Adam Smith on What Is Wrong with Economic Inequality

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This article explores Adam Smith’s attitude toward economic inequality, as distinct from the problem of poverty, and argues that he regarded it as a double-edged sword. On the one hand, as has often been recognized, Smith saw a high degree of economic inequality as an inevitable result of a flourishing commercial society, and he considered a certain amount of such inequality to be positively useful as a means of encouraging productivity and bolstering political stability. On the other hand, it has seldom been noticed that Smith also expressed deep worries about some of the other effects of extreme economic inequality—worries that are, moreover, interestingly different from those that dominate contemporary discourse. In Smith’s view, extreme economic inequality leads people to sympathize more fully and readily with the rich than the poor, and this distortion in our sympathies in turn undermines both morality and happiness.

One of the most prominent and significant topics in contemporary political discourse concerns the presence of great and growing economic inequality in capitalist societies. This article examines the views of Adam Smith, the purported “founding father of capitalism,” on this issue and argues that he regarded economic inequality as a double-edged sword. As has often been recognized, Smith saw a high degree of economic inequality as an inevitable result of a flourishing commercial society, and he considered a certain amount of such inequality to be positively useful in so far as it encourages productivity and helps to maintain “the distinction of ranks,” thereby bolstering political stability. Few commentators have noted, however, that Smith also expressed deep worries about some of the other effects of extreme economic inequality—worries that are, moreover, interestingly different from those that dominate contemporary discourse. Most of the recent work on the ill effects of economic inequality has focused on the problems that Smith envisioned arising from the mental mutilation caused by the division of labor, the undermining of courage and martial spirit, the collusion of merchants against the public interest, and the avidity, anxiety, and servility that is sometimes produced by the pursuit of frivolous material goods (as in the oft-cited parable about the ambitious poor man’s son: see TMS IV.1.8, 181). The present article adds to this large and ever growing literature by focusing on the problems that Smith envisioned arising specifically from extreme economic inequality, a topic that has received far less scrutiny. Smith’s belief that such inequality distorts our sympathies, in particular, has received almost no attention in the literature, perhaps because Smith himself leaves the connection implicit rather than spelling it out in these terms. In fact, Hanley (2009, 45–51) is the only previous work that I am aware of to make the link explicit. Hanley’s reading of this connection resembles the one outlined here in several respects, although his focus is on how this distortion of our sympathies encourages “an indifference to the poor” (45); he does not go on to show, as this article does, why and how Smith believes it also undermines morality and happiness. To be sure, Smith’s worries on behalf of morality and happiness themselves will be familiar to most Smith scholars, but the way in which they are caused or exacerbated by extreme economic inequality deserves greater emphasis and more systematic treatment than it has thus far received.

POVERTY AND INEQUALITY

That Smith placed the welfare of the poor at the center of his political economy may have once come as

1 I have used the following (standard) in-text abbreviations for Smith’s works. References to TMS and WN include the relevant book, part, section, chapter, and paragraph number, in addition to the page number, using the Glasgow edition’s citation system. CAS = Correspondence of Adam Smith. ED = “Early Draft of Part of The Wealth of Nations,” in LJ. EPS = Essays on Philosophical Subjects. LJ = Lectures on Jurisprudence. LRB = Lectures on Rhetoric and Belles Lettres. TMS = The Theory of Moral Sentiments. WN = An Inquiry into the Nature and Causes of the Wealth of Nations.
a surprise in certain circles, but even a cursory reading of *The Wealth of Nations* should make this point abundantly clear. Smith states explicitly that the true measure of a nation’s wealth is not the size of the king’s treasury or the holdings of the affluent few but rather the wages of “the labouring poor” (WN I.viii.27, 91; see also I.viii.42, 99). It is a matter of simple “equity,” he famously declares, “that they who feed, cloath and lodge the whole body of the people, should have such a share of the produce of their own labour as to be themselves tolerably well fed, clothed, and lodged” (WN I.viii.36, 96). There is now broad agreement among Smith scholars that he regarded poverty as deeply problematic and sought ways to combat it, a consensus that includes those who approach his thought from the contemporary right, such as Gertrude Himmelfarb (1984, chap. 2), as well as the contemporary left, such as Samuel Fleischacker (2004, chap. 10). After summarizing some of the recent literature and rehearsing Smith’s own statements on the subject, Ryan Hanley (2009, 18) concludes that “the fundamental departure point for Smith’s defense of commercial society is its capacity to provide for the poor.”

Taking Smith’s concern for the lot of the poor as a given, I want to pursue the question of his attitude toward economic inequality itself, as distinct from the problem of poverty. One way of framing this question is to ask whether Smith was concerned only by *absolute* poverty—that is, by people not being “tolerably well fed, clothed, and lodged”—or also by *relative* poverty—that is, by some having far less than others in their society, even if they do have food on their tables, clothes on their backs, and a roof over their heads. An even more provocative way of couching the question is to ask whether Smith was at all concerned by the prospect of some individuals being extremely *rich*, relatively speaking—that is, by some having a superabundance of wealth and material goods, compared to others in their society. We will see that Smith does point toward some deep problems caused by relative poverty (and wealth), not just by absolute poverty, although it should be stressed that he saw these problems as arising only where the level of economic inequality is great enough to distort people’s sympathies, leading them to admire the rich and to ignore the poor. Presumably very modest levels of economic inequality would not have this effect, though Smith never specifies exactly what level would do so; perhaps the answer would depend in part on the circumstances and social expectations of a given society. Smith certainly believed that the economic inequality of eighteenth-century Britain surpassed this threshold, and it seems very likely that if he were alive today he would see that of the contemporary United States as doing so, as well. In any case, throughout this article when I refer to “extreme” economic inequality, I mean simply whatever level of inequality is sufficient to distort people’s sympathies in this way.

The question of Smith’s attitude toward economic inequality *per se*—that is, toward relative rather than absolute poverty—has received surprisingly little attention in the voluminous Smith literature. Even those who argue for a more left-leaning Smith, in today’s terms, scarcely broach the subject (e.g., Fleischacker 2004; Kennedy 2005; McLean 2006; Rothschild 2001). And those scholars who do address this question are generally quick to insist that Smith’s primary or sole concern was with poverty, not economic inequality itself. In a highly influential article, Istvan Hont and Michael Ignatieff (1983, 1, 4) argue that “the Wealth of Nations was intended, above all other purposes Smith might have had in mind,” to show that the “extreme inequality of distribution in modern society [is] compatible with the satisfaction of the needs of its poorest working members.” Thus, they read economic inequality as being of little or no concern to Smith: “However unequal men might be, in property . . . they could be equal in access to the means to satisfy basic need” (44). Countless scholars have followed Hont and Ignatieff’s lead on this score, usually with little discussion of the matter. In what is perhaps the fullest account of Smith and the theme of corruption to date, Lisa Hill (2006, 643) suggests that “systemic inequality does not seem to have bothered Smith.” Another commentator states that, despite his great sympathy for the poor, Smith was “intellectually wedded to the notion of a class society characterized by extreme inequality” and that he regarded “inequality [as] an integral part of capitalist society, not a necessary evil” (Baum 1992, 146, 148). Still another pair of scholars argue that Smith held a “decidedly antiegalitarian view of social classes” (Young and Gordon 1996, 7). Even Fleischacker, who is widely known for his egalitarian reading of Smith, holds that he was “untroubled by a considerable degree of social and economic inequality” (2006, 251) and in particular that he was “not bothered... by the inequality between middle-class people and those with great wealth” (2013, 493). As one might expect, given the prevalence of this reading, it is not entirely unwarranted.

### The Inevitability and Advantages of Economic Inequality

One reason why scholars have been quick to assume that Smith was unconcerned by economic inequality—even that he welcomed it—can be found in his
acceptance that it is an inevitable byproduct of a flourishing commercial society. Deborah Boucoyannis (2013, 1052) has recently contended that, on the contrary, Smith believed that the policies he advocated, taken together, “would prevent inequalities from arising in the first place.” In other words, according to Boucoyannis’s Smith, if his “system of natural liberty” were to be implemented in its entirety, wages would be sufficiently high and profits would be sufficiently low that economic inequality would never reach a very high level. This thesis seems to be belied, however, by Smith’s own blunt claim that “wherever there is great property, there is great inequality. For one very rich man, there must be at least five hundred poor, and the affluence of the few supposes the indigence of the many” (WN V.i.b.2, 709–10, italics added). Smith did believe that “the policy of Europe”—that is, the legal monopolies, restrictions and taxes on imports, bounties on exports, and the like that were associated with mercantilism—produced much of the economic inequality that was so patent in eighteenth-century Europe (WN I.x.c.1, 135). Yet he also accepted that a good deal of economic inequality is the natural result of market forces, such as when people are paid more for doing jobs that are disagreeable, that require a great deal of training, that are irregularly available, that involve a great deal of trust, and that have a lower probability of success (see WN I.x.b.1, 116–7). These five circumstances, Smith notes, “occasion considerable inequalities in the wages of labour and profits of stock” (WN I.x.b.39, 131). Indeed, he devotes a substantial section of The Wealth of Nations—nearly twenty pages in the modern edition—to describing these “inequalities arising from the nature of the employments themselves,” as this section is titled (see WN I.x.b, 116–35). And none of this is even to mention the economic inequality that, as he says in his jurisprudence lectures, “naturally and necessarily arises from the various degrees of capacity, industry, and diligence in the different individuals” (LJ, 338). In Smith’s view, a high degree of economic equality is possible only under conditions of “universal poverty,” such as in primitive hunting societies (WN V.i.b.7, 712). In the lectures he discusses the possibility of preventing the growth of large individual fortunes, commenting that “tho an agrarian law would render all on an equality, which has indeed something very agreeable in it, a people who are all on an equality will necessarily be very poor” (LJ, 195).5

Moreover, like many of his self-proclaimed followers in the twentieth century, Smith suggests that the great wealth of the few generally benefits the rest of society in material terms, at least over the long run. In some cases, their luxuries “trickl[ed] down” in an almost literal sense: “The houses, the furniture, the clothing of the rich, in a little time, become useful to the inferior and middling ranks of people,” Smith holds, offering the examples of the family seat of the Duke of Somerset, which had been turned into an inn on the Bath Road, and the marriage bed of James I, which in Smith’s time served as “the ornament of an alehouse at Dunfermline” (WN II.iii.39, 347). More broadly, he claims that while we are apt to regard the fabulously wealthy individual as “a pest to society, as a monster, a fish who devours up all the lesser ones,” in fact these individuals are usually “in no way prejudicial to society but rather of advantage to it” (LJ, 194; see also 453). After all, the great expense of their consumption “gives occasion to a greatly [sic] of work and manufacturing,” thereby increasing productivity and providing employment for many (LJ, 195). Hence the famous invisible hand of The Theory of Moral Sentiments that distributes the necessities of life (if not the conveniences) to the rich and poor alike (see TMS IV.1.10, 184–5), and hence Smith advised his students that “it would be very unnecessary and even detrimental to crush all . . . overgrown fortunes” (LJ, 196).

Another key benefit that Smith ascribes to economic inequality is the promotion of social and political stability. He holds that “civil government supposes a certain subordination” (WN V.i.b.3, 710) and that any society that lacks an “evident distinction of ranks” will necessarily experience “confusion and misrule” (EPS, 51). And, significantly, he argues that the two principal sources of such “subordination” and “distinction” are “birth and fortune” (see WN V.i.b.11, 714). Here one of the most egalitarian sides of Smith’s thought comes to the fore: he believes not only that most people naturally tend to respect and defer to the wealthy and well-born, but that in some respects it is good that we do so—in fact, that the very “peace and order of society” depends on it (TMS VI.ii.1.20, 226; see also I.ii.2.3, 52; I.iii.3.1, 61; VI.iii.30, 253). In other words, whereas some contemporary commentators worry that economic inequality may undermine political stability, Smith assumes that it will underwrite it, insofar as it helps to create and maintain the requisite distinction of ranks. This is the clearest sign that he thinks economic inequality does have its advantages. Indeed, in the course of making this point in his lectures he speaks of “that usefull inequality in the fortunes of mankind” (LJ, 338).

FROM “USEFULL INEQUALITY” TO “OPPRESSIVE INEQUALITY”

There are, however, a number of indications that Smith did not regard economic inequality as always or entirely advantageous. First of all, he emphasizes in his jurisprudence lectures that the economic and political benefits of such inequality accrue only where the distribution of fortunes descends fairly steadily and evenly, from the very wealthy to the very poor. “In the present state of things a man of a great fortune is rather of advantage than disadvantage to the state,” he says, “providing that there is a graduall descent of fortunes betwixt these great ones and others of the lowest and least fortune” (LJ, 196). In a later lecture he explains that in order for economic inequality to be beneficial there must be a gradual declension and subordinate degrees of wealth. Thirty thousand pounds may at present be

5 As Smith himself explains elsewhere, agrarian laws “divided the publick territory in a certain proportion among the different citizens who composed the state” (WN IV.vii.a.3, 556).
spent on domestick luxury, as their [sic] are intermediate steps of 25, 20, 15, 10000, and 1000, 100 £ betwixt this and the lowest class, thro all which the progress of arts, manufactures, and industry can easily pass. But when property goes on in the progression by great leaps or jumps, the arts, commerce, and luxury cannot creep after them. (LJ, 262–3)

In other words, in a society with a small group of spectacularly wealthy individuals—individuals whose amassed fortunes are many orders of magnitude higher than those of anyone else in society—there would be no way for them to dissipate their wealth on luxuries; no amount of diamond buckles would be sufficient to the task (see WN III.i.v.10, 419). They would thus have no other use for their wealth than to “maintain” or provide for many dependents, who would in turn become little better than slaves, as was the case with the lords and serfs of feudal Europe (see LJ, 263–4). Certainly, then, the fact that economic inequality has its advantages does not mean that more inequality is necessarily more advantageous. On the contrary, Smith worries that an excessively skewed economic distribution could lead to a kind of plutocracy, with the affluent few subjugating the many poor.

Smith did not believe that the wealthy subjugated the poor in this manner in eighteenth-century Britain, as indicated by the statements quoted above about the “present state of things” and the gradual descent of fortunes to be found “at present.” Yet he did believe that economic inequality was artificially augmented in several ways in the society of his day, and he advocated putting an end to the policies and practices that had this effect. Some were vestiges of the feudal system, such as the practices of primogeniture and entail, which kept huge accumulations of land and wealth in the same families for many generations (see WN III.i.v.2–7, 382–5). Many others were mercantilist policies that served the interests of the wealthy (that is, merchants and producers) at the expense of the rest of society (that is, ordinary consumers). “It is the industry which is carried on for the benefit of the rich and the powerful, that is principally encouraged by our mercantile system,” Smith laments. “That which is carried on for the benefit of the poor and the indigent, is too often, either neglected, or oppressed” (WN IV.vii.4, 644). This “mercantile system” was, of course, Smith’s central polemical foe in Book 4 of The Wealth of Nations, the target of his “very violent attack . . . upon the whole commercial system of Great Britain” (CAS, 251). Smith also denounces laws that placed undue restrictions on the laboring poor, such as apprenticeship laws (see WN I.x.c.12, 138) and the Settlement Act, which limited the geographic mobility of the poor (see WN I.x.c.45, 152).

Nor were the measures that Smith advocated all “negative” ones, concerned with removing obstacles to market forces; he also proposed taking certain positive steps to improve the lot of the laboring poor. The most conspicuous such proposal—the one that he discusses at greatest length—is his advocacy of compulsory, state-supported education aimed expressly at the children of the poor (see WN V.i.f.52–7, 784–6). Smith also denounces combinations of employers (see WN I.viii.12–13, 83–5) and suggests that “whenever the legislature attempts to regulate the differences between masters and their workmen . . . when the regulation . . . is in favour of the workmen, it is always just and equitable” (WN I.x.c.61, 157–8). He even advocates a degree of progressive taxation, proposing to levy heavier road tolls on luxury vehicles so that “the indolence and vanity of the rich is made to contribute . . . to the relief of the poor” (WN VI.d.5, 725) and to institute a tax on house rents that would fall more heavily on the rich. “It is not very unreasonable,” he asserts in the latter context, “that the rich should be made to contribute to the publick expence, not only in proportion to their revenue, but something more than in that proportion” (WN VI.e.6, 842; see also the discussion of ground rents at WN VI.e.9–11, 843–4). Yet Smith’s advocacy of such measures seems to have been motivated chiefly by his palpable concerns about poverty—or at most for the sake of what we would call equality of opportunity—rather than inspired by any deep-seated worries about economic inequality itself. None of these measures—state-supported education, proactive correction of the bargaining asymmetries between employers and workers, or the modest progressive taxes that he proposes—would likely do much to reduce the yawning economic gap between the “middling and inferior stations” and the fabulously wealthy.

Perhaps the most striking piece of evidence indicating that Smith was in fact concerned by the amount of economic inequality in commercial society is that he occasionally calls it oppressive. In the manuscript generally referred to as “An Early Draft of Part of The Wealth of Nations” he declares that “with regard to the produce of the labour of a great society there is never any such thing as a fair and equal division,” since “those who labour most get least” and “the poor labourer . . . bears, as it were, upon his shoulders the whole fabric of society.” He asks how it is possible that, “in the midst of so much oppressive inequality,” the laboring poor in commercial society are materially better off than anyone in a more primitive society, and then goes on to lay out his celebrated answer centering on the division of labor (ED, 563–4). In the jurisprudence lectures he sets up the puzzle in a similar manner, noting that “the labour and time of the poor is in civilized society sacrificed to . . . maintaining the rich in ease and luxury” and asking how “the poor day labourer or indigent farmer” could enjoy a higher standard of living than “the greatest man amongst a whole tribe of savages” even “notwithstanding all oppression and tyranny” (LJ, 339–40; see also 341, 489–90). The analogous discussion in Book 1, chap. 1, of The Wealth of Nations drops the language of oppression, but later in that work Smith does claim that in established commercial societies (as opposed to new colonies) “rent and profit eat up wages, and the two superior orders of people [i.e., landlords and employers] oppress the inferior one [i.e., workers]” (WN IV.vii.b.3, 565). Smith clearly believes that the productivity of commercial society is such that even the poor are better off, materially speaking, than they would be in a less affluent
society, but the strong tone of these passages does indicate some lingering unease regarding the economic inequality of this type of society.6

It remains unclear at this point, however, what exactly Smith’s worry was. What is wrong with some having much more than others, we might reasonably ask, if virtually everyone has sufficient food, clothing, and shelter—which is far more than can be said for most societies in human history?

WHAT IS NOT WRONG WITH ECONOMIC INEQUALITY

Let us begin by ruling out some of the most obvious objections that Smith might have had to economic inequality. A long line of thinkers, stretching from Jean-Jacques Rousseau in Smith’s time to Thomas Piketty in ours, has condemned economic inequality as intrinsically unjust. Given Smith’s reference to the “oppressive inequality” of commercial society (quoted above) it might appear that he would join them on this score, but he does not. Justice is famously a “negative virtue,” for Smith (see TMS II.i.1.9, 82); he defines injustice as causing “injury” or “real and positive hurt” to the life, liberty, property, or reputation of another, where injury and hurt are understood in terms of what provokes resentment in an impartial spectator (TMS II.i.1.5, 79; see also LJ, 7–8, 398–9). An impartial spectator would obviously resent someone who violated norms of “fair play” in order to become rich—say, by robbing or defrauding others—but the mere act of becoming spectacularly wealthy oneself, and thereby increasing economic inequality, clearly does not cause any “real and positive hurt” to others in Smith’s sense (see TMS II.i.2.1, 83; III.3.6, 138). On the contrary, as we have seen, Smith holds that the great wealth of the few generally benefits others in strictly material terms.

Nor does Smith worry that the economic inequality of commercial society will lead to the direct, personal dependence of the poor on the rich. In his view, this was a grave problem throughout much of human history—that is, in the shepherdic and agricultural stages of society (see WN III.iv.5, 412–13; VI.b.7–12, 711–15; LJ, 49–55, 202–3, 405). The paradigmatic example here is feudal Europe, where the serfs were utterly dependent on the lords for sustenance, accommodation, and protection, to the point that they could have no private property that was free from encroachment by their lord, they were bought and sold with the land and so were unable to move freely, they typically could not choose their own occupations, they often had to obtain their lord’s consent to get married, and they had to follow their lord into battle whenever they were ordered to do so (see WN III.i.8, 386–7; III.iv.7, 415; LJ, 51–5).

In commercial societies, by contrast, great wealth may give the rich a great deal of purchasing power, but it does not give them any direct authority over others since everyone stands in a market relationship with everyone else and there are generally a multitude of potential buyers, sellers, and employers (see WN I.v.3, 48; III.iv.11, 419–20; VI.b.7, 712). Of course, wealthy individuals frequently support many others indirectly by employing them or by buying goods that they produce, but Smith argues that this indirect support is not enough to place these people at their command. Even if employees are likely to try to please their employers in order to keep their jobs, for example, it is highly unlikely that they would surrender their rights to them or accompany them into battle (see WN III.iv.11, 420; LJ, 50, 202). In the words of Knud Haakonssen (1998, 820), “the modern economy enables [the working poor] to sell their labour without selling themselves.”

Smith also rejects the idea that economic inequality will prevent social mobility in commercial society. In the present age of Piketty we have grown accustomed to the image of a small rentier class persisting generation after generation, but Smith himself did not harbor such a vision. On the contrary, he expected that in commercial societies the rich would tend to squander their fortunes on luxuries. In his view, this tendency not only led to the establishment of commercial society in the first place, by bringing about the fall of the feudal lords (see WN III.iv.10, 418–19), but also continues to operate within commercial society. In societies with a great deal of luxury and manufacturing, he writes, a wealthy individual “can spend the greatest revenue upon his own person,” and thus “frequently has no bounds to his expence, because he frequently has no bounds to his vanity, or to his affection for his own person. In commercial countries, therefore, riches, in spite of the most violent regulations of law to prevent their dissipation, very seldom remain long in the same family” (WN III.iv.16, 422). As for mobility in the opposite direction, Smith did not expect that many or most individuals from the “middling and inferior stations” would ever become extraordinarily wealthy, but nor did he believe that such “rags to riches” stories would be unheard of. Of course, some of these success stories may rest almost entirely on luck, as when “a bold adventurer…acquire[s] a considerable fortune by two or three successful speculations,” but Smith also suggests that “great fortunes” can sometimes be made “from small beginnings in consequence of a long life of industry, frugality, and attention” (WN I.v.38, 130; see also TMS III.5.8, 166). Indeed, he proclaims at one point, in an apparent fit of optimism, that “we see every day the most splendid fortunes that have been acquired in the course of a single life by trade and manufactures, frequently from a very small capital, sometimes from no capital” (WN II.v.37, 374).7

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6 After noting that in The Wealth of Nations Smith drops the set-piece on “oppressive inequality” that is found in both the “Early Draft” and the lectures, Donald Winch (1978, 89) comments that “there are still enough pejorative statements in the Wealth of Nations—drawing attention to oppression, the idle rich, cupidity, conflict, and the widespread propensity to dominate or deceive—to suggest that the answer given with respect to the division of labour should not be allowed to diminish the force of the question posed in the early draft.”

7 See also Smith’s claim in his rhetoric lectures that the introduction of commerce and luxury in ancient Athens “gave the Lowest an opportunity of raising themselves to an equality with the nobles; and
Nor, finally, was Smith chiefly concerned by the various ways in which economic inequality might corrupt political affairs. He does condemn, frequently and in very harsh terms, the fact that wealthy merchants and manufacturers were able to use their wealth (as well as their insider knowledge) to “extort” monopolies and other illegitimate advantages from the legislature (see, for just a few examples, WN Lxi.p.10, 266–7; IV.iii.c.9–10, 493–4; IV.viii.17, 648). This was, to repeat, one of the key problems that he sought to combat through his advocacy of freer trade. Yet in some respects this hardly constitutes an additional problem, separate from that of economic inequality, since the main effect of the political advantages thus procured was (at least as Smith presents it) to allow the already-rich to become richer still, on the backs of ordinary consumers—that is, to exacerbate the original problem of economic inequality.8

Moreover, Smith was not especially troubled by the other political problems that are often associated with economic inequality, those that have been paramount among critics of capitalism from Rousseau to Marx to the present and among contemporary political scientists (e.g., Bartels 2008; Gilens 2012). First, as we have seen, Smith assumes that economic inequality will promote political stability, not instability or revolution. Second, Smith does not place a particularly high value on political participation, either as a means of influencing society or as an arena in which to exercise virtue, and hence he does not evince any particular worry that economic inequality will leave the lower strata of society politically “voiceless.” Smith in fact tends to speak of the desire to participate in political affairs in fairly derogatory terms, writing for instance that “men desire to have some share in the management of public affairs on account of the importance which it gives them” (WN IV.vii.c.74, 622; see also TMS VI.1.13, 215–16). Moreover, when he raises the question of whether the laboring poor will be good citizens, he asks only whether they will be sufficiently “decent and orderly,” willing to respect the authorities, and capable of properly judging political affairs; he does not even mention the possibility of their participating in politics in any active way (see WN Vi.i.f.61, 788). Finally, Smith does not believe that the impartial administration of justice will necessarily be hampered by economic inequality. On the contrary, he insists time and again that in the Britain of his day, even with all of its extreme (and artificially augmented) economic inequality, “the rights of the meanest British subject [are] respectable to the greatest” (WN IV.vii.c.54, 610; see also III.ii.6, 384; III.iv.20, 425; TMS VI.ii.1.13, 223; LI, 55).

8 It should be stressed, however, that if the inefficiencies of this kind of rent-seeking behavior were to greatly worsen the situation of others in absolute terms, it could lead to an increase in poverty itself (as opposed to only an increase in economic inequality). These monopolistic practices may also bring the issue of justice back into the picture, given that they would seem to violate the norms of “fair play” mentioned above.

HOW ECONOMIC INEQUALITY DISTORTS OUR SYMPATHIES

If Smith did not believe that the economic inequality of commercial society is intrinsically unjust, that it produces dependence, that it prevents social mobility, or that it corrupts political affairs (beyond fostering the creation of business monopolies), then what was his worry? I will argue that Smith’s principal concern regarding extreme economic inequality stands rather closer to the heart of his thought than any of these other possibilities: it distorts our sympathies. I will also argue that the consequences of this distortion are profound indeed, in Smith’s eyes: it serves to undermine both morality and happiness. In both cases, it is not poverty (understood in absolute terms) alone that is the main problem, but economic inequality itself.

One of the central claims of The Theory of Moral Sentiments is that we have a natural tendency to sympathize with others, to imaginatively identify with them by projecting ourselves into their situation. As is well known, this tendency acts as the basis and lynchpin for Smith’s entire moral theory. Yet he maintains that there is a certain asymmetry built into our sentiments that leads us to sympathize more fully and readily with joy than with sorrow, or at least with what we perceive to be joy and sorrow (see TMS I.iii.1.5, 45). As a result, he says, we are far more likely to sympathize with the rich than the poor: “the rich man glories in his riches, because . . . they naturally draw upon him the attention of the world,” while “the poor man goes out and comes in unheeded, and when in the midst of a crowd is in the same obscurity as if shut up in his own hovel” (TMS I.iii.2.1, 50–1). Not only are we far more likely to notice the rich than the poor, according to Smith, we are also far more likely to approve of them, to admire them, and to emulate them; indeed, he devotes an entire chapter of the book to demonstrating that this is the case (see TMS I.iii.2, 50–61).

Smith does not ascribe this distortion of our sympathies exclusively to commercial society: the fact that “wealth and greatness are often regarded with the respect and admiration which are due only to wisdom and virtue” has, he notes, “been the complaint of moralists in all ages” (TMS I.iii.3.1, 61–2). This distortion is, however, connected inextricably to the presence of economic inequality. Smith does not make the connection explicit; his primary object, in these chapters, is to resolve an apparent puzzle with regard to our moral psychology—namely, the question of why we sympathize more readily with the rich than the poor—rather than to assess a particular social or economic condition. Yet the link with economic inequality is presupposed by his analysis: without any economic inequality there would be no rich and poor to sympathize with to differing degrees, and presumably the more economic inequality there is in a given society, the more this distortion will be present. Of course, wealth is not the only source of the kind of social distinctions that lead us to sympathize with some people more easily than others, but Smith does regard it as by far the most important. In The Wealth of Nations he lists four “causes or
circumstances which naturally . . . give some men some superiority over the greater part of their brethren”: wealth, birth, age, and “personal qualifications” such as physical strength, beauty, wisdom, and virtue (WN V.i.b.4, 710). The latter characteristics are, he notes, “always disputable, and generally disputed,” and thus they are not a major source of fixed social distinctions (WN V.i.b.5, 711). Age is essentially the sole basis of such distinctions before the advent of private property (see WN V.i.b.6, 711), but it is a comparatively “feeble” one, leaving primitive societies on a footing of general equality (WN V.i.b.7, 712). After private property is introduced, Smith claims, the importance of wealth and of birth—the latter denoting simply “antient superiori-

y of fortune in the family of the person who claims it” (WN V.i.b.8, 713)—come to dwarf the other bases of social distinction (see WN V.i.b.11, 714; TMS VI.i.1.20, 226). In Smith’s view, in short, it is primarily the rich—and those of old wealth—rather than the strong, the beautiful, the wise, the virtuous, or the old with whom we are most likely to sympathize and to whom we are most likely to defer. Economic inequality is thus implicitly presupposed by his entire inquiry into the distortion of our sympathies.

The first notable consequence that Smith draws from our tendency to sympathize more easily with the rich than the poor is that this is in fact the primary reason why we desire and pursue wealth at all. It is obvious, he claims, that we do not seek wealth merely in order “to supply the necessities of nature”—that is, to obtain food, clothing, and shelter—because “the wages of the meanest labourer can afford them” (TMS I.iii.2.1, 50). Nor, as we will see in more detail later in this article, does he believe that we generally derive much real or lasting pleasure from material goods. Rather, he holds that we want wealth and the luxuries it affords above all because of the attention they bring us: “what are the advantages which we propose by that great purpose of human life which we call bettering our condition? To be observed, to be attended to, to be taken notice of with sympathy, complacency, and approbation, are all the advantages which we can propose to derive from it. It is the vanity, not the ease, or the pleasure, which interests us” (TMS I.iii.2.1, 50; see also VI.i.3, 213).

The idea that people desire wealth mostly as a means of procuring the sympathy of others implies, among other things, that wealth is to a large extent a “positional good”: much of its value depends on its contribution to one’s rank or status. Hence Smith stresses, in his discussion of taxation in The Wealth of Nations, that what properly constitutes a “necessity” depends on the living standards and social expectations of a given society. Necessities are not just “the commodities which are indispensably necessary for the support of life, but whatever the custom of the country renders it indecent for creditable people, even of the lowest order, to be without” (WN V.ii.k.3, 869–70). For instance, Smith notes that in his own time leather shoes had become a necessity in England, since it would have been regarded as shameful to appear in public without them, whereas in France it was socially acceptable to wear wooden shoes or even to go barefoot. Emma Rothschild and Amartya Sen (2006, 360) tie this relativistic understanding of necessity to the “capabilities approach” to welfare and development that is associated with Sen, Martha Nussbaum, and others, and contend that this point alone is sufficient to demonstrate Smith’s concern with economic inequality, not just poverty:

A person’s ability to be clothed or to have other items of consumption goods that are appropriate by the standards of the society in which she lives may be crucial for her capability to mix with others in that society . . . A relative deprivation in terms of income can, thus, lead to an absolute deprivation in terms of capabilities, and in this sense, the problems of poverty and inequality are closely interlinked. Even if someone finds poverty but not inequality offensive, he or she still may have to take an interest in economic inequality as a determinant of poverty in the form of basic capability deprivation.

There is much to be said for this claim: to the extent that wealth is a positional good, extreme economic inequality will necessarily worsen the situation of the lower strata of society. The “middling and inferior stations” will garner less sympathy from others the more removed they are from the top echelon of society, economically speaking. The poor will suffer not just the material deprivations of poverty, but also the feelings of invisibility and even shame that Smith believes often accompany it (see TMS I.iii.2.1, 51). Thus, to return to a question raised near the outset of this article, it is clear that Smith was concerned, at least to some degree, by relative poverty (some having far less than others in their society) and not just by absolute poverty (some having insufficient food, clothing, or shelter). I will argue, however, that Smith’s worries ultimately went much deeper than this.

**HOW THIS DISTORTION UNDERMINES MORALITY**

Smith argues emphatically that our tendency to sympathize more fully and readily with the rich than the poor tends to undermine morality. He memorably writes that the “disposition to admire, and almost to worship, the rich and the powerful, and to despise, or, at least, to neglect persons of poor and mean condition” is “the great and most universal cause of the corruption of our moral sentiments” (TMS I.iii.3.1, 61). Our admiration for the wealthy is so problematic, in his view, because the wealthy do not in fact tend to be terribly admirable people. On the contrary, Smith portrays the “superior stations” of society as suffused with “vice and folly,” “presumption and vanity,” “flattery and falsehood,” “proud ambition and ostentatious avidity” (TMS I.iii.3.2–6, 62–3). A similar portrayal can be found in The Wealth of Nations, where Smith contrasts the “strict” or “austere” moral norms that tend to prevail among “the common people” with the “liberal” or “loose” norms that tend to prevail among the rich, or “what are called people of fashion.” Among the latter, he claims, “luxury, wanton and even disorderly mirth, the pursuit of pleasure to some degree of intemperance,
the breach of chastity, at least in one of the two sexes, & c. provided they are not accompanied with gross indecency, and do not lead to falsehood or injustice, are generally treated with a good deal of indulgence, and are easily either excused or pardoned altogether” (WN Vi.g.10, 794).

Smith suggests that the reason why the wealthy generally do not behave admirably, ironically, is that they are widely admired anyway (on account of their wealth). In other words, the rich are not somehow innately vicious people; rather, their influence puts them in a position in which they do not have to behave morally in order to earn the esteem and approval of others, most of whom are dazzled and enchanted by their riches (see TMS I.ii.2.4–5, 53–5).9 Indeed, Smith claims that our disposition to admire the rich is so powerful that “even their vices and follies are fashionable; and the greater part of men are proud to imitate and resemble them in the very qualities which dishonour and degrade them” (TMS I.iii.3.7, 64). Thus, it is precisely the presence of extreme economic inequality, and the distortion of our sympathies that attends it, that allows—perhaps even encourages—the rich to spurn the most basic standards of moral conduct. If they were nearer to the rest of society in terms of wealth and hence status, their incentives would be quite different.

Smith contrasts the morals of the “superior stations” with those of the “middling and inferior stations,” for whom honesty really is usually the best policy. For the latter groups, he writes, “the road to virtue and that to fortune...are, happily in most cases, very nearly the same. In all the middling and inferior professions, real and solid professional abilities, joined to prudent, just, firm, and temperate conduct, can very seldom fail of success” (TMS I.iii.3.5, 63; see also I.iii.2.5, 55). Of course, he does not believe that people in the “middling and inferior stations” are innately virtuous, any more than he believes those in the “superior stations” are innately vicious. Instead, it is once again their social position that governs their conduct: “the success of such people...almost always depends on the favour and good opinion of their neighbours and equals; and without a tolerably regular conduct these can very seldom be obtained” (TMS I.iii.3.4, 63; see also VII.i.2.13, 298). In other words, individuals in the “middling and inferior stations” cannot count on being approved of on account of their wealth, so they must earn the approval of others through their conduct. We can infer, then, that in a society with less extreme economic inequality a greater proportion of people would depend on “the favour and good opinion of their neighbours and equals,” and thus more people could be expected to act morally, more of the time.

In societies marked by extreme economic inequality, in contrast, even individuals in the “middling and inferior stations” frequently deviate from the moral conduct that in fact represents their surest path to success. We have already seen Smith’s claim that the rich set the fashion in such societies not just in their dress and comportment but also in their “vices and follies,” so that “the greater part of men” imitate them on these unfortunate scores (TMS I.ii.3.7, 64). What lures this “greater part of men” away from virtue and decency, in Smith’s view, is the hope of reaching a position in which virtue and decency will no longer be necessary, and the sympathy of others will be even more certain. In seeking to attain the “envied situation” of the rich, he writes, “the candidates for fortune too frequently abandon the paths of virtue,” assuming that when they reach the “splendid situation” at which they are aiming they “will have so many means of commanding the respect and admiration of mankind...that the lustre of [their] future conduct will entirely cover, or efface, the foulness of the steps by which [they] arrived at that elevation” (TMS I.ii.3.8, 64; see also I.ii.3.2, 62). Honesty may be the best policy for those who desire ordinary success, but it is all too easily discarded by those who instead crave fabulous wealth. Indeed, Smith goes so far as to proclaim that the desire for wealth and status, and the sympathy that comes with them, “is the cause of all the tumult and bustle, all the rapine and injustice, which avarice and ambition have introduced into this world” (TMS I.ii.2.8, 57; see also III.3.31, 149).

In short, Smith suggests that extreme economic inequality tends to corrupt the morals of the very wealthy, who are freed from having to behave morally in order to earn the sympathy and approval of others, as well as the morals of the many others who admire these unadmirable individuals and/or strive to join their ranks, often through unscrupulous means.

HOW THIS DISTORTION UNDERMINES HAPPINESS

Smith also maintains that our tendency to sympathize with the rich more easily than the poor tends to make us less happy, both directly and indirectly.10 First, the indirect route: Smith contends that “happiness consists in tranquillity and enjoyment” and places the greater weight on the first of these ingredients: “Without tranquillity there can be no enjoyment; and where there is perfect tranquillity there is scarce any thing which is not capable of amusing” (TMS III.3.30, 149). Accordingly, he insists that wealth and material goods do little to make people any happier, at least beyond a certain (very basic) level. On the contrary, he depicts them as “enormous and operose machines...which must be kept in order with the most anxious attention,” and

9 In The Wealth of Nations Smith appears to make the opposite case, claiming that because “a man of rank and fortune is by his station the distinguished member of a great society, who attend to every part of his conduct,” such an individual will “dare not do any thing which would disgrace or discredit him” among his compatriots (WN Vi.g.12, 795). As the quotation in the previous paragraph indicates, however, these individuals are generally not, in Smith’s view, held to

10 I have explored this aspect of Smith’s thought in more detail elsewhere (Rasmussen 2006; 2008), although without tying it directly to the issue of economic inequality.
which leave their possessor “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, 182–3). In fact, Smith suggests that the poor may be more likely to attain happiness than the rich. “Except the frivolous pleasures of vanity and superiority,” he writes, “we may find, in the most humble station, where there is only personal liberty, every other which the most exalted can afford; and the pleasures of vanity and superiority are seldom consistent with perfect tranquillity, the principle and foundation of all real and satisfactory enjoyment. Neither is it always certain that, in the splendid situation which we aim at, those real and satisfactory pleasures can be enjoyed with the same security as the humble one which we are so very eager to abandon” (TMS III.3.31, 150). Hence he famously envisions a beggar sunning himself by the highway and enjoying a level of security and peace of mind that surpasses that of many a king (TMS IV.1.10, 185), and elsewhere he laments “all that leisure, all that ease, all that careless security, which are forfeited for ever” when one attains great wealth (TMS I.ii.2.1, 51).

Of course, the idea that money really cannot buy happiness—and that great wealth may even jeopardize it—might seem to render economic inequality far less problematic. After all, if the poorer members of society are in fact “in no respect inferior to those who would seem so much above them” in terms of “what constitutes the real happiness of human life” (TMS IV.1.10, 185), then why does it matter that they are poorer? It is precisely this feature of Smith’s thought that leads Fleishacker (2013, 493) to assert that “he is not both by a book like IV .1.8, 181–2)—or perhaps when we are enlightened by a book like The Theory of Moral Sentiments—we almost invariably turn back toward the feverish pursuit of ever more riches since it is so difficult to continually view things “in this abstract and philosophical light” (TMS IV.1.9, 183). The difficulty, in Smith’s view, lies once again in the fact that we tend to sympathize more easily with the rich than the poor, wrongly assuming that they must be far happier (see TMS I.ii.2.1, 50). “When we consider the condition of the great, in those delusive colours in which the imagination is apt to paint it, it seems to be almost the abstract idea of a perfect and happy state,” he writes (TMS I.ii.2.2, 51).

It is true that later in The Theory of Moral Sentiments, just before his one reference to the “invisi- hand” in that work, Smith praises the “deception which rouses and keeps in continual motion the indus- try of mankind”—essentially, the illusion that money can buy happiness—for the role it plays in advancing the process of civilization (TMS IV.1.10, 183–4). Yet it remains true that he calls it a deception. Moreover, it is a deception that Smith believes causes a great deal of unhappiness. In his view, “the great source of both the misery and disorders of human life, seems to arise from over-rating the difference between one perma- nent situation and another” (TMS III.3.31, 149). This “misery” stems from the fact that people often submit themselves to nearly endless labor and anxiety in the pursuit of wealth, thereby unwittingly foregoing the calmer, simpler pleasures that are available to them at any time (see TMS III.3.31, 150). Smith maintains that labor is “toil and trouble” (WN I.x.2, 47), that it requires a person to “lay down [a] portion of his case, his liberty, and his happiness” (WN I.x.7, 50), and he speaks of “all that toil, all that anxiety, all those mortifications which must be undergone” in the pursuit of great wealth (TMS I.ii.2.1, 51). Happiness consists largely of tranquility, for Smith, and there is little tranquility to be found in a life of toiling and striving.

There is also, however, an even more direct route by which extreme economic inequality undermines hap- piness, at least for a certain (rather large) segment of society. Smith argues that human nature is such that mutual sympathy is not merely pleasant, but an essential component of our psychological well-being. He claims that “nothing pleases us more than to observe in other men a fellow-feeling with all the emotions in our own breast” (TMS I.2.1, 13) and that “the chief part of human happiness arises from the consciousness of being beloved” (TMS I.ii.5.1, 41). Conversely, he holds that a lack of sympathy generally causes people to lose all relish of life; they can take no pleasure in the presence of others when there is little prospect of enjoying a sense of “fellow-feeling,” but the idea of solitude is equally horrifying (see TMS II.ii.2.3, 84–5). Thus, the “human misery” of the “poor and wretched” derives principally from a lack of compassion and com- panionship (TMS VI.ii.1.20, 225–6). And a direct result of extreme economic inequality, we have seen, is that “the poor man goes out and comes in unheeded, and when in the midst of a crowd is in the same obscurity as if shut up in his own hovel” (TMS I.ii.2.1, 51). In other words, for all of Smith’s talk about beggars happily sunning themselves by the highway, he does believe the poor are likely to be less happy than the rich in a society marked by extreme economic inequality—not because they have fewer material goods, but because they tend to garner less sympathy from others. Among
the poor, he proclaims, the lack of sympathy from others “necessarily dampens the most agreeable hope, and disappoints the most ardent desire, of human nature” (TMS I.iii.2.1, 51).

Hence, extreme economic inequality undermines happiness in at least two ways. First, it undermines the happiness of the poor by depriving them of the crucial pleasure of mutual sympathy. Second, material goods themselves (beyond a very basic level) generally do not add to people’s happiness, according to Smith, but our sympathy for the rich leads us to believe they do, and thus to toil and strive for ever more wealth. The distortion of our sympathies that accompanies extreme economic inequality thereby tends to make us all—rich and poor alike—less happy than we might otherwise be.11

CONCLUSION
All of this said, it remains far from clear that Smith would approve of the state taking drastic steps to reduce—much less eliminate—economic inequality. As we have seen, Smith does urge the elimination of any and all government policies that benefit the rich at the expense of the rest of society, as well as certain positive measures to improve the lot of the poor such as state-supported education, proactive correction of the bargaining asymmetries between employers and workers, and modest progressive taxation. All of this adds up to quite a lot, especially in an eighteenth-century context, but it is far from a call to level society completely. Given Smith’s acceptance that a considerable amount of economic inequality is an inevitable byproduct of a flourishing commercial society, as well as his general distrust of government and of the “insidious and crafty animal[s]” who run it (WN IV.ii.39, 468), he was wary of grand schemes for leveling society. (In his lectures, he deems the idea that people “should be required to pay a tax equal to half or third of their substance” to be “a gross, flagrant, and palpable abuse” of power, one that would clearly entitle the people to “rise in arms” against the government [LJ, 326].) Nor did Smith regard economic inequality as wholly problematic; on the contrary, he insists that it has certain real benefits, such as encouraging productivity and bolstering political stability. I have tried to show, however, that he also pointed to some highly significant, and largely unappreciated, factors on the “cost” side of the ledger. Extreme economic inequality leads us to sympathize more fully and readily with the rich than the poor, and this distortion of our sympathies in turn undermines both morality and happiness. In this respect, Smith’s attitude toward economic inequality was of a piece with his attitude toward commercial society more broadly: his recognition of its advantages did not blind him to its weighty drawbacks.

Throughout this article I have tried to clarify Smith’s views on the effects of extreme economic inequality and to articulate them as forcefully as I can. Before concluding, however, it is perhaps worth noting that it is not entirely obvious that one of his key premises is correct. That is, we inhabitants of modern commercial societies may not in fact admire the wealthy as uncritically as Smith expected we would. Many on the political left instead regard the very wealthy as greedy, rapacious “one percenters,” and while some on the political right view them as innovators and job creators, many others—often inspired by communitarian or religious impulses—join in the left’s suspicion of the rich. (I doubt that many hedge fund managers suffer from a surfeit of approval.) In the United States, especially, we frequently laud the sturdy virtues of the “common man” or the middle class, much as Smith himself did. Yet much of Smith’s analysis still rings true today. First of all, the amount of media coverage of the lives and lifestyles of the rich and famous should suffice to confirm that even if we do not always admire the wealthy, we do generally sympathize with them in Smith’s sense of the term—that is, we pay attention to them and put ourselves in their shoes—far more than we do with other people. Further, even if we do not always admire the wealthy either as individuals or as a group, there is little question that we are disposed to admire and pursue wealth itself, with every bit of the fervor and doggedness that Smith predicted. Finally, the other half of the distortion in our sympathies that he describes—the tendency to unduly ignore the poor—appears to be very much still with us. Whether all of this serves to undermine morality and happiness in the ways, or to the degree, that Smith suggests will have to be the subject of another study, but given both Smith’s status as history’s most famous theorist of commercial society and the fact that his particular worries about economic inequality are largely absent from contemporary discourse, this generally overlooked side of his thought would constitute a welcome addition to our own debates.

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