

# The Normative Stakes of Economic Growth; Or, Why Adam Smith Does Not Rely on “Trickle Down”

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This article analyzes Adam Smith’s endorsement of economic growth and asks what it might mean for a scenario of low or zero growth in the Western economies. It distinguishes two models of economic growth in Smith’s writing. The first, a “trickle down” scenario, plays a marginal role; Smith’s main focus is on a model in which the growth of productive capital and of jobs reinforce one another. There are three desiderata that this second model of growth achieves: a distribution that benefits the worst-off and leads to more equality in the long run, the harmonization of individual interests and societal interests, and the strengthening of the independence of citizens from employers, and of the political sphere from economic influences. To achieve these desiderata in a low or zero growth scenario, institutional reforms are needed, but such a scenario need not be as bleak as Smith imagined, as arguments by John Stuart Mill show.

Adam Smith is often taken to be a champion of free markets and economic growth. These have become a buzzword for politicians around the globe. This is very understandable for poor societies: they need to grow in order to satisfy the basic needs of their citizens. But developed economies seem to rely no less on economic growth.<sup>1</sup> When nominated as Federal Reserve Chairman, Janet Yellen called promoting stronger economic growth an “imperative” (Voice of America 2013). One of the recent summits of the European Union had “economic growth high on the agenda” (*Vi-eu-ws* 2014). It seems that with regard to economic growth, everyone has become a disciple of Smith. This holds not only for politicians but also, by and large, for political theorists. Growth seems to be very much taken for granted, so much that it is seldom made an issue.<sup>2</sup>

Among political theorists, it is well known that the popular picture of Smith is misleading: his account is far more nuanced and far more egalitarian than that of contemporary free-market fundamentalists. But nonetheless, his account of economic growth has not received a lot of attention. Two points in particular have not received the attention they deserve. First, he does not rely exclusively on “trickle down”—

while he acknowledges its possibility, it is not the central scenario of his economic system. Second, his endorsement of economic growth is by no means limited to economic considerations but is also based on moral and political reasons—and these three dimensions are narrowly intertwined. This suggests that for Smith, growth was not an end in itself but rather an instrument for achieving certain normatively desirable ends.

There are—at least—three reasons for reasons for returning to Smith’s account of economic growth in today’s situation. The first is that we may have to come to terms with a situation of low or zero growth in the future. Some economists argue that the high growth rates of the post-war years have been historically unique, and that we will return to much lower rates (see, e.g., Piketty 2014; Streek 2014). Pointing to Japan, some argue that we are entering a stage of “secular stagnation” (see, e.g., Summers 2013).

The second reason is that we might have to face normative questions about growth, stemming from its environmental impact. The kind of growth we have seen in the past has not only used up natural resources, but also increased carbon emissions, leading to anthropogenic climate change. The moral permissibility of additional emissions is up to de-

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1. I use this term for economies with a high standard of living (as in North America and Europe) without claiming to draw an exact line between these and “developing” economies.

2. This holds at least for the liberal camp. In the Marxist camp, the assumption seems to have been that growth in the capitalist era will be accompanied by increasingly frequent crises, and in the post-revolutionary era there will be material abundance; hence, one does not find many discussions of growth either. One exception is G. A. Cohen, who argues that in a world with less growth, demands for equality become more pressing (2000, 113ff.).

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50

bate, at least for countries that have attained a high standard of living. If one assumes that the sum total of emissions should be kept below a certain threshold, there are also distributive questions: countries with a lower level of economic development might have stronger claims on emitting carbon than those already on a high level. This puts further weight on the normative case against economic growth in developed economies, insofar as this growth is related to carbon emissions.<sup>3</sup>

Third, even if economic growth in the developed economies were both possible and morally permissible, we may have taken its beneficial effects too much for granted. It is worth asking what kind of growth it is, and whether it achieves the goals we traditionally associated with it. After all, economic systems change over time. Our situation today is not only very different from Smith's situation in 1776 but also from the post-World War II period in which many nation states supplemented free markets with generous welfare states. In order to understand what growth can or cannot achieve today, it is important to analyze why it might have seemed worth endorsing in the past. Smith's account is an excellent starting point for this analysis, not only because of his great influence but also because he considers growth as both an economist and a moral philosopher and as a scholar developing a "science of a legislator" (Smith [1776] 1976a, IV.I.1). Smith's intellectual system integrates economic, moral, and political thought and thus offers insights into many phenomena that mainstream economic analysis disregards but which matter for the evaluation of economic institutions from the perspective of political theory.

The first task of this article is to distinguish between two scenarios of economic growth in Smith's system, which I call the "trickle down" scenario and the "working one's way up" scenario, and to show that it is the latter that is central to his account of commercial society. The second task is to analyze Smith's reasons for endorsing this second scenario. Smith saw economic growth as a means for achieving three different desiderata.<sup>4</sup> He endorsed it (1) because of its distributive outcomes, especially for the poorer members of society; (2) because of the way in which it would harmonize individual and

social interests; and (3) because of the way in which it would create more "republican" conditions by supporting independence, both within the economic realm and in the relation between the economic and the political realm. These desiderata still look attractive today. But there is no reason to think that they can only be achieved by high rates of economic growth; growth might be neither sufficient nor necessary for achieving them. In order to support this point, I address a worry that I call the "poor man's son worry," referring to a character in Smith's text. It holds that we need economic growth in order to absorb certain human tendencies that might otherwise become destructive. While Smith seems to admit the existence of some such features, it is plausible to think that these are only contingently related to economic growth, at least if the institutional framework of a society protects individuals from economic risks. Hence, a situation with low or zero economic growth could be one in which human knowledge and creativity could flourish. I conclude by sketching the vision of one of Smith's successors as economist and moral philosopher, John Stuart Mill, of a stationary state that allows human freedom and human flourishing in ways that are not very far from Smith's notion of "tranquillity," which may well be the ultimate end of his economic thinking.

## TWO SCENARIOS OF GROWTH

There are two scenarios of growth in Smith, the differences between which are important for understanding his broader vision. The first is a prototypical "trickling down" scenario. In the *Theory of Moral Sentiments*, Smith describes a rich man whose "capacity of his stomach bears no proportion to the immensity of his desires." He therefore has to share the leftovers of a feast with his servants ([1790] 1976b, IV.I.10). This leads to a more egalitarian distribution than one might otherwise expect, for which Smith uses the metaphor of the "invisible hand" (IV.I.10). Smith repeats the idea that goods that have been produced for the rich end up improving the lives of the poor in other places, with regard to more durable goods such as furniture or houses: "What was formerly a seat of the family of Seymour is now an inn upon the Bath road" [1776] 1976a, II.III.39). What Smith does not discuss explicitly, but what falls into the same category, is technological progress, whereby advances pursued for an upscale market are adopted more broadly. These are all forms in which the "stock of capital" of a country, whether in material or in nonmaterial form, is beneficial not just for the rich but also for other members of society.<sup>5</sup>

3. The relation between growth and environmental impact is of course contested. Recently, *The New Climate Economy Report* (World Resources Institute 2014) has argued that growth and climate protection can go hand in hand. But it does not endorse growth as such but rather points to specific areas of growth that are climate-friendly.

4. By using the term "desiderata," I leave open how exactly they relate to one another. Smith saw them as mutually supportive and therefore does not discuss their relation. Today, there might be disagreement about their relative weight, but many theorists would nonetheless give some weight to each of them.

5. Also, "[n]oble palaces, magnificent villas, great collections of books, statues" are an "ornament and honour" to "the whole country" ([1776] 1976a, II.III.39), suggesting an idea of cultural heritage.

However, as commentators have pointed out, the “invisible hand” scenario of the *Theory of Moral Sentiments* could occur in otherwise very unequal circumstances, for example under feudalism (see, e.g., Schliesser 2006, 84–85). It is not specific to commercial society. Those who profit from the leftovers of the feast might live under wretched circumstances; we learn nothing about their legal or political status. In fact, in the *Wealth of Nations* Smith is not very enthusiastic about individuals spending their income on festivities: he praises those who instead spend it on more durable goods, because this is “more favourable” not only to the individual, but also to “the nation,” because such goods can be used by many generations (e.g., [1776] 1976a, II.III.38). But again, he tells us nothing about the lives of the individuals who profit from these long-term investments or about the structures of the society in which these transmissions take place. Although inequality would be greater without “trickling down,” it may still be very high and remain so permanently.

Smith’s preference for durable goods leads us to the second, central scenario of growth in Smith’s writing, which turns around the creation of jobs, the accumulation of capital, and the increase of productivity. The main reason for why he prefers investments in durable goods is that they create more jobs: “The expence. . . that is laid out in durable commodities gives maintenance, commonly, to a greater number of people than that which is employed in the most profuse hospitality” ([1776] 1976a, II.III.41). The central importance of this second scenario for Smith’s system becomes clear from the discussion in which he uses the term “invisible hand” in the *Wealth of Nations*. Smith asks how capital is allocated to agriculture, manufacturing, and different kinds of trade. The sum of the returns from these investments makes up the “annual revenue of the society” (IV.2.9). But different sectors have different degrees of productivity (II.V.12ff., III.1.7). From the perspective of the society, capital should be employed in the most productive sectors (IV.2.3), because this “maintains. . . the greatest quantity of productive labour, and increases the most the annual produce of the land and labour of that country” (IV.7.121). The “invisible hand” guides investors into those productive sectors, because it is in their own interest to allocate capital to them.

If capital is “advantageously” employed, it creates opportunities for employment.<sup>6</sup> This in turn allows individuals to save and to accumulate capital: Smith praises “parsimony,” the willingness to save, as the “immediate cause of the increase

6. I leave out the complications arising from Smith’s distinction between “productive” and “unproductive” labor ([1776] 1976a, II.3.1ff.). Some of the statements I make would have to be qualified, strictly speaking, as relating only to “productive” labor.

of capital” ([1776] 1976a, II.3.16). Accumulated capital “affords maintenance to an additional number of productive hands” in the future (II.3.19). It can also lead to an increase in productivity, because it allows for a more refined division of labor, a phenomenon so central for Smith that he discusses it right at the beginning of the *Wealth of Nations* (I.1). Increasing productivity allows the accumulation of even more capital—a self-reinforcing process sets in (see also Evensky [2005], chap. 6, on the role of capital in Smith). Slowly but steadily, the standard of living rises. Individual and societal “improvement” go hand in hand and can overcome all obstacles created by bad public policies: “The uniform, constant, and uninterrupted effort of every man to better his condition, the principle from which public and national, as well as private opulence is originally derived, is frequently powerful enough to maintain the natural progress of things toward improvement, in spite both of the extravagance of government and of the greatest errors of administration” ([1776] 1976a, II.3.31; see also II.3.36).

In his description of this second growth scenario, Smith differs in an important way from Hume: whereas Hume emphasizes the role of luxury consumption as a “pull” for economic development, Smith puts greater emphasis on the “push” of accumulating capital.<sup>7</sup> He holds that “the principle which prompts us to save” is “the desire of bettering our condition, a desire which, though generally calm and dispassionate, comes with us from the womb, and never leaves us till we go into the grave” ([1776] 1976a, II.3.28), evoking the picture of an unstoppable, natural force. This coheres with another way in which Smith differs from Hume and also from Mandeville. As Fleischacker puts it: “In WN it is the spending of the poor, not of the rich, that makes up the overwhelming bulk of economic demand” (2004, 109).<sup>8</sup> The demand of rich landlords for luxury items plays a role in the downfall of feudalism ([1776] 1976a, III), but the real story of commercial society and its potential for improvement are based on the accumulation of capital, the increase of productivity, the creation of well-paid jobs, and the increasing capacity of the masses to spend and to consume (see also Fleischacker 2004, 111).

The two scenarios have different implications for the distribution of income and wealth. The “trickling down” scenario

7. See also Davis (2003), who summarizes the earlier debate. As he argues, the differences between Smith and Hume have to do with their respective view of human nature, especially with Hume being sceptical about psychological continuity over time, which leads to different views about saving and long-term investment (278–79).

8. Fleischacker argues that Smith changed his position from the *Theory of Moral Sentiments* to *Wealth of Nations*, and that the latter position is more consistent with Smith’s rejection of “vanity” (2004, 109).

assumes a highly unequal distribution, in which goods are created for the rich and then transmitted to the poor. Without doubt, the poor are better off with “trickle down” than without, which means that this scenario is preferable to the Mandevillean return to a situation without growth, where everyone has to live on a diet of acorns ([1714] 1924). But nonetheless, it seems to suggest that inequality needs to be permanent: without the riches of the rich, nothing can “trickle down,” after all. The poor do not seem to be involved in the primary processes of value creation; in fact, we learn nothing about these processes. It is a secondary effect that they profit from them, almost an afterthought. There seems to be a clear line between “the rich” and “the poor,” and the first scenario does not give us any reason to think that this class division will disappear in the future, even if the economy keeps growing.

The second scenario is different. Here, the central mechanism of economic growth is the creation of productive, well-paid jobs that allow the lower and middle classes to improve their situation and to accumulate capital. It is a collective, gradual process in which the efforts of individuals to “work their way up”—by working hard and saving for the future—tie into the incremental improvement of the society as a whole. In this “progressive state,” the “condition of the labouring poor, of the great body of the people” is happier than in a stationary or a declining state ([1776] 1976a, I.VIII.42). Although some are likely to be more successful than others, there is no systematic reason why massive inequality would have to be permanent. Some inequality would probably remain, and it would help to spur the industry of workers (see, e.g., [1790] 1976b, I.III.2.2; IV.I.10.183) and to preserve social stability (see, e.g., I.III.2.4; for a discussion see, e.g., Fleischacker [2013]). Smith does not give us a precise measure of how much inequality he took to be necessary for these purposes, but given that he focuses on the human tendency to compare, it would probably not have to be large in absolute terms. Also, “the rich” would not always be the same people, because no group would be able to cement their position ([1776] 1976a, III.IV.16).

Keeping these points in mind is important for understanding Smith’s overall picture of economic growth. It is not a picture in which the poor have to be grateful for the greed of the rich, waiting for some crumbs to fall from their table. Rather, it is a picture in which a society embarks on a path of gradual improvements, in which individuals have robust opportunities to work their way up. The “trickling down” scenario can justify economic growth compared to a situation in which everyone is equal but equally poor, on a lower level than the one that the poor in the “trickling down” scenario reach. But it is not clear how much more

it can do, and it is clearly not sufficient for creating the flourishing commercial society that Smith envisioned. In contrast, if economic growth functions according to the “working one’s way up” scenario—maybe in conjunction with some “trickle down”—it has very attractive features, not only with regard to distribution but also with regard to other desiderata.<sup>9</sup>

### THE ENDS OF GROWTH: THREE DESIDERATA

Why does Smith favor the second scenario? In Smith’s vision of a growing commercial society economic growth has a number of consequences that he saw as highly attractive from a normative perspective. I therefore suggest reading Smith as seeing growth as instrumentally valuable, rather than as an end in itself.<sup>10</sup> In his “science of a legislator” ([1776] 1976a, IV.I.1) he analyzes how governments should develop institutions that channel human behavior such that individuals and societies can flourish. Economic growth is an instrument that allows the legislator to achieve these central desiderata. While the legislator intends these desiderata, from the perspective of individuals they can be “unintended consequences.”

### THE DISTRIBUTIVE DESIDERATUM

Among Smith’s reasons for endorsing growth, its welfare-enhancing properties are central. The opening of the *Wealth of Nations* contains a colorful description of the amenities that “the most common artificer or day-labourer in a civilized and thriving country” can afford: his “woollen coat,” “linen shirt,” shoes, the furniture in his hut, its “glass windows,” and so forth ([1776] 1976a, I.I.11).<sup>11</sup> These items involve the labor of numerous individuals in highly specialized trades, which presuppose considerable amounts of accumulated capital, for example, in the form of ships for transportation. Smith concludes this paragraph with the famous

9. To be sure, there are also some pessimistic strands in Smith’s thought, which I cannot discuss in detail (see, e.g., Alvey 2003).

10. This corresponds to an instrumental justification of the market, which Sen has distinguished from a justification by antecedent rights (1985, esp. 6). As Sen argues, the former justification is problematic: it would have to start from an absolutist understanding of rights—more specifically, property rights—, which is implausible, because it cannot be defended in the face of extreme situations (ibid. 7–8 and 18–19). Smith does defend property rights, but also endorses taxation, especially in book V of the *Wealth of Nations*, and suggests restructuring property rights with regard to primogeniture and entails (e.g., [1776] 1976a, III.2.6)—he cannot plausibly be read as a dogmatist with regard to property rights (cf. also Salter 1994, 308ff.).

11. As Sen has shown, Smith cared not only about growth in terms of “opulence” but also in terms of “capabilities” (1998, 291–92). Arguably, Smith wrote at a time in which there was no large gap between “opulence” and “capabilities,” because the bulk of the population lived close to the subsistence level, so that improvements in “opulence,” if they reached the poor, would also increase their “capabilities.”

lines about the welfare of those in more and less developed economies: “It may be true, perhaps, that the accommodation of an European prince does not always so much exceed that of an industrious and frugal peasant, as the accommodation of the latter exceeds that of many an African king” (I.I.11).

Smith explicitly notes, however, that it “is not the actual greatness of national wealth, but its continual increase, which occasions a rise in the wages of labour” ([1776] 1976a, I.VIII.22), because in a growing economy, such as the American colonies (I.VIII.2), the employers compete for workers, which drives wages up (I.VIII.17).

Thus, on this line of argument, economic growth is endorsed as a means for achieving a distributive desideratum, namely, to make those at the lower end of the income distribution better off. Although Smith’s rhetoric sometimes suggests that he cared most about lifting up the poor, the economic growth he envisaged would also lead to more overall equality, because profits that stem from unjustified monopolies and privileges would be abolished ([1776] 1976a, IV), and because the rate of profit would fall in the long run (I.IX.2ff., II.IV.5ff.; for a discussion see, e.g., Boucoyannis [2013] and Herzog [2014a]). The legislator would not have to take direct steps to attain these aims but simply let growth do its work.<sup>12</sup>

It is worth noting that this distributive argument has evolved since Smith’s day, and today comes in two versions. The first, which may look more Smithian at first glance, focuses exclusively on improving the situation of the poor, unconcerned about growing inequality. It is often framed as an argument in favor of free markets that are endorsed as serving the interests of the poor better than any redistributive measures (see, e.g., Brennan [2007] or Tomasi [2012]; for a critique see Arnold [2013]). As such, however, it critically depends on empirical claims about economic growth actually improving the lives of the poor and being a better strategy than more state-centered strategies. In 1776, Smith may have been correct about this, but this is hard to tell because he wrote at a time when the institutional technologies of the welfare state and redistributive taxation were in their infancy. Today, in contrast, with the experience of more or less successful models of welfare institutions in place, it is very hard to argue that an economic system without active political support for the poor is best for them.

12. The legislator might have to take steps, however, to prevent other negative side-effects of growth. The most notable example is the effect of the division of labor on the human mind, which is to be counteracted by public schools (see [1776] 1976a, V.I.176ff.). Thus, Smith clearly sees a role for politics, but wants it to step back when other mechanisms can be more effective.

The second version is a more moderate pro-market argument: it holds that economic growth is beneficial insofar as it creates a larger pie that can be redistributed, so that the poor profit overall. The Rawlsian difference principle (1971, 60, 303) has often been understood along these lines, as suggesting a market economy and redistribution but without redistribution suffocating the economy so much that the poor would be worse off than they could be with less redistribution and a larger pie. How exactly this principle should be translated into practice is, of course, contested. For the present purpose, all that matters is that at least on some readings, it justifies economic growth as a means for improving the situation of the poor.

It is thus worth emphasizing that what is justified by these arguments is not growth as such but only growth that is useful as an instrument for achieving these distributive goals. In Smith, the “working one’s way up” scenario improves the situation of the poor and leads to more equality in the long run, and the first contemporary version tries to make a similar argument about free markets. In the second contemporary versions, it is growth cum redistribution that achieves these aims. Forms of growth that do not achieve them cannot be justified along these lines.

### THE HARMONIZATION DESIDERATUM

As noted earlier, however, Smith is a moral philosopher as well as an economist, and as such, he also has distinctively moral reasons for endorsing the “working one’s way up” scenario. They concern the ways in which a growing economy can harmonize individual and public interests, and the kinds of opportunities it offers to individuals.<sup>13</sup> In other words, the question here is whether the economic system rewards prosocial or antisocial behavior. This issue is related to questions about social stability, because a society whose economic system rewards antisocial behavior is unlikely to be stable in the long run.<sup>14</sup>

At the core of this harmonization is Smith’s account of “prudence,” which is his way of combining interest and virtue. Smith defines it as “the care of the health, of the fortune, of the rank and reputation of the individual, the objects

13. As such, it stands in the “doux commerce” tradition that Albert O. Hirschman has explored (1977). Underlying this tradition, and underlying Smith’s argument, is an assumption that the character of individuals is shaped by their economic activities. Economists, who usually take the individuals’ “preference structure” as given, have largely given up this line of reasoning, which is maybe why there are few contemporary debates about this issue.

14. This line of argument is similar to Rawls’ concerns about the stability of a liberal society (1971, sect. 76). One can read it as holding that if the economic system systematically crowds out the sense of justice, because it rewards unjust behavior, this is likely to lead to instability.

upon which his comfort and happiness in this life are supposed principally to depend" ([1790] 1976b, VI.I.6). He is very clear that prudence is only one among a number of virtues that individuals should possess,<sup>15</sup> but it nonetheless plays an important role in his account of commercial society.<sup>16</sup> Prudence is concerned with giving preference to one's long-term interests and with reason ruling over spontaneous passions (VI.I.17). Being prudent means pursuing one's interests in ways that are compatible with the interests of others: to work against the public interest would be imprudent because one's "rank and reputation" in society are themselves components of one's "comfort and happiness." Moreover, a prudent person does not violate the laws of justice, and does nothing that would result in pangs of conscience later on (VI.I.8ff.).

For Smith, economic growth creates conditions in which prudent individuals can flourish. In his vision of commercial society, "virtue pays" because individuals have robust—in contrast to merely formal—opportunities to improve their economic condition by prudent behavior (Haakonssen 1981, 73; Herzog 2013, 89–90). They enjoy legal security, so that the fruits of their labor cannot be reaped by greedy landlords, as was the case in feudalism ([1776] 1976a, 2.3.36; see also IV.5.82). Smith also describes various reputational effects that reward prudent behavior in a growing commercial society. He argues that when "dealings are frequent," merchants have an incentive to cultivate probity and punctuality (Smith [1762–63; 1766] 1978, 539)—and in a commercial society, "every man . . . becomes in some measure a merchant" ([1776] 1976a, I.4.1), so this holds "in some measure" for everyone.

Thus, Smith imagined an economy in which "industry, prudence, and circumspection" are rewarded by "success in every sort of business" ([1790] 1976b, III.V.8). He does not present this argument in the grim tone of those who held that the population should be kept poor and forced to be prudent by economic necessity. Although Smith acknowledges the disciplining force of markets ([1776] 1976a, I.X.II.31), he is not afraid of rising standards of living but, on the contrary, welcomes them.<sup>17</sup> It is the possibility to improve their

fate through industry and prudence that makes commercial society attractive for the members of the "middling and lower classes." They are not inhibited by the outdated rules and regulations of the guilds anymore (e.g., I.X.II.17ff.), and they can profit from the opportunities of a growing economy. Thus, for Smith, the slogan is not, as Mandeville had it, "private vices, public benefits," but rather would be "private prudence, public benefits."<sup>18</sup>

But for Smith this happy coincidence of individual prudence and social benefits requires growth. In a growing economy, individuals can improve their situation without reducing that of others. Individuals can engage in the creation of new value, rather than having to fight over a limited pool of resources in a zero-sum game. In a stagnating or shrinking economy, things can be very different: the oversupply of labor can press down wages, sometimes even below subsistence ([1776] 1976a, I.VIII). There are no opportunities for investment, which means that saving money—if it is possible at all—is not worthwhile. The more dire the situation, the more individuals can only improve their situation at the cost of others. As Engels once put it: "one landowner stands antagonistically confronted by another, one capitalist by another, one worker by another" (1844). Smith disagrees: one of the attractions of growth, in his eyes, is precisely that it avoids situations in which the individuals' interests are pitted against one another in this way.

### THE REPUBLICAN DESIDERATUM

The third—and maybe most frequently overlooked—dimension of economic growth that plays a role for Smith's endorsement concerns relations of dependence and independence, both within the economic realm and between the economic and the political realm.<sup>19</sup> It is thus "republican," broadly speaking, emphasizing the independent status of citizens (on the contemporary review of republican thought see, e.g., Pettit [1997]). The republican desideratum concerns the ways in which economic developments support or undermine this independence, and the ability of citizens to govern their commonwealth according to the common good.

As mentioned earlier, the foil against which Smith develops his account is feudalism. In feudalism, political, economic, and legal powers all belonged to a small elite. The rest of the population were at their mercy and had no rights or protections against them. In Smith's commercial society, in contrast, all individuals have secure rights. These rights

15. The section on prudence is followed by sections on other virtues concerning "the Happiness of other People" ([1790] 1976b, VI.II; he also rejects the reduction of virtue to prudence in VIII.II).

16. Smith distinguishes two versions of prudence, a "lower" and a "superior" one. However, he sees the "superior" one—"the most perfect wisdom combined with the most perfect virtue"—as a rare appearance ([1790] 1976b, IV.1.15), so "lower" prudence is more important for the general character of commercial society.

17. See, e.g., Smith ([1776] 1976a), I.8.43. See also I.8.44, where he also adds the effects on high wages on the workers' health. On Smith's position on the poor see, in particular, Himmelfarb (1983, chap. II).

18. For his discussion of Mandeville see Smith ([1790] 1976b, VII.II.IV).

19. The political system Smith envisaged was most likely an "enlightened" monarchy, but the arguments can be generalized to other political systems.

are, in fact, the precondition for economic development to take off, because without them, the feudal lords could appropriate any possession (e.g., [1776] 1976a, III.3.12). Even with secure property rights, however, in a stagnating or shrinking economy workers would often depend on their employers, whose position is systematically more advantageous in wage negotiations (I.8). But Smith takes it that in a growing economy, with a high demand for labor, workers are able to choose between different employers, or, as craftsmen, between different customers. Therefore, they do not depend on any one of them, because each contributes only a “small proportion” to their maintenance (III.IV.11ff.). This stands in stark contrast to other social settings: the feudal societies in which individuals depend on feudal lords, but also the “courts of princes,” in which success depends on “flattery and falsehood” and the “ability to please” ([1790] 1976b, I.III.3.6; see Hanley [2009], 41, for a discussion of the court as a “corrupt society” in which “advancement and merit have been separated).

These descriptions of commercial society have distinctly republican overtones. The legal and economic independence of workers guarantees noninterferences by others. As Casassas notes, Smith describes “the ideal of the ‘free producer’, a producer that is free either because he is the proprietor of the means of production or because he enjoys effective control over his productive activity and workplace, over the social and economic space where he operates” (2013, 5). The free producer has a higher likelihood of being in this nondominated position, however, if the economy grows. For Smith, the best way of securing a “shielded standing” (Pettit 2006, 134) for the members of the working class was to have a flourishing economy, in which they had a variety of employment options to choose from and thus depended on none of them in particular.<sup>20</sup> The one-sided dependencies of feudalism, with all their opportunities for “petty and personal despotism” (Rothschild 2001, 27), are replaced by relations of equal legal standing, in which individuals have an “exit option.” Thus, it is the combination of legal equality and economic growth that, in Smith’s eyes, would create a realm of nondominating social relations.<sup>21</sup>

20. Pettit concludes that “There is no particular threat to people’s freedom as nondomination associated with participation in the market” (2006, 142). This claim seems problematic with regard to labor markets. Elsewhere, Pettit emphasizes the systematic vulnerability of employees (e.g., 1997, 4–5).

21. One can see this republican strands of Smith’s thought as part of his answer to Rousseau. For Smith, human beings have a natural drive to communicate and exchange (see [1776] 1976a, I.2.2), which means that attempts to return to a situation without commerce are futile. Therefore, independence needs to be built into the exchange relationships of com-

Moreover, the overall balance of power in society shifts when the economy grows, because there will a larger middle class, instead of a small super-rich elite and a mass of paupers. This has implications for a second form of domination: it reduces the risk of the political system being captured by the rich. In contrast to the rich, individuals “in the inferior and middling stations of life” cannot stand “above the law” but must respect it ([1790] 1976b, I.III.3.5). While Smith deplores the undue political influence of the “merchants and manufacturers” of his day, he seems to have been optimistic that the powers of economic growth would reduce their relative position. This would ensure that the political and legal system would become more robust vis-à-vis attempts of manipulation by the rich. The position of the lower and middle classes would become less vulnerable, and this, in turn, would spur the economic development. In this way, the republican desideratum relates to the distributive and the harmonization desideratum: Smith’s vision is one in which all members of commercial society are sufficiently well off, pursue their interests in socially beneficial ways, and have an independent standing as citizens.<sup>22</sup>

While Smith’s vision of what economic growth can achieve may seem hopelessly naïve from today’s perspective, emphasizing the “working one’s way up” nature of his account should make clear that he was, at the very least, not the kind of cynic who would propose a bit of “trickling down” for the poor, while not caring about other aspects of their situation. Smith’s arguments resonate with many contemporary liberal-egalitarian ideas. In 1776, economic growth may have been the best, or most obvious, strategy for achieving these aims.<sup>23</sup> Even so, that does not mean that it is the best strategy today—if it is available as a strategy at all. Seeing growth as an in-

mercial society. Rousseau claims, in the *Contrat Social*, that “no citizen should be so rich that he can buy another, and none so poor that he is compelled to sell himself” (2011, II.11.2). Smith would maybe have replied that in a growing commercial society, citizens can buy one another’s labor, but not the individual, because the individual can always decide to sell his or her labor to someone else (on Smith and Rousseau see also Ignatieff [1985, 105–31]).

22. Nondomination and relative equality are crucial for yet another element of Smith’s system: the ability to take into account everyone’s perspective when forming moral judgments (as an “impartial spectator”). In a highly unequal society with dominating social relations, it is likely that individuals end up giving more weight to the perspective of the rich and the powerful (see [1790] 1976b, III.16). Thus, Smith’s moral and economic accounts are here closely intertwined. For a discussion see Herzog (2014b).

23. Arguably, Smith’s endorsement was at least in part based on informed guesses about the future development of a commercial society, because the society he lived in still had many feudal features and was marred by the “mercantile system” that he attacks in book IV of the *Wealth of Nations*.

strument, along the lines suggested by my reading of Smith, allows us to reopen this question.

### GROWTH AS A MEANS

The narrative about the beneficial effects of economic growth is deeply engrained in Western thought. In the 1970s, Bell described faith in economic growth as “the secular religion of advancing industrial societies: the source of individual motivation, the basis of political solidarity, the ground for the mobilization of society for a common purpose” (1976, 237–38; quoted in Friedman [2005], 75. On the religious roots of the faith in growth see Bell [1976], chaps. 2–3). Growth has been so much taken for granted that its instrumental character has arguably been largely overlooked. This means that the question of what it is necessary or sufficient for has rarely been asked, at least within the mainstream of economic and political theorizing.

Arguably, economic growth is not sufficient, in and of itself, to achieve the desiderata that Smith imagined. Growth always takes place in the context of social and political institutions, which codetermine its effects on distribution, harmonization, and independence. In the era after World War II, it took place in a context of generous welfare states and relatively broad access to education. These helped to shape the overall character of Western societies, and while this may not have been possible—or not possible in this form—without growth, these results did not flow automatically from it. Arguably, one of the main attractions of growth in the twentieth-century welfare states was that with a growing pie, one could give to the poor without taking too much from the rich. This has undeniable advantages for accommodating psychological tendencies such as loss aversion or the sense of entitlement that many people feel with regard to their pretax income.

Since the 1980s, things have started to look different, although the Western economies continued to grow. It would go beyond the scope of this article to discuss the empirical evidence about whether or not the kind of growth we have seen in recent decades has delivered on its promises, but it seems safe to say that it was not the kind of growth that Smith imagined. Nor can I discuss the plausibility of predictions that see a future that is radically different from the past, because most of the tasks previously done by workers will be done by intelligent technologies, leading to huge incomes for the creators and owners of such technologies, but few opportunities for the rest (see, e.g., Reich 2015). But again it seems safe to say that if this is the kind of growth we will see in the future, it will not be sufficient, in and of itself, to secure the desiderata that were Smith’s reasons for endorsing growth in 1776.

On the other hand, it is not clear that growth would be necessary for achieving these desiderata. To be sure, achiev-

ing them in a situation with low or zero growth—or with growth of a very different kind than what we have seen in the past—would require some institutional reforms. Many of those who claim Smith’s name today would probably reject such reforms as “radical.” But they forget that Smith’s claims were no less radical in his day, and no less contrary to those privileged by the “mercantile system,” the target of Smith’s devastating critique in book IV of the *Wealth of Nations*.

In the scope of this article, I cannot address these institutional reforms in full detail. But it is worth mentioning some proposals in order to clarify the kinds of steps that would have to be taken. One qualification concerns population size: obviously, the pressures of growing populations are different from those of shrinking populations, with different implications for the desirability and justifiability of growth. Optimal population size, and the issues surrounding it, are highly controversial, I therefore put them aside, but they would have to be taken into account for all-things-considered judgments.<sup>24</sup>

With regard to the distributive desideratum, there are various means for achieving improvements for the poor, more overall equality, or both. The standard instrument for these purposes is progressive taxation. The big question here is, of course, whether it creates disincentives that make everyone worse off in the long run. This is often taken for granted, but the evidence is far from clear (for some of the evidence see Murphy and Nagel [2002], 137–38). There have been historical periods with far steeper tax progression, which have not completely stifled the economy (Hungerford 2013). Other instruments for spreading the wealth are more active labor market policies, or more proactive antitrust policies that prevent the concentration of market power. One can also consider a wider spread of ownership of the means of production, for example along the lines of Rawls’s “property owning democracy” (1999, 136; see also O’Neill and Williamson 2012), or a better provision of public goods, for example, public parks and libraries, which can substitute private goods.

With regard to the harmonization desideratum, we need to ask where and why individual and societal interests are not aligned in today’s economies and what can be done to realign them. One case in point are externalities, with re-

24. I also abstain from discussing global interdependencies. Earlier, I have assumed that a limit on global carbon emissions puts moral pressure on developed economies to grow less, so that other economies can grow more. But there might also be positive correlations, in the sense that growth in developed economies supports growth in developing economies, which might create opposite moral pressures.

gard to the environment but also with regard to the externalization of risks, including “systemic risks” such as they can be found in the financial system. The legal framework of markets should prevent such externalities, so that individuals cannot profit at the cost of other individuals or of society. This is well understood in theory but often difficult to put into practice, especially on a global scale.

With regard to the republican desideratum, various steps can be taken to improve the independent standing of workers vis-à-vis employers. Smith’s endorsement of growth focuses on the exit option. But the exit option can also be strengthened in other ways, for example by support for individuals who want to change jobs or careers, or by an unconditional minimum income (see, e.g., Van Parijs 1995). And as Hirschman (1970) has reminded us, the alternative to mechanisms of “exit” are often mechanisms of “voice.” Strengthening “voice” in the labor market can take different forms, focusing, for example, on the role of unions or on corporate governance and workplace democracy.<sup>25</sup>

Last but not least, the capture of the political system by the rich also depends on a variety of institutional mechanisms, which can be used as levers for change. There is ample evidence that the influence on political decisions of rich and poor citizens is very unequal (for evidence on the US, see, e.g., Gilens 2012). But there are also numerous suggestions about what could be done to change this. They range from regulations concerning campaign finances to the use of lotteries, instead of voting, for choosing political representatives. The history of political thought, as well as concrete historical practices from Antiquity to the twenty-first century, offer abundant inspiration for reflecting on how this age-old problem could be addressed in today’s circumstances.

Seeing economic growth as a means for ends that it is neither necessary nor sufficient to achieve allows us to see how growth might be supplemented by or replaced with other means in order to achieve the underlying desiderata.<sup>26</sup> The current socioeconomic systems without growth are un-

25. Defenders of workplace democracy have long pointed out that it is oddly inconsistent to subject all forms of political power to democratic control, but not to care about power in the economic realm (see, e.g., Bowles and Gintis 1993). A common response is that hierarchically structured firms are more conducive to economic growth, and hence everyone benefits from having them. But if the latter claim fails—because there is no growth or because not everyone benefits from it—the argument for workplace democracy becomes stronger.

26. Of course, there can be additional desiderata (e.g., gender justice). There might also be tensions between the desiderata that might require trade-offs. In the current situation, however, many desiderata seem to pull into the same direction, namely, a reduction of inequality and the creation of more robust opportunities for all members of society.

likely to live up to the core of liberal-egalitarian values that they are based on: equality before the law, a decent standard of living for all members of society, robust equality of opportunity, and sufficient equality and social cohesion to keep societies stable in the long run. Some current tendencies—in particular the decoupling of a small group of super-rich from the rest of society—threaten to undermine these values and to lead back into the situation that Smith positioned himself against: feudalism. The great danger of a situation without growth, and without substantive institutional changes, is that our politico-economic systems run into self-reinforcing processes of ever-increasing inequality, in which not only the opportunities for material improvement but also the personal freedom and the legal and political independence of the more vulnerable members of society will gradually be eroded.

### THE “POOR MAN’S SON” WORRY

There is, however, a lingering worry about scenarios with low or zero growth. This worry can be connected to a curious character in Smith’s text: the “poor man’s son” ([1790] 1976b, 4.1.8). This young man “admires the condition of the rich” and wants to be one of them, in order to enjoy their “happiness and tranquillity.” Hence, he labors “night and day” to acquire skills and to sell them in the market (IV.I.8). Only later in life, when he has worn himself out in the “pursuit of wealth and greatness,” he realizes that the material advantages of the rich only offer marginal improvements in comfort and can do nothing to ease “anxiety, . . . fear, and . . . sorrow.” Smith explicitly calls this a “deception,” but he welcomes it because it “rouses and keeps in continual motion the industry of mankind” and thus spurs the process of improvement, allowing the population to grow (IV.I.10).

While Smith’s discussion has some providentialist overtones—it is “nature” that imposes this deception ([1790] 1976b, IV.I.10; see also VI.II.1.21)—the “poor man’s son” raises a broader worry: What if human beings have an inherent, ineradicable drive for material and status improvements? Even if they may realize later on that they have been deluded, what if there simply is such a tendency, which needs to be channeled in some way in order not to become destructive? And what, this argument goes, if it is only economic growth that can channel this tendency without undermining social stability and social cohesion?

This worry has also been voiced by modern commentators, notably Benjamin M. Friedman (2005) and William A. Galston (2014). Human beings, they argue, have an inherent tendency to compare their situation, both to their own situation at different points in time and to the situa-

tion of others. If they cannot improve their own situation, they will start feeling envy and resentment toward others, especially minorities and migrants.<sup>27</sup> Inclusiveness, tolerance, and even democracy itself are at risk when the majority of citizens feel that their economic situation stagnates. Friedman shows that this pattern has played out time and again in Western history; although the correlation is not perfect, it is certainly stable enough to make one worry. Therefore, these authors call for political measures to increase economic growth, preferably growth of a kind that has positive effects for broad parts of society. They suggest measures such as investments in public infrastructure and human capital that would spur innovation and create jobs; Friedman favorably discusses measures such as the “Job Corps” that create employment for high school dropouts (2005, 433). Both authors suggest changes in the tax system that would favor wage increases and improve the position of the lower and middle classes to achieve a “broadly shared prosperity” (Galston 2014, 10–11).

But it is important to note what kind of comparison Friedman and Galston draw: they compare the current socioeconomic systems of the West with or without growth; what they do not include in the comparison is a situation with no growth but broader institutional changes along the lines suggested above. Interestingly, the measures they suggest in order to spur growth are similar to the measures one might want to take in a scenario with low or zero growth. But instead of seeing them as instruments aiming directly at desiderata such as a fair distribution, the harmonization of individual and social interests, and the independent standing of citizens, Friedman and Galston see them as instruments for growth. It does not seem to be a large step, however, from their position to the endorsement of a situation in which there is no growth, but there are robust opportunities for everyone and more social justice.

Would Smith’s “poor man’s son” be satisfied in such a situation? Or would he continue to be restless and unhappy and resent his neighbors? This question returns us, in a way, to the harmonization desideratum: it asks whether it is ever possible to harmonize individual and social interest without growth. While Galston and Friedman seem to be skeptical about this possibility, from a Smithian perspective there are reasons to think that it might eventually be possible. For one thing, the “poor man’s son” desires riches mainly for the social recognition they bring ([1790] 1976b, IV.I.8).

Social recognition, however, is not necessarily connected to the possession of material goods. In the history of mankind, it has followed very different patterns, from body mutilation to courtly love songs. Smith was very much aware of such changes, dedicating a whole book of the *Theory of Moral Sentiments* to “the Influence of Custom and Fashion upon the Sentiments of Moral Approbation and Disapprobation.” We can expect that in a situation with low or zero growth, contests along all kinds of dimensions will continue, as is today the case in various communities and subcultures, and “moral approbation and disapprobation” would continue to be handed out but for different achievements than is today the case. It is also likely that individuals will continue to defend their “rank and dignity in the world” against attacks (VII.II.1.5). But this does not mean that they have to constantly move upward in economic terms.

Thus, the defenders of growth would have to argue that the human tendency to compare oneself to others—if we assume, for the sake of argument, that there is such a thing—is intrinsically tied to the things that make up economic growth and could not find other channels. This claim seems implausible, at least for societies that have achieved a certain level of material welfare and secure their members against existential risks. What seems more plausible is, in fact, an inverse causation: individuals might have preferences for economic growth because although Western societies have high levels of welfare overall, they do not offer individuals economic security. As Cunningham has argued, material acquisitiveness might develop because a high income is seen as the best means for insuring oneself against life’s misfortunes (Cunningham 2005; see also Bartolini [2003] on the endogeneity of the preference for growth). In a different economic system, with sufficient security, the interests of individuals might look very different.

If one compares Smith’s “poor man’s son” with his “prudent man” it is striking that the latter, but not the former, finds something that Smith took to be an important component of human happiness: tranquility of the soul. Prudent individuals have “no anxiety . . . to change” and enjoy their “secure tranquillity” ([1790] 1976b, VI.I.13).<sup>28</sup> The improvement of their situation is cautious and gradual, and they enjoy each small step. They avoid anything that might give them a bad conscience, and which would later torment them “either by shame from the remembrance of own folly, or by remorse from the horror of [one’s] own injustice”

27. Friedman’s and Galston’s notion of “resentment” is obviously different from Smith’s.

28. The importance of “the slow vanquishing of fear” in Smith has also been emphasized by Rothschild (2001, 12).

(III.I.37; see also I.III.3.8). Thus, prudence is, as Hanley has emphasized, “an antidote against fear and anxiety, the great tormentors of the human breast” (2009, 119).<sup>29</sup>

The upshot of Smith’s discussion of prudence is that for the prudent person in a well-functioning commercial society, life can be about more than economic questions. By wisely managing her economic situation, this person attains security and a certain level of comfort (see also Billet [1976], 302, who states that “The *Wealth of Nations* is not about ‘riches’ but about comfort and conveniences”). Once these are reached, economic questions can be put aside, and the individual can turn to the things that really matter for a flourishing human life. Smith does not provide an account of such a life, but there are scattered remarks that gives us some sense of what he took to be central elements, such as being “beloved, and to know that [one] deserve[s] to be beloved” ([1790] 1976b, II.I.7) or to enjoy the sociality of one’s friends (III.I.37).<sup>30</sup>

The crucial question thus is whether an economy with low or zero growth could be organized such that individuals attain sufficient levels of security and comfort to turn their attention to things other than their economic improvement. They might still compete with others along various lines and try to improve their relative status. But they would not, out of sheer discontent, start resenting their neighbors or become susceptible to populist demagogues that incite enmity toward minorities or immigrants. This might require a cultural shift, which would probably require a generation or two to set in. But this only means that if growth does not return, the institutional changes that would create sufficient security and comfort for all individuals should be brought about sooner rather than later.<sup>31</sup>

29. Hanley refers to *The Theory of Moral Sentiments* ([1790] 1976b, I.I.1.12), where Smith describes the ignorance of infants in these terms. For the contrast between the “prudent man” and the “poor man’s son,” see Hanley (2009, 120). Hanley argues that prudence is Smith’s reply to two problems of commercial society that had been analyzed by Mandeville and Rousseau, namely, “anxious restlessness” and “duplicity.” My impression is that “anxious restlessness” is the more central concern for Smith; after all the prudent man, in his description, is not always “frank and open”; he only wants to avoid remorse as a consequence of dishonesty (VI.I.8).

30. For a contemporary account of a post-growth society based on a conception of “the good life,” see, e.g., Skidelsky and Skidelsky (2012).

31. Or maybe it would not require such a great cultural shift—after all, there has been a historical precedent. The Great Depression of the 1930s was a period in which an economic downturn did not lead to such intense outbreaks of intolerance and resentment, at least in the United States—maybe because it was countered by resolute political measures. For a discussion see, e.g., Friedman (2005, chap. 7), who treats the Great Depression as the “great exception.”

## CONCLUSION

In 1776, when the *Wealth of Nations* was published, Adam Smith saw growth as an instrument that would kill several birds with one stone: it would improve the situation of the poor and lead to more equality, it would harmonize individual and social interests, and it would create conditions of independence, both within the economic realm and in the relation between the economic and the political realm. It thus seemed the best means for overcoming both the remnants of feudalism in the legal system and the mercantilist policies and ideologies that worked in favor of a small economic elite. In contrast, Smith feared the “stationary” state as being “dull” ([1776] 1976a, I.8.42) and as putting downward pressure on wages, which could lead to desperation among workers (I.8.24, I.11.263).<sup>32</sup> The fear of stagnation uttered by contemporary authors such as Galston and Friedman, while being based on a variety of arguments, contains a similar strand: a fear of boredom, staleness, and ossification, together with serious worries about downward pressure on wages, which would create social tensions.

But it is not clear whether a situation with low or zero growth would have to be threatening, stale, or ossified if it came with the appropriate mix of institutions for giving all members of society sufficient economic security and independence. With such institutions in place, individuals could achieve the kind of “tranquility” that Smith saw as conducive to human happiness and flourishing. Many activities, for example, in research or in the arts could probably continue or even increase. It is worth noting, after all, that what we traditionally mean by “economic growth” is growth of gross domestic product (GDP) or GDP per capita, which is only a very rough measure of what makes individuals and societies flourish. It is perhaps no accident that in recent years there has been a lot of debate about the usefulness of GDP as a measure of success and about alternative indexes that could guide policies.<sup>33</sup>

A “stationary state” in terms of GDP per capita could still be a state in which many human faculties flourish—at

32. On the stationary state in Smith see also Milgate and Stimson (2009, 191–94); on his treatment of China as an example of a stationary economy see, e.g., Hanley (2014).

33. The most famous case is the kingdom of Bhutan, where “Gross national happiness” is measured by a complex index containing economic, environmental, physical, mental, workplace, social, and political wellness (see [http://en.wikipedia.org/wiki/Gross\\_national\\_happiness](http://en.wikipedia.org/wiki/Gross_national_happiness)). In the international context, the Human Development Index contains data about health, life expectancy and education in addition to economic data; there is also an “inequality-adjusted” version (see [http://en.wikipedia.org/wiki/Human\\_Development\\_Index](http://en.wikipedia.org/wiki/Human_Development_Index)).

least if they get a chance to do so, by an appropriate institutional framework. One might think that twentieth-century environmental critics first raised this possibility, but it has a much longer tradition. John Stuart Mill, writing a few decades after Smith,<sup>34</sup> disagreed with him about the arrival of a stationary state—which he took to be unavoidable at some point in human history—being an “unpleasing and discouraging prospect” (1848, V.IV.6.3). If population growth could be controlled and incomes be distributed more evenly, Mill argued, there would be no need to grow any more. Rather, he argued, “the best state for human nature is that in which, while no one is poor, no one desires to be richer, nor has any reason to fear being thrust back by the efforts of others to push themselves forward” (V.IV.6.4).

In such a situation, there would be much more leisure, and individuals could “cultivate freely the graces of life” (1848, V.IV.6.7). Instead of every piece of land being used for agriculture, individuals would be able to enjoy “solitude in the presence of natural beauty and grandeur,” which is “the cradle of thoughts and aspirations which are not only good for the individual, but which society could ill do without” (V.IV.6.8). In such a situation, there would be progress of a kind that is different from GDP growth: “There would be as much scope as ever for all kinds of mental culture, and moral and social progress; as much room for improving the Art of Living, and much more likelihood of its being improved, when minds ceased to be engrossed by the art of getting on” (V.IV.6.9).

In a liberal society, individuals have the right to decide for themselves what “improving the Art of Living” means for them—something that in Smith’s vision they would achieve by being “prudent” and becoming economically independent, achieving “tranquility.” But this does not mean that granting them this liberty is only possible within a growing economy. Rather, relying on economic growth has meant that more difficult questions about social justice and institutional design—which Mill took very seriously, suggesting, among other things, worker-owned cooperatives—could be set aside. But this may have been a historically unique situation. Now seems the time to return to these questions.

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34. One factor that separates them is the arrival of Malthusian thinking. It is therefore worth repeating that for an all-things-considered analysis, population dynamics would have to be taken into account.

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