

POVERTY, INEQUALITY, AND THE ROLE OF GOVERNMENT: WHAT WOULD ADAM SMITH SAY?

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INTRODUCTION

Despite his legacy as a powerful advocate of free-market capitalism, Adam Smith's writings can support an active role for government in affecting the distribution of income in society. Although he believed in the necessity and inevitability of economic inequality, Smith deplored severe poverty and did not blame the poor for their plight. The centrality of self-interest in his economic model left room for sympathy and "fellow-feeling" in his analysis of social relations. And the flexibility and historical specificity of his critique of government actions left room for modifications of market outcomes. In these respects, Smith differed significantly from most other Classical economists, including Malthus and Ricardo.

The idea that Smith's advocacy of laissez-faire was limited and historically specific, and that it has been widely misinterpreted and exaggerated, is not a new one. The contribution of this paper is to develop that argument from the specific perspective of Smith's views on the distribution of income and poverty and to discuss the relevance of these views in providing philosophical underpinning for modern social policy. Examination of Smith's ideas using the frameworks of several modern theoretical constructs, including Rawlsian justice, inter-dependent utility functions, countervailing power, and the theory of the second best, helps to make this link between eighteenth century thought and twentieth century policy analysis.

Smith's primary focus in his *Inquiry into the Nature and Causes of the Wealth of Nations* was on economic growth, not distribution. However, the purpose of growth was to improve society's welfare, which, for Smith, basically meant consumption opportunities for all. He was concerned with "universal opulence which extends itself to the lowest ranks of people" [WN, 11]. Smith focused on conditions of production but made it clear that the purpose of production was to provide for consumers.

This interest in consumption was a reflection of Smith's moral philosophy. He believed that a market economy could thrive on the operation of individual self-interest. But self-interest was assumed to exist in a moral environment, where all individuals had equal basic rights and where those mutual rights were respected. Smith's view that the distribution of the consumption opportunities provided by growth among social classes and individuals influences economic welfare was consistent with this perspective.

THE SOCIAL CLASSES

Adam Smith had no quarrel with the fact of a class society; his entire analysis was premised on a society composed of distinct classes with significant economic inequalities. He was, however, highly critical of the existing imbalance of economic power among the social classes. His analysis of distribution focused on the division of the product into the profits, rent and wages accruing to capitalists, landlords and workers, respectively. But he inquired less into the allocative role of rates of returns to factors of production than into the social and economic functions and well-being of the members of the constituent orders. This concern with social welfare, and particularly with the welfare of the common people, is basic to an understanding of Smith's perspective on distribution.¹

Smith's discussion of the characteristics of the social orders and of conflict among the classes, as well as the extent to which the existing distribution was "justified," is particularly relevant. From Smith's perspective, the laboring classes fell beneath the others only in terms of their material standard of living. He did not see them as innately less worthy, nor as less deserving of respect than landlords or capitalists. He discussed at length the natural tendency to admire the rich and powerful and to look down upon the poor. This tendency, "though necessary both to establish and to maintain the distinction of ranks and the order of society, is, at the same time, the great and most universal cause of the corruption of our moral sentiments" [TMS, 61]. In Smith's view, it was wisdom and virtue, not wealth and greatness, which deserved respect and admiration. Contempt was due vice and folly, but not poverty or weakness. The positive qualities of the poor and humble were not adequately recognized by society. According to Smith, the majority of the working poor were diligent workers, willing to exert themselves without significant coercion [WN, 82].²

Smith saw the differences among people with differing status in society primarily as a function of their environments, rather than of innate characteristics.³

...the very different genius which appears to distinguish men of different professions, when grown to maturity, is not upon many occasions so much the cause as the effect of the division of labour. [WN, 15-16]

Although there is inconsistency in Smith's writings with respect to differences in individual characteristics, the view that people are the products of their social environments dominates.⁴ Workers' inability to comprehend their own interests and those of society resulted from inadequate education and stultifying work environments. Smith found working class people generally worthy of respect and did not hold them, as individuals, responsible for their status in society. This perspective was an integral aspect of his analysis of economic activity within a social context.

Smith depicted the two other primary social orders less favorably than the laboring class.⁵ Despite his view of the primacy of the capitalists in advancing the goal of economic growth, Smith subjected both the character traits accompanying this economic role and the ill-effects of high profit rates to extensive criticism. He referred to the "clamour and sophistry of merchants and manufacturers," whose thoughts were on the interests of their own businesses rather than on the interests of society, and who were responsible for the establishment of the destructive mercantilist regulations [WN, 128]. He argued that high profit rates damaged the country in several ways, the most serious

He argued that high profit rates damaged the country in several ways, the most serious being that easy profits eroded the personal traits of frugality and caution required for capital accumulation. The merchants who became wealthy too easily became profligate, failing to set the proper example for others and diminishing capital accumulation [WN, 578].

Only in a properly designed institutional environment, which safeguarded the rights of individuals, would the working classes be protected from the "mean rapacity, the monopolizing spirit" [WN, 460] of the capitalist class.⁶ Left entirely to their own devices, capitalists would be likely to combine to artificially raise prices and lower wages. Smith's biting attack on their social behavior tempered his respect for the central economic function of the capitalists and the virtues required for competitive success.

Landlords fared even worse. Their rents were not the fruits of any effort or labor on their own parts [WN, 249]. In their favor, although their efforts contributed less to the production process than those of the capitalists, they were less inclined to foster monopoly and more imbued with a cooperative spirit [WN, 428]. Despite these functional characteristics, the landlords concentrated primarily on "the gratification of the most childish, the meanest and the most sordid of all vanities" [WN, 389].

Thus, capitalists served a vital function in the accumulation required to propel the economy forward, but had to be restrained from their socially destructive tendencies. Landlords, while they did not thwart competition, were lazy, frivolous, and not particularly useful in the economic process. The working class, on the other hand, got comparatively high marks from Smith.

Smith clearly recognized conflict among these classes, and appreciated its impact on the distribution of income. The wages resulting from bargains struck between capitalists and workers depended on the former's ability to give as little as possible and the latter's strength in gaining as much as possible [WN, 66]. In Smith's system, relative power and mutual coercion influenced the distribution of resources and welfare.⁷ However, Smith's was not a theory of exploitation in the Marxian sense. He did refer frequently to rent and profit as deductions from the return to labor and noted that in a society where capital is privately owned, "the whole produce of labour does not always belong to the labourer" [WN, 49]. But there was no notion of profit or rent rightfully belonging to labor. The idea that one class unjustly appropriated the value created by another class was absent from Smith's thought.

Nor did Smith endorse the opposing view that the market distribution was inherently just. His references to rent and profits as deductions from the produce of labor, which laborers were forced to share with capitalists and landlords, provide support for this interpretation. Smith's hesitancy to condone the market distribution was not rooted in Marxian-type concepts of class conflict, but resulted from his perception of imbalances in economic power in a basically desirable economic system. He expressed this view with his argument that employers had the stronger bargaining position in wage negotiations.

This imbalance was partially due to the greater resources of the capitalists. Their dependency on workers was less immediate than the workers' dependency on their employers. The fact that the legal system prohibited worker combinations, but not the cooperation of manufacturers in holding down wages, exacerbated the imbalance. The organization of production and the government, in its role of defining and protecting property rights, could give undue control to some groups. Smith's criticism of the

existing power structure, dominated by the beneficiaries of mercantilist regulation, undercut any supposed ethical supremacy for the resulting distribution of resources.

This point is of interest from the perspective of policy analysis, since it leaves room for redistribution in a setting with an unequal distribution of economic power. A particularly relevant area is Smith's non-competitive labor-market, where the bargaining power of employers is crucial.⁸ It can be argued that in Smith's framework, policies such as minimum wage legislation would not disrupt a competitive market or alter a "just" distribution of income, but would help to counteract the unequal distribution of economic power.⁹

In sum, Smith's theory of the distribution of the product to the three primary social classes indicates that while he took the class structure as a given and had no quarrel with economic inequality, he had particular sympathy for the laboring class. He would not eliminate the return to land and capital, but neither did he accept the market outcome, which might entail widespread poverty, as the only just or efficient distribution. His concern with the imbalance of economic power opens the door to policies designed to correct that imbalance.

SMITH'S ATTITUDE TOWARDS POVERTY AND INEQUALITY

Smith's concern for the general welfare of the masses included abhorrence of extreme poverty and inquiry into the impact of economic development on the less fortunate. Nonetheless, he was intellectually wedded to the notion of a class society characterized by extreme inequality. He had no vision of altering this situation. This apparent paradox is partially resolved by the fact that Smith did not see material wealth as the unique or infallible harbinger of happiness.

The wages of the meanest labourer can afford him food and clothing, the comforts of a house and of a family...What then is the cause of our aversion to his situation, and...those who have been educated in the higher ranks of life...do they imagine that their stomach is better, or their sleep sounder, in a palace than in a cottage? The contrary has so often been observed...that there is nobody ignorant of it. [TMS, 50]

Smith thought people pursued riches in order to gain status, admiration and recognition, not because riches in themselves granted satisfaction. Smith contended that few members of capitalist society truly suffered from destitution and the poor were not really lacking in the important things in life. He believed that the illusion that richer and more powerful people are happier was the basis of the sense of relative deprivation from which the lower classes suffered. He did not perceive intolerable deprivation as a prevalent phenomenon within the market economy.

Yet, he viewed extreme poverty as an undesirable condition since the lack of basic necessities and conveniences bred discontent and unhappiness. He understood poverty as culturally defined, necessities including not only goods required for survival, but those commonly believed to be basic to a reasonable life style. This might include linen shirts or leather shoes, goods which he thought all members of the British working class deserved [WN, 821].

Narrow as Smith's perspective on the sufferings of the poor was, his sympathy for them and his dismay at the existence of poverty constituted a break with the body of

contemporary thinking. The prevalent attitude in Smith's time was of the inevitability of a poor class and the need for maintaining a large group of people at low wages so that they would have the incentive to work. Smith disagreed for several reasons. First, he argued that wages should be high in order to encourage work effort (WN, 81). In addition to providing incentives, high wages would make the system more fair.

It is but equity, besides, that they who feed, cloathe 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, 79]

Unlike Malthus, Smith did not accept the inevitability of a poor and miserable class of people. It was unreasonable to consider a society to be flourishing as long as many of its members suffered deprivation. This does not mean that he meant to discard the class structure, but only that the consumption opportunities of all classes should be above a reasonable minimum level.

Smith's concern for the welfare of the poor did not extend to criticism of the inequality inherent in the class structure. Despite his idea of natural equality noted above, economic inequality per se was not a problem for Smith. He reprimanded the wealthy for their luxurious life-styles, but he did not suggest that their wealth should be diminished. Natural equality, rather than providing a basis for judging economic distributions, supported the emphasis Smith placed on equality with respect to the basic rights to life and to the pursuit of support.

Smith saw the working classes as victimized by the low wages and high prices generated by the mercantilist system. This was a radical view in his time. However, only the direst poverty was of concern to Smith, who thought that, thanks to the "invisible hand," it was a rare phenomenon.

The poor had no rights to the property of the rich, and the rich owed no debt to the poor. It was inevitable that the poor would far outnumber the rich and that government assistance was required to protect the possessions of the innocent rich from the envy and want of the poor. Smith was a firm believer in property rights and did not see the inevitable inequality of a wealthy society as an injustice.

He also justified inequalities within the laboring classes. His discussion of the wage structure, which would explain inequality among the working class, is well known, particularly for its emphasis on the non-pecuniary costs and benefits of labor. The skill and training of workers and the unpleasantness of the tasks, as well as regularity of employment, trust and responsibility, and the probability of success, entered into the determination of individual wage rates under this theory of equal net advantages. Equal units of labor, which consisted of essentially equal amounts of disutility, were compensated by equal money wages.

This perspective, strikingly different from J.S. Mill and other later writers who argued that the least pleasant jobs tended to pay low wages, allowed Smith to accept the existing distribution of wages. Within the laboring class, people ended up with different occupations and incomes partly as a result of circumstance and partly as a result of individual differences and personal choice. Since the market equalized the net advantages of various occupations, inequality within the laboring class was not an issue for social concern.

Smith thought the existing inequality was independent of economic growth. Wealth and poverty would coexist regardless of the state of the economy (WN, 143). This constancy of inequality was of particular importance, since the major goals in Smith's political economy converged in the prospect of growth. These goals included both greater consumption opportunities for all and a more morally sympathetic society.

Although inequality would not be diminished, the benefits of growth would trickle down to the lowest ranks of society. One benefit to the working class would come from the increased demand for labor resulting from the expansion of capital, leading to higher real wages for workers in a growing economy. The power of capitalists to take advantage of the unorganized workers could be at least partially neutralized.

Smith also suggested that increased humanity and good will were a positive by-product of the growth process. As the benefits of growth trickled down, raising the living standards of even the lowest ranks of society, the poor would be able to achieve tranquility and thus be free for natural feelings of beneficence towards their fellow-man. Growth would create a more humane society, where moral sympathies and virtue could thrive.

Thus, economic growth would raise the living standards of all segments of society, without altering the basic distribution of income.¹⁰ Inequality would persist, but the problem of absolute poverty would be solved. Smith justified the inequality of the distribution of income in capitalist society and the stultifying effect of the division of labor on the workers by the level of material subsistence provided to the poor (WN, 734-35). In addition, the advent of commercial society promoted individual freedom, releasing the masses from the controlling relationships of the feudal system. Whatever problems the poor might suffer in commercial society, they were better off than they would be in another economic structure.

This concern with poverty as opposed to inequality invites comparison with the modern Rawlsian perspective on economic justice.¹¹ Basically, Rawls promotes the ethic that society's goal should be to maximize the well-being of the worst-off members of society. Policies which increase the welfare of the poorest people should be supported, regardless of their impact on others. This position does not imply a leveling downward from the top, since redistribution from the rich to the poor may, in some circumstances, diminish the total product enough to actually leave the poor worse off in absolute terms than they were without the redistribution. Rawls accepts economic inequality if and only if its existence increases the well-being of those at the bottom of the distribution.

Like Smith, Rawls is primarily concerned with bringing up the bottom. But the distance between Rawls' tolerating inequality to reduce poverty and Smith's insistence on inequality is great. As much as he deplored absolute poverty, Smith believed in preserving inequality for the sake of social order.¹² Inequality was an integral part of capitalist society, not a necessary evil. Still, the surprise is not the discovery of an unbridgeable gap between classical liberal political economy and modern liberal political philosophy, but the existence of a basic commonality -- the focus on the unacceptable conditions at the bottom of the distribution.

THE UNDERLYING MORAL PHILOSOPHY

Smith did not judge the poor morally responsible for their fate; he thought they deserved a better life. As a moral philosopher, Smith began his economic analysis from

moral premises. His theory of the invisible hand coordinating individual economic self-interest for the benefit of society was a subset of a broader social view. Smith did not consider self-interest the only motivating force. "How selfish soever man may be supposed, there are evidently some principles in his nature, which interest him in the fortune of others, and render their happiness necessary to him, though he derives nothing from it, except the pleasure of seeing it" [TMS, 9]. This "fellow-feeling," which was a natural facet of the human character, generated benevolence among individuals in society. Benevolence was not necessary to the social order, but it improved its quality. Individual and social welfare were augmented by benevolence and by improvement in the well-being of the masses.¹³

Justice, on the other hand, was absolutely necessary for society's survival. Smith defined justice as the absence of mutual harm. An injustice was committed if someone sustained bodily injury or was deprived of his personal property. Each individual had an equal and inalienable right to pursue his own preservation and to maintain his own property.

This right was clearly prior to demands for sympathy or charity. The protection of property rights was the basic purpose of a system of justice. In contrast, "A beggar is an object of our charity and may be said to have a right to demand it; but when we use the word right in this way it is not in a proper but in a metaphorical sense" [LJ, 9].

Benevolence held a secondary status in Smith's social value system. But that value system, which clearly involved inter-personal (as opposed to market) relations not based on self-interest, underlay Smith's political economy. He passed judgment on the moral character of economic agents, and he defined economic well-being as involving more than mere material wealth. In *The Theory of Moral Sentiments* he stated his aversion to unjust behavior explicitly, arguing that hurting one's neighbor could be justified only in retribution for a wrong that had been committed. To harm others in the pursuit of one's own well-being was clearly unacceptable [TMS, 82].

In *The Wealth of Nations*, Smith made it clear that self-interest could become destructive if it were not restrained by social values.¹⁴ He expressed this judgment in his condemnation of capitalist "rapacity." Also, "All for ourselves, and nothing for other people, seems, in every age of the world, to have been the vile maxim of the masters of mankind..." (WN, 389). The self-interest which Smith praised as the pillar of the market system was not a blind self-interest, but a self-interest tempered by respect for justice, and by sympathy and benevolence in personal relationships.¹⁵ Thus, Smith's political economy had a definite moral grounding. Preservation of personal property rights received top priority, but a social concern for poverty also emerged from this foundation.

The role of sympathy or "fellow-feeling" in his moral philosophy suggests that Smith's perspective might be construed as consistent with the modern idea of interdependent utility functions. That is, one individual's welfare may increase as a result of seeing an improvement in the living conditions of other, less fortunate individuals. Superimposing the framework of interdependent utility functions on Smith's thought points to the compatibility of Smith's concern for poverty and the masses with his emphasis on the rights of those who have acquired material wealth -- concerns which might otherwise be interpreted as leading to contradictory philosophies of government.

Smith's concept of sympathy is most easily understood by thinking of people who imagine themselves in the positions of others, in order to get a real sense of their well-being and to share their sorrows and joys. People are made worse off by the sufferings of others and benefit from their happiness. Translating this concept of sympathy into

modern parlance as the existence of interdependent utility functions, creates the possibility that redistribution from the rich to the poor might be Pareto optimal.¹⁶ That is, both the rich and the poor could benefit from the reduction of poverty, since the welfare of the rich is diminished by the sufferings of the less fortunate people around them.

The framework of interdependent utility functions, while it involves making some rough translations of Smith's ideas and defining utility in a more modern way, is useful in illustrating the consistency of Smith's thought. In addition to allowing concern for the poor to be combined with the property rights of the wealthy, it allows significant exceptions to laissez-faire to be compatible with individual freedom, the invisible hand, and society's well-being.

Thus, though he relied heavily on the abandonment of mercantilist policy, Smith might have supported an active role for society to ameliorate the poverty problems left by the invisible hand. Yet he would not have been sympathetic to the goal of eliminating inequality in the distribution of income through public policy, even if it were feasible. The maintenance of the "distinction of ranks, the place and order of society" was for him "of more importance than even the relief of the miserable" [TMS, 226].

In Smith's work, the primary motive for growth was that it would increase the welfare of all segments of society. He envisioned the poor benefitting from this growth without government intervention. However, he envisioned this in only a particular institutional context-- one which would not allow the interests of the capitalist class to dominate those of the rest of society. Smith did not anticipate a market system which could harbor perpetual poverty. His political philosophy was grounded in his view of a potentially moral and just society.

SMITH AND LAISSEZ-FAIRE

Smith had great faith in the "invisible hand," the efficiency of economic activity motivated by self-interest. He articulated advantages of competition which, while seemingly obvious today, were novel ideas in the nineteenth century. Nonetheless, Smith examined every case on its merits and did not think in dogmatic terms or in universal absolutes.

Even in the area of free trade, where Smith's laissez-faire position was a primary motive in *The Wealth of Nations* and his impact on policy-making was greatest, he allowed some exceptions. National defense, retaliation, and gradual policy phase-ins in the interest of social welfare all provided examples of circumstances which could justify restraints on trade.¹⁷ The third area is particularly noteworthy from our point of view, since Smith allowed humanity, and the unacceptability of large-scale temporary unemployment, to take precedence over the free operation of market forces [WN, 435].

Certainly no exceptions to Smith's laissez-faire philosophy can negate his basic opposition to government interference in the market. However, several reservations are relevant. First, Smith's skepticism about the role of government in solving society's problems was grounded in his lack of faith in the institution of government, and in the British government of his time, in particular. Smith criticized the idealism that imagined a perfect plan being implemented by the government, and did not mince words with respect to his view of his own government. The involvements of the "orderly, vigilant and parsimonious" governments of Venice and Amsterdam in the administration of public banks was "extremely proper." However, the government of England,

which was "slothful" and acted with "thoughtless extravagance," could not safely be trusted with a similar responsibility [WN, 770].

Second, and most significantly, he was arguing against mercantilist policies, of which one of the many harmful effects was that they worked to keep the laboring classes poor. He saw the preferred solution to the poverty problem not in elaborate policies, but in the workings of the free market. Nonetheless, his opposition was to regulations which interfered with factor mobility and competition, not to regulations which protected the oppressed from dominant interests in society. He condoned, for example, regulations requiring cash wage payments as "just and equitable" [WN, 142]. These rules prevented employers from cheating workers by claiming that the value of in-kind wages was higher than it actually was. The regulations restrained the exercise of economic power; they did not alter market prices.

Other commentators on Smith's work have argued that the value Smith placed on impartiality would lead him to advocate the elimination of existing preferences and restraints, but not to support the introduction of new policies designed to counter-balance existing ones.¹⁸ While Smith's basic predilection was clearly in this direction, his support for policies such as the cash wage requirement and his emphasis on the well-being of the general population suggest that he would be flexible in a more complex institutional setting. He was keenly aware of the deleterious effects of power imbalances. Thus, he would not have argued for their unnecessary perpetuation in an economy in which they could not be eliminated through simple changes in government regulations.

One way of looking at this issue is to ask how Smith would have responded to Galbraith's [1956] notion of countervailing power.¹⁹ Would he agree that deviations from perfect competition on one side of the market are sometimes the appropriate response to existing impediments on the other side of the market? Would he accept the necessity of government policies protecting the poor and the laboring classes in an economy characterized by concentrations of economic power unimaginable in his day? Or would the value he placed on unfettered market processes supercede the value he placed on general social welfare? Would he insist that fewer institutionalized preferences were always better than more, or would he recognize the basic idea behind the modern theory of the second best?²⁰

The essence of the theory of the second best is that a piecemeal approach, where the requirements of competitive efficiency are satisfied in as many sectors as possible, is not necessarily socially optimal, so long as any market imperfections exist. In the context of policies designed to mitigate poverty and to redistribute income and wealth, the principles of countervailing power and of the theory of the second best can be construed to suggest that government interference may be required to correct imbalances generated by the concentration of economic power and by other deviations from perfect competition in modern capitalism. To be consistent with Smith, this construction depends on the view that these modern institutions create power imbalances which interfere with the basic social and individual rights of some members of society. While what Smith's position would be is obviously debatable, his focus on relative economic power, his insistence on viewing the poor as victims of circumstance, and the exceptions he allowed to his laissez-faire principles all point towards his acceptance of the realities highlighted by these modern theories. The human values and the flexibility and historical specificity of his policy analysis suggest that Smith would accept policies protecting workers from the worst abuses of the capitalists' market power.

In Smith's time, the issue of welfare policies as we think of them today was unknown. His attack on the Poor Laws was not an attack on poor relief per se, but on restrictions on the mobility of labor imposed by the Settlement Act, which prohibited workers from moving from one parish to another, regardless of employment opportunities. While he never explicitly stated that the government should intervene in favor of the oppressed to facilitate the workings of unbiased market forces, such a conclusion is consistent with Smith's writings.²¹ One of Smith's primary concerns with respect to the role of the state was that government would always represent the interests of some groups in opposition to others. The state "is in reality instituted for the defense of the rich against the poor, or of those who have some property against those who have none at all" [WN, 674]. It functioned to preserve the existing distribution of wealth and income. Smith recognized the role of the state in defining and enforcing property rights and did not advocate the absence of government influence. Rather, he was concerned with the influence capitalists had over the government, and with their power to institute policies which would alter the distribution of the product against the general interest. He did not envision the government erring in the other direction and showering unearned riches on the poor. The basis for his hands-off approach to distribution was the welfare of the greater part of society.

Smith's advocacy of laissez-faire and his opposition to the role of government must be seen in historical context. He was expressing opposition to the strictures of mercantilism. He saw the workings of the invisible hand as superior to the existing discriminatory system. The possible variations on capitalism were not his standards of comparison. In today's controversies, his ideas cannot justly be invoked in favor of a pure and unbending laissez-faire approach.²²

THE ROLE OF THE GOVERNMENT

Because he perceived human nature as combining desirable and undesirable traits, Smith considered it imperative that the proper institutional environment exist to control anti-social tendencies. He recognized that competition might not be perfect; government was required as "an imperfect remedy" of these less-than-ideal conditions [TMS, 187]. The role for government consistent with Smith's brand of laissez-faire philosophy is clearer after an examination of the specific policy prescriptions he discussed.

Education was one area in which Smith made recommendations which expanded the scope of government activity. Partially in response to the problem that the division of labor led workers to become "as stupid and ignorant as it is possible for a human creature to become" [WN, 739], Smith advocated universal education with the expenses to be paid out of general public revenues. Education would give working people more self-respect and capacity for judgment. Also, the masses had to become more cognizant of their own interests and better able to counter the influences of the capitalist class on government.

Smith's support of public education was not purely humanitarian. It was also designed to reinforce the existing class structure and to facilitate economic development.²³ Smith was concerned with the inability of the poor and uneducated to be moral members of society. Educated people would be more "decent and orderly" than an ignorant population [WN, 739-40]. Smith advocated different curricula for different ranks of society. His educational proposals, radical in their universal nature, were an

expression of his ideal of elevating the masses without disrupting the existing class structure.

Another policy area which received Smith's attention was taxation. In contrast to existing regressive taxation schemes, Smith argued that taxation should be proportional to ability to pay. It should be on luxuries instead of necessities, so that the frivolity of the rich might help to provide some relief for the poor. Smith clearly opened the door for progressive taxation when he advocated a tax on house-rents, stating that "it is not very unreasonable that the rich should contribute to the public expense, not only in proportion to their revenue, but something more than in that proportion" [WN, 794].

Smith supported legislation that would strengthen the market, but opposed legislation which would impair competitive conditions. Despite his belief in inequality, his sympathy for the poor and his impatience with the characteristics of the capitalist class caused him to support social policies which would rectify the balance of power. Consistent with the discussion of countervailing power and the theory of the second best above, Smith's recognition of conflicts and imperfections in the market led him to support a government role in augmenting the benefits of economic development for the less fortunate members of society. While he opposed policies which would threaten the class structure or the accumulation of capital, he did not oppose reforms such as progressive taxation, universal education, or the guarantee of basic necessities.

CONCLUSION

The *Wealth of Nations* played a major role in reshaping existing views on political economy. Adam Smith's convincing and integrated analysis of the competitive market contributed significantly to the decline of prevailing mercantilist ideology and policy. It is this advocacy of market forces over regulatory strictures for which Adam Smith is most remembered. Less attention is focused on the primacy to which he raised consumption as the goal of the economic process and on his conviction that all members of society deserve to benefit from production and growth.

By the early nineteenth century there was widespread theoretical acceptance of the notion of laissez-faire. Adam Smith deserves much of the credit for this ideological shift. Still, there is considerable ambiguity in Smith's legacy. Simple focus on his laissez-faire principles leads to advocacy of minimizing the overt government role in influencing distribution. More in the true spirit of Smith are those who see a need for public intervention to correct the worst inequities of the market and who emphasize the differences between the market economy of Smith's day and modern industrial capitalism. Smith saw the working poor as victims of a system which gave undue influence to the interests of others. He argued strongly against policies which tended to sustain the poverty of the poor. The Settlement Laws fell into this category. He did not oppose the idea that government should help the poor overcome their condition. His economic theory rests on his moral philosophy; the health of the economy cannot, in Smith's framework, be entirely separated from moral virtue and human sympathies.

Superimposing modern theoretical frameworks on Smith's thought confirms this interpretation. Despite his acceptance of existing class structures as required to maintain the social order, Smith was a Rawlsian in that he focused on improving the conditions of those at the bottom, rather than on their status relative to others. The concepts of sympathy and fellow-feeling, central to Smith's moral philosophy, can be interpreted in terms of inter-dependent utility functions. His emphasis on the ameliora-

tion of poverty on the one hand, and the property rights of the rich on the other, become compatible and point towards the possibility of Pareto optimal redistribution. Smith paid attention to the unequal distribution of economic power and left doors open for diminishing the effects of this type of inequality. This makes his views compatible with the propagation of limited forms of countervailing power and with recognition that in a complex, concentrated economy, where all market imperfections cannot be removed, refraining from government actions to support and protect the poor and working classes may not be "second best".

If it is Adam Smith's brand of laissez-faire to which contemporary thinkers and policy-makers wish to subscribe, its complexity must be recognized. A consistent philosophy of government must account for both Smith's concern for the poor and his acceptance of inequality and the class structure; it must accommodate his flexibility in defining a role for the government as well as his preference for the market; and it must moderate his faith in the trickling down of the benefits of growth with his recognition of economic conflicts and imperfections. Smith's work suggests advocacy of measures to mitigate the impact of the market power of capital on the poor, without destroying the engines of capitalist expansion.

NOTES

1. This concern with social welfare stands in stark contrast to Ricardo's approach, which focused on abstract economic agents, rather than on human beings.
2. This view differs significantly from that of Malthus, who despaired over the habits and attitudes of the lower classes.
3. The idea of innate equality was widely accepted in Smith's time. See Douglas [1928, 87] for references to Locke, Hume and others who shared this perspective.
4. In *Lectures on Jurisprudence* [338], for example, Smith attributes inequality of fortunes to differences in capacity, industry and diligence.
5. Michael Perelman [1989] suggests that Smith attacked all social groups in society except that segment of the middle class with which he felt the closest personal identification.
6. Campbell [1967] stressed the importance of an appropriate institutional framework, based on principles of justice, as a context for the operation of Smith's socially beneficial self-interest.
7. See Samuels [1973] for elaboration of a similar perspective.
8. See Blaug, [1978, 47] for discussion of this issue.
9. I discuss this issue in depth below.
10. Smith did not explicitly condone the existing degree of inequality. G.V. Rimlinger [1976] has argued that Smith believed the existing inequality was excessive and could be construed as a threat to economic growth. While Rimlinger's central thesis, that "Adam Smith was basically sympathetic toward what he would call an interventionist social policy on behalf of the poor," is entirely compatible with the arguments of this paper, my interpretation of Smith's position on inequality differs. In my view, Smith wanted to ease the suffering of the poor without disturbing the basic social order or violating property rights. Clearly, small changes in inequality would be likely to result from any public efforts to aid the poor. But the basic character of the class structure could remain intact.
11. See John Rawls, *A Theory of Justice* for a detailed discussion of Rawls' philosophy of economic justice.
12. Rawlsian theory could also support inequality if it prevented social disorder, improving the quality of life for all, including those at the bottom. But in describing Smith's views, I use "the preservation of social order" to mean the continuation of the existing (or gradually emerging) class structure, not simply the prevention of chaos.
13. This concern for benevolence should not obscure Smith's position on the motives for economic activities, so clearly expressed in his famous statement that "It is not from the benevolence of the butcher, the brewer, or the baker that we expect our dinner, but from their regard to their own interest" [WN, 14].
14. Nathan Rosenberg [1990] argues that Smith believed that wise and virtuous people would put the public interest ahead of their own narrow self-interest, but that he was concerned that the majority of people might not be wise and virtuous.

15. This perspective is compatible with Sen's [1987] view that Smith saw self-interest as explaining normal market behaviors, but not as the sole motive in a successful society. He complains that modern economics' almost exclusive focus on the self-interest aspect of Smith's theory has contributed to the distancing of economics from questions of ethics.
16. This need not imply that the equality of the distribution of income is an argument in individual utility functions. Smith's acceptance of inequality negates this possibility. See Hochman and Rodgers [1969] for the seminal work on Pareto optimal redistribution.
17. The basic problem receiving Smith's attention here is that of the equity costs involved in the transition from established policies to new, more desirable policies. Two hundred years later, Harold Hochman [1974] called attention to this phenomenon in his discussion of "Rule Change and Transitional Equity."
18. See Campbell [1967] for an example of this interpretation.
19. Galbraith introduced the term "countervailing power" in *American Capitalism* [1956] to describe the restraints on private power which emerge on the opposite side of the market from previously existing restraints to competition. Union strength counterbalancing the economic power of employers in concentrated industries is perhaps the most commonly cited example.
20. See Meade [1955] and Lipsey and Lancaster [1956] for the development of the theory of the second best.
21. Sen [1987] takes a similar position, suggesting that Smith was opposed to the specific inefficiencies inherent in the existing Poor Law system, but that he would be likely to support income supplements and incentives for the production of food to mitigate hunger.
22. Others who have argued that Smith's support of laissez-faire was not as extreme as is frequently thought and that he left more room for government action than many of his followers would have us believe include Viner [1927] and Bharadwaj [1989].
23. Donald Winch has characterized Smith's education proposal as "a political argument for strengthening the mechanism of social control within a society of ranks" [1978, 120].

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