organism - the "wisdom of nature" (<i>Lamarckian</i>). Well-suited traits do not appear from nowhere (<i>cf. Darwinism</i>).
Khalil	<p>The IH operates under the guise of the "wisdom of nature" (<i>Lamarckian</i>): a species is aware of the <i>proximate cause</i> of their actions, but cannot see the benefit in the ultimate cause (like the unintended consequences of the sociological interpretation). Thus, because of the interplay between the proximate and ultimate causes, means to good ends eventually become good ends themselves.</p> <p>The IH is invisible because the connection between the proximate and ultimate causes become dim to the actor through time.</p>	

6 Ricardo

Ricardo's Primary Concern

Ricardo's main concern is the focus of classical economics - *productivity and surplus* (cf. neoclassical economics' main concern = *efficiency and opportunity cost*). Ricardo argued that *amassing profits* is the central concern of theory and policy, which led him to advocate for **free trade**, specifically the **importation of cheap products**, which would **lower the wage bill**, **limit incorporation of marginal land**. Both effects would **increase the profit rate** and **generate economic expansion**.

Ricardo's advocacy of free trade on this basis is distinct from his comparative advantage theory of trade.

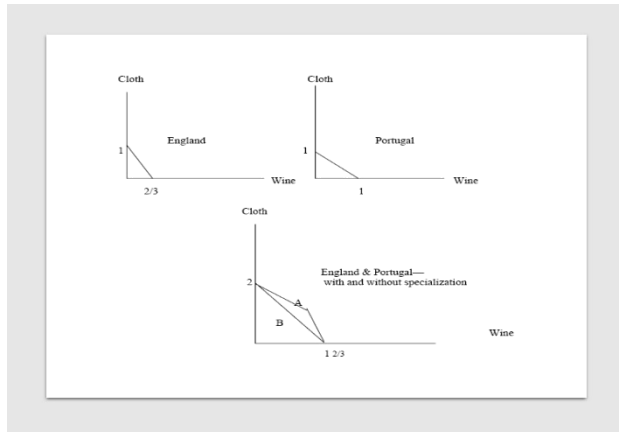
Absolute Advantage v Comparative Advantage - Opportunity Cost v Accounting Cost

Comparative advantage, the basis of neoclassical trade theory, states that the output of two countries, otherwise known as their Production Possibility Frontiers (PPFs), will only expand if trading partners have **heterogenous opportunity costs**. Opportunity cost is the cost of the next best alternative foregone.

For example, suppose England and Portugal have the following opportunity costs:

- **England: Producing 1 cloth results in 2/3 wine bottle foregone; producing 1 wine bottle results in 3/2 cloth foregone.**
- **Portugal: Producing 1 cloth results in 1 wine bottle foregone; producing 1 wine bottle results in 1 cloth foregone.**

England has a comparative advantage in cloth production, giving up fewer units of wine to produce 1 cloth. Portugal has a comparative advantage in wine production, giving up fewer units of cloth to produce 1 wine bottle. Therefore, if England specialises in cloth production and Portugal specialises in wine production -



The PPF of both countries expands to A & B.

By contrast, if there was no specialisation, the total PPFs for both countries would only be **B**.

Comparative advantage and opportunity cost are neo-classical concepts. Ricardo, as a classical economist, is not concerned with the question of opportunity; rather, he is focused on the classical question of *surplus* maximization. Thus, comparative advantage is not Ricardo's main focus, despite the theory being attributed to him over time.

Ricardo's 'true theory' of trade

Ricardo's 'true' theory of trade is *absolute advantage*, which is premised on *accounting costs* and **concerned with accumulation of capital**. The absolute advantage theory posits the following function -

$$\text{Surplus} = \text{Output} - \text{Input}$$

Under absolute advantage trade theory, a country should either **increase output** or **reduce inputs** to amass surplus. Thus, Ricardo argued that a country should import from a country with an absolute advantage in production of a good (eg. corn from Poland), as the wage bill for production of that good in the country without the absolute advantage (eg. England) would be lower. This **lowered wage bill** (*decreasing inputs*) leads to **higher profits i.e. surplus**, and a **greater capital accumulation**.

100% Labour Theory of Value (LTV)

To advance his argument for free trade, Ricardo realised that he had to develop a 'common currency', such as labour, to calculate profit in a multi-good economy. This led to his **labour theory of value (LTV)**, under which Ricardo stated that *the value of a commodity, or the quantity of any other commodity for which it will be exchanged, depends on the relative quantity of labour necessary for production.*

The Production Process

Production of any good takes time, and the firm has to **supply the capital (K)** needed to carry production over time. Production involves the **use of labour (L)**, measured in *labour-time*, and the **fixed capital/machines (M)**, measured by the *labour-time necessary to produce them*.

Labour (L) consists of **living labour (LL)** - the actual living workers involved in the production process - and well as **dead labour (DL)**, comprising the labour embodied in *intermediate products* (eg. the labour involved in producing flour and yeast to make bread).

Thus, the amount of **money advanced to support/purchase labour (LL+DL)**, together with the **machines (M)** used in production is called **capital (K)**. That is -

$$K = LL + DL + M$$

Ricardo's 100% Labour Theory of Value -

A composite of the production process, the 100% LTV states that the **value of goods (V)** produced equals the **total value of labour (L)**, measured in *labour-time*, that went into production. That is, the value of goods is independent of distribution: one does not have to add up wages, profits and rents to determine value (cf. Smith). Therefore, **V** is equal to the **total labour needed for production**, including the labour used to produce raw materials (i.e. DL), (**L = LL + DL**) plus **depreciated machines (DM)**, the 'worn out' part of the capital equipment, measured in *labour-time* units.

For example, for Wheat, value is determined by the **amount of labour needed for production on the poorest land**. Wages are determined by the **values of the goods and services** that a working-class family needed to survive and reproduce.

Goods excluded from LTV calculation

Ricardo excluded the following goods from his LTV calculation -

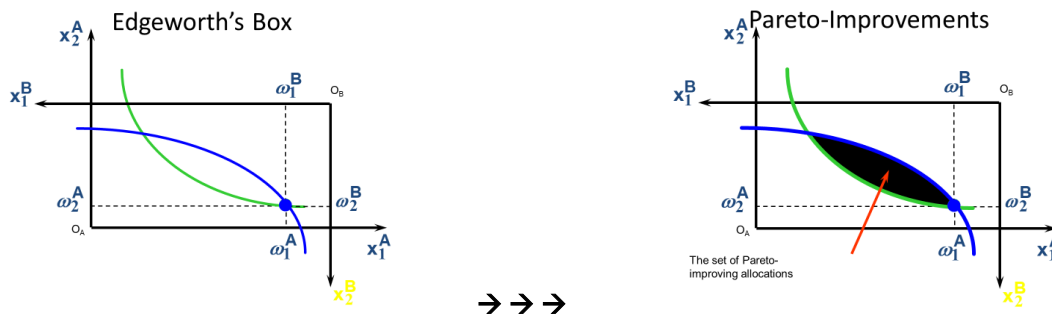
1. Rare statues and pictures;
2. Scarce books and coins;
3. Wines of a peculiar quality i.e. which can only be made from grapes grown on a particular soil.

The reason for this is the value of such goods is **wholly independent of the quantity of labour necessary to produce them**, varying with the wealth and inclinations of those who possess them. These commodities, however, represent a very small portion of commodities exchanged in the market.

Jevons' Problem

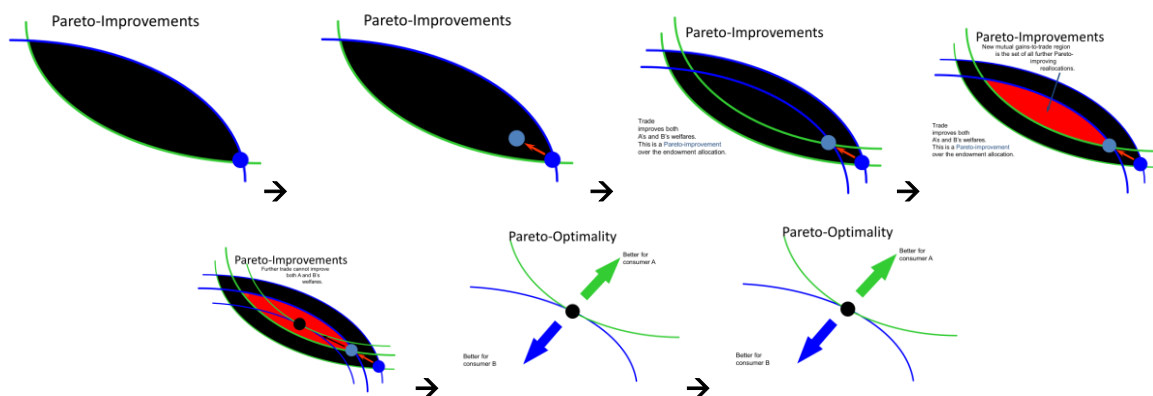
Jevons' over-arching theory was that **value depends entirely on utility**. This marked a significant departure from the classical theory of value i.e. **value depends on the labour used to produce the product**.

But Jevons had a problem: *he tried the impossible task of determining relative prices by analysing the utility of two agents*. In so doing, he established a theorem: **the exchange ratio of any two commodities = reciprocal of the ratio of their final degrees of utility**. However, Jevons stated that a *price system is pre-requisite*, like the Edgeworth Box, where relative price has to be given so two agents can trade; otherwise, price is arbitrary:



The **black area** is the set of *Pareto-improving allocations*. Since each consumer can refuse to trade, the *only possible outcomes from exchange are Pareto-improving allocation*.

But which particular Pareto-improving allocation will be the outcome of trade?



The **light blue dot** is a Pareto-improvement over the endowment allocation. Since trade improves both Person 1 and Person 2's welfares, new mutual gains-from-trade is the set of all **further Pareto-improving allocations**. The exact middle of the red area is the **optimal Pareto-improvement allocation**: at the point of the **black dot** in the centre of the **red area**, further trade cannot improve Person 1 and Person 2's welfare. That is, *beyond this point, it is impossible to make Person 1 better off without making Person 2 worse off*:

- **Towards the green area:** A, consumer 1, is strictly better off, but B, consumer 2, is strictly worse off.
- **Towards the blue area:** B, consumer 2, is strictly better off, but A, consumer 1, is strictly worse off.