Adam Smith on Economic Happiness

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1. Introduction

We must take seriously the idea that Adam Smith was the first “happiness” theorist in economics. Happiness theory, as put forth by economists such as Robert Frank and Daniel Kahneman,\(^1\) holds that the material opulence produced by free markets bears no necessary connection to the happiness of people within those markets; indeed, the opposite is often suggested. As a recent issue of *The Economist* notes:

But a paradox emerges that requires explanation: affluent countries have not got much happier as they have grown richer. From America to Japan, figures for well-being have barely budged. . . . Some economists think the results cast doubt on the long-held verities of their discipline. The dismal science traditionally assumes that people know their own interests, and are best left to mind their own business. How much they work, and what they buy, is their own affair. A properly brought-up economist seeks to explain their decisions, not to quarrel with them. But the new happiness gurus are much less willing to defer to people’s choices.\(^2\)

The paradox that people might not be happier with more goods was famously noted by Adam Smith long ago. And though familiar to us all, it is perhaps helpful to remind ourselves quickly of some of the relevant passages.

In the famous “poor boy” section of his *Theory of Moral Sentiments*, Smith clearly tells us that gaining more goods does not make one any happier:

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“wealth and greatness are mere trinkets of frivolous utility, no more adapted for procuring ease of body or tranquility of mind than the tweezer-cases of the lover of toys.”\(^3\) Actually, we all know this truth about the rich, according to Smith, so we do not “even imagine that they are really happier than other people.” We only imagine that “they possess more means of happiness.”\(^4\) Even that hypothesis can be put in doubt. As Smith tells us:

In what constitutes the real happiness of human life, [the poor] are in no respect inferior to those who would seem so much above them. In ease of body and peace of mind, all the different ranks of life are nearly upon a level, and the beggar, who suns himself by the side of the highway, possesses that security which kings are fighting for.\(^5\)

In addition to this, Smith famously suggests that the pursuit of wealth is grounded in a socially beneficial ethical “deception.”\(^6\) As the foregoing passages may already suggest, we think we’ll be happier by having more things, but we are deceived in this belief. Yet it is this very deception that “keeps in continual motion the industry of mankind. It is this which first prompted them to cultivate the ground, to build houses, to found cities and commonwealths, and to invent and improve all the sciences and arts, which enoble and embellish human life.”\(^7\) Elsewhere we learn that we are not only deceived but corrupted as well. Smith continues the paradox with comments like the following:

This disposition to admire, and almost worship, the rich and the powerful, and to despise, or at least, to neglect persons of poor and mean condition, 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. That wealth and greatness are often regarded with the

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4 Ibid., p. 182.

5 Ibid., IV.1.10, p. 185.

6 Ibid., p. 183.

7 Ibid.
The corruption seems to accompany the deception, so it looks as if the choice is either ethical or wealth-producing conduct, but not both together. Thus, in addition to the fact that gaining more goods does not make one happier, there are ethical issues of deception and corruption to worry about as well. Deception about happiness even seems to be necessary for there to be material advancement at all. The fate of mankind, at least when it comes to socio-economic life, seems in the hands of Smith to be a fundamentally tragic one. These issues have led to a debate in the non-economic literature between philosophers and political theorists about the meaning and possibility of a happy commercial order. In this debate are such important contributors to the Smith literature as Charles Griswold and Samuel Fleischacker, with Griswold more or less adopting the tragic interpretation and Fleischacker arguing that Smith, in effect, did not really mean it. Most recently, Dennis C. Rasmussen takes up the debate and offers a third alternative. His account contributes a number of helpful and insightful suggestions on how to think about the question of what makes a commercial society “happy.” Though ultimately flawed, the Rasmussen article is nonetheless instructive in its failings. Moreover, its basic point is correct even though it turns out not to solve the problem at hand. We shall therefore use it as the basis for our reflections here. We shall show that Rasmussen’s argument is prone to both the fallacy of division and the genetic fallacy, and even if these problems are avoided the solution turns out either to be implausible or beside the point. We will end our discussion by indicating what really is the basis for a “happy” commercial order as seen by Adam Smith.

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8 Ibid., Iii.3.1, pp. 61-62.

9 We should note that if this reading of Smith is correct—and we are not saying it is—Smith has one advantage over our contemporary happiness economists: he is willing to live with the tragedy and not make numerous pretentious guesses as to how the market might be corrected to make people truly happy.


2. Dennis Rasmussen on Adam Smith: A Critique and Appraisal

Rasmussen begins by citing evidence for the view that happiness for Smith is tranquility. There is, indeed, plenty of evidence to be cited, for Smith does seem to adopt much of that Stoic conception of happiness in his writings. The problem is that in identifying happiness with tranquility and then moving to claims about society, one faces the problem of avoiding the fallacy of composition or division depending on the direction one is moving (from individual to society or the reverse). Rasmussen often seems to us to court both fallacies, but we need to appreciate the problem first. Tranquility is a state of happiness for individuals. Rasmussen’s own citations of Smith confirm this. Yet what is clearly not the case for Smith is that the happy economy is a tranquil one, nor is it the case that tranquil individuals are good economic actors. There is, thus, no easy transition from the individual to the society, or vice versa.

Rasmussen tries to solve the problem of the implausibility of describing economies and economic actors as “tranquil” by offering us a certain sort of tranquility, namely, tranquility as the condition in which individuals feel secure in their property and secure in their freedom from attack by their neighbors. This is the tranquility of liberty and security that the political/legal order provides. Yet while Rasmussen is no doubt correct that there must be some connection between this sort of tranquility, on the one hand, and liberty and security, on the other, and that commercial societies provide both, it does not follow that the sort of tranquility provided by the liberty and security of a commercial order is the same as the tranquility of the happy individual. Nor does it follow that the tranquility of the happy individual can be used to characterize the happy economy.

These logical points do not belie that fact that Rasmussen makes an important contribution by claiming that liberty and security are central to any connection there might be between the happiness of people and economic matters. First, Rasmussen notes correctly that liberty and security are a form of social peace. Undoubtedly, then, a certain feeling of tranquility does obtain when a commercial order provides security and freedom. But such feelings might also be coupled with offsetting feelings of anxiety and stress that a commercial order might equally engender and which might even outweigh, to some extent, the tranquility one derives from security. Nonetheless, to be in something like a Hobbesian state of nature or in a dictatorship would surely be very lacking in tranquility, and the claim that commercial orders are most distant from these sorts of brutal social conditions certainly supports the idea that commercial orders are “tranquil.”

Second, it is surely unobjectionable to hold that freedom and security are at least prerequisites of tranquility, even if we must finally conclude that they are not the essence of individual happiness and thus not tranquility itself. Indeed, Rasmussen sometimes speaks as such. He tells us, for example, that “I
will argue that according to Smith the key prerequisites for avoiding misery—
for attaining a reasonable degree of tranquility and enjoyment—are a sense of
relative safety and freedom from direct dependence on another individual.”
Here not only is “tranquility” treated as a prerequisite to something else, but
clearly avoiding misery can only be considered tranquility in a negative sense.
Thus, as Rasmussen uses tranquility, it looks like we are dealing with
conditions for happiness, rather than happiness itself, at least when thinking in
terms of individuals.

Security and freedom (or the “tranquility” provided by the
political/legal order) could, however, be at the core of a “happy” economy,
even if deficient as an account of individual happiness. That sort of economy
would indeed provide peace of mind to some degree to economic actors.
However, we would commit the fallacy of division in supposing that the
attributes of security and freedom (or any other attributes) as applied to the
economy are sufficient to describe the happiness of individuals, even if they
are true of the economy as a whole in which these same individuals take part.
And it is important to emphasize, if it is not clear already, that even if security
and freedom bring feelings of tranquility to individuals, it does not follow that
the applicability of those attributes to the economy as a whole is the same, or
applied in the same respect, as it is to individuals. For one thing, economies
do not “feel,” and for another these attributes may be sufficient to conclude
that an economy is “happy,” but not sufficient as a description of the
happiness of individuals. Rasmussen often assumes that if security and
freedom bring a sense of tranquility to individuals, we have univocally
applied the term between an economy and individuals, but that simply does
not follow.

In making out his case, Rasmussen is motivated in part to combat
two other major alternative theories—those offered by Griswold and by
Fleischacker. Rasmussen wants to counter Griswold’s claim that Smith
distinguishes what is good for society from what is good for the individual.
That is, Rasmussen wants to counter Griswold’s claim that the deceptions
brought on by commerce are good for society even if they are not good for the
individual’s happiness. Rasmussen’s response to this is to claim that Smith
does not, in fact, distinguish the good of society from that of the individual,
despite the many passages that suggest he does. The rebuttal is not particularly
compelling. In the case of one passage Rasmussen cites to prove his point,
there is the presupposition on his part that Smith uses “happiness” (or even
“tranquility”) univocally throughout all contexts to which the term might be

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12 Ibid., p. 314. Rasmussen seems to be claiming that “avoiding misery” is equivalent
to tranquility; avoiding misery is a prerequisite for happiness (and not the same as
happiness); therefore, tranquility is a prerequisite.
applied. But as we have been suggesting, the univocal use of such terms is largely what is at issue and cannot be presupposed. In the other case where Rasmussen claims that Smith specifically denies the distinction between individual and society, there seems to be a continued conflation of the negative conception of “avoiding a disturbance” with the positive idea of tranquility itself. Furthermore, the passage actually suggests what Rasmussen says Smith denies, namely, the passage speaks of “greater” and “lesser” parts of society, implying that the good of one may not be the good of the other. Our own suspicion is that Smith does not use these terms univocally.

In the case of Fleischacker the matter is simpler. As Rasmussen correctly notes, for Fleischacker to claim that Smith did not take the deception passages seriously in the end because they were part of the early versions of Theory of Moral Sentiments is contradicted by Fleischacker’s own insistence that Smith’s final revisions of Theory of Moral Sentiments (in which the passages remained) were carefully considered. Yet in a way Rasmussen misses the fact that he and Fleischacker are allies, for like Rasmussen (and unlike Griswold) Fleischacker wants to work with a single notion of happiness in order to reconcile what Smith says about the relationship between commerce and the happy individual. Moreover, it seems to us that Fleischacker’s own work identifies precisely the class of people for whom Rasmussen’s case is strongest, namely, the “greater part” of ordinary middle class individuals. They are the group for whom “security and freedom” would most likely translate into “tranquility.” In this respect, no doubt, Fleischacker could easily accept Rasmussen’s claims about the centrality of security and freedom. What he and Fleischacker seem to be disputing about is

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13 Rasmussen, “Does ‘Bettering Our Condition’ Really Make Us Better Off?” p. 313. See Smith, Theory of Moral Sentiments, IV.1.11, p. 185: “All constitutions of government . . . are valued only in proportion as they tend to promote the happiness of those who live under them. This is their sole use and end.”

14 Moreover, there is a failure by Rasmussen (as well as all parties to this dispute) to appreciate fully the fundamental difference between the functions of the ethical and political/legal orders.


16 Fleischacker, On Adam Smith’s Wealth of Nations, p. 108.

17 And we see (from the passage cited in note 15) support for this view.
only the role of “deception” in the process of describing the springs and effects of commerce. In the matter of deception, Rasmussen allies with Griswold in wanting to keep it, but does not want to keep the division between society and the individual.18

As a consequence, in order to retain deception but not draw a distinction between the individual and society, Rasmussen claims that people pursuing commercial goals are, in fact, deceived into promoting their own happiness.19 They are deceived because they think more goods will make them happier, when in fact they are made happier because by pursuing commercial activities, they unintentionally encourage the growth of liberty and security, which are in turn earlier defined by Rasmussen as tranquility. This move by Rasmussen is ingenious but will not do. First of all, even if this account made sense in itself, it would not explain the corruption the deception occasions and about which Smith worries, because freedom and security are not forces of corruption. But the account is not particularly convincing in itself. Security and freedom are not necessarily improved with each marginal increase in wealth and goods. Most likely wealth increases because security and freedom are already in place and do not grow or diminish proportionately with rates of wealth. So even if we accept the idea that freedom and security are tranquility, it certainly does not follow that we become more tranquil (even in Rasmussen’s sense) the wealthier we become. If that indeed is Rasmussen’s argument, namely, that as wealth increases so do freedom and security (and thus our tranquility), then besides flying in the face of some empirical evidence20 the claim seems intuitively askew. What would be more

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18 It should be noted, however, that the centrality of security and freedom are not inconsistent with Griswold’s interpretation. Indeed, we suspect he would accept it. In Griswold’s case, however, security and freedom would be unlikely candidates for the essence of individual happiness.


20 Dwight Lee and Michael DeBow, in their “Happiness and Public Policy: A Partial Dissent (or, Why a Department of Homeland Happiness Would Be a Bad Idea),” The Journal of Law & Politics 22, no. 3 (Summer 2006), p. 287, cite the following chart:
plausible is that after reaching a certain threshold there would be diminishing marginal returns with respect to the increase of wealth upon security and freedom. In other words, increases in wealth would have less and less effect upon freedom and security when understood with respect to the domestic economy. Perhaps more wealth can buttress security from external threats, but present-day erosions of property rights show that increased wealth does not necessarily do so internally.

Even if we did become freer and more secure as wealth increases, it would not follow that individuals would necessarily regard themselves as happier or experience more tranquility. Perhaps increases in wealth would make people more anxious about their goods, more litigious, and more paranoid about competitors in ways that completely offset the positive effects of freedom and security. Finally, Rasmussen does not consider the possibility that freedom and security might actually come into conflict as societies get wealthier. As a number of modern welfare states have demonstrated, the desire for the sort of “tranquility” that security offers may encourage encroachments upon individual liberty (i.e., “freedom”) in the form of high progressive taxes, the erosion of property rights, and a host of nanny-type restrictions on what people can freely do with their lives.

So where does this leave us with respect to Rasmussen’s argument? Basically, we support his central insight that for Smith freedom and security are provided by commercial societies and would be necessary for both the pursuit of “happiness” by individuals and a “happy” economy. This is an
important insight and one that has not been sufficiently emphasized by Griswold or Fleischacker. What Rasmussen has not shown is that the way we understand economic happiness must be in the same terms that we understand the happiness of individuals. Thus we are not much persuaded by his readings of the “poor boy” passages nor by his account of the concepts of “tranquility” or “happiness.” Indeed, we believe that Smith allows for terms such as “happiness” to have different meanings in different contexts, as evidenced by such statements as the following: “The concern which we take in the fortune and happiness of individuals does not, in common cases, arise from that which we take in the fortune and happiness of society.”21 As it turns out, then, although we believe that freedom and security are necessary conditions for happiness for both individuals and economies, they are not in the end sufficient for either. (We discuss this point more fully in the next section.)

In order to indicate the complexity of the problem in Smith, it is worth taking a brief look at Rasmussen’s conclusion—one that we believe undermines much of his argument. After (correctly) noting that Smith believes that by alleviating uncertainty and violence, commercial societies help to bring happiness to individuals and economies, Rasmussen says: “people in this [commercial] kind of society are unlikely to be completely happy because they do tend to undermine their own tranquility by constantly striving to better their condition, but then again this is true of people in every society.”22 But to admit this is to admit, as we have already suggested, that happiness or tranquility has at least different dimensions, if not possibly different meanings, in different contexts. To point out that people may be overly ambitious in any society only emphasizes the fact that it may be doubly worrisome in a commercial one where the opportunity to pursue wealth is that much greater. Certainly, from the famous passages in the Wealth of Nations on the corruption of those coming to the cities, we can infer that Smith worries about some effects of specifically commercial cultures upon the “tranquility” of individuals.23 So unless Rasmussen wants to claim that happiness is actually impossible for human beings, we are still left with the question of what happiness is for Smith in the case of both individuals and economies. It is to the latter issue we now briefly turn.

3. Adam Smith on Happiness: An Aristotelian Reading

Up to this point we have indicated that we are open to the likelihood that Smith is a kind of Aristotelian when it comes to happiness. That is, he

21 Smith, Theory of Moral Sentiments, II.ii.3.10, p. 89 (emphasis added).


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holds that happiness can be applicable to different dimensions of human life in different ways. Aristotle holds that the happiest life is that of the philosopher, but recognizing that most people could not live this life, he notes that a “second-best” life is the life of virtue. The life of virtue is also a happy life, just not of the highest order. The main point is that there might be more than one type of happy (or tranquil) life. Smith is not averse to this type of thinking, as we can see from his discussion of high and low prudence. It thus may very well be that commercial life deceives people into thinking that they might achieve the happy life in some absolute or highest sense, but that the deception contributes to a “happy” economy. Although we are not inclined to the most pessimistic reading of this deception (namely, that commerce is completely anathema to any kind of individual happiness), it is fortunate that even with such a deception, human beings can still progress. For our purposes here, our claim is a good deal more optimistic and amounts to the following: with the right kind of economy, we might not only make some material progress, but also might achieve the highest sort of “happiness” as an economy and a secondary form of happiness as individuals. What, then, can serve as a description of the highest happiness for an economy and a worthy one for individuals, even if not a state of ultimate tranquility that might be attained by an otherworldly sage or one which removes completely the problem of the “poor boy”?

Smith actually makes quite clear the answer to this question:

It deserves to be remarked, perhaps, that it is in the progressive state, while the society is advancing to the further acquisition, rather than when it has acquired its full complement of riches, that the condition of the labouring poor, of the great body of the people, seems to be the happiest and the most comfortable. It is hard in the stationary, and miserable in the declining state. The progressive state is in reality the cheerful and the hearty state to all the different orders of society. The stationary is dull; the declining, melancholy.

The first thing to note is that Smith seems to be speaking of commercial orders in all three states—progressive, stationary, and declining. Part of his point is to indicate why people might be happier in the America of his day than in Britain, even though the latter was much wealthier. Britain might be

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regarded as being in a kind of stationary state relative to America. If this is
correct, it is also worth noting that both states possess freedom and security,
since both are stable commercial orders. It is likely that Smith might even
have envisioned the possibility of there being declining commercial orders, if
the foregoing passage is any indication. Presumably such declining economic
orders would have at least security, though it would perhaps be more
controversial to attribute freedom to them as well.

If freedom and security can be found in happy and less happy states,
then they cannot be the descriptors we need to capture the nature of happiness
in an economy or even with respect to individuals. Consequently, when
thinking about the economic happiness of individuals, they would need
something more than freedom and security. Moreover, economic happiness
would seem to be the kind that is most applicable to the “greater part” of
ordinary people in ordinary life, even if it does not describe a form of
happiness attainable by the wise contemplative individual, that is, the “sage”
Smith speaks of in *Theory of Moral Sentiments*. This economic happiness
would not be a form of tranquility. Indeed, tranquility, when functioning as an
end, is part of the trap or deception when materialized through commerce. The
desire for it, which is found in virtually all of us, is perhaps a confusion of the
“ease” sometimes brought about by the possession of more goods with the
true tranquility possible only to the Stoic sage. There may, in other words, be
something in human nature that longs for tranquility but which confuses a
temporary form of it with an enduring form. We do not realize we are
confused, because the only form of tranquility visible to ordinary people is
ease brought on by more goods.

But the key for our purposes is that even in this deception about
goods, the possibility for happiness—albeit a secondary economic form of
it—is nonetheless very much present. That is, the key to individual economic
happiness is essentially consistent with the pursuit of goods and services in an
economy. It is, in other words, within the nature of commercial activity itself
that one can find economic happiness. This happiness could be found in
individual cases in virtually any commercial society, but for the “greater part”
what is needed is the right kind of economy, which is to say, a progressing
economy.

We have spent a good deal of time elsewhere defending the idea that
the moral and the political should be thought of as distinct, though not
completely disconnected, realms—both for substantive reasons and because
liberalism demands it.26 This idea is essentially Smithian. The same terms

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26 See Douglas B. Rasmussen and Douglas J. Den Uyl, *Norms of Liberty: A
Perfectionist Basis for Non-Perfectionist Politics* (University Park, PA: Pennsylvania
State University Press, 2005).
may not be able to carry the same meanings through all contexts, however tempted we may be to think that consistency demands it. Moreover, our aspirations for the political, economic, or social order may have to be understood differently from our aspirations for the individual. That may mean, in some cases, that we come to think in terms of what might apply to “most people” rather than an elite few or individuals considered separately. By the same token, we might hope that the uses of terms like “happiness” are not in direct conflict with one another either. Fortunately, a “happy” economy need not be one gained at the expense of individual happiness.

On these terms, then, the key to economic happiness, for both individuals and economies considered generally, is progress. For the individual that means working to build, create, succeed at, or otherwise pursue goals that are possible and the product of one’s efforts. This is the sort of thing that makes economic actors “happy,” and also why it is that mere wealth can corrupt it. In this respect, the happiness economists may have a grain of truth on their side. Wealth without achievement is a recipe for discontent. This is directly in accord with what Smith has to say about human nature:

Man was made for action, and to promote by the exertion of his faculties such changes in the external circumstances both of himself and others, as may seem most favourable to the happiness of all. He must not be satisfied with indolent benevolence, not fancy himself the friend of mankind, because in his heart he wishes well to the prosperity of the world. That he may call forth the whole vigour of his soul, and strain every nerve, in order to produce those ends which it is the purpose of his being to advance, Nature has taught him, that neither himself nor mankind can be fully satisfied with his conduct, nor bestow upon it the full measure of applause, unless he has actually produced them.27

One would therefore expect a good deal of dissatisfaction in those states where individuals do not have significant roles in the management of the wealth they pursue and possess, such as in modern welfare states where so much wealth is both taxed and collectively managed. Indeed, our view would be that if the prescriptions of modern “happiness” economists were followed, we should expect more, not less, discontent. One reason, therefore, to support a free market economy is to keep the economy on a progressive, rather than a static or declining, path. Not only will the economy be “happier,” but so will the actors within it.

27 Smith, Theory of Moral Sentiments, II.iii.3.3, p. 106.