

## Discussion Notes

### Adam Smith on Commerce and Happiness: A Response to Den Uyl and Rasmussen

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#### 1. Introduction

In Volume 32 of *Reason Papers*, Douglas Den Uyl and Douglas Rasmussen examine Adam Smith's views regarding commerce and happiness, making extensive reference to my earlier article on the subject.<sup>1</sup> The editors kindly invited me to respond to Den Uyl and Rasmussen, and I was very happy to accept because they raise some important questions that call for further discussion. I appreciate their generally sympathetic appraisal of my article, as well as their aspiration to show that Smith can be seen as a kind of forebear of the emerging literature on happiness or "subjective well-being" in economics, psychology, and other fields. In what follows I would like, first, to correct an important misinterpretation of my argument, and then to address an interesting (and thorny) question that Den Uyl and Rasmussen raise but that I did not take up in my article—namely, the question of whether the free market or the welfare state would be more likely to encourage happiness, given Smith's assumptions.

#### 2. The Individual and Society

In my article as well as in a later book,<sup>2</sup> I attempt to resolve an apparent paradox in Smith's thought. On the one hand, Smith repeatedly and insistently claims in *The Theory of Moral Sentiments* (and, to a lesser degree,

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<sup>1</sup> See Douglas J. Den Uyl and Douglas B. Rasmussen, "Adam Smith on Economic Happiness," *Reason Papers* 32 (Fall 2010), pp. 29-40; Dennis C. Rasmussen, "Does 'Bettering Our Condition' Really Make Us Better Off?: Adam Smith on Progress and Happiness," *American Political Science Review* 100, no. 3 (August 2006), pp. 309-18. Hereafter, Den Uyl and Rasmussen's article will be cited in the text using page numbers.

<sup>2</sup> Dennis C. Rasmussen, *The Problems and Promise of Commercial Society: Adam Smith's Response to Rousseau* (University Park: Pennsylvania State University Press, 2008), esp. chap. 4.

in *The Wealth of Nations*) that neither the pursuit nor the possession of material goods does much to make people any happier, and in fact he argues that they might jeopardize people's happiness. For Smith, "happiness consists in tranquillity and enjoyment,"<sup>3</sup> and continually toiling and striving for ever-more material goods disturbs people's tranquility without adding much, if anything, to their enjoyment.<sup>4</sup> On the other hand, Smith is almost certainly history's most famous advocate of commercial society. The question, then, is why he defends a form of society that fundamentally depends on and encourages "the uniform, constant, and uninterrupted effort of every man to better his condition" even though this "effort" appears to undermine people's happiness.<sup>5</sup> What is the point of promoting the wealth of nations if everyone ends up being miserable?

I argue that the solution to this apparent paradox can be found in Smith's account of the positive *political* effects of commerce: dependence and insecurity are two of the chief obstacles to happiness, as Smith sees it, and so the alleviation of these ills in commercial society constitutes a great step forward. Complete, unalloyed happiness—the tranquility of the Stoic sage—is all but unattainable in *any* society, since it will almost always be disrupted to some degree by "the desire of bettering our condition, a desire which . . . comes with us from the womb, and never leaves us till we go into the grave."<sup>6</sup> But commercial societies do tend to alleviate the great sources of misery that dominated most pre-commercial societies, namely, dependence and insecurity, through the interdependence of the market and the effective administration of justice by the government. Thus, people in commercial societies tend to enjoy more tranquillity and hence more happiness than people in other societies not because of the material goods for which they work so hard, which in fact *prevent* them from being completely happy, but rather because they are generally free from direct, personal dependence on others and because they generally enjoy a sense of relative safety. In short, money really cannot buy happiness, but liberty and security can at least prevent certain misery.

Den Uyl and Rasmussen agree with my basic point that Smith sees liberty and security as key benefits afforded by commercial society and that these benefits help to promote happiness, at least insofar as they alleviate misery (pp. 32, 36-37). Their main criticism is that my argument is subject to "the fallacy of division," meaning that I assume that what makes for a "happy" or flourishing society will also make for a happy individual (e.g.,

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<sup>3</sup> Adam Smith, *The Theory of Moral Sentiments*, ed. D. D. Raphael and A. L. Macfie (Indianapolis, IN: Liberty Fund, 1976), III.3.30, p. 149.

<sup>4</sup> See especially *ibid.*, I.iii.1, pp. 50-51; III.3.30-31, pp. 149-50; IV.1.8-9, pp. 181-83.

<sup>5</sup> Adam Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations*, ed. R. H. Campbell and A. S. Skinner (Indianapolis, IN: Liberty Fund, 1976), II.iii.31, p. 343.

<sup>6</sup> *Ibid.*, II.iii.28, p. 341.

tranquility) (pp. 31-33). This is a fallacy, however, that I believe I avoid. Contrary to what Den Uyl and Rasmussen suggest (pp. 32, 33), I never speak of a society or an economy as being “happy” or “tranquil”; these are feelings or sensations, and so can clearly be experienced only by individuals. In fact, I explicitly state that “Smith’s touchstone is the happiness of the individuals who make up a society, not some vague notion of ‘public happiness.’”<sup>7</sup> What I *do* claim is that there is a key connection between certain broad features of a society—namely, the degree of security and personal independence it affords—and the happiness or tranquility of the individuals who live in that society. Again, these societal goods cannot *ensure* individual happiness, but they can at least prevent the great sources of misery that have dominated most of human history. Thus, I do not believe that “the liberty and security of a commercial order is *the same as* the tranquility of the happy individual,” as Den Uyl and Rasmussen allege (p. 32, emphasis added), or even that they are *sufficient* for the tranquility of the happy individual, but rather that they are *prerequisites* for the tranquility of the happy individual.

Moreover, I agree wholeheartedly with Den Uyl and Rasmussen’s claim that “security and freedom are not necessarily improved with each marginal increase in wealth and goods,” and thus that people do not necessarily become happier or more tranquil the wealthier they become (p. 35). A key burden of my interpretation of Smith, to repeat, was not only that money cannot buy happiness, but that the *pursuit* of material goods tends to *undermine* people’s happiness. As I argue in more detail in my book, according to Smith commercial society helps to secure the minimum preconditions of happiness by alleviating some of the greatest sources of misery, but the gains to happiness come mostly from the bottom part of the income scale and are subject to diminishing marginal returns as wealth increases—just as Den Uyl and Rasmussen suggest (pp. 35-36).<sup>8</sup>

Ultimately, then, the differences between my Smith and Den Uyl and Rasmussen’s Smith are not all that large. The key difference, in fact, has nothing to do with whether the things that make an individual happy are the same as the things that make a society flourish—we agree that they are not—but rather that Den Uyl and Rasmussen go much further than I do in specifying what *form* of commercial society would be best at promoting individual happiness. In my article I demonstrate in some detail that Smith saw commercial society as a significant improvement over what came before it (the hunting, shepherding, and agricultural stages of society), but I do not address the question of how different *forms* of commercial society—e.g., the free market versus the welfare state—might bear on the issues of liberty, security, or happiness. Den Uyl and Rasmussen’s own reading of Smith centers on this question, so I turn to it next.

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<sup>7</sup> Rasmussen, “Does ‘Bettering Our Condition’ Really Make Us Better Off?” p. 312.

<sup>8</sup> Rasmussen, *The Problems and Promise of Commercial Society*, pp. 168-70.

### 3. The Free Market, the Welfare State, and Happiness

The relative merits of the free market and the welfare state was, of course, not an issue that Smith explicitly addressed, or even *could have* explicitly addressed, since the welfare state as we know it did not yet exist in the eighteenth century.<sup>9</sup> As Samuel Fleischacker has written,

the notion that states should redirect economic resources so as to eradicate poverty had never so much as been suggested by any serious philosopher, politician, or political movement among Smith's contemporaries and predecessors. Poor *relief* had of course been around for many centuries, but that was designed simply to enable disabled and starving people to survive, not to help them rise out of poverty altogether . . . [T]he idea that governments should institute a redistribution of wealth out of fairness to the poor was simply not on the table.<sup>10</sup>

Given the vast changes in the political landscape since the eighteenth century as well as the complex, non-ideological nature of Smith's thought, it is extremely difficult to say with any degree of certainty where he would stand on today's political spectrum.<sup>11</sup> The struggle over what stance Smith might take on various political issues began almost immediately after his death, and has rarely reached the level of consensus.

Den Uyl and Rasmussen's reading of Smith is essentially the traditional, free market reading. Their Smith would clearly rebel against the modern welfare state and its "encroachments upon individual liberty . . . 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" (p. 36;

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<sup>9</sup> Indeed, even the free market was only a dream in the minds of Smith and a handful of French *économistes*. The reigning economic system in Smith's time was not laissez-faire capitalism—terms that Smith himself never used—but mercantilism, which Smith calls "the modern system," the system that "is best understood in our own country and in our own time." Smith, *The Wealth of Nations*, IV.intro.2, p. 428. From Smith's vantage point, "to expect . . . that the freedom of trade should ever be entirely restored in Great Britain, is as absurd as to expect that an Oceana or Utopia should ever be established in it"; see *ibid.*, IV.ii.43, p. 471.

<sup>10</sup> Samuel Fleischacker, "Review of Charles Griswold, *Adam Smith and the Virtues of Enlightenment*," *Mind* 109, no. 436 (October 2000), p. 919.

<sup>11</sup> Many leading Smith scholars have argued as much. See, for example, Samuel Fleischacker, *On Adam Smith's Wealth of Nations: A Philosophical Companion* (Princeton, NJ: Princeton University Press, 2004), pp. 263-65; Charles L. Griswold, Jr., *Adam Smith and the Virtues of Enlightenment* (Cambridge, MA: Cambridge University Press, 1999), pp. 295-96.

cf. p. 40). There is no hint, in their account, of the side of Smith that has led to a flowering of “left-liberal” interpretations of his thought in recent years, to go along with the traditional “libertarian” reading.<sup>12</sup> In my view there are real arguments to be made on *both* sides of this interpretive debate, and *neither* side can claim Smith for itself alone. Thus, Den Uyl and Rasmussen’s claim that a strictly free market economy would best promote people’s happiness, given Smith’s assumptions, seems to me a bit one-sided.

Den Uyl and Rasmussen’s principal argument is that “with the right kind of economy, we might . . . achieve the highest sort of ‘happiness’ as an economy and a secondary form of happiness as individuals” (p. 38). That is, with a free market we can achieve both a continually growing economy as well as a reasonable degree of happiness for the individual, even if not the perfect tranquility of the Stoic sage. The “secondary” form of happiness that they claim individuals will enjoy in this order—which they dub “individual economic happiness”—is found not in tranquility but rather “within the nature of commercial activity itself” (p. 39). The key to this kind of happiness, they say, is “progress,” which for the individual means “working to build, create, succeed at, or otherwise pursue goals that are possible and the product of one’s efforts” (p. 40). And they claim that this kind of happiness would be undermined by a welfare state: “One would . . . 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” (p. 40).

Yet the sort of “individual economic happiness” that Den Uyl and Rasmussen describe—essentially, happiness as achievement—is very different from, and in some respects incompatible with, the true individual happiness—the happiness of tranquility and enjoyment—that Smith returns to again and again in *The Theory of Moral Sentiments*.<sup>13</sup> Den Uyl and Rasmussen’s “individual economic happiness” seems to rest on precisely the

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<sup>12</sup> See, for example, Fleischacker, *On Adam Smith’s Wealth of Nations*; Gavin Kennedy, *Adam Smith’s Lost Legacy* (New York: Palgrave Macmillan, 2005); Iain McLean, *Adam Smith, Radical and Egalitarian: An Interpretation for the 21<sup>st</sup> Century* (Edinburgh: Edinburgh University Press, 2006); Spencer J. Pack, *Capitalism as a Moral System: Adam Smith’s Critique of the Free Market Economy* (Aldershot: Edward Elgar, 1991); Emma Rothschild, *Economic Sentiments: Adam Smith, Condorcet, and the Enlightenment* (Cambridge: Harvard University Press, 2001).

<sup>13</sup> The passage from *The Theory of Moral Sentiments* that Den Uyl and Rasmussen cite (p. 40) to prove that Smith thinks “achievement” will produce satisfaction or contentment (even if not Stoic tranquility) is drawn from a discussion of whether the morality of an action depends at all on the consequences of that action or is determined solely by the actor’s intentions, and has nothing to do with whether working, building, creating, or succeeding at things will make an individual happy. See Smith, *The Theory of Moral Sentiments*, II.iii.3.3, p. 106.

kinds of deceptions that Smith so vividly describes, such as the idea that working, building, creating, and succeeding are what will make us happy. On the contrary, Smith insists—even in *The Wealth of Nations*—that labor is “toil and trouble,” that it requires an individual to “lay down [a] portion of his ease, his liberty, and his happiness.”<sup>14</sup> Indeed, in *The Theory of Moral Sentiments* he forcefully warns his reader that the concern with achievement and success is “the great source of both the misery and disorders of human life.”<sup>15</sup>

Moreover, Den Uyl and Rasmussen’s claim that for Smith people are necessarily happiest in a “progressive state” or growing economy is not particularly persuasive.<sup>16</sup> It is obviously true that, all other things equal, people prefer prosperity to stagnation. Yet Smith insists that material prosperity can do little to produce true happiness, or rather that any happiness it produces will necessarily be short-lived. Immediately after defining happiness as “tranquillity and enjoyment,” he goes on to say that “the mind of every man, in a longer or shorter time, returns to its natural and usual state of tranquillity. In prosperity, after a certain time, it falls back to that state; in adversity, after a certain time, it rises up to it.”<sup>17</sup> Once again, money itself really cannot buy happiness. Rather, Smith claims that people are more likely to attain happiness—not complete tranquility, but the level that one can reasonably hope to reach—not through material prosperity, success, or achievement, but rather through simpler and calmer pleasures such as the knowledge that one has acted virtuously and rewarding relationships with family and friends.<sup>18</sup> These pleasures are available (though not, of course, guaranteed) in any society that provides a tolerable degree of liberty and security.

The question, then, is whether a free market society or a welfare state would do more to help (or hinder) people’s ability to realize this kind of “tranquillity and enjoyment.” Den Uyl and Rasmussen and I agree that

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<sup>14</sup> Smith, *The Wealth of Nations*, I.v.2, p. 47; I.v.7, p. 50.

<sup>15</sup> Smith, *The Theory of Moral Sentiments*, III.3.31, p. 149.

<sup>16</sup> Den Uyl and Rasmussen cite (p. 38) Smith’s claim that “it is in the progressive state, while the society is advancing . . . that the condition of the labouring poor, of the great body of the people, seems to be the happiest and most comfortable”; see Smith, *The Wealth of Nations*, I.viii.43, p. 99. However, this passage comes in the context of a discussion of “the liberal reward of labour” and its effect on the size of the population, and thus “happiest” here seems to mean most thriving or prosperous rather than most satisfied or content. Indeed, Smith goes on to remark that high wages often lead workers “to over-work themselves, and to ruin their health and constitution in a few years”; see *ibid.*, I.viii.44, p. 100.

<sup>17</sup> Smith, *The Theory of Moral Sentiments*, III.3.30, p. 149.

<sup>18</sup> *Ibid.*, I.ii.4.1, p. 39; I.ii.5.1, p. 41; III.1.7, p. 113; III.5.6-7, p. 166.

neither form of society will guarantee complete happiness, and we also agree that a sense of security and personal independence are necessary *prerequisites* for happiness. Yet I am less sure than they are that a strictly free market society would necessarily offer individuals a greater sense of security and personal independence than a welfare state. It is true that people in a free market society might feel more secure in the possession of their property, more free from intrusions by the state in the form of taxation. But it is equally possible that they would gain a greater sense of security and independence from guaranteed health care, unemployment insurance, and the like—from being less subject to the whims of the market—than they would from lower taxes.

It might be protested that such measures smack of the kind of “government intervention” that Smith so strongly opposed. However, the government interventions to which Smith objected most strongly were those designed by and intended to help the rich and powerful<sup>19</sup>; it is far from clear that he would also object to twenty-first century interventions designed to curb their influence and aid the poor and the middle class. If poverty were to cause a greater degree of insecurity and dependence among the poor than restricting markets in some way would for the population as a whole—an entirely plausible scenario—then it is quite possible that Smith would favor aiding the poor even at the cost of hampering the free market to some degree.<sup>20</sup> Once again, I do not mean to claim here that the “left-liberal” interpretation of Smith is the only one or even necessarily the most plausible one. I do think, however, that this question is more open to debate than Den Uyl and Rasmussen suggest.

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<sup>19</sup> “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. That which is carried on for the benefit of the poor and the indigent, is too often, either neglected, or oppressed”; see Smith, *The Wealth of Nations*, IV.viii.4, p. 644.

<sup>20</sup> I have made this argument at greater length in Rasmussen, *The Problems and Promise of Commercial Society*, pp. 171-73.

